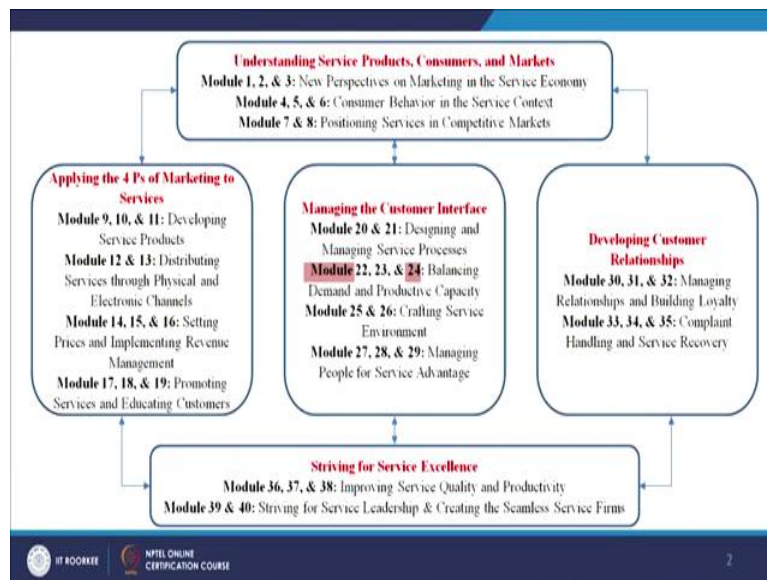


**Services Marketing Integrating People, Technology, Strategy**  
**Professor Zillur Rahman**  
**Department of Management Studies**  
**Indian Institute of Technology Roorkee**  
**Lecture 24**  
**Balancing Demand and Productive Capacity - Part III**

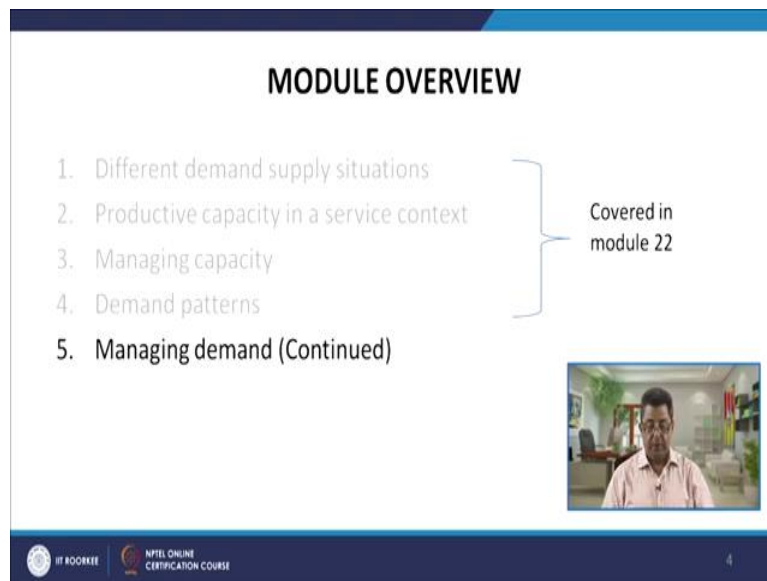
Welcome to this course on Services marketing and now we will talk about module 24. So, as you know that we are talking about the third section in which we are talking about managing the customer interface and we are talking about the balancing demand and productive capacity that is a difficult task in services.

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And in module 22 and 23 we have talked about this balancing demand and productive capacity and we will continue with the same discussion here. Now, you see that this balancing of demand and productive capacity is a non-issue in products while here we are spending about 1 and a half hour on dealing with how to balance demand and this productive capacity, because the problem is that services cannot be invented and the demand may increase and decrease. So, in product, products they are invented and the demand can be met anytime, but in services it is not so, because capacity is constrained. And obviously, the services cannot be invented.


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**MODULE OVERVIEW**

1. Different demand supply situations
2. Productive capacity in a service context
3. Managing capacity
4. Demand patterns
5. Managing demand (Continued)

Covered in module 22



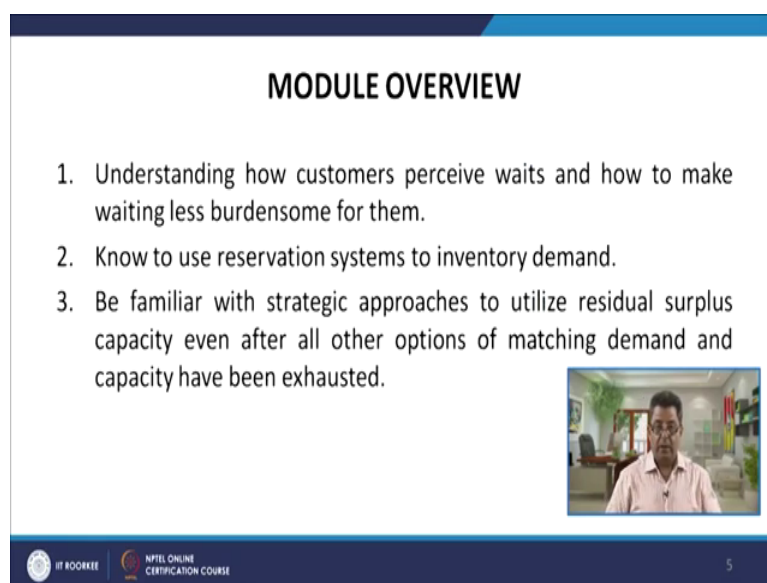
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NPTEL ONLINE CERTIFICATION COURSE

IIIT ROORKEE


So, in this module 24 we will continue with our discussion on the balancing demand and productive capacity and we are talking about managing demand. So, in module 22, we have talked about the various different demand supply situations, productive capacity in the service context, what does that mean, the productive capacity that is the supply. But in services, the supply cannot be increased and decreased because obviously the services are not stored. Then we have talked about managing capacities and the demand pattern and then in module 23 we were talking about managing demand. And we will continue with the same topic of managing demand in this, in the module 24.

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**MODULE OVERVIEW**

1. Understanding how customers perceive waits and how to make waiting less burdensome for them.
2. Know to use reservation systems to inventory demand.
3. Be familiar with strategic approaches to utilize residual surplus capacity even after all other options of matching demand and capacity have been exhausted.



5

NPTEL ONLINE CERTIFICATION COURSE

IIIT ROORKEE

Let us look at what are the things that we will talk about in this module. So, we will talk about we will try to understand how customers perceive wait and how to make waiting less burdensome for them. So, the first thing is that how do customer perceive, how do they view the waits and how we should go about making this waiting less burdensome for them. So, waiting will be there, but how to psychologically make them feel that this is not burdensome. The second is, know to use reservation systems to inventory demand. So now, as I was saying that it is difficult to invent the services or services cannot be invented.

So, now we will see that how the reservation systems can be used to invent the demand. The third thing is, to be familiar with the strategic approaches to utilize residual surplus capacity, even after all other options of matching demand and capacity have been exhausted. The third is be familiar with the strategic approaches to utilize residual surplus capacity, even after all other options of matching demand and capacity have been exhausted. So, when you have done everything to match the demand and capacity and still you are left with some residual capacity, then what to do in order to utilize that additional capacity.

(Refer Slide Time 3:39)

**2. QUEUING SYSTEMS TAILORED TO MARKET SEGMENTS**

**SEGMENTS**

Although the basic rule in most queuing systems is “first come, first served”, not all queuing systems are organized on this basis.

Allocation to separate queuing areas may be based on any of the following:

- Urgency of the job
- Duration of service transaction
- Payment of a premium price
- Importance of the customer

Handwritten annotations on the slide include 'Female', 'Male', and 'Old Customers' in red boxes, with lines pointing to the list of factors. A small video inset shows a man speaking.

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Now, let us look at the queuing system tailored to market segments. So, now you see that there are various market segments for example, there can be a segment of females and then there is a segment for males. So, although the basic rule in most queuing system is first come first served, but not all queuing systems are organized on that basis for example, you will have different queues for male and female, then another can be for old people. So, all the time in banks and reservations, etcetera, you will find that there are different type of segments and they have different kind of queuing systems for them.

So, allocation to separate queuing areas may be based on any of the following. The first is urgency of the job, so people who have more urgency they are given a priority in this waiting, duration of service encounters, then payment of a premium price. So, if people pay a premium price they will have, they will move up the queuing line and the importance of the customer. So, there are some customers who are more important. Now, here I would like to clarify that what we are referring here is that as we have seen in the earlier module, the customers who are more profitable are more important obviously. So, they get the priority as compared to customers who are not profitable or lesser profitable.

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**2. QUEUING SYSTEMS TAILORED TO MARKET SEGMENTS**

- 1) Urgency of the job**  
At many hospital emergency units, employees are assigned to greet incoming patients and decide which ones require priority medical treatment and which can safely be asked to register and wait for their turn.
- 2) Duration of service transaction**  
Banks, supermarkets, and other retail services often institute “express lanes” for shorter less complicated tasks.

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Now, we will talk about them in detail. The first is urgency of the job. At many hospital emergency units, employees are assigned to greet incoming patients and decide which ones require priority medical treatment and which can safely be asked to register and wait for their turn. So in emergency unit, the patients are going and some of them will be treated urgently and some of them may send to the regular OPDs. The second is the duration of service transaction; banks, supermarkets and other retail services often Institute “express lanes” for shorter, less complicated task.

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**2. QUEUING SYSTEMS TAILORED TO MARKET SEGMENTS**

**3) Payment of a premium price**  
Airlines usually offer separate check-in lines for first-class and economy-class passengers, resulting in reduced waits for those who have paid more for their tickets.  
Also premium customers may enjoy faster lanes for security check.

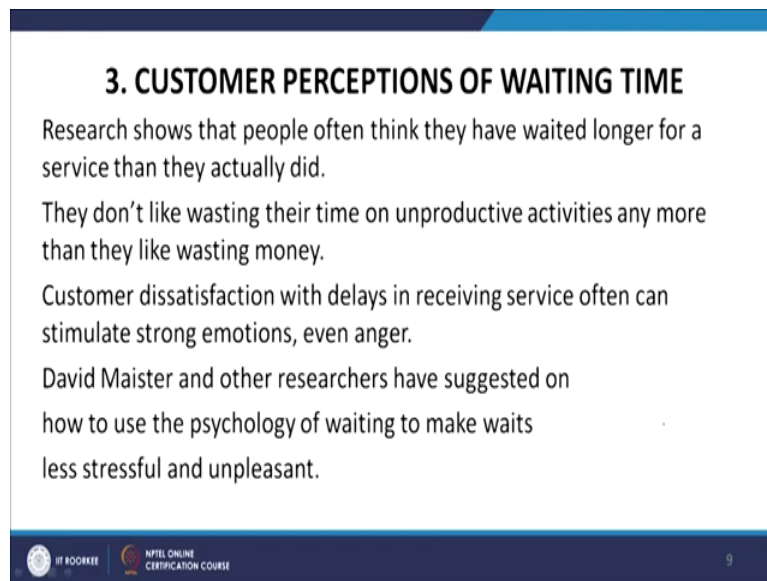
**4) Importance of customers**  
A special area may be reserved for members of frequent user clubs. Airlines often provide lounges, offering newspaper and free refreshment, where frequent flyers can wait for their flights in greater comfort.

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The third type of option is the payment of a premium price. Airlines usually offer separate check in lines for the first class and business customers and then there are separate lines for the economy class passengers, so obviously the first class and the business class passengers, they get a priority over the economic class passengers, so resulting in reduced waits for those who have paid more for their tickets. Also, premium customer may enjoy faster lanes for security checks.

The fourth option is the importance of the customer, a special area may be reserved for members of frequent users club. Airlines often provide lounges, offering newspaper and free refreshments where frequent flyer can wait for the flights in great comforts. So you will find that at various airports there are lounges available lounges of various airlines so the, their priority customers, their important customers they can go there and wait instead of just hanging around here and there on the airport, and there they get a special kind of treatment, lots of benefits there and refreshments, etcetera, etcetera at a very low or no price.

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**3. CUSTOMER PERCEPTIONS OF WAITING TIME**

- Research shows that people often think they have waited longer for a service than they actually did.
- They don't like wasting their time on unproductive activities any more than they like wasting money.
- Customer dissatisfaction with delays in receiving service often can stimulate strong emotions, even anger.
- David Maister and other researchers have suggested on how to use the psychology of waiting to make waits less stressful and unpleasant.

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Now, let us look at what are the customers perception of waiting time. So all of us wait, but important is how do customers perceive the waiting time. So, research shows that people often think that they have waited longer for a service that then they actually did. So, we feel that we have been waiting for a longer period of time although it may not actually be so, they do not like wasting their time on unproductive activities any more than they like wasting money. So, the time and money they are equally important when customer do not want to waste either of them.

Customer dissatisfaction with delays in receiving service often can stimulate strong emotions and even anger. So, this customer dissatisfaction may lead to angry customers also. David Maister and other researchers have suggested on how to use the psychology of waiting to make waits less stressful and unpleasant. So now, in order to avoid this dissatisfaction, the researchers have identified what needs to be done in order to make these rates lesser stressful and unpleasant.

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### 3. CUSTOMER PERCEPTIONS OF WAITING TIME

- *Unoccupied time feels longer than occupied time*
  - BMW car owners can wait in comfort in BMW service centers where waiting areas are furnished with designer furniture, plasma TV, and freshly brewed cappuccino
  - Restaurants solve the waiting problem by inviting dinner guests to have a drink in the bar until their table is ready.
  - Engage customer during longer waiting times



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So, the first thing is that needs to be done is, unoccupied time feels longer than occupied time. So when you are standing there in queue doing nothing, so then the wait seems longer while if you have something to do while you are standing in the queue then this wait waiting time is less bothersome. So BMW car owners can wait in comfort in BMW service centres, where waiting areas are furnished with designer furniture, various types of LCDs, televisions and freshly brewed Cappuccino.

Restaurants serves the waiting problem by inviting dinner guests to have a drink in the bar until their table is ready. So they are invited to have a drink in the bar till the time they are to wait for the table to get ready. And then you engage customer during longer waiting times so that this waiting time is occupied rather than leaving the customers unoccupied because that will make them feel that they are losing a lot of time and that is always uncomfortable.

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### 3. CUSTOMER PERCEPTIONS OF WAITING TIME

- ***Solo waits feel longer than group waits***
  - Waiting with one or more person you know is reassuring.
  - Make group waits more enjoyable.
- ***Physically uncomfortable waits feel longer than comfortable waits***
  - Whether seated or standing, waiting seems more burdensome if the temperature is too hot or too cold.
  - Similarly, if it is drafty or windy, or if there's no protection from rain or snow.
  - Provide customers with comfortable waiting facilities.



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Another thing is, solo waits feel longer than group waits, so if I am alone standing there then I will feel the wait to be longer as compared to whenever I am standing there in a group. Waiting with one or more person, you know is the reassuring, making group waits more enjoyable. Physically uncomfortable waits feel longer than comfortable waits, whether seated or standing, waiting seems more burdensome if the temperature is too hot or too cold. So, you see that whether you are in a group or you are alone, whether you are seated or you are standing, but then waiting will always seem to be more burdensome, if the temperature of the room is too hot or it is too cold. Similarly, if it is drafty or windy, or if there is no protection from rain or snow, then again the waiting becomes much more uncomfortable. So therefore provide customers with comfortable waiting facilities.



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**3. CUSTOMER PERCEPTIONS OF WAITING TIME**

- ***Pre- and post-process waits feel longer than in-process waits***
  - Waiting to buy a ticket to enter a theme park is different from waiting to ride on a roller coaster once you're in the park.
  - Engaging customers during pre- and post-process waits
- ***Unfair waits are longer than equitable waits***
  - Customers are likely to get irritated if they see others jumping ahead or given priority for apparently no good reason
  - Perception about what is fair or unfair is culture or country specific.
  - Do not honor people who jump lines

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Then, pre and post process waits feel longer than in process waits because that gives the feeling of wastage of time. Waiting to buy a ticket to enter a theme park is different from waiting to ride on a roller coaster once you are in the park. So, in the earlier case you were standing outside to buy a ticket to get inside the theme park, but then in the second situation you are waiting there at the roller coaster inside the park, so engaging customers during pre and post process waits. Next option is unfair waits are longer than equitable waits, so customers are likely to get irritated if they see others jumping ahead or given priority for evidently no good reason.

So there is one person who just walks down the line and he reached the window. So that becomes an unfair wait because other people are standing there while this person has just jumped the queue and reached the window. So perceptions about what is fair or unfair is culture or country is specific. Do not honour people who jump lines, so the server has to tell the customers who have jumped the line to go back in line so that will make this wait more equitable.

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**3. CUSTOMER PERCEPTIONS OF WAITING TIME**

- ***Unfamiliar waits seem longer than familiar ones***
  - New or occasional users are more nervous than frequent users, wondering not only about the probable length of the wait but also about what happens next.
  - Create customer awareness about usual waiting time
- ***Uncertain waits are longer than known, finite waits***
  - Imagine waiting for a delayed flight and not being told how long the delay is going to be.
  - Be certain about wait times for different situations
- ***Unexplained waits are longer than explained waits***
  - Apologize for unexplained waits

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Unfamiliar waits seems longer than familiar wait once. New or occasional users are more nervous than frequent users because they keep on coming and they know how much time it will take, wondering not only about the probable length of the wait but also about what happens next. So, you create customer awareness about usual waiting time, the next option is uncertain waits are longer than known and finite waits.

So, if we get to know how much delay they will be in the flight, how much delay there will be in the train to arrive, then this wait is not so bothersome as compared to when there is no announcement or we do not know when the train will come or when the flight will come. So imagine waiting for a delayed flight and not being told how long the delay is going to be. Be certain about wait times for different situations. Unexplained waits are longer than explained waits, apologize for unexplained waits. So, why there is a delay so, generally you will find that they announce that the aircraft has not come in, therefore your flight is delayed.

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**3. CUSTOMER PERCEPTIONS OF WAITING TIME**

- ***Anxiety makes waits seem longer***
  - Waiting in unfamiliar locations, especially outdoors and at night, people often worry about their personal safety.
  - Introduce special efforts to reduce anxiety
- ***The more valuable or important the service, the longer people will wait***
  - People will queue up overnight under uncomfortable conditions to get good seats to a major concert or sports event expected to sell out fast.
  - Project the value of the service

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Anxiety makes wait seems longer, waiting in unfamiliar locations, especially outdoors and at night, people often worry about their personal safety, so you introduce special efforts to reduce this anxiety. The more valuable or important the service, the longer people will wait. So, people will queue up overnight, under uncomfortable conditions to get good seats to a major concerts or sporting events expected to sell out fast. Project the value of the service.

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**3. CUSTOMER PERCEPTIONS OF WAITING TIME**

- ***Anxiety makes waits seem longer***
  - Waiting in unfamiliar locations, especially outdoors and at night, people often worry about their personal safety.
  - Introduce special efforts to reduce anxiety
- ***The more valuable or important the service, the longer people will wait***
  - People will queue up overnight under uncomfortable conditions to get good seats to a major concert or sports event expected to sell out fast.
  - Project the value of the service

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Theme park operators cleverly design their waiting areas to make the wait look shorter. Then it really is, finding ways to give customers in line the impression of a constant progress and to make time seem to pass more quickly by keeping customers amused or diverted while they wait. Doctors and dentists, they stock their waiting rooms with piles of magazines for people

to read while waiting so when they get engaged, so they will not feel that the wait has been very long. Car repairing facilities may have a television for customers to watch and then again the customer will remain engaged.

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TEN PROPOSITIONS ON PSYCHOLOGY OF WAITING LINES	
Feels longer than	
Unoccupied time	Occupied time
Solo waits	Group waits
Physically uncomfortable waits	Comfortable waits
Pre- and post-process waits	In-process waits
Unexplained waits	Explained waits
Unfamiliar waits	Known, finite waits
Unfair waits	Fair waits
Anxious waits	Calm waits
Monotonous waits	Valued waits

Sources: Maister, Davis & Henke; Jones & Peppatt

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Now there are these 10 propositions on psychology of waiting lines. So what feels longer, obviously unoccupied times feel longer as compared to the occupied times. So obviously unoccupied time feel longer than occupied time. Solo waiting, individual waiting will always feel longer than the group waits. Physically uncomfortable waits will always feel longer than comfortable waits. Similarly, unexplained waits will feel longer than explained waits, unfamiliar waits will always be longer than known and finite waits, unfair waits again will feel longer than fair waits, anxious waits feel longer than calm waits, and monotonous waits feel longer than valued waits.

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**4. INVENTORY DEMAND THROUGH RESERVATIONS SYSTEMS**

**4) Inventory demand using a reservations system**

Benefits of a reservations system:

- a) Customer dissatisfaction due to excessive waits can be avoided.
  - Provides a guarantee that service will be available when customers want it
- b) Allows demand to be controlled and smoothed out in a more manageable way.
  - A well-organized reservations system allows the organization to deflect demand for service from one class of service to another (“upgrades or downgrades”), leading to higher capacity utilization.

*Handwritten notes in red ink:*

- Bus class
- 1. More satisfied
- Eco class
- 1. additional passenger
- 2. less crowded

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Let us look at the inventory demand through reservation system, how we go about inventing this demand by the use of this reservation systems. So, inventory demand using reservation system, the first benefit of reservation system is customer dissatisfaction due to excessive waits can be avoided. So, as we have discussed earlier, if the waits are too long then customers can get dissatisfied and they may also get angry. So, you provide a guarantee that service will be available when customer wanted.

The second benefit of a reservation system is to allow demand to be controlled and smoothed out in a more manageable way. A well-organized innovation system allows the organization to deflect demand for services from one class of service to another that is upgrades or downgrades leading to higher capacity utilization. So, what happens is that your economy class is overloaded so, then you may shift some important profitable customers to the business class from this economy class.

So now what happens is that your economy class will now accommodate additional passengers so that is the first benefit, additional passenger or the second benefit that it will be less crowded. And this one person becomes more satisfied now because he has shifted from the economy class to the business class so, he becomes more satisfied. So, that is a delight factor that he was there in the economy class, now he has been shifted to the business class. So, a well-organized reservation system allows the organization to deflect demand for services from one class or service to another leading to higher capacity utilization.

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**4. INVENTORY DEMAND THROUGH RESERVATIONS SYSTEMS**

c) Enables implementation of revenue management and serves to pre-sell service to different customer segments.

- For example, requiring reservations for normal repair and maintenance allows management to make sure that some time will be kept free for handling emergency jobs.

d) Helps organizations prepare operational and financial projections for future.

*Resources Material, Men etc 1/4/2020 2/4/2020*

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The third is, enable implementation of revenue management and serve to pre sell service to different customer segments. For example, requiring reservations for normal repair and maintenance allows management to make sure that some time will be kept free for handling emergency jobs. And the next is help organization prepare operational and financial projections for the future. So, this reservation system you get to know what will be needed tomorrow or the day after tomorrow. So, what kind of resources, how much material, how much men, etcetera will be used let us say on 1/4/2020, how much will be used on 2/4/2020 so, it becomes easier for you to make arrangements, operational arrangements and you are also able to forecast demand and give the financial projections.

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**4. INVENTORY DEMAND THROUGH RESERVATIONS SYSTEMS**

c) Enables implementation of revenue management and serves to pre-sell service to different customer segments.

- For example, requiring reservations for normal repair and maintenance allows management to make sure that some time will be kept free for handling emergency jobs.

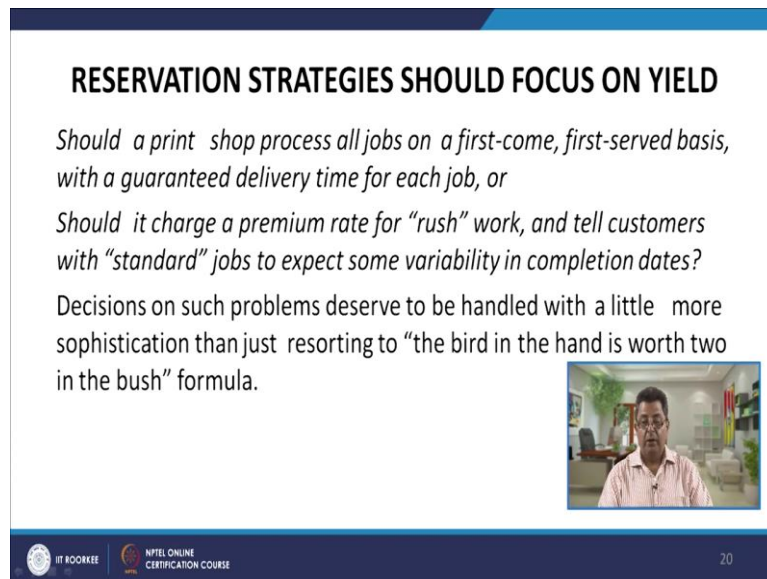
d) Helps organizations prepare operational and financial projections for future.

*Resources Material, Men etc 1/4/2020 2/4/2020*

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So reservation strategies should focus on yield. Increasingly, service firms are looking at their yield. The average revenue received per unit of capacity, so if an airline has 700 seats, then what is the average revenue per seat? The aim is to maximize this yield in order to improve profitability. So yield analysis forces managers to recognize the opportunity cost of selling capacity for a given date to a customer from one market segment, when another might subsequently yield a higher rate.

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**RESERVATION STRATEGIES SHOULD FOCUS ON YIELD**

*Should a print shop process all jobs on a first-come, first-served basis, with a guaranteed delivery time for each job, or*

*Should it charge a premium rate for "rush" work, and tell customers with "standard" jobs to expect some variability in completion dates?*

Decisions on such problems deserve to be handled with a little more sophistication than just resorting to "the bird in the hand is worth two in the bush" formula.


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So, let us see at this example. Should a print shop process all jobs on a first come first serve basis with a guaranteed delivery time for each job or should it charge a premium rate for rush work and tell customers with a standard jobs to expect some variability in completion date. So, some customers they come with rush job for example, during the season so, there are lots of people, who are getting their marriage cards printed. So, when the customer comes in at the last moment, so, will he be charged more and the customers who have come in earlier, they can be asked to wait for some more time. So, decisions on such problems deserve to be handled with a little more sophistication than just resorting to "the bird in hand is worth two in the bush" formula. Because now the people who are coming late, they will have to pay more so that increases the yield of this service company.

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**RESERVATION STRATEGIES SHOULD FOCUS ON YIELD**

The decision to accept or reject business should be based on realistic estimates of the probabilities of obtaining higher rated business and on the awareness of the need to maintain established (and desirable) customer relationships.



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The decision to accept or reject business should be based on realistic estimates of the probabilities of obtaining higher rated businesses and on the awareness of the need to maintain established and desirable customer relationships. So now with this reservation system, this yield management becomes easier because we know that there will be 5 customers who will come at the end and there we can charge more from these 5 customers that will increase our yield and the profitability.

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**CREATING ALTERNATIVE USE FOR OTHERWISE WASTED CAPACITY**

Possible uses for otherwise wasted capacity include:

- Use capacity for service differentiation
  - When capacity utilization is low, service employees can go all the way to truly “wow” their customers by
  - Paying extra attention
  - Allocation of preferred seating
- Reward your best customers, and build loyalty
  - Through special promotions as part of a loyalty program, while ensuring that existing revenues are not cannibalized.



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Now, there are, how to go about creating alternative use of otherwise wasted capacity. So, we have huge capacity and which keeps on going waste all the time, then what how should we use that excess capacity. So, probable uses of otherwise wasted capacity include, first is use



capacity for service differentiation. When capacity utilization is low, service employees can go all the way to truly “wow” their customers because now they are free.

So, the employee should be so trained that they go all the way to pay extra attention to the customers and to allocate a preferred seating to the customers because customer can sit wherever they can because of the excess capacity. Another is to reward your best customers and build their loyalty through special promotions as part of a loyalty program, while ensuring that existing revenues are not cannibalized, so you can give them special promotions, but also keep in mind that we are not reducing or cannibalizing the existing revenues.

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**CREATING ALTERNATIVE USE FOR OTHERWISE WASTED CAPACITY**

- Customer and channel development
  - Provide free or heavily discounted trials for prospective customers and for intermediaries who sell to end customers
- Reward employees
  - In certain industries such as restaurants, beach resorts, or cruise lines, capacity can be used to reward employees and their families to build loyalty.
  - This can improve employee satisfaction and provide employees an understanding of the service as experienced from the customer's perspective.

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Next is customer and channel development; provide free or heavily discounted trials for prospective customers and for intermediaries, who sell to end customers because you will still have excess capacity so that will go waste. So, it is better not to let it go waste and to provide it free or at a very low price to prospective customers or intermediaries. The next is to reward employees. In certain industries such as restaurant, beach resorts or cruise lines, capacity can be used to reward employees and their families to build loyalty.



So now you see that the cruise lines will go and if there are 15 seats vacant, you can ask the employees to bring in their families so that will increase employee engagement with the company. This can improve employee satisfaction and provide employees an understanding of the service as experienced from the customer's perspective. So this will help the company in turn because now the employee will look at the service from the customer's point of view.

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## CREATING ALTERNATIVE USE FOR OTHERWISE WASTED CAPACITY

- Barter free capacity
  - Service firms can save cost and increase capacity utilization by bartering capacity with their own suppliers
  - Most widely bartered services are advertising space or airtime, airline seats, and hotel rooms.




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The next thing that can be done is barter free capacity. Service firms can save costs and increase capacity utilization by bartering capacity with their own suppliers. So that is most widely bartered services are advertising spaces or air time, airline seats and hotel rooms. So the hotel rooms can be sold, by one hotel the room can be sold to another hotel where the demand is high while for us, the demand is low and we have excess capacity, so thereby this capacity is utilized.

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## CONCLUSION

- In this module, we continued with the concept of waiting line and how to make waiting less unpleasant.
- Next, we discussed about how reservation systems can be put to use in managing demand.
- Finally we discussed alternative ways to utilize otherwise wasted capacity.



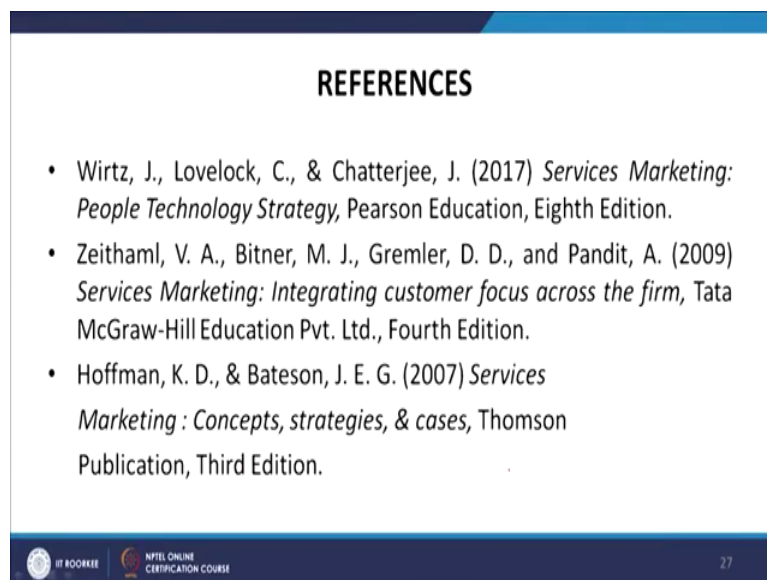
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Now, in order to conclude in this module, we have continued with the concept of waiting lines and how to make waiting less unpleasant. So, in this module we have continued with the concept of waiting lines and how to make waiting less unpleasant. Now, as we have

discussed that waiting will always be there for a person as well as for possessions and across the world.

So, we can just reduce the waiting time and then another important thing that needs to be done is to do things that will make this wait less burdensome. So, we have talked about those strategies that will make this wait less burdensome. Next, we have discussed about how reservation systems can be put to use in managing demand. And finally, we discussed alternative ways to utilize otherwise wasted capacity. So, we have excess capacity now, there is a need to use this additional capacity. So, we have talked about the alternative ways that can be used to utilize this excess capacity.

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And these are the three books from which the material for this module was taken. Thank you.