Service and Retail Marketing

SEMESTER - IV

MASTER OF COMMERCE

BLOCK - 1

(Marketing Specialisation)

KRISHNA KANTA HANDIQUI STATE OPEN UNIVERSITY

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MASTER OF COMMERCE

SERVICE AND RETAIL MARKETING

Block 1

DETAILED SYLLABUS

Unit 1: Introduction to Service Marketing:

Definition and concept, Scope of services, Goods services continuum, Types of services – goods and services categorization, Industrial services, Segmentation, target marketing and positioning, Customer expectations and perceptions of services.

Unit 2: Service marketing mix :

Product, price, place, promotion, people, physical evidence and process.

Unit 3: **Service quality :**

Dimensions of service quality, measuring service quality, Strategies for dealing with intangibility, inventory, inconsistency and inseparability, Building customer relationship through segmentation and retention strategies.

Unit 4: **Service marketing triangle :**

External marketing, internal marketing, relationship marketing and interactive marketing.

Unit 5: **Introduction to Retailing :**

Introduction, Meaning of Retailing, Economic Significance of Retailing, Retailing Management Decision Process, Product Retailing vs. Service Retailing, Types of Retailers, Retailing Environment, Indian vs. Global Scenario

Unit 6: The Retail Marketing Segmentation:

Introduction, Importance of Market, Segmentation in Retail, Targeted Marketing Efforts, Criteria for Effective Segmentation, Dimensions of Segmentation, Positioning Decisions , Limitations of Market Segmentation

Unit 7: Store Location and Layout:

Introduction, Types of Retail Stores Location, Factors Affecting Retail Location Decisions, Country/Region Analysis, Trade Area Analysis, Site Evaluation, Site Selection, Location Based Retail Strategies

COURSE INTRODUCTION

This is the second course of M. Com. fourth semester Marketing specialisation Programme. This course “Service and Retail Marketing” of M.Com. 4th semester will focus on the different aspects of service sector and retial sector in Marketing. In this course we have briefly discussed about Iservice and retail marketing, it’s various types and marketing strategies. We have also discussed about the concept of service and retail marketing and how it differs from Product marketing .

This course consists of fourteen units. This course starts with the unit discussing the concept of the introduction to Service marketing.

The course has 14 units and is divided into two blocks: Block 1 and Block 2.

Block 1 deals with the introductory concepts of Service Marketing, Service marketing mix, it’s quality, Service marketing triangle. Then we have discussed about Retailing, it’s segmentation and store location and layout.

Block 2 concentrates on Retail marketing strategies, ratail merchandise, e- tailing and case studies etc.

Each unit of these blocks includes some along-side boxes to help you know some of the difficult, unseen terms. You may find some boxes marked with: “LET US KNOW”. These boxes will provide you with some additional interesting and relevant information. Again, you will get “CHECK YOUR PROGRESS” questions. These have been designed to self-check your progress of study. It will be helpful for you if you solve the problems put in these boxes immediately after you go through the sections of the units and then match your answers with “ANSWERS TO CHECK YOUR PROGRESS” given at the end of each unit. This will help you in making your learning more active and efficient. And, at the end of each section, you will get “CHECK YOUR PROGRESS” questions. These have been designed to self-check your understanding.

BLOCK INTRODUCTION:

This is the first block of the course 'Service and Retail Marketing". The Block is divided into7 units and is primarily a learner oriented Self learning material, as it satisfies the requirements of the learners in the field of Marketing.

This block comprises of the following seven units:

The first unit introduces us to Meaning and Concept of Service marketing, it's nature, scope and characteristics.

The second unit gives us a broad idea of Service marketing mix.

The third unit gives us an idea on the Service Quality.

The fourth unit will help us in understanding Service Marketing triangle.

The fifth unit gives us a broad idea of Retailing.

The sixth unit will help us in understanding the retail marketing segmentation.

The seventh and the last unit of this block explains about store location and layout.

The Block is devided into seven units:

Unit 1: Introduction to Service Marketing

Unit 2: Service marketing mix

Unit 3: Service quality

Unit 4: Service marketing triangle

Unit 5: Introduction to Retailing

Unit 6: The Retail Marketing Segmentation

Unit 7: Store Location and Layout

UNIT 1: INTRODUCTION TO SERVICE MARKETING

UNIT STRUCTURE

1.1 Learning Objective

1.2 Introduction

1.3 Definition

1.4 Nature and Scope of services

- 1.4.1 Nature of Services
- 1.4.2 Scope of Services

1.5 Goods Services Continuum

1.6 Goods and services categorization.

1.7 Characteristics of Services

1.8 Industrial services

- 1.8.1 Hotel Industry
- 1.8.2 Tourism Industry

1.9 Segmentation, Target marketing and Positioning of Services

- 1.9.1 Market Segmentation
- 1.9.2 Market Targeting in Services
- 1.9.3 Market Positioning of Services

1.10 Customer expectations and perceptions of services

- 1.10.1 Customer Expectations: A brief introduction
- 1.10.2 Types of Service Expectations
- 1.10.3 Factors that influence Customer Expectations of Service
- 1.10.4 Customer Perceptions: Definition and concept
- 1.11.5 Factors that influence customer perception of services

1.11 Let us Sum Up

1.12 Further Reading

1.13 Answers to Check your progress

1.14 Model Questions

1.1 LEARNING OBJECTIVE

After going through this unit, you will be able to:

- define the concept of services and service marketing
- describe Goods Services Continuum
- learn about the advantages of goods services continuum
- acquaint yourself with Goods and Services Categorization
- know the characteristics of Services
- learn about industrial services
- know about market Segmentation, Market Targeting and Market Positioning of Services
- learn about customer Expectations and Perception of Services.

1.2 INTRODUCTION

In this unit we will discuss about service marketing. *"When you build a manufacturing plant, it starts depreciating on the day it opens. The well-served customer, on the other hand, is an appreciating asset. Every small act on his or her behalf ups the odds for repeat business, add-on business and priceless word-of-mouth referral"* **Tom Peters-**a renowned author and management guru said this.

The three major sectors that contribute towards the development of any economy are primary, secondary and tertiary. The primary sector being agriculture, manufacturing being the secondary and the tertiary sector comprise services. Over the years the services sector has witnessed a tremendous growth in the world economy. In most of the developing countries, agriculture was the prime source of livelihood and employment. With the progress of mankind new inventions started to blossom in terms of modern methods of manufacturing which led to increased investment in the industrial sector. People started to move from the rural to the urban areas to work in the manufacturing firms. Because of the intensive uses of the modern equipment, the productivity of the industrial firms started to increase and slowly the manufacturing sector dominated the agricultural sector and became a major contributor to the country's growth. As the country

further developed, the per capita income increased and people started to spend more on services like healthcare, insurance, legal, entertainment etc and gradually the market for services had began to expand. Like most developed countries where the services sector accounts for a major contribution in its GDP and generates much more employment than the manufacturing sector so also a developing country like India has witnessed a major shift from the traditional agricultural dependency to a more vibrant service sector. In India, the 1990s witnessed a wave of foreign companies entering its territory as a result of Foreign Direct Investment (FDI) initiated by the then Indian Government which eventually gave rise to the concept of Liberalisation, Privatisation and Globalisation (LPG). This period saw the Indian economy undergoing a paradigm transformation. It not only enhanced stiff competition but also served as a potential threat to the indigenous firms. As such, in order to survive and have a competitive edge over others, companies became more customer centric and focused more on delivering value added service to them. Today, the profit for any company is to see the satisfied and happy customers.

1.3 DEFINITION

The American Marketing Association (AMA) defined services as *"activities, benefits or satisfactions which are offered for sale or are provided in connection with the sale of goods".* However, Sir Philip Kotler is a bit more specific as he defines it from a marketing point of view. According to him, *"A service is any activity or benefit that one party can offer to another, which is essentially intangible in nature and does not result in the ownership of anything".*

1.4 NATURE AND SCOPE OF SERVICES

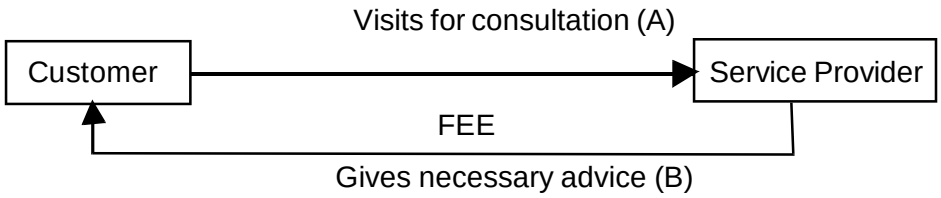
1.4.1 Nature of Services

Just as there was a major shift from the traditional agricultural dependency to a more sophisticated manufacturing sector so also manufacturing today has slowly paved way to the service sector.

The services sector, with around 60 per cent contribution to the Gross Domestic Product (GDP) in 2014-15, has made rapid strides during the past decade and a half to emerge as the largest and one of the fastest-growing sectors of the economy. Service is no longer an industrial by-product; rather, it has become a powerful economic engine in its own right. It can rightly be said that if an industrial society is defined by the quantity of goods as making a standard of living, the post-industrial society is defined by quality of life as measured by services and amenities such as health, education, recreation, arts, entertainment which are now deemed desirable and possible for everyone for all round self development. The growth in the economy is in services. In the next ten years, services are expected to provide 90 percent of all new jobs. As per the ILO (International Labour Organisation) report on "Global Employment and Social Outlook: Trends 2015", job creation in the coming years will be mainly in the service sector. According to the Economic Survey 2015-16 tabled in Parliament on February 26, 2016, the services sector contributed almost 66.1% of its gross value added growth in 2015-16 and thus becoming the important net foreign exchange earner and the most attractive sector for FDI (Foreign Direct Investment) inflows. Despite the slowdown in the post crisis period (2010-14) India showed the fastest service sector growth with a CAGR (Compound Annual Growth Rate) of 8.6% followed by China at 8.4%. In 2014, India's services sector growth at 10.3% was noticeably higher than that of China at 8.0%. Service jobs are provided not only in the trashonal service industries (banks, insurance companies, airlines, hotels) but also within product based industries and energing sectors. (lawyers, advertisers, medical, automobiles etc.). When a customer buys a service in the service market, he buys the time, knowledge, skill or resources of someone else who is the provider of the service. The buyer receives satisfaction or benefits from the activities of the provider who may be an individual, a firm or a

company, i.e., an institution specialising in selling certain benefits or satisfactions.

For example,



In the above figure, (A) and (B) implies that the customer buys the time, knowledge and skill (expertise) of the service provider by paying his consultation fee.

1.4.2 Scope of Services

Untill recently many organisations selling products and services were mainly product and sales oriented. The focus was internal and summed up in these words : “Let us produce what we think the market wants and the sales department will manage to sell the output”. Since the 1960s, service organizations particularly banking, transport, insurance companies etc. have been developing the marketing organization both internally and externally. Under marketing concept, a marketer adopts consumer-oriented attitude, viz, creation of customer satisfaction through the provision of goods and services carefully developed in response to the customer needs and wants. Businesses exist to serve customers and it can earn profits only through customer service and satisfaction. Numerous types of services are marketed to customers. Some of them are food (hotels and restaurants), personal care (beauty parlours, laundries), automotive, entertainment, lodging, transport, insurance, finance, communication (telephone and postal), advertising and promotion, engineering, consultancy, tourism, medical and many more. The service market consists of providers of personal and professional services as well as industrial services.

Today, the service sector has witnessed a phenomenal growth mainly due to the following reasons:

a) The consumers have more disposable income. They are prepared to buy services they were unable to purchase erlier. Due to adequate purchasing power people want to buy many services so that they get more time for leisure. As such, many recreational centres have blossomed.

b) Division of work and specialisation are the unique features of many firms today. Firms are willing to buy specialised services from other service organisations. For example, instead of employing maintenance workers, they are using the services of professional maintenance companies. Both individuals and firms often employ specialists like management consultants, lawyers, tax experts, auditors etc. Hence, we now have specialised service firms and institutions willing to sell specialised services.

c) We have now increasing complexity and sophistication in the jobs needed by consumers as well as industries. As we are living in a world of specialisation we need experts in different areas right from personal to healthcare. Modern shopping malls offer increasingly cultural and recreational activities. They not only provide a place to buy material goods from but also a convenient place from which to buy many entertainment and recreational services. Many departmental stores also sell beauty salons, restaurants, travel bureau, and photography studio and so on.

1.5 GOODS SERVICE CONTINUUM

The concept of services is complicated as services may encompass many features, ranging from a personal insurance service to one involving a complex relationship. An example of the latter is car rental where the

customer drives the car it is a very tangible and comprehensible result of the service offered whereas in case of the former, using insurance service as an example, the customer pays for something highly impalpable, namely risk reduction. The insurance company bears the risk, which the customer consumes all the time. Different levels of personal interaction are also exemplified in both cases. Car rental is often handled in a "standardised" manner not necessarily entailing personal contact other than signing a contract and receiving a key, whereas an insurance contract requires a high level of personal interaction. A service is individually perceived on the basis of rational assumptions by customers and often described by abstract expressions such as trust, feeling, security and experience. This exemplifies one of the characteristics suggested to distinguish services from goods, namely ***intangibility.*** Intangibility denotes the fact that services are often not possible to taste, see, hear or smell. They are impalpable.

To illustrate the intangible character of services and tangible character of goods, we present the modified Shostack's goods-service continuum for a better understanding:

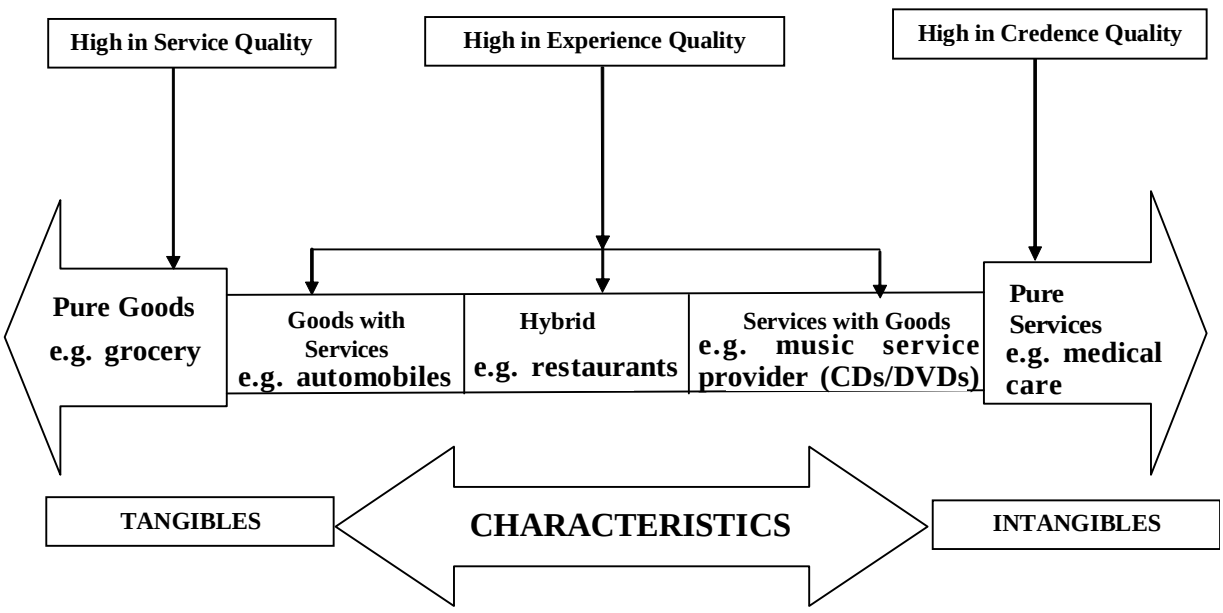


Fig 1.1: GOODS-SERVICECONTINUUM

Pure Goods

Pure goods are those products which have shape, size and weight and we can touch and sense them as tangibles and are consumed in materialistic form. For example, grocery (as in the figure above), books, table etc. The pure goods are bought by a single purchase by the consumer and are consumed. Pure goods involve least direct communication with the manufacturer whereas in case of services, a customer may have direct communication with the service provider.

Goods with services

Goods with services are the tangible articles that need post sale service in terms of periodical or otherwise maintenance, guarantees and warranties etc. For example, automobiles (as in the figure above), need service even after the sale due to functional and operational problems that may exist over a period of time due to wear and tear. The manufacturers provide services to the customer in these types of goods that need services even after sale.

Hybrid

In case of hybrid, there is a blend of tangibles and intangibles through which the needs and wants of the customers are satisfied. For example, in restaurants, the customers are served with infrastructural facilities like rooms, furniture, waiters and eatables to satisfy his/her needs. The customers consume the tangible products and use the infrastructural facilities in combination of tangible products that he/she may consume. Therefore, in case of hybrid, the customer uses a blend of tangibles and intangibles.

Services with goods

In case of services with goods, the services that satisfy the customer needs and wants are accompanied with the products/goods. For example, a music centre provides rented movies, in that the music service provider provides CDs/DVDs in tangible form and the same is used as product by the consumer and the same are returned to the service provider. Hence, it is clear that the services with goods provide more of service and very less of tangibles that the customer does not retain with him/her.

Pure service

Pure services means services like medical care (as in the figure above), babysitting etc are offered where purely intangible type of services is provided.



CHECK YOUR PROGRESS

Q 1: Define Services.

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Q 2: State two reasons for the growth of the service sector.

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Q 3: Which statement is a best example of a "Pure Service"?

a) A teacher is teaching in a classroom

b) A shopkeeper is selling bananas

c) A manager is supervising the work in a factory

Advantages and Utilities of Goods-Service Continum

The Goods-Service Continuum helps the business houses to identify and analyse their product/service along the continuum and can be used to review or re-engineer their marketing strategies. Advantages from the goods-service continuum may be in any of the following forms:

a) Each position on the goods-service continuum provides a unique opportunity to the marketer.

b) From the goods-service continuum, a marketer can understand the benefits or marketing opportunities the time he/she makes a shift from goods to services.

c) The goods and services involve a blend of tangibles and intangibles. The continuum helps the marketer to understand the relative evaluation of goods and services and also can help in designing marketing mix for the goods as well as the services.

d) The goods-service continuum helps the marketer to adjudge the

market orientation whether to continue with goods orientation or with service orientation.

1.6 GOODS AND SERVICES CATEGORIZATION

In marketing a good, the marketer has just to show the good and explain its specifications and utilities to the customer. Example, marketing a mobile phone or a television set. But in case of marketing a service, the marketer has to reveal the benefits and utility of something that cannot be shown. Services are efforts, activities performed by service providers. Goods and services can be differentiated in terms of their nature of the product, customer involvement in the production process, people as a part of the product, quality control problems, difficulty in evaluation, absence of inventories, importance of time factor and nature of distribution channels.. In this regard, the following will be more helpful in understanding the differences between a good and a service.

a) Nature of the Product

Leonard L. Berry defined a 'good' as an object, a device or a thing and a 'service' as a deed, a performance or an effort. A product can be a pure *tangible* good like a pen, pencil, grocery or a *tangible good supplemented by some services* like a fax machine, automobile which requires after-sale service, or *services supplemented by tangible good* like library books provided by an educational institute to its students, rented movies, or a *pure service* like hair cutting, medical care, baby sitting. The strategies adopted by a marketer for marketing each of the above products will vary greatly. The marketer of tangible good emphasizes on the quality and functionality of the product.

b) Problems in Quality Control

The intangible nature of services makes it very difficult to define and establish specific standards for delivering quality service. Moreover, the perception of quality differs from one customer to another. For example, even if a hotel serves tasty food, its ambience is good, the waiters are well behaved, a particular customer may not be satisfied with the service quality if the waiters do not assist him in finding a vacant table, if that is the

benchmark of quality for him. On the other hand, another customer may ignore all the above aspects of service if the food is tasty and that gives him/her a great deal of satisfaction.

Service providers do not have an opportunity to improve the service quality once that service is delivered because it is consumed immediately. Therefore, they have to be most careful while delivering the service at the first instance itself.

c) Involvement of Customer in Production

Unlike a product, which is manufactured and can be stored till the customer purchases it, services cannot be stored and must be delivered immediately in the presence of the customer. In some cases, the customer plays the role in the design and delivery of the service itself. For example, if a customer walks into a coffee shop, he can ask for a customized drink with no sugar or with chocolate flavour. The customer also plays the role in the delivery of the service by forcing the service into an unpleasant experience if he is in a bad mood by shouting at the service provider; on the other hand, he can even make the service a pleasant experience by being very friendly with the service provider.

d) Absence of Inventories

Services are perishable which means that they cannot be stored for future use like goods. Suppose a renowned singer agrees to share his technique with amateur students for a few hours on a Saturday evening. If the organization arranging the interaction makes a mistake by announcing it a Sunday evening, the students miss an opportunity. The opportunity thus lost is lost forever.

e) Nature of Distribution Channels

There is a time gap between production, distribution and sale of a good to the customer. But, in the case of service, all these processes occur one after another and there is no time gap. The distribution channel is more or less absent in services and the system is more similar to the direct marketing of goods. In most cases of service delivery, the customer directly interacts with the service provider and avails the service. For example, if the customer is interested in hiring the services of a financial service provider,

he directly interacts with the employees and agents working in the firm. But in case of a product or good like a television, the consumer might interact with the retailer who has procured it from the dealer, who in turn has distributed the product for the manufacturer.

f) Importance of Time Factor

Time plays an important role in the service sector. A customer does not wait beyond a period of time for the service to be delivered. If the service provider exceeds a certain time limit, the customer feels dissatisfied and looks for another service provider.



CHECK YOUR PROGRESS

Q 4: Intangibility of service means

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Q 5: Give suitable examples of the following:

a) Goods with Services

b) Services with goods

c) Hybrid

d) Pure Good

e) Pure Service

1.7 CHARACTERISTICS OF SERVICES

Services differ from physical goods in certain characteristics. These characteristics of services make them unique and pose a challenge for marketers to market them separately from goods. The major characteristics of services are discussed as under:

a) Intangibility

A product is a physical entity which can be seen, touched, heard, smelt, tasted and tested even before purchasing and consuming it. For example, when a consumer decides to purchase a bike, he can see it, touch it, test drive it to understand its performance. Therefore, he has a better idea of the product before deciding whether to buy it or not. But services

are intangible and cannot be experienced unless consumed. For example, when a patient (customer) decides to visit a renowned doctor for consultation, he does have an idea about the reputation of the doctor but can actually assess his services only after he has availed it. Therefore, unlike products, the quality of a service can be assessed only after consuming it.

b) Heterogeneity

A machine can produce units identical in shape, size and quality. But a human being cannot work uniformly and consistently throughout the day. Since a service is offered by a human being, there is a high probability that the level of service delivered may differ. The service offered by one employee may vary from the service offered by another although they may belong to the same company. Even the service offered by the same employee may be different at different times. After serving customers continuously for several hours during the day, an employee may not be able to offer the same level of service towards the end of the day. Therefore, as per the heterogeneous characteristic, the quality of service offered may and will vary.

c) Inseparability

A service is consumed immediately by the customer as soon as it is delivered. Thus, the production and consumption occur simultaneously in case of services. Services cannot be inventoried and need to be consumed immediately. Since the delivery and consumption of a service are inseparable, there has to be an interaction between the customer and employees of a service organization. For example, the interaction between a doctor and a patient is essential if the patient is to be treated for an illness.

d) Perishability

Unlike products, services cannot be inventoried and stored for future consumption. For example, if a hotel has 50 rooms. But on a particular day, only 20 rooms are occupied. The hotel has an idle capacity of 30 rooms on that day. This is a lost business opportunity for the hotel owner. The fact that it may be fully booked the next day does not compensate for the idle capacity for that day.

1.8 INDUSTRIAL SERVICES

1.8.1 Hotel Industry

The hotel industry is a part of the hospitality industry along with other sectors like travel and tourism. A change, either positive or negative, in any one of these associated industries will affect the hotel industry. Further the demand for the hotel industry is bound to change due to changes in government rules, business cycle, festive seasons, weather conditions, security issues etc. The hotal industry needs a very professional and planned approach to emerge successfully in any of the above mentioned situations.

Globalization has bought many significant changes in most of the industries including the hotel industry. New dimensions of customer service have emerged and customers' basic perception of the service has changed. Today's customers demand more convenience and communication facilities. They expect superior services from the service providers. Competition in the Indian hotel industry has intensified with the entry of different foreign hotel chains like The Marriot and The Hyatt. The exposure of the Indian customer to services abroad has made him more discerning and therefore more demanding. Today in this age of digitalization, many Indian hotels have introduced facilities of online booking for guests, who get a confirmation through SMS. The success of the hotel industry depends to a large extent on travel and tourism. Globalization has increased the number of multinational companies in India which have significantly increased business between India and other foreign countries in the world. This led to an increase in business travellers in India and a boost for the hotel industry.

I Characteristics of Hotel Industry

The following are the major characteristics of hotel industry

a) Perishability: A hotel's services, i.e the availability of its rooms,

is perishable. That means, if a certain number of rooms remain vacant for the day, their capacity goes unutilized and is lost for the day.

b) **Location:** The location of a hotel is fixed and cannot be changed immediately. Therefore, hotel owners should choose the location very strategically keeping in mind the convenience of its customers.

c) **Fixed supply:** A hotel has fixed number of rooms and its capacity cannot be increased overnight. If a hotel has no vacant room to offer to a probable customer, then it has lost business.

d) **Seasons:** Hotels occupancy rates vary according to the seasons and the type of hotels.

e) **High fixed costs and low variable costs:** A high capital investment is required to build and furnish a hotel. It needs further investments on hiring, training and maintaining the employees. The fixed costs are high as compared to the variable costs.

f) **Competition:** Globalization has intensified competition in the hotel industry and it has also led to the improvement of services.

g) **Value-added services:** Hotels have learnt to enjoy repeat business by retaining existing customers and to attract new customers by offering them value-added services like health clubs, amusement centers, shopping malls etc.

1.8.2 Tourism Industry

The tourism industry is divided into three categories namely, transportation, accommodation and tour operators. Transportation deals with airlines, roadways, railways and shipping (waterways). People may adopt any of these modes of travel depending on their budget, time, convenience and status. Accommodation deals with hotels, clubs, resorts and inns. Tour operators are the people who design holiday packages and take care of all the accommodation and travel needs of the customers. The tourism industry of a country

is dependent on the country's tradition and culture, natural resources, scenic beauty, its financial and political status, its religious inclinations and its architectural beauty. This industry is expanding in a very rapid pace today and with the improvement in the standard of living, travel and accommodation facilities, we see a large number of tourists travelling across the length and breadth of the world today. Tourists can be of three types. One is the enthusiast who is just keen on visiting new places and enjoying the like there. The other is the researcher, who visits different destinations based on his subject of research. The third category comprises those who develop an interest in a particular art form like dance or music specific to a region or country and keep on visiting the place over and over again.

Many countries are promoting tourism as it is a major source of generating revenue. In India, the Government has taken several measures to promote tourism. For example, 'The Incredible India Campaign" is a step in this direction. Tourism industry is today governed by sophisticated technology that has improved communication with the customers, tour operators in other countries. With an increase in the disposable income of the people, there has been an increase in the number of young tourists today.

Characteristics of Tourism Industry

The following are the characteristics of tourism industry:

a) **Stable locations:** Tourism locations are fixed and potential customers have to visit these locations for consuming the various services.

b) **Huge financial investment:** The tourism industry requires huge investments for the development of the infrastructure to meet the need and demand of the customers.

c) **Unstable demand:** The demand for tourism products is not stable. For the tourists services and destinations are in demand during vacation time or when the weather is suitable.

d) **Perishability:** Tourism products are perishable. That means

that all the unutilized resources during the low demand season cannot be inventoried and saved for the peak demand season.

1.9 MARKET SEGMENTATION, MARKET TARGETING and MARKET POSITIONING IN SERVICES

1.9.1 Market Segmentation

Over the years, customers' expectations, needs, and desire have changed substantially. Customers are no longer satisfied with a single product or service offered by the companies to satisfy their wide array of needs. For example, a family man looking to buy a motorcycle might pay more attention to the features like longevity, mileage and sturdiness whereas a college going boy might prefer a brand of the motorcycle for its style, image and appearance. This has made companies develop and market products to suit individual needs and preferences. This has led to the emergence of the concept of **market segmentation**.

For example, an airline's customers comprise the business travellers, tourists, students and their needs differ on various fronts like the time factor, the fare, the food served etc. While the tourists want a good deal and a great ambience, businessmen look for a serene atmosphere. Offering a single type of service to cater to all their needs would not be a feasible option and would result in a dissatisfied customer base. This realization has paved the way for marketers to define their market segment in the total market. Market segmentation, thus, helps in the clear understanding of customer needs and in keeping track of changes of customer expectations.

Patterns of Segmentation

The decision made by a company to serve a segment depends on its selection of the target market. The following are the three types of market-coverage strategies:

a) Undifferentiated Marketing Approach

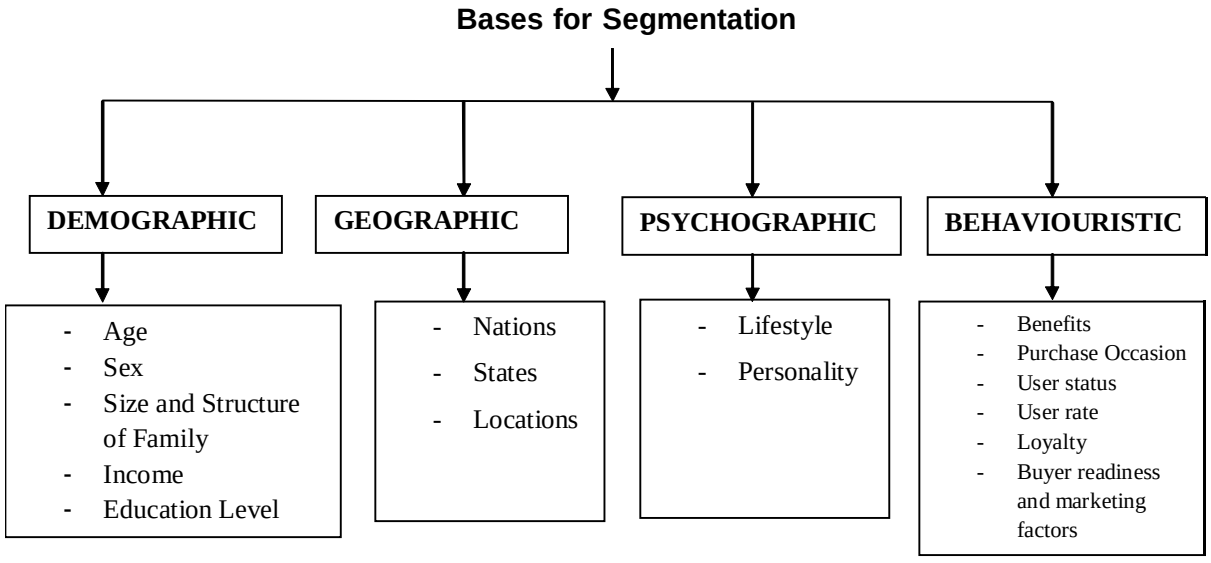
The undifferentiated marketing approach, also known as the mass marketing approach, aims at serving all the consumers by offering a single product or service. It involves a single marketing mix. For example, an insurance company that offers a single policy for insuring life is said to have adopted an undifferentiated marketing strategy. This approach is successful when the product or service is favourite among the masses or when there is no competition for it. In this approach, a company produces one product in large volumes reducing the production costs, opts for mass advertising reducing the advertising costs, and adopts mass distribution reducing the inventory and transportation costs.

b) Differentiated Marketing Approach

The differentiated marketing approach, also known as product-variety marketing approach, aims at targeting consumers of various segments by offering different product or services for each segment. For example, the airlines may opt to serve the business traveller segment, domestic traveller segment and international traveller segment and might design its marketing mix to cater to the needs of the consumers of all the three segments. A company aims to tap the entire market by serving each segment and thus becomes a market leader. This approach might prove to be successful if the brand name is well known in the market and if the consumers from each segment identify the product or services offered with the brand. Companies adopting this approach try to satisfy the consumers of each segment by identifying their buying patterns and designing their products or services accordingly.

c) Concentrated Marketing Approach

The concentrated marketing approach, also known as the single-segment strategy, aims to serve limited segments in the total market. A company with limited resources adopts this approach and aims to serve only a few segments by catering to the specific needs of the customers in those segments.



a) Demographic Segmentation

Demographic segmentation is carried out on the basis of age, sex, size and structure of family, income and education levels.

l Age

Marketers believe that people of the same age group behave in a similar manner and this belief has led them to segment the market according to age and market their product and service accordingly. For example, a person aged around 60 years may not have as much fun at an amusement park as a child below 12 years.

l Sex

Marketers can segment the market depending on the gender they would like to serve. Products or services can be designed for a single segment or both the segments.

l Size and structure of family

In India, the size of the family has been decreasing from what it used to be previously. Marketers can therefore design their products or services to serve the needs of the family accordingly. Further, with the increase in educational and job opportunities in cities, young individuals are moving to the cities and the marketers have an opportunity to design the appropriate services for them.

l Income

Income is one of the most important bases used by marketers

to segment the market as it determines the buying power of the customer. It is evident that as the income increases, customers tend to spend more on luxury goods and services and their spending on basic necessities as a percentage of total spending decreases. For example, an individual's ability to visit an expensive hotel for lunch depends on his income.

- **Educational level**

One of the factors that determines the preferences and wants of an individual customer is his level of awareness, which in turn depends on his education level.

b) Geographic Segmentation

Under geographic segmentation, the entire market can be divided into nations, countries or states and the global market can be segmented into developed, developing and underdeveloped countries. The gross domestic product of a country, its per capita income, standard of living of the people is considered when segmenting the global market on a national basis. Marketers can therefore design their service offerings accordingly.

c) Psychographic Segmentation

In this type of segmentation, marketers divide the market on the basis of life-style and personality of their customers.

- **Life-style**

Marketers gain valuable insights into the buying behaviour of their customers by analyzing their lifestyles. This type of segmentation helps the marketers to effectively design their marketing mix for the customers. For example, the lifestyle of a young and single professional will be entirely different from that of a person who is married and has family. The young individual might be more interested in spending than in saving whereas the family man will be more interested in investment and savings. Therefore, the marketer may design different type of services for both.

- **Personality**

Marketers can design products and services that appeal to

the personality types of their customers. For example, a customer who seeks to have a quiet and relaxing vacation will be attracted by a holiday package that offers yoga, body massage etc. Similarly, a customer looking for fun and adventure will be attracted to a different holiday package which is full of life and vitality.

d) Behaviouristic Segmentation

Behaviouristic segmentation covers areas like the benefits sought by the customers, purchase occasion, user status, degree of usage, customer loyalty, readiness stage and marketing factor sensitivity.

- **Benefit segmentation**

This segmentation divides the customer on the basis of the benefits sought. That is the customers are grouped according to the benefits that they are looking for when consuming a product or a service. Marketers should gather adequate information on the various benefits that different types of people are looking for and then assess the ability of their product or service to deliver those benefits. For example, when a person decides to go in for an insurance policy, he could look at interim and long-term benefits. However, another person going in for an insurance policy could desire a different set of benefits from the policy, depending on his needs.

- **Purchase occasion**

This segmentation divides customers on the basis of the reasons behind the purchase. For example, a family may go out for dinner to an expensive restaurant to attend a birthday party or any other occasion. There might be another family which goes out to dinner at an expensive restaurant every weekend. Thus the reason to opt for the service of an expensive restaurant might vary.

- **User status segmentation**

Customers can be divided on their usage of a product or service and the pattern of usage. There can be different categories under this segment: These are **non-users**, who never use the product or service; **ex-users**, who used the product or service earlier

and who do not purchase the same product or service any more; **potential users**, who might not be using the product or service at present but may use it in the future; **first-time users**, who have decided to use the product or service for the first time; and **regular-users**, who uses the product or service regularly. Marketing strategies for each of these users will be different.

- **Usage rate segmentation**

This segmentation divides customers based on the frequency of usage of a product or service. This segmentation divides the user market into light, heavy and medium user groups. For example, airline passengers who travel regularly on business may be heavy users of the service, while customers using the service for domestic purposes may be the medium users and those travelling by air only during vacations may be the light users of the service.

- **Loyalty segmentation**

This segmentation divides customers on the basis of the degree of their loyalty toward a certain product or service. The following are the types of customers based on their degree of loyalty-

- *Hard core loyalist*

Customers who always use a specific brand of service and who refuse to switch on to any other brand are known as hard core loyalists. This behaviour is mostly exhibited by newspaper readers, cigarette smokers etc. For example, an avid reader of The Hindu who does not think of shifting to The Times of India, is a hard core loyalist.

- *Soft core loyalist*

Customers who are loyal to two or three brands of product or service are known as soft core loyalists. For example, a customer who does not mind reading The Hindu or The Times of India or The Indian Express is a soft core loyalist.

- *Shifting loyalist*

Customers who shift their loyalty from one brand to another

very often are known as shifting loyalists. For example, a person who was loyal to The Times of India now, suddenly shifts to The Hindu and might even shift to The Indian Express soon.

- *Switchers*

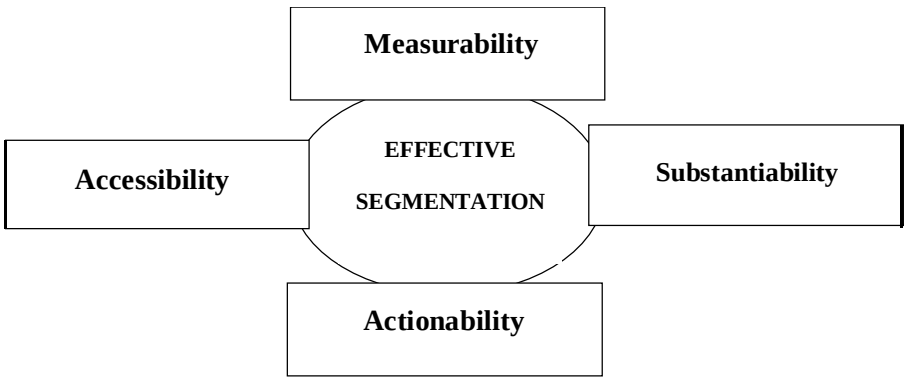
Customers who are not loyal to any brand and are equally comfortable with any brand are known as switchers. For example, a person who does not have any preference and reads any English daily depending upon its availability is a switcher.

(d) Buyer readiness and marketing factors

Market segmentation based on buyer readiness divides customers based on their willingness to buy and their likelihood of purchasing a certain product or service. Marketers identify people under different segments based on various factors like their awareness or knowledge for the product or service, their liking and preference for it and their conviction to purchase it. For example, a young boy might know every detail about an upcoming movie and be determined to see it. But his father, though likes movies too, however, might not have any knowledge about it and may not show any interest to see it.

Requirements for effective segmentation

An effective segmentation of the market depends on various factors like the firm's ability to reach out to the segment and its ability to sustain its marketing efforts. Some of these factors are: Measurability, Accessibility, Substantiability, Actionability.



- **Measurability**

The variables used for segmentation of the market should be easily understandable and assessable. For example, a firm that has no intermediaries and sells its products directly to the customers can easily gather information relating to customer purchase behaviour like frequency, mode of payment, volume and product groups from their existing customer base.

- **Accessibility**

This refers to the firm's ability to effectively reach out to the market segments through various distribution and promotion channels. For example, if a service is aimed at attracting the teenager segment, then advertisements should be developed keeping the target segment in mind.

- **Substantiability**

Marketers should choose their target segment in such a way that the returns on investment are earned quickly. For example, a very niche segment like young graduates working in shifts (especially those in BPOs) might not be a right choice. Ideally, a large segment that has the capability of earning and sustaining profits should be targeted.

- **Actionability**

This refers to the ability of firms to effectively design and manage marketing mixes in order to attract and serve different segments. Marketers should use those bases that can track the segments with varying preference or need.

1.9.2 Market Targeting in Services

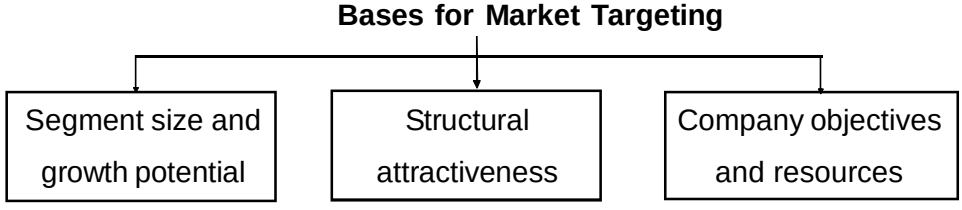
Targeting follows market segmentation as a natural step and is defined as the process of estimation and comparison of previously defined segments for selecting one or more segments that fetch the best results for the business. The chosen segments should be the most profitable for the company and should also help in delivering superior value to the chosen customer base. For example, a fitness

and beauty center that targets young women who are both figure and health conscious is likely to earn more profits than just offering services to women of all ages.

Targeting is an essential part of marketing because of its ability to group customers with similar needs and to serve them at individual levels.

I. Bases for Market Targeting :

To a large extent, marketers use segment size and growth potential, its structural attractiveness and the company objectives and resources as the bases to decide their target markets.



l Segment size and growth potential

The size of different segments in the market should be compared on the basis of their present capacity and future potential as well. For example, an educational institution should collect the current data for full time students, part time students and distance education students and then compare the data based on their ability to earn profits for the institution to choose its target segments.

l Structural attractiveness

Structural attractiveness involves assessing and analyzing the present and potential competitors, substitutes of products or services available in the market and the relative power of suppliers and buyers. Marketers should first analyze the segment attractiveness on the basis of its present and potential competition. It is generally advisable for companies to avoid targeting segments with established competitors as these segments are less attractive. For example, a proposal to open a 5-star hotel may not be very attractive in a city where major hotel chains like ITC and Taj Group have already established their business.

I Company objectives and resources

Evaluation of a segment alone, based on its size, growth potential and structural attractiveness in insufficient while choosing the target segment. It is essential that the segment features matches the company objectives and resources. A segment should match the company's long term objectives in terms of growth potential and structural attractiveness and the company should have the required human, financial and other resources to function effectively in the segment. For example, an airline that aims to serve the business class and to top the list in the business traveller segment nationally and internationally should have the necessary resources to serve the needs of business travellers.

II. Targeting Strategies

Once segmentation is complete and the company has completed the analysis of the different segments in terms of their attractiveness, growth potential and their compatibility with the company objectives and resources, it has to identify how it is going to target the segments. The company therefore has to develop certain strategies for effective targeting. These strategies are as given below:

a) Single-segment strategy

This is also known as concentrated approach of targeting the market segments. The firm here targets only one segment, develops a single marketing mix, and eventually gains specialization in that segment.

b) Selective specialization strategy

This is also known as differentiated approach and involves targeting more than one segment. The company prepares different types of marketing mixes for different segments, which may or may not be related to the same product or service. For example, a financial service firm might concentrate on products for the retired people and the working women. The firm might design two different products targeted at these two segments.

c) Product specialization strategy

A company adopting this strategy offers a single product or service to various segments. For example, a conference hall in a hotel might be used to conduct corporate meetings, to celebrate family occasions etc depending on the needs of the segment.

d) Market specialization strategy

A company adopting this strategy aims to meet the various needs of a target segment. The target segment for this group remains the same and the company tries to cater to the different needs of the segment by offering products or services across different categories. For example, an educational institution that offers a wide range of courses in arts, science, commerce etc, serves the different needs of the student community that has completed high school.

e) Full market coverage strategy

A company that adopts this strategy aims to offer various products or services to the entire market. There are two ways for a company to implement this strategy. One way in which it can serve the entire market is by adopting a **mass marketing strategy.** For example, when a Hindi movie is released in the open market in India and abroad with English subtitles, a mass marketing strategy is adopted.

1.9.3 Market Positioning of Services

According to Al Ries and Jack Trout, in **Advertising Age, 1972**, "*Positioning is not what you do to a product. Positioning is what you do to the mind of the prospect".*

After segmenting and targeting the market, the next step is to design a differentiation and positioning strategy. Companies have learned the art to 'position' themselves well in the minds of their customers and differentiate them from competitors. They have done sufficient research to learn their customers' expectations and perceptions about various offers available in the market accordingly, and adopted effective competitor strategies to attract the customers.

So, let us ask what 'positioning' is all about?

'Positioning' is defined as the process of establishing and maintaining a distinctive place in the market for an organization and/or its individual product offerings. It involves a company's products/services creating and occupying a place in the minds of its customers. It also gives an account of the important attributes or characteristics preferred by the target customers, when compared to a competitor's offers. For example, McDonald restaurants have loyal customers all over the world and this is due to the products offered or for its prompt and efficient service.

Positioning Strategies

Positioning is a very important aspect of marketing a product or a service. The three broad positioning strategies as suggested by Michael Porter are: *as a product differentiator*, as *a low cost leader* or as *a nicher*. These broad frameworks provide the firm with the basic foundation on which to build their positioning. However, some of the other specific strategies are discussed below:

a) Attribute positioning

A service provider positions itself based on the attribute or a feature. For example, SBI positions itself as 'The Banker to every Indian'.

b) Benefit positioning

Most service providers resort to benefit positioning as the general psyche of the customer is to analyze the benefit that he derives by using a particular service. For example, Aircel have introduced its android application so that bills and recharge can be made online. Similarly, most service providers have introduced online facilities to its customers.

c) Use/application positioning

The service is positioned as the best for a certain application. For example, SBI positions itself as the best in the business where educational loans are concerned.

d) User positioning

The service is positioned for a specific target group of users. For example, India positions itself as the destination for tourists seeking peace.

e) Competitor positioning

The service is positioned by the provider against a competitor's service offering. For example, Tide positions itself against other washing powders in its ads, "Daag ache hein".

f) Category positioning

The service provider positions itself as the category leader and becomes synonymous with the service.

g) Quality/Price positioning

A service is positioned in the market as possessing a certain quality standard or at a particular price. For example, some of the 5-star hotels in India are positioned as high quality, high price levels.

Role of Positioning in Marketing Strategy

Positioning a product or service is considered an important aspect of developing a successful marketing strategy. The positioning strategy makes it possible for an organization's products or services to occupy a unique place in the minds of its target customers. This helps to improve an organization's market share and revenues as customers prefer its products or services to those of its competitors. However, positioning of services is perceived to be difficult as compared to positioning of products.

Services are intangible in nature and this aspect makes it all the more difficult for service organizations to attract and position their services in the customer's mind. Therefore, service organizations try to market their services with the help of the tangible evidence to some extent. For example, in the case of a tourist destination, the tangible aspect may be the serene environment, the beaches, the hills, local cuisine etc., which are actually used to attract tourists (customers).

The tourist destination may have to do some research to

find the right marketing mix. The most important aspect in this research is to peep into the minds of the target market and learn their needs, preferences and expectations and identify the tangible evidence that would satisfy them. For example, places with facilities for shopping, dinning, sightseeing etc., may attract a large chunk of the tourist market. In addition, it is also required to learn how customers weigh the services of one tourist destination against the competitors. This kind of knowledge will help a tourist destination position itself attractively in the customer's minds, when compared to its competitors.



CHECK YOUR PROGRESS

Q 6: State the bases for Market Segmentation

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Q 7: Define Market Positioning

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Q 8: State the bases for Market Targeting.

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1.10 CUSTOMERS EXPECTATIONS AND PERCEPTIONS OF SERVICES

1.10.1 Customer Expectations: A brief introduction

Today, a prime challenge before the service providers is to assess the customer expectations, which in turn keep on changing constantly. Customer satisfaction is dependent on the extent to which the service provider is able to meet the customer expectations. The satisfaction level of the customer changes when either of the two takes place—there is a change in the customer expectations or in the performance of the service provider. Performance of the service

provider is in his own hands. Therefore, service providers should look out for the changes in the satisfaction levels of the customers and respond to the changes accordingly. If there is an increase in the customer satisfaction, service providers should make efforts to find out what it is that they are doing right and continue to do so. However, if there is a decrease in customer satisfaction, service providers should try to identify the faults and thereby rectify them.

Customer Expectations : Definition and Concept

Customer expectations are beliefs about service delivery that serve as standards or reference points against which performance is judged. Customers do not expect service providers to fulfil all their requirements but only that they deliver what they have actually promised. Expectations are based on customers' experience with the product or service, feedback from friends, colleagues, relatives or may be based on their present needs.

Customer service expectations can be measured along five dimensions of service quality: assurance, empathy, reliability, responsiveness, and service tangibles.

a) **Assurance:** This refers to the ability of the service provider and his employees to use their knowledge and courteous behaviour to instil trust and confidence in customers regarding service.

b) **Empathy:** This refers to the service provider's ability to show concern for customers and devote individual attention to them.

c) **Reliability:** This refers to the ability of the service provider to accurately provide the promised service.

d) **Responsiveness:** It refers to the willingness of the service provider and his staff to provide assistance and prompt service to the customers.

e) **Service tangibles:** It refers to those elements which provide tangibility to the service and they include physical facilities,

equipment of the service provider, dress and appearance of the service personnel.

1.10.2 Types of Service Expectations

Service expectations can be of *two types*: *desired* and *adequate.* Besides these two there is another called Predicted Service which falls between the Desired and Adequate levels.

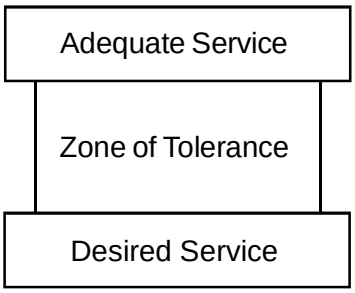
- **Desired Service:** It is defined as a service that a customer desires and hopes to receive. In other words, the desired service expectations of a customer are a combination of what he/she feels that a service provider can offer and should offer. Customers are delighted when service performance exceeds their desired service expectations. Desired service expectations of a customer increase when the customer is experienced and has good knowledge of what to expect in service. For example, a corporate executive who has travelled to many places on business trips and stayed in various hotels is experienced in receiving service of a certain standard. Thus, he desires and expects to receive a certain level of service at every hotel he stays in and is likely to evaluate the hospitality offered at each new hotel on those parameters.
- **Adequate Service:** Adequate service is the minimal level of service that a customer is willing to accept from a service provider and is based on the customer's perception of what level of service is acceptable to him. Customers are dissatisfied if the service provided by a service provider does not meet his adequate level of service. For example, a person entering a hotel for lunch expects the minimum level of cleanliness inside.

Customers' expectations of adequate service increase in situations of emergency. For example, bus commuters in Guwahati tend to get frustrated if the buses halt for more than a minute at a bus stop during office hours. However, when there is a traffic jam due to flood in Guwahati, the commuters are willing to accept even the minimum service that is available, that is, in case of situations

not one's in control the adequate service level decreases or comes down.

- **Predicted Service:** It is the service level between the desired and adequate service level of the customer and lies in the *'zone of tolerance'.*

- **Zone of Tolerance**



It is the gap between a customer's desired service expectations and the adequate service expectations as shown in the above figure. This zone varies for each customer and for the same customer in different situations. For example, customers who view reliability as the core dimension of service transaction and are not ready to compromise on reliability, their zone of tolerance on the dimension of reliability is narrow. It is also narrow when the customers have various alternatives available. If we take the previous example of bus commuters in Guwahati, the zone of tolerance narrows during office hours when they are in a hurry and the zone widens when there is an uncontrollable situation (like flood).

1.10.3 Factors that influence Customer Expectations of Service

Factors that influence customer expectations of service are discussed as under:

a) Factors that influence customer expectations of **Desired Service**

Customer needs and **Enduring service intensifiers**

largely influence customer expectations of a desired service.

Customer needs are the needs as cited by Abraham Maslow. Customers differ in their expectations of desired service depending on their most vital needs. For example, if a customer who is hungry and another customer who is thirsty enter the same restaurant, their desired service expectations differ based on their most important need at that moment. The customer who is hungry expects the waiter to immediately serve him the food that he had ordered while the one who is thirsty expects the waiter to first serve him cold water.

Enduring service intensifiers are of two types**: Derived service expectations of a customer** and his **Philosophy regarding the service**.

Derived Service expectations of a customer are in turn influenced by the expectations of those who are dependent on the customer to provide them with a good service experience. For example, if we consider a situation in which an office outing has been arranged with the administrative officer being responsible for making the travel and food arrangement. The administrative officer's expectations of the desired service from the travel and the catering company will be based on the expectations of the desired service of every member going on the outing.

Customer's philosophy regarding the service has to do with the customer's attitude and the service provider's conduct. A customer's philosophy regarding the service tends to be stronger if he is in some way associated with the service industry. For example, a retired banker knows more about service standards in the bank and his service philosophy is stronger compared to other customers who do not have such a strong association with the banking industry. The desired level of service expectations of a customer increase when their personal service philosophy is high.

b) Factors that influence customer expectations of **Adequate Service**

Customer expectations of adequate service are influenced

by various factors such as *transitory service intensifiers, perceived service alternatives, customer self-perceived service role, situational factors* and *predicted service.*

a) *Transitory service intensifiers* are the factors which intensify or heighten the level of adequate service expectations of customers. These factors include personal emergencies, failure of service provider to offer quality service the first time or factors that push customers to take the help of a service. For example, suppose a customer who is very hungry decides to try the service of a home-delivery provider of pizza who claims to deliver a pizza anywhere in the city within 20 minutes. However, the pizza is delivered at the customer's doorstep an hour after he has ordered for it and that too with a topping different from the one he had opted for. The first time service-delivery failure by the pizza home delivery service will increase the service recovery expectations of the customer the next time he orders a pizza from the same service provider. This time, the customer will expect the service provider to deliver the pizza of his choice within the promised time.

b) *Perceived service alternatives* include customer perceptions of available alternatives that offer similar service. The adequate service expectations of customers increase when they think that there are alternatives available to fulfil the need. For example, a customer in a big city who needs loan to buy a house knows that he can get a loan from any of the public or private sector banks or housing finance companies in the city. Hence he will have a high adequate service expectations than a customer who lives in a rural area with only a few banks available.

c) *A customer's self-perceived service role* also affects his/ her adequate service level expectations. The self-perceived role of a customer is the extent to which the customer perceives he is capable of shaping the service encounter and influencing the level of service he receives from the service provider. A customer is likely to have high expectations of adequate service if he plays an active

role in making the service provider aware of his expectations. For example, a young girl who has knowledge in designing bridal dresses will actively participate in designing her own bridal dress and her adequate service expectations are high.

d) *Situational factors* are the factors which make a customer compromise on his adequate service expectations on learning that the conditions of service delivery are not under the control of the service provider. For example, consider a situation in which there has been a power failure in some parts of the city as a result of which a cable service provider is unable to show his programs. In such a situation, the zone of tolerance of the customers of the cable service provider increases and their expectations of adequate service reduce since the customers understand that the supply of power is not in the hands of the cable service provider.

e) *Predicted service expectations* of a customer can be defined as the level of service a customer believes he will receive from a service provider. For example, a customer who expects that the flight may be delayed due to bad weather will have a lower level of adequate service expectations.

1.10.4 Customer Perceptions: Definition and concept

Perception is the process of making a meaningful picture by selectively organizing set of stimuli. In services marketing, perception can be defined as a customer's judgement about the service experience and pertains to the aspects of value of service delivery, service quality and customer satisfaction. Perception change overtime, differs from person to person and from one culture to another.

1.10.5 Factors that influence customer perception of services

Customer perception of value, quality and satisfaction are

influenced by four factors. They are *service encounter, service evidence, image,* and *price*.

a) **Service encounter:** Customer perception of service quality is primarily influenced by the service encounter. A customer estimates the quality of service through his/her interaction with the service provider. For example, a bank customer's service encounter begins when he approaches the bank officials with queries and is influenced by aspects such as the time taken to meet the executive, or to deposit or withdraw cash, the courtesy of the bank officials etc. Generally, the first service encounter is critical. If the customer is not satisfied with the first encounter, he may never return to do business with that particular service provider. Often, customers evaluate a service encounter on the basis of the amount of care and concern shown by the employees of the service company during the transaction. The speed at which employees respond to customer problems, has a direct impact on customer satisfaction.

b) **Service evidence:** Service evidence is another factor that influences customers' perception about a service. The intangibility characteristic of services makes customers look for evidences of the service in every interaction with the service provider. Therefore, service providers must manage even the minute tangible clues associated with their service, as customers will have certain perceptions about the evidence of the service on the basis of these clues.

There are *three* types of service evidences: *personnel, process* and *physical environment*. **Service personnel** play an important role in defining the quality of a service encounter in the mind of the customers. The ability of the personnel to be enthusiastic, friendly and spontaneous will make the service experience a pleasant one for the customers. For example, fast food restaurants such as Pizza Hut (say) make their service tangible by hiring people who are friendly with a pleasant

personality. The *second* type of service evidence is the **process of service delivery**. It involves various steps in the process of delivering a service and the flow of operational activities. The service process is also evaluated on the basis of the number of flexible or standard policies and the technological and human modes involved in delivering the service. **Physical environment** consists of the ambience offered by a service provider and the design of the interiors or exteriors of service facility. For example, a person who wants to dine at a restaurant that offers a quiet and serene ambience would avoid going to a crowded restaurant as they perceive that the restaurant is always noisy.

c) **Image:** Organizational image is the customer's perception about an organization and this may be either at the local or corporate levels. A customer who has a positive image about a company is likely to ignore some instances of poor service. However, repeated bad service will damage the image of the company in the eyes of the customer.

d) **Price:** The price of a service influences customer perceptions of value, quality and satisfaction. Due to the intangible nature of services, customers often assume price as an indicator of service quality. On the other hand, customers have expectations of high quality if a service is priced high.



CHECK YOUR PROGRESS

Q 9: Define Zone of Tolerance.

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Q 10: State the factors that influence customer expectations of Adequate Service.

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Q 11: State the three types of service evidence.

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1.12 LET US SUM UP

In this unit we have discussed the following:

- The three major sectors that contribute towards the development of any economy are primary, secondary and tertiary, the primary sector being agriculture, manufacturing being secondary and the tertiary sector comprises services. Services sector today accounts for a major contribution in the GDP of a country and generates much more employment than the manufacturing sector.
- Services are defined as “activities, benefits or satisfactions which are offered for sale or are provided in connection with the sale of goods”.
- The services sector contributed almost 66.1% of its gross value added growth in 2015-16 thus becoming the important net foreign exchange earner and the most attractive sector for FDI (Foreign Direct Investment) inflows in India.
- Pure goods are those products which have shape, size and weight and we can touch and sense them as tangibles and are consumed in materialistic form.
- Goods with services are the tangible articles that need post sale service in terms of periodical or otherwise maintenance, guarantees and warranties etc.
- Hybrid is a blend of tangibles and intangibles through which the needs and wants of the customers are satisfied.
- Pure services means services like medical care, babysitting etc. which are offered where purely intangible type of services is provided.
- In marketing a good, the marketer has to show the good and explain

its specifications and utilities to the customer but in case of marketing a service, the marketer has to reveal the benefits and utility of something that cannot be shown.

- Intangibility, Heterogeneity, Inseparability and Perishability are the characteristics of services.
- The two most growing service industries are hotel and tourism industries.
- Market segmentation, market targeting and market positioning are important aspects of service marketing.
- The undifferentiated marketing approach, also known as the mass marketing approach, aims at serving all the consumers by offering a single product or service.
- The differentiated marketing approach, also known as product-variety marketing approach, aims at targeting consumers of various segments by offering different products or services for each segment.
- The concentrated marketing approach, also known as the single-segment strategy, aims to serve limited segments in the total market.
- Demographic, Geographic, Psychographic and Behaviouristic are the bases of market segmentation.
- Segment size and growth potential, Structural attractiveness and Company objectives and resources are the bases of Market Targeting.
- Customer expectations are beliefs about service delivery that serve as standards or reference points against which performance is judged. Customers do not expect service providers to fulfil all their requirements but only that they deliver what they have actually promised.
- Customer service expectations can be measured along five dimensions of service quality: assurance, empathy, reliability, responsiveness and service tangibles.
- The service level between the desired and the adequate service level of the customer is called Predited Service level and it lies in the *'zone of tolerance'.*
- Perception is the process of making a meaningful picture by selectively organizing set of stimuli.

- Customer's perception of value, quality and satisfaction is influenced by four factors. They are : service encounter, service evidence, image, and price.



1.12 FURTHER READING

1) Christopher Lovelock and Jochen Wirtz (2017),*Services Marketing-People, Technology, Strategy , Pearson Education*, 8th edition, New Delhi

2) Roland T. Rust, Anthony J. Zahorik and Timothy L. Keiningham *(1997) Service Marketing,* Pearson Education



1.13 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: "A service is any activity or benefit that one party can offer to another, which is essentially intangible in nature and does not result in the ownership of anything".

Ans to Q No 2: Two reasons for the growth of service sector are:

i) Increase in disposable income of the people

ii) Division of work and specialization

Ans to Q No 3: a) A teacher is teaching in a classroom

Ans to Q No 4: Intangibility denotes the fact that services are often not possible to taste, see, hear or smell. They are impalpable.

Ans to Q No 5: a) Mobile Phone, b) Tent house equipments, c) Multi-cuisine restaurants, d) Table, Chair, e) Medical

Ans to Q No 6: The bases of market segmentation are: Demographic, Geographic, Psychographic and Behaviouristic.

Ans to Q No 7: Positioning is defined as the process of establishing and maintaining a distinctive place in the market for an organization and/or

its individual product offerings.

Ans to Q No 8: The bases for market targeting are: segmenting size and potential growth, structural attractiveness and company objective and resources.

Ans to Q No 9: Zone of Tolerance is the gap between a customer's desired service expectations and the adequate service expectations.

Ans to Q No 10: Factors that influence customer expectations of Adequate Service are: Transitory service intensifiers, Perceived service alternatives, A customer's self-perceived service role, Situational factors and Predicted service expectations.

Ans to Q No 11: The three types of service evidence are personnel, process and physical environment



1.14 MODEL QUESTIONS

Q 1: Define Services.

Q 2: Discuss the nature and scope of services.

Q 3: Explain the bases for segmentation of services.

Q 4: Define Positioning. What is the significance of effective positioning?

Q 5: "Targeting is an essential part of marketing because of its ability to group customers with similar needs and serve them at individual levels." Do you agree? Give reasons.

Q 6: Illustrate with examples the five dimensions of service quality.

Q 7: Write notes on:

a) Desired Service

b) Adequate Service

Q 8: Discuss with an example the concept of "Zone of Tolerance".

Q 9: Discuss the factors that influence customer expectation of desired and adequate service.

Q 10: How does Service Encounter influence the customers' perception of service quality? Explain

Q 11: "The intangibility characteristic of services makes customers look for evidences of the service in every interaction with the service provider". Explain the statement with suitable examples.

*** ***** ***

UNIT 2: SERVICES MARKETING MIX

UNIT STRUCTURE

2.1 Learning Objectives

2.2 Introduction

2.3 Service Marketing Mix

- 2.3.1 Product
- 2.3.2 Price
- 2.3.3 Place
- 2.3.4 Promotion
- 2.3.5 People
- 2.3.6 Physical evidence
- 2.3.7 Process.

2.4 Let us Sum Up

2.5 Further Reading

2.6 Answers to check your progress

2.7 Model Questions

2.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- define service mix
- explain the concept of service mix
- explain the 7Ps of Service marketing mix.

2.2 INTRODUCTION

The service marketing mix is a combination of the different elements of service marketing that companies use to communicate their organizational and brand message to customers. The mix consists of the seven Ps i.e. Product, Pricing, Place, Promotion, People, Process and Physical Evidence. The service marketing mix, also known as the extended marketing mix, treats the service that the business offers just as it would treat a product. While the first four Ps are involved in product marketing too, the remaining

three Ps focus mainly on service delivery and enhancing customer satisfaction.

2.3 SERVICE MARKETING MIX

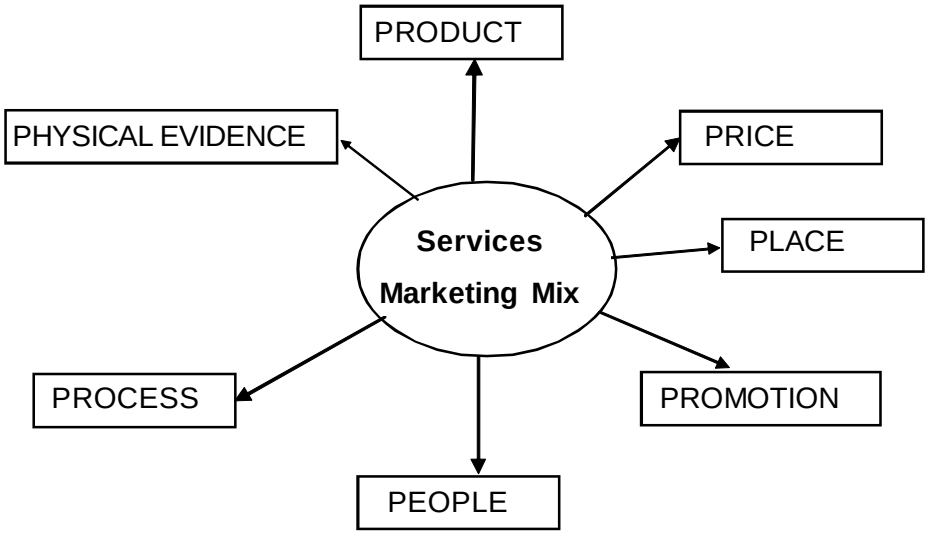


Fig 2.1: Services Marketing Mix

2.3.1 Product

Product is the key element in market offering. “A product is anything that can be offered to the market to satisfy a need or a want. Product may include physical goods, services, experiences, events, persons, places, properties, organizations, information and ideas”. It is said that a good product will sell itself. But people will buy products for their benefits or they buy expectations. Marketers have identified three levels in developing the product element of marketing mix as far as services are concerned. These are : The core level, tangible level and augmented level. The ‘**core level’** aims to satisfy the important needs of the customer while the **‘tangible level’** manages the appearance of the product. The **‘augmented level’** involves the addition of supplementary services to the basic offering. These three levels can be grouped into two - the core level that caters to the basic benefits and a secondary level which includes

the tangible as well as the augmented service levels. The core level basically deals with the service offering while the secondary level deals mostly with the delivery of service. For example, the core service of a restaurant is to serve good food to the customers while the secondary service includes providing them with good ambience.



CHECK YOUR PROGRESS

Q 1: Define Product.

.....

.....

Q 2: State the levels in developing the product element of marketing mix.

.....

.....

2.3.2 Pricing

The pricing of services is different from that of goods for various reasons. Services for example, can be differentiated on the basis of their price, as a higher price is generally associated with a better quality. Another differentiating factor between goods and services as far a pricing is concerned is the cost component involved. The fixed cost is high and the variable costs are low for a service, when compared to a product. For example, the marginal cost involved in letting out a room in a hotel to a customer is negligible while the fixed costs of establishing and maintaining the hotel is high. Therefore, a major part of the price paid by the customers is directed towards covering the fixed costs of the service provider. In case of product, a major part of the price paid by the customer goes towards the variable costs of producing that unit of the product. Moreover, in case of a service, the price of the same service can be changed depending on the demand for the service. For example, hotel owners can raise the room tariff during the peak season and lower it during the lean season.



CHECK YOUR PROGRESS

Q 3: A higher price is associated with better quality- Yes or No

.....

2.3.3 Promotion

Service consumers experience a high level of perceived risk when compared to the consumers of products because of the intangible nature of services. Service providers should aim to promote their services in order to eliminate the elements of this perceived risk. This can be best achieved by encouraging and promoting positive word-of-mouth publicity, developing strong brands, offering a trial use of service for the customers and finally by managing advertising and public relations effectively to clearly communicate the message to the customers. For example, Bollywood actress, Priyanka Chopra has been signed to promote tourism in Assam by the Government of Assam that aims to invite tourists to experience the place and to love the friendly environment here so that the state can earn revenue. Promotion of service cannot be carried out in isolation, without promoting the service provider, as consumers will not be able to rate the intangible services without knowing who the service provider is. Therefore, promotion of the service provider becomes equally important in services. For example, bank customers can identify and relate to a service offer in a better way when the service provider is known.



CHECK YOUR PROGRESS

Q 4: Why do consumers of services experience a high level of perceived risk when compared to consumers of products?

.....

2.3.4 Place

In services, place relates to the ease involved in assessing a service. Due to the inseparability of services, they are produced and consumed at the same place. This inseparability of services makes it impossible for service providers to produce the service at a place where the costs are low and sell it at a place where there is high demand for it. Therefore, there is no distribution channel for service marketing, or if at all there is one, it is very small. For example, the physical location of the service provider's outlet. Banks, for example, are striving to provide ATMs to their customers at all important locations to improve accessibility of their services.



CHECK YOUR PROGRESS

Q 5: Why are services produced and consumed at the same place?

.....

2.3.5 People

Most service providers understand and, therefore, treat people management as an important aspect of their service delivery. Some service organizations perceive people as a means to gain a competitive advantage in the industry. Therefore, they invest in attracting, training and retaining the best talent. For example, The Taj Group of Hotels conduct training programs that aim to educate their personnel to be professional and warm, to enhance their ability to serve global customers. It conducts leadership programs that train and assess the potential of their personnel.



CHECK YOUR PROGRESS

Q 6: Service organizations perceive people as a means to:

.....

2.3.6 Process

The production and delivery process in the manufacturing sector is easier than in the service sector. Marketers of services are often confused as there is little difference between marketing and operations management in services. This is because the production, delivery and consumption of services take place simultaneously. For example, a passenger of an airline is required to check in, get a boarding pass and then go for the security check before boarding the plane. All these activities are part of operations as well as marketing. Over the years, some service organizations have mechanized their service processes to reduce the element of human judgement and error in the service delivery. For example, banks have introduced ATMs, Online facilities etc to offer convenience to the customers and also to reduce the human element in the service delivery process.



CHECK YOUR PROGRESS

Q 7: "The production and delivery process in the manufacturing sector is easier than in the service sector" - Yes or NO

.....

2.3.7 Physical Evidence

Service customers experience a greater perceived risk as they cannot rate a particular service until it is consumed. Therefore, service providers should try to attach an element of tangibility to their service offering. The physical evidence can be in any form. For example, brochures or T.V. commercials showing the details of a holiday destination, pleasant and courteous behaviour of the service personnel in a bank, the location and ambience of a food outlet etc.



2.4 LET US SUM UP

- The service marketing mix is a combination of the different elements of services marketing that companies use to communicate their organizational and brand message to customers.
- The mix consists of the seven Ps i.e. Product, Pricing, Place, Promotion, People, Process and Physical Evidence.
- The service marketing mix, also known as the extended marketing mix.
- A product is anything that can be offered to the market to satisfy a need or a want. Product may include physical goods, services, experiences, events, persons, places, properties, organizations, information and ideas.
- Core level, Tangible level and Augmented level are the three levels of developing the product element of marketing mix.
- Quality of a service is directly associated with price.
- Encouraging and promoting positive word-of-mouth publicity, developing strong brands, offering a trial use of service for the customers and finally by managing advertising and public relations effectively to clearly communicate the message to the customers helps in eliminating the element of perceived risks in services.
- Inseparable nature of service makes its production and consumption at the same place.
- Most service providers treat people management as an important aspect of their service delivery.
- The production and delivery process in the manufacturing sector is easier than in the service sector.
- Service customers experience a greater perceived risk as they cannot rate a particular service until it is consumed. Therefore, service providers should try to attach an element of tangibility to their service offering.



2.5 FURTHER READING

1) Christopher Lovelock and Jochen Wirtz (2017),*Services Marketing-People, Technology, Strategy , Pearson Education*, 8th edition, New Delhi

2) Roland T. Rust, Anthony J. Zahorik and Timothy L. Keiningham *(1997) Service Marketing,* Pearson Education



2.6 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: A product is anything that can be offered to the market to satisfy a need or a want. Product may include physical goods, services, experiences, events, persons, places, properties, organizations, information and ideas

Ans to Q No 2: The levels in developing the product element of marketing mix are : core level, tangible level and augmented level.

Ans to Q No 3: Yes

Ans to Q No 4: Consumers of services experience a high level of perceived risk when compared to consumers of products because of intangible nature of services.

Ans to Q No 5: Services produced and consumed at the same place because of the intangible nature of services.

Ans to Q No 6: Service organizations perceive people as a means to gain a competitive advantage in the industry.

Ans to Q No 7: Yes.



2.7 MODEL QUESTIONS

Q 1: Define Service Marketing Mix.

Q 2: Explain diagrammatically the elements of extended marketing mix.

Q 3: What are the three level of a service offer?

Q 4: Is is a better option to mechanize service processes to reduce the element of human judgement? Discuss.

Q 5: Can physical evidence attach an element of tangiblety in service offering? Explain with example.

*** ***** ***

UNIT 3: SERVICE QUALITY

UNIT STRUCTURE

3.1 Learning Objective

3.2 Introduction

3.3 Dimensions of Service Quality

3.4 Measuring Service Quality

3.5 Managing Service Quality

3.6 Building customer relationship through retention strategies

3.7 Building customer relationship through segmentation strategies

3.8 Strategies for dealing with inseparability, inventory, inconsistency and intangibility

3.9 Let us Sum Up

3.10 Further Reading

3.11 Answers to Check your progress

3.12 Model Questions

3.1 LEARNING OBJECTIVE

After going through this unit, you will be able to:

- define service quality
- learn about the dimensions of service quality
- know about measuring service quality
- know about managing service quality
- learn about the different levels of building customer relationship through retention strategy
- explain how to build customer relationship through segmentation strategy
- describe about the strategies for dealing with intangibility, inventory, inconsistency and inseparability.

3.2 INTRODUCTION

In manufacturing organizations, a defective product can be easily recognized at any stage in the manufacturing process and prevented from

reaching the customer. In addition, the quality standards for a product remain the same and do not vary from person to person or from time to time. So it is comparatively easier to ensure quality in case of products. However, in the case of a service organization, the quality of service depends on the perspective of a person. What an employee believes as a quality service may not be perceived as such by the customer. For example, when a customer visits a bookstore, the employee there may give him a new arrival on a topic that he thinks is of interest to the customer. However the customer might prefer to take a trip of the store and see all the new titles by himself. So, offering a high quality service is a challenging task for an service organization.

3.3 DIMENSIONS OF SERVICE QUALITY

Leonard L. Berry and A. Parasuramanan, in their work, *'Marketing Services: Competing through Quality'* has identified five dimensions of service quality, viz; tangibles, reliability, responsiveness, assurance and empathy.

***Tangibles*:** Service is intangible to customers. However, they assess the service by the equipment used to provide the service, the premises within which the service is offered and the employees who provide the service. Therefore, the service providers need to ensure that they provide the right ambience and infrastructure to the customers and that their smart and pleasant employees offer high quality service. Managing tangibles like these enables organizations to make a positive impression not only on the existing customers but also on the prospective and first time customers.

Reliability: The service offered by an organization needs to meet the expectations of the customers consistently. It is only then that a customer considers the service reliable and the organization dependable. Services should be tested for their consistency before they are launched. They should be monitored closely after their launch and the management should take immediate steps if an unexpected service failure is observed. In addition, the organization should provide suitable infrastructure for error-free services.

For example, there should be proper communication systems in place and the employees should be trained in technical skills and service skills to provide high quality service.

Responsiveness: Service personnel should be prompt in attending the customers and serving their requirements. The customers should perceive them to be enthusiastic and responsive while serving them. The personnel should be especially attentive during problem situations where the customer has some complaints with the service. Employees should be empowered by the management to do all they can to help a customer in trouble. Employees who work with commitment and customer orientation should be rewarded to encourage similar behaviour from other employees.

Assurance: Service personnel should have a thorough knowledge about the service they are providing to the customers. For example, a sales executive selling mutual funds should have complete knowledge about the expected returns and the tax related matters of the investment. He should be able to provide timely and strong advice to his customers. His knowledge and confidence should serve as an assurance to the customers that the company's service is dependable and trustworthy.

Empathy: The service personnel of the organization should be easily accessible and open to communication. They should empathize the customers who report problems and work quickly to solve them. For example, when a customer calls up a bank complaining that he has a problem and needs to get it resolved immediately, the bank executive should immediately understand the problem and ensure the customer that the problem will be solved at the earliest.

The following boxes summarieses the dimensions of service quality—

RELIABILITY	RESPONSIVENESS	ASSURANCE
Providing service as promised Dependability in handling customers' service problems Performing service right the first time Providing services at the promised time Maintaining error-free records	Keeping customers informed as to when services will be performed Prompt service to customers Willingness to help customers Readiness to respond to customers' requests	Employees who instil confidence in customers. Making customers fell safe in their transactions. Employees who are consistently courteous. Employees who have the knowledge to answer customer questions

EMPATHY	TANGIBLES
Giving customers individual attention Employees who deal with customers in a caring fashion Having the customer's best interest at heart. Employees who understand the needs of their customers.	Modern equipment Visually appealing facilities Employees who have a neat and professional appearance Visually appealing materials associated with the service.

3.4 MEASURING SERVICE QUALITY

The intangible and perishable nature of services makes it difficult for organizations to measure their quality, identify the loopholes and take necessary steps to improve the quality. Service organizations, therefore are to evaluate certain components of a service to determine its quality. According to Christian Gronroos, any service has *two* important components- **functional** and **technical**.

- **Functional:** This component involves interaction between the customer and the service personnel. For example, when a customer visits a hotel, the warmth at the reception, the promptness in check-in and the responsiveness of room service, all comprise the functional component of service.
- **Technical:** This component refers to the output of the service operation. For example, if a flight reaches its destination exactly on time, the airlines is said to have delivered quality service with respect to the technical component.

The technical component of service is easier to evaluate than the functional component.



CHECK YOUR PROGRESS

Q 1: Service quality mostly depends upon the ..... of the customer.

Q 2: State the dimensions of service quality.

.....

.....

Q 3: Which two important components determine the quality of a service?

.....

3.5 MANAGING SERVICE QUALITY

The service quality of a firm is tested at each service encounter. Customers form service expectations from many sources, such as past experiences, word of mouth and advertising. In general, customers compare the perceived service with the expected service. If the perceived service falls below the expected service, customers are disappointed. If perceived service meets or exceeds their expectations, they are apt to use the provider again. Successful companies add benefits to their offering that not only satisfy customers but surprise and delight them. It is in this context that A. Parasuraman, Valarie A. Zeithmaml and Leonard L. Berry had formulated a service-quality model that highlights the main requirements for delivering high service quality. The following model identifies five gaps that cause unsuccessful delivery.

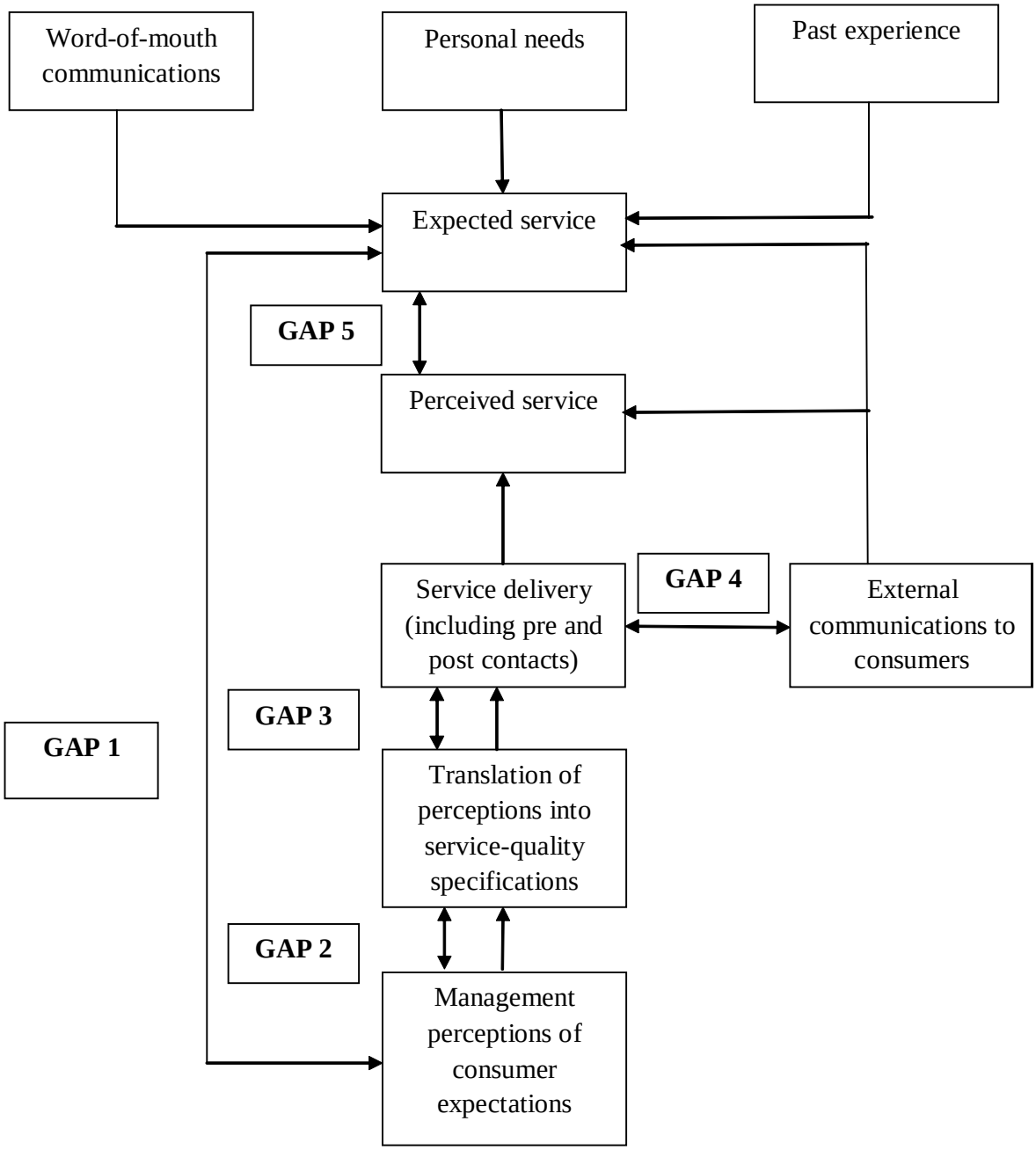


Fig 3.1: Service Quality Model

Source: Parasuraman, Zeithaml and Berry, "A Conceptual Model of Service Quality and its implications for Future Research", Journal of Marketing (1985).

GAP 1: The first gap in service quality occurs when management fails to accurately identify customer expectations. It is referred to as the knowledge gap. Specifically, it is the difference in customer

expectations and management's perception of customer expectations. Hotel managers, for instance, must know and understand what their guests expect from their stay, including all tangibles (the room, amenities, lobby features) and intangible components (availability of additional services, ease of check-in and check-out procedures). For example, hotel managers may think that their guests want a good room but the guests may be more concerned with the room service. The size of the gap is dependent on:

- the extent of upward communication (from customers to top management),
- the number of layers of management,
- the size of the organization,
- and most importantly, the extent of marketing research to identify customer expectations.

GAP 2: The second gap is referred to as the design gap. It is measured by how well the service design specifications match up to management's perception of customer expectations. The extent of this gap is dependent on management's belief that service quality is important and that it is possible, as well as the resources that are available for the provision of the service. For example, a restaurant manager may understand customer expectations for being served within 20 minutes of ordering, but may not have the resources or the appropriate number of staff to ensure that speed of service.

GAP 3: The third gap represents the variation in service design and service delivery. Known as the performance gap, its extent is a function of many variables involved in the provision of service. Since individuals perform the service, the quality may be affected by such factors as skill level, type of training received, degree of role congruity (agreeability) or conflict, and job fit. Some service providers (i.e. waiters, front-desk staff) do not have a high service inclination, despite training. Service recovery efforts along with extent of responsibility and empowerment also affect the size of this gap.

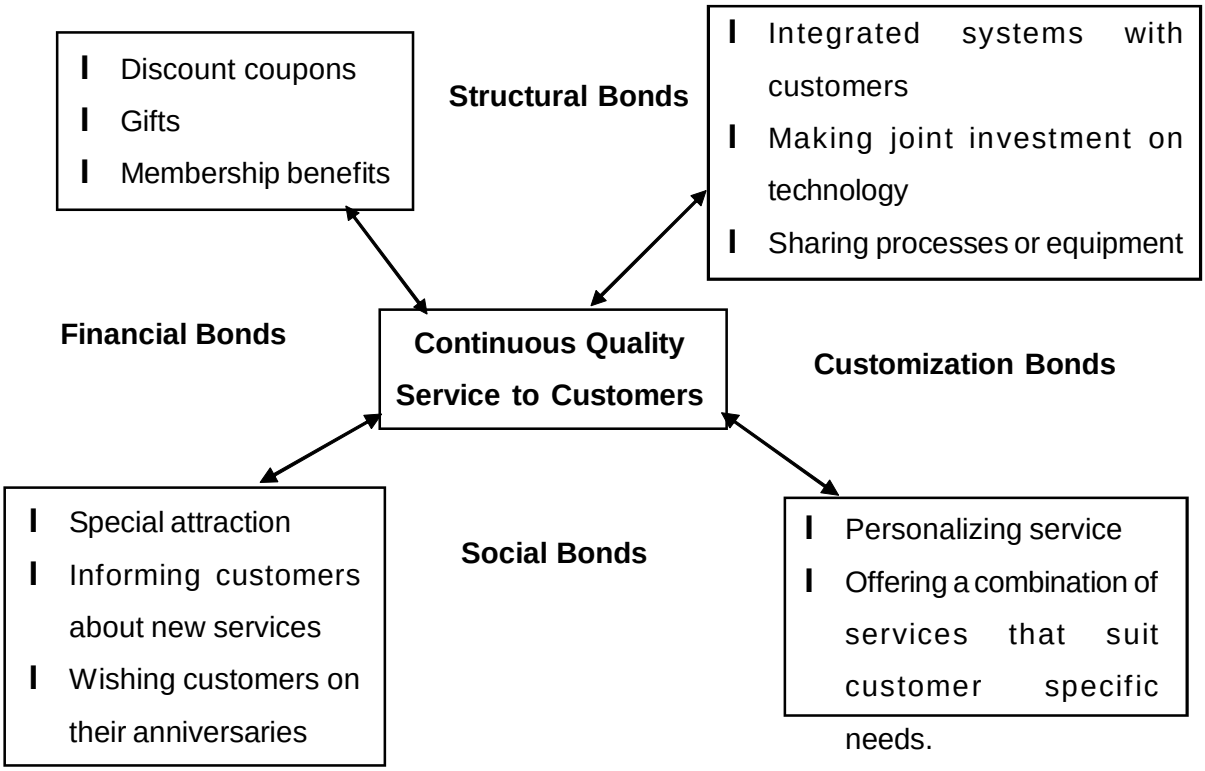
- The process is further complicated by the customer's participation in the service encounter. A customer may make a special request for a room type different from the one originally reserved, or request a menu item after the initial order has been completed, making it more difficult to perform the service as intended.

GAP 4: The fourth gap is called the communications gap. It is the difference between what is promised to customers, either explicitly or implicitly, and what is being delivered. Hospitality companies use advertising, personal selling, and sales promotion to inform, persuade, and remind guests about its products and services. Showing beautifully appointed hotel rooms, refreshing swimming pools and luxurious lobby areas in an advertisement communicates to the target customers. The extent of communications between the company and the advertising agencies will affect the size of the gap. Over-promising is commonly responsible for the communication gap. Each gap has a cumulative effect from the preceding gaps.

GAP 5: This is the total accumulation of variation in Gaps 1 through 4 and represents the difference between expectations and perceived service. This gap occurs when the consumer misperceives the service quality. For example, the doctor may keep visiting the patient to show care but the patient may interpret this as an indication that something really is wrong.

3.6 BUILDING CUSTOMER RELATIONSHIP THROUGH RETENTION STRATEGIES

A service organization attempts to retain customers by providing quality service consistently, thereby winning over the customer. The following figure highlights the different levels of customer retention strategies.



1. Financial Bonds

Organizations employ various measures to attract and retain customers. Some organizations attempt to retain customers by offering them financial incentives. Customers attracted to these tend to continue the relationship with the organization. For example, a housing development finance company offers a new loan at low interest rates to its existing customers, when compared with their new customers. A club offers life time membership cards to its existing customers etc.

2. Social Bonds

For example, exclusive stores like Levi's record customer comments. When a customer asks for a product that is out of stock, the employees of the showroom make a note of it, along with his contact number and inform him when the product arrives at the store. When firms show such genuine interest in customers, they build a social bond with them. Moreover, some companies may note down the special dates like wedding anniversary or birthdays of its customers and wish them on the day. It is also another example of social bond. Maintaining social bonds not only enhances customer retention but also helps companies to improve their performances.

3. Customization Bonds

Some organizations attempt to develop a special relationship with customers by customizing their services to suit the specific needs and preference of each customer. For example, Trivago offered personalized services by choosing the right hotel for its customers at affordable rates. Moreover, insurance companies offer personalized services by assisting its customers choose the right option from various options available.

4. Structural Bonds

Structural bonds are formed with customers when organizations offer value-added services which are not offered by competitors to them and customers themselves cannot acquire the infrastructure needed to avail such services. These services do not depend on the service personnel but on technology. This indicates that the customers become dependent on the organization's structure rather than on its employees. The name 'structural bonds' is derived from this nature of relationship. Once the structural bonds are formed, the customer will not attempt to switch to a competitor even if it lowers the price because it is not able to offer the kind of technical support he requires and the benefits he derives from the service he has.

3.7 BUILDING CUSTOMER RELATIONSHIP THROUGH SEGMENTATION STRATEGIES

Customer relationship is the backbone of a service industry. As the Indian market is now flooded with foreign players, it has become an imperative for all to focus on the customer and build a long lasting relationship with them. Segmentation provides a convenient way for the service providers to build a strong relationship with their customers. For example, the airlines provide different types of services to its passengers in the business and economy class. Moreover, frequent fliers are offered discounted rates by the airline so that they travel more. Also it is seen that a restaurant trying to look different , e.g. Yo China! provides lucky coupons to its customers wherein they assure them of some discounts and thereby build a two-way relationship with them.



CHECK YOUR PROGRESS

Q 4: GAP 1 of Service Quality mean

.....

Q 5: Which GAP is also called the 'communication gap'?

.....

Q 6: What are the different levels of building customer relationship through retention strategy?

.....

3.8 STRATEGIES FOR DEALING WITH INTANGIBILITY, INVENTORY, INCONSISTENCY AND INSEPARABILITY

Unlike a product which is a physical entity and can be seen, heard, touched, tested and tasted before it is purchased and consumed, a service is not tangible unless it is consumed or experienced. The quality of a service cannot be established as clearly as it could be done in the case of a product. Different people have different expectations with regard to the same service. Also since the quality of the service is not always strictly measurable owing to the intangible nature of services, it is sometimes difficult for service organizations to determine the quality markers and market their services accordingly. Organizations should therefore advertise their tangible aspects like ambience, location, interiors etc to give an idea to the probable customers about their service offerings. Services cannot be inventoried or stored for future consumption. Suppose a showroom recruited five additional sales people during the festival season to serve customers efficiently. But for some reason, customers do not turn up in large numbers as expected. The showroom owner incurs loss by having excess service capacity. Service organizations should, therefore, be extremely cautious in their demand and supply plans. They need to consider all possible factors that affect the demand for their service and strive to avoid excess or shortage capacity to meet the demand. A service must be consumed by the customer as soon as it is delivered by the employee. Thus, production and consumption occur

simultaneously in case of services. Since the delivery and consumption of a service is inseparable, there has to be an interaction between the customers and employees of the service organization. In case of a hotel, the interaction between a server and a customer is essential for the former to take the order for food and serve it to the customer. As customers tend to equate the quality of service offered by the organization with their interaction with the front-line employees, service organizations should therefore take special care in training and motivating the employees. Front-line employees should be trained to be professional in their approach, courteous in the way they talk to customers and patient with dealing with queries. Unlike a machine that can produce units identical in size, shape and quality, a human being cannot work as uniformly and consistently throughout the day. Since a service is offered by a human being, therefore there is a high probability that the same level of service may not be delivered at all time. The service offered by one employee may differ from the service offered by another employee. Also, the quality of service offered at one branch of a service organization may differ greatly from the service offered at another branch. Therefore, service organizations should try to maintain consistency in the services they offer by taking special care in recruitment, selection and training of their employees. Moreover, some customers may want specific services which may not be needed by the other customers. In such cases, organizations can offer customized service to such customers.



3.9 LET US SUM UP

In this unit we have discussed the following:

- Tangiblity, reliability, responsiveness, assurance and empathy are the five dimensions of service quality
- Functional and technical are two important components of measuring service quality.
- There are five gaps of service quality
- Gap I or knowledge gap occurs when management fails to accurately identify customer expectations.

- Gap 2 or design gap measures how well the service design specifications match up to management's perception of customer expectations.
- Gap 3 or performance gap represents the variation in service design and service delivery.
- Gap 4 or communication gap is the difference between what is promised to customers, either explicitly or implicitly, and what is being delivered.
- Gap 5 is the total accumulation of variation in Gaps 1 through 4 and represents the difference between expectations and perceived service. This gap occurs when the consumer misperceives the service quality.
- A service organization attempts to retain customers by providing quality service consistently, thereby winning over the customer.
- Segmentation provides a convenient way for the service providers to build a strong relationship with their customers.
- The quality of a service cannot be established as clearly as it could be done in the case of a product.
- Because services are intangible, therefore its quality cannot be measured. The service providers must then advertise their tangible aspect like ambience, location, interiors etc to give an idea to the probable customers about their service offerings.
- A service must be consumed by the customer as soon as it is delivered by the employee. Thus production and consumption occur simultaneously in case of services.



3.10 FURTHER READING

1) Christopher Lovelock and Jochen Wirtz (2017),*Services Marketing-People, Technology, Strategy , Pearson Education*, 8th edition, New Delhi

2) Roland T. Rust, Anthony J. Zahorik and Timothy L. Keiningham *(1997) Service Marketing,* Pearson Education,



3.11 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: Service quality mostly depends upon the 'perspective' of the customer.

Ans to Q No 2: The dimensions of service quality are reliability, responsiveness, assurance, empathy and tangibles.

Ans to Q No 3: Two important components determine the quality of a service are functional and technical.

Ans to Q No 4: GAP 1 is the difference in customer expectations and management's perception of customer expectations. It is referred to as the knowledge gap.

Ans to Q No 5: GAP 4 is called the communications gap

Ans to Q No 6: Structural Bonds, customization bonds, financial bonds and social bonds.



3.12 MODEL QUESTIONS

Q 1: Define service quality.

Q 2: Write notes on:

(i) Empathy (ii) Assurance (iii) Structural Bonds.

Q 3: Discuss the Gap model of Service Quality (SERVQUAL).

Q 4: Discuss the different levels of customer retention strategy.

Q 5: How can segmentation strategy help in building effective customer relationship in services?

Q 6: What strategies a service company generally adopts to deal with intangibility, inventory, inconsistency and inseparability?

*** ***** ***

Unit 4: SERVICE MARKETING TRIANGLE

UNIT STRUCTURE

4.1 Learning Objectives

4.2 Introduction

4.3 External marketing, Internal marketing and Interactive marketing.

4.4 Relationship Marketing

- 4.4.1 A brief introduction
- 4.4.2 Benefits of Relationship Marketing

4.5 New Service Development Process

4.6 Developing the service blueprint

4.7 Service innovation

4.8 Quality function deployment

4.9 Let us Sum Up

4.10 Further Reading

4.11 Answers to check your progress

4.12 Model Questions

4.1 LEARNING OBJECTIVE

After going through this unit, you will be able to:

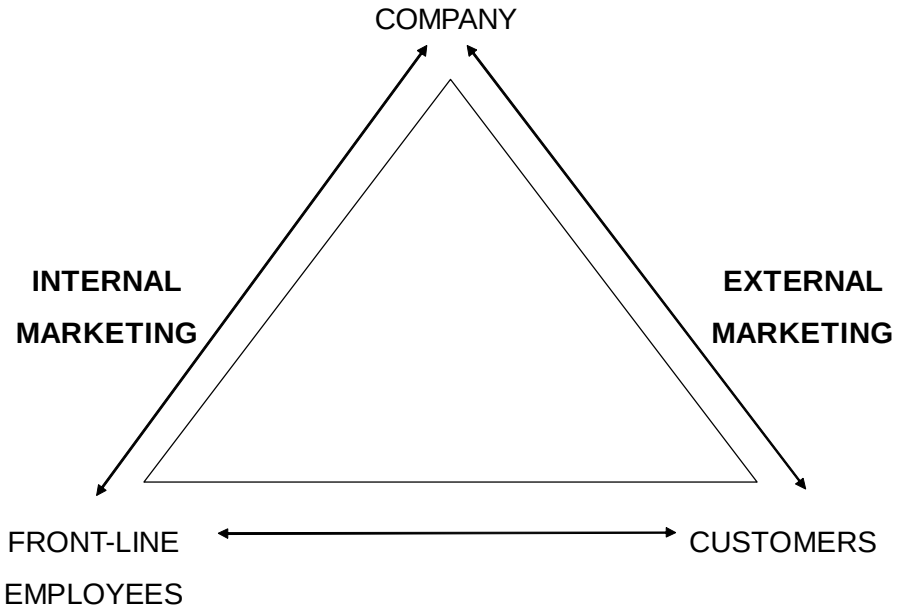
- define External marketing, Internal marketing and Interactive marketing.
- explain the Relationship Marketing
- explain New Service Development Process
- know about the development of service blueprint
- describe Service innovation
- learn about Quality function deployment.

4.2 INTRODUCTION

The Service Marketing Triangle, as the term implies comprises the three corners of a service organization viz; the **company** on the top most corner along with **customers** and its **front-line employees** on either of the two corners. The company interacts with its front-line employees in order to

make them aware about the strategies and policies that it has taken up in order to generate business. Moreover, the company highlights about the product features to its employees and provides them sufficient trainings for self development. The company also interacts with its customers directly by making them aware about its various products/services available and the features and benefits associated with it. The company understands the needs of the customers and try to highlight those needs in its products or services. The front-line employees interact with the customers directly and try to provide those service products according to the need of the customers.

4.3 EXTERNAL MARKETING, INTERNAL MARKETING AND INTERACTIVE MARKETING.



INTERACTIVE MARKETING

The services marketing triangle consists of the three components of service delivery process namely, the company, the front-line employees and the customers. In service industry, the customers become a part of the service delivery process due to the inseparability characteristic of services. Both production and consumption of the services takes place simultaneously. As shown in the above figure, the company, front-line employees and the customers make up the three corners of the triangle. Let us discuss them

in detail.

External marketing: The interaction that takes place between the company and its customers constitute external marketing through which the company promises to deliver quality service to its customers. The company communicates information about its products and services to the external customers by means of marketing the communication mix comprising advertisement, sales promotion, personal selling, direct marketing and public relations.

Internal marketing: The interactions between the company and front-line employees constitute the internal marketing, by means of which the company enables its employees to deliver quality service to customers. Internal marketing is the process of communicating information about the company's products or services to employees of the organization. Any service organization, in order to achieve its marketing objectives, has to first communicate with its internal staff and convince them of the quality of its service. The internal marketing process makes use of tools such as newsletters, video shows, presentations etc. to communicate information about the company's services to its employees. In internal marketing, the company has to market its services to its own employees.

Interactive marketing: The third type of interaction and the most important one that eventually determines customer retention by service firms is interactive marketing that takes place between the front-line employees and the customers. Interactive marketing refers to mutual exchanges that take place between front-line employees and customers before, after and at the point of sale. The exchanges can take the form of information about the product or service or may even be a physical or monetary exchange. Interactive marketing elicits responses from customers which helps the company improve the value it delivers to the customer in the form of a product or service.

4.4 RELATIONSHIP MARKETING

4.4.1 A brief introduction

During the 1990s, relationship marketing became a topic of

discussion in the academic as well as in the corporate world. Traditionally, organizations had laid emphasis on the marketing activities that aimed at attracting new customers. However, with it being proved that attracting new customers is costly for many organizations as compared to retaining existing customers, the focus shifted. Relationship marketing thus advocates the retention of the existing customers. According to Pareto's law, 20% of the customers generate 80% of the revenues of an organization. If an organisation applied relationship marketing to these 20% customers, it could prevent them from switching over to competitors and could thus maintain its profitability. Relationship marketing involves interacting with customers, collecting information from them, compiling it to form a meaningful customer database and leveraging on it to offer personalized services to them.

Definition

According to Berry and Parasuraman, *"Relationship marketing is attracting, maintaining and in multi-service organizations, enhancing customer relationships"*.

4.4.2 Benefits of Relationship Marketing

Relationship marketing offers significant long term benefits to both customers and organizations. Let us discuss some of there benefits as under:

1. Benefits for the firm

If a firm maintains good relationship with its customers, the customers will continue to avail its services without being distracted by competitors. It has been observed that people tend to increase the amount of money they spend on services with each visit they make to a service provider. So, the organization will benefit from increased revenues from its existing customers. Organizations can also cut down costs involved in attracting new customers. To attract

new customers, they have to spend heavily on advertisements, promotional campaigns and discount offers. But they can derive more benefits merely by maintaining a good relationship with the existing customers. The existing customers will become repeat customers and even provide free word-of-mouth publicity, which will bring more customers with additional revenues. The word-of-mouth publicity by the existing customers to bring in more new customers minimizes the pressure on the employees of the organizations to attract new customers. In case of new customers, the service provider has to take some time to understand them and to get to know their tastes and preferences. The new customer, however, is a bit hesitant about depending on a new service provider for all his requirements and takes time to assess the quality of the service offered. Moreover, new customers have some doubts about the terms and conditions of the services. So there is a significant time gap before the service provider and a new customer beginning to trust each other and enter into a relationship.

2. Benefits to customers

By maintaining a consistent relationship with a service organisation and opting for its services repeatedly, the customer can save on time as well as the effort required to choose a new service provider and then test its service capabilities. Moreover, as the service provider already knows the customer requirements, the latter enjoys highly personalized services and sometimes even special services. For example, a beautician may allow her regular customer walk into her room to consult her without making her wait at the reception for long.



CHECK YOUR PROGRESS

Q 1: State the three components of service delivery process.

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Q 2: The interaction between the company and its customers is called

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Q 3: The interaction between the company and front-line employees is called

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Q 4. The interaction between front-line employees and customers is called

.....

Q 5. Define Relationship Marketing

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4.5 NEW SERVICE DEVELOPMENT PROCESS

The new service development process involves recognizing chances and opportunities in a fast changing technological environment. Most of these decisions are taken while planning the service process, which is in turn determined by the type of service offered and customer requirements. The following should be taken into consideration by a service provider to successfully develop a new service:

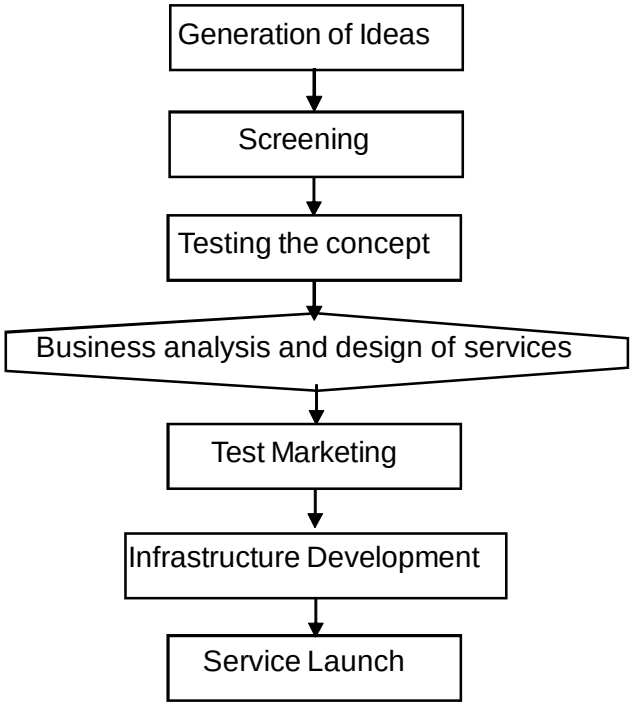


Fig 4.1: New Service Development Process

i) **Generation of ideas:** Ideas to design and develop new service may be generated within the organization i.e. their employees, so that they can come up with ideas for new service development or rather any improvement in current service offering or can be gathered from external sources like customers feedback.

ii) **Screening:** This stage involves screening the ideas generated in the earlier stage. At this stage, an idea can either be dropped entirely or be stored in the database for future reference. While analyzing any idea, the organization needs to check the compatibility of the new idea with the existing service offerings and the organization's resources.

iii) **Testing the concept:** An idea that has been approved by the management may or may not be liked by the customers. Therefore, the idea or the concept should be tested to know the reactions of the target customers who would finally use the service. Often, companies adopt marketing research techniques and conduct surveys to know the opinion of the target customers about the new service. It is very important for the service providers to directly interact with the customers and analyze their responses.

iv) **Business analysis and Design of service:** This stage further analyzes the idea that has been selected in the earlier stage and designs all the 7Ps of extended marketing mix. Business analysis involves defining the target market, its size, its structure and the existing customer trends. Present and future demand forecast can prove to be extremely useful in helping the organization decide whether to launch the new service. At this stage, an organization also designs the service process through service blueprinting. Business analysis and design of the service take place simultaneously as the outcome of business analysis determines the design of the service. Simultaneously, as and when a new service takes shape, its business has to be analysed. Therefore, decisions relating to both are dependent on each other.

v) **Test Marketing:** Test marketing of the services should be done before launching them in the market. Organizations can select specific areas

where they allow consumers to use their services and provide constructive feedback. Test marketers help an organization perform to pre-launch modifications to the service to rectify any lapses in the marketing mix and thus to avoid any problems later on after the service is launched in the market.

vi) **Infrastructure Development:** The infrastructure required to develop the service is developed in the penultimate stage when the company prepares the launch of the service. This may include many activities like hiring and training personnel, selecting the channels, developing promotional policies, pricing policies and designing the packaging of the new service.

vii) **Service launch:** The last stage in the new service development process is the actual launch of the service in the market. The life cycle of the service begins here and it is important to regularly supervise the operations to maximize revenues. At this stage, the new service gets revenues to cover the costs involved in designing and launching it.

4.6 DEVLOPING THE SERVICE BLUEPRINT

A service blueprint depicts the entire service process on a map and shows the various stages of customer interaction with the service provider, provides minute details of the service delivery processes, the tangible evidence of the service and the people involved in carrying it out. Blueprinting helps in breaking up the service delivery process into a series of logical steps. Blueprinting can be used either in designing or redesigning service products.

Developing a service blueprint is not an easy task and needs utmost attention. As the blueprint helps in analyzing the service process, in identifying areas of improvement and improving the service delivery, it has to be developed taking into consideration all the minute details and implicit conditions. The steps involved in developing a service blueprint are as under:

a) **Identifying processes:** This step involves identifying the various processes involved in producing an delivering a service. Identifying and analyzing minute details helps in gaining all the knowledge of all

components needed, which in turn helps to analyze the process in case of any deviations, and to control and improve the process. For example, if an error has been noticed in the software application that a consultant has to deliver to the client, the consultant can trace the problem to its source easily and fix it immediately if he has a service blueprint.

b) **Identification of the customer segment:** Identifying the various customer segments helps in recognizing the needs of each segment. Therefore, it will be possible to draw up a blueprint according to the needs of these segments. For example, a retired person visiting a bank will have needs different from those of employed customers. The bank can identify these needs and can redesign its service process to improve it.

c) **Mapping the customer's view:** The activities performed by a service customer in selecting, purchasing, consuming and evaluating the service should be identified and included in the blueprint. By doing so, a service provider will be able to understand which activities add value to the customer and then he can concentrate on improving those activities to enhance customer satisfaction.

d) **Mapping the onstage and backstage employee action:** The line of visibility and the line of interaction in a blueprint will help a service provider define the roles of onstage and backstage employees. Mapping onstage and backstage employees' actions will help the service provider to identify the processes to be performed by the onstage and backstage employees and the coordination required between them to improve the service.

e) **Identification of support activities:** The line of internal interaction determines the role of support activities in delivering the service. This eventually determines how the support activities have an effect on the customers. Therefore, it is very important to identify the role of support activities. For example, the role of an interior decorator who replaces the flowers in vases every alternate day in a hotel is also important in delivering quality service.

f) **Adding physical evidence wherever possible in the service process:** This helps in identifying what a customer considers as physical evidence at each step of the process. For example, a doctor might not realize that the patients visiting a clinic consider a well lit name board with the doctor's name and qualifications as physical evidence. Once the doctor gets to know this by using the service blueprint, he can arrange for such a board and attract more patients.

4.7 SERVICE INNOVATION

The concept of service Innovation was first discussed by Miles (1993) and has been developed in the past two decades. A comprehensive definition of service innovation was proposed by Van Ark et al. (2003). *"A new or considerably changed service concept, client interaction channel, service delivery system or technological concept that individually, but most likely in combination, leads to one or more (re)new(ed) service functions that are new to the firm and do change the service/good offered on the market and do require structurally new technological, human or organizational capabilities of the service organization."* This definition covers the notions of technological and non-technological innovation. Non-technological innovations in services mainly arise from investment in intangible inputs.

In practice, the majority of service innovations will almost certainly involve various combinations of these four dimensions. For instance:

i) A new IT system (technology dimension) may be used to enable customer self-service (interface dimension) as in the case of a bank contacting its customers.

ii) The ability to track one's order or the location of an item that one has posted or is expecting to receive. Example, tracking the consignments of Speed Posts.

iii) Services may be delivered electronically, as in the case of much online banking and cash withdrawals from ATMs.

iv) A new service allowing a client to examine various options and calculate what they would be paying with different types of accounts.

v) A new service will often require a new service delivery system, and changes at the client interface.

However, a number of more general tendencies in the innovation process in services have been noted. These include:

1. The industrialization of services, involving efforts to standardize services, to yield service products of predictable characteristics and quality, with economies of scale and improved delivery times. This typically involves the introduction of high levels of division of labour, with the use of pre-packaged and automated elements (such as pre-prepared meals, word processed templates for form letters, and the like). Standardization of the service products has become a competitive strategy for many firms.

2. Organizational innovation. Survey data suggest that services place particular emphasis on organizational change. Many important innovations in services involve combinations of specific new technologies together with organization change. The role of organizational innovations in services is very apparent – developments such as supermarkets and other self-service facilities are extremely significant in the development of modern service industries. Such organizational innovations will often have a technological dimension, whether this is very basic (e.g. shopping trolleys), or relatively high-tech (EPOS – electronic point of sale – equipment or ATMs linked into networks).

3. An important trajectory of organizational change has been towards self-servicing, without necessarily following this development all the way toward the vision of the client sitting at home interacting with the service provider via a remote terminal. Instead, reorganization of the facilities of the service provider permits customer self-service in the service establishment, saving on labor costs and often increasing user satisfaction as it is possible to make decisions anonymously and at one's own pace.

4. Beyond self-servicing, the involvement of clients as co-producers is particularly important for knowledge-intensive business services, with

the emphasis being laid upon clients' role in advancing the expertise of service suppliers, and identifying new avenues for its application. Web2.0 has brought "*user innovation*" to the fore in electronic services.

4.8 QUALITY FUNCTION DEPLOYMENT

Quality Function Deployment (**QFD**) is a structured approach to defining customer needs or requirements and translating them into specific plans to produce products to meet those needs. The "*voice of the customer*" is the term to describe these stated and unstated customer needs or requirements. It was developed in Japan beginning in 1966 to help transform the voice of the customer (VOC) into engineering characteristics for a product. The QFD method identifies and classifies customer desires, identifies the importance of those desires, identifies engineering characteristics which may be relevant to those desires, correlates the two, allows for verification of those correlations, and then assigns objectives and priorities for the system requirements. QFD is applied in a wide variety of services, consumer products, and military needs.



CHECK YOUR PROGRESS

Q 6: Define 'New service development process'

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Q 7: What is a 'Service Blueprint'?

.....

.....

Q 8: Give one example of service innovation.

.....

Q 9. Define 'Voice of Customer'.

.....



4.9 LET US SUM UP

- Service Marketing Triangle comprises External Marketing, Internal Marketing and Interactive Marketing
- The interaction between the company and its front-line employees is called Internal Marketing.
- The interaction between the company and its customers is called External Marketing
- The interaction between the front-line employees and the customers is called Interactive Marketing
- According to Pareto, 20 percent of customers generate 80 percent of revenue for an organization. Therefore, a company must focus on those 20 percent of its employees and try to retain them.
- Relationship marketing is attracting, maintaining and in multi-service organizations, enhancing customer relationships.
- Relationship marketing is beneficial to both the firm and the customers.
- Generation of ideas, screening, test marketing, business analysis and design of the services, infrastructure development and service launch are the steps of a new service development process.
- Service blueprint depicts the entire service process on a map and shows the various stages of customer interaction with the service provider, provides minute details of the service delivery processes, the tangible evidence of the service and the people involved in carrying it out.
- Identifying process, identification of customer segment, mapping the customer's view, mapping the onstage and backstage employee action, identification of support activities and adding physical evidence wherever possible are the steps involved in developing a service blueprint.
- Service innovation is a new or considerably changed service concept. The self service passbook update machine of SBI, self tracking of the consignments sent by speed or registered posts, cash deposit

machines etc are examples of service innovations that have benefit the customers immensely.

- Quality Function Deployment (QFD) is a structured approach to defining customer needs or requirements and translating them into specific plans to produce products to meet those needs.
- The "*voice of the customer*" is the term to describe these stated and unstated customer needs or requirements.



4.10 FURTHER READING

1) Christopher Lovelock and Jochen Wirtz (2017),*Services Marketing-People, Technology, Strategy , Pearson Education*, 8th edition, New Delhi

2) Roland T. Rust, Anthony J. Zahorik and Timothy L. Keiningham *(1997) Service Marketing,* Pearson Education



4.11 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: The three components of service delivery process are the company, the front-line employees and the customers.

Ans to Q No 2: The interaction between the company and its customers is called External Marketing.

Ans to Q No 3: The interaction between the company and front-line employees is called Internal Marketing

Ans to Q No 4: The interaction between front-line employees and customers is called Interactive Marketing

Ans to Q No 5: Relationship marketing is attracting, maintaining, and in multi-service organizations, enhancing customer relationships.

Ans to Q No 6: The new service development process involves recognizing chances and opportunities in a fast changing technological environment.

Ans to Q No 7: A service blueprint depicts the entire service process on a map and shows the various stages of customer interaction with the service provider, provides minute details of the service delivery processes, the tangible evidence of the service and the people involved in carrying it out.

Ans to Q No 8: The ability to track one's order or the location of an item that one has posted or is expecting to receive. Example, tracking the consignments of Speed Posts.

Ans to Q No 9: The "*voice of the customer*" is the term to describe these stated and unstated customer needs or requirements. It was developed in Japan beginning in 1966 to help transform the voice of the customer (VOC) into engineering characteristics for a product.



4.12 MODEL QUESTIONS

Q 1: Define Service Market Triangle.

Q 2: Explain with illustration the three corners of a service marketing triangle.

Q 3: Discuss the steps of a new service development process.

Q 4: Why is Service Blueprint an important aspect of services?

Q 5: Explain the steps involved in developing a service blueprint.

Q 6: State a few examples of service innovation.

Q 7: Why is the voice of customer an important element of Quality Function Deployment?

*** ***** ***

Unit 5: INTRODUCTION TO RETAILING

UNIT STRUCTURE

5.1 Learning Objectives

5.2 Introduction and meaning

5.3 Significance of retailing

5.4 Economic significance of retailing

5.5 Product retailing Vs Service retailing

5.6 Types of retailers

5.7 Indian and Global retailing scenario

- 5.7.1 Indian scenario in retailing
- 5.7.2 Global scenario in retailing

5.8 Retail Decision Making Process

- 5.8.1 Retail Strategy
- 5.8.2 Strategic decision areas
- 5.8.3 Implementing the retail strategies

5.9 Let us Sum Up

5.10 Further Reading

5.10 Answers to check your progress

5.11 Model Questions

5.1 LEARNING OBJECTIVE

After going through this unit, you will be able to:

- define retailing
- know the economic significance of retailing
- explain the distinction between product and service retailing
- learn about the different types of retailers
- know about the Indian and Global retail scenarios
- describe the Retail Decision Making Process.

5.2 INTRODUCTION

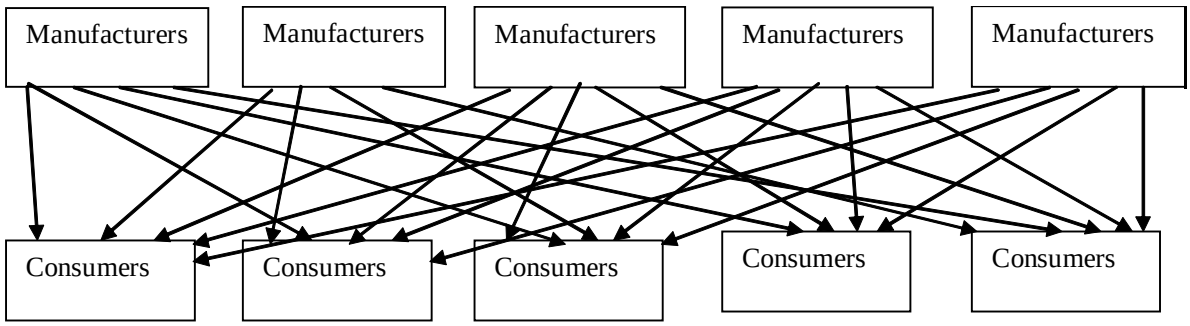
Retail is essentially the business of selling goods or services in small

quantities to the ultimate customer or consumer. Let us first understand the difference between a customer and a consumer. Suppose there is a person X aged around 35 years purchasing a chocolate from a retail store. The person may have purchased the chocolate for himself or he might have purchased it to give it to his child. In the former case, the person himself is the 'consumer' while in the latter case, he (the person) is the 'customer'.

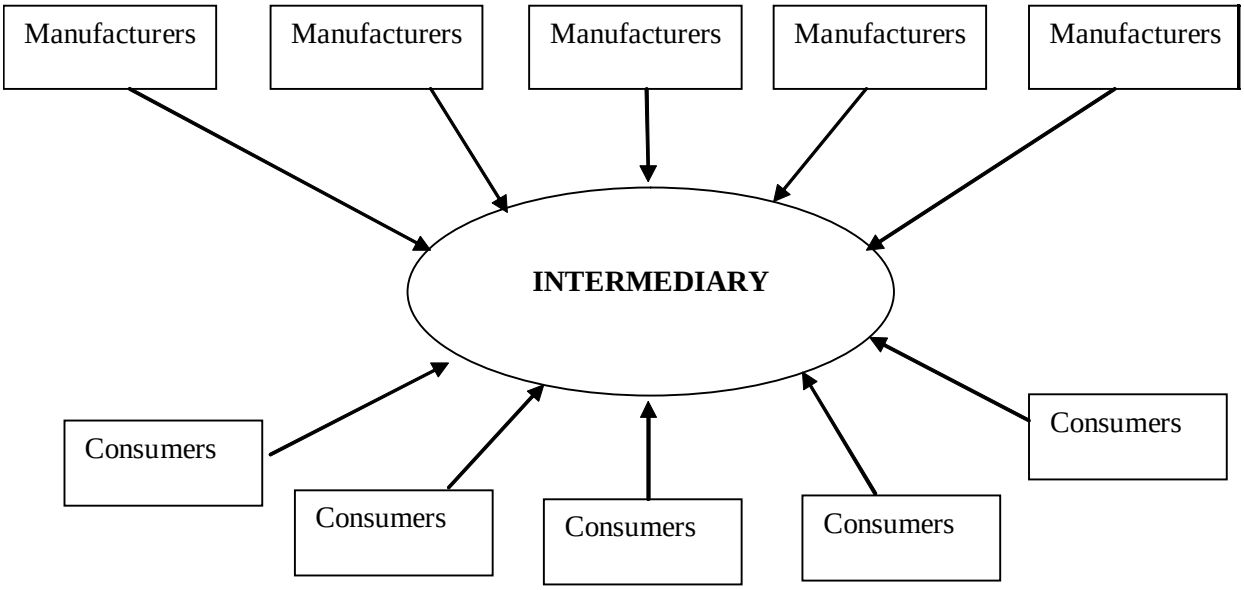
Retail is the sale of goods to the end users, not for resale, but for use and consumption by the purchaser. It involves the sale of merchandise from a single point of purchase directly to a customer who intends to use that product. The single point of purchase could be a brick-and-mortar retail store, an Internet shopping website, a catalogue, or even a mobile phone. Manufacturers sell large quantities of products to retailers, and retailers attempt to sell those same quantities of products to consumers.

5.3 SIGNIFICANCE OF RETAILING

Retailers are the final link in the supply chain between manufacturers and consumers. Retailing is important because it allows manufacturers to focus on producing goods without having to be distracted with the enormous amount of effort that it takes to interact with the end-user customers who want to purchase those goods. Retailers serve as an important intermediary in the distribution channel apart from wholesalers, jobseekers and agents. They bring about greater efficiency in the distribution chain as lesser transactions are required for the manufactures to sell off their goods to the ultimate customers which also help in curbing the total cost of transactions as shown in the following diagrams.



In the above figure, 25 transactions are needed with no intermediaries. As such, the cost of transactions will be much high.



In the above figure, only 10 transactions are needed with 1 intermediary. Therefore there is greater efficiency in the distribution chain and also the cost of transaction is much lower. Retailers make the purchase of goods easy for the consumer and do whatever it takes to get the right products at the right price to the right customers at the right time. Some retailers offer additional services to the retail transaction like personal shopping consultations, and gift wrapping to add something extra to the retail customer experience and exceed the retail customer experience.



CHECK YOUR PROGRESS

Q 1: Define Retail.

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Q 2: State two characteristics of retailers.

.....

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5.4 ECONOMIC SIGNIFICANCE OF RETAILING

Retailing, one of the largest sectors in the global economy, is going through a transition phase not only in India but the world over. For a long time, the corner grocery store was the only choice available to the consumer, especially in the urban areas. This is slowly giving way to international formats of retailing. The traditional food and grocery segment has seen the emergence of supermarkets/grocery chains, convenience stores and fast-food chains. Retailing is the timely delivery and availability of products to consumers at prices they can afford. In the last few years, the concept of retailing has changed considerably in India with the traditional neighbourhood "Kirana" stores being replaced by huge malls and large chain of stores. Nowadays, the Indian consumer gives more emphasis on quality of products even if it comes at a price. The Indian retailing industry is becoming increasingly competitive with big brands, both national and international, entering the market. The retail industry has a tremendous contribution in boosting the Indian economy by increasing employment, enhancing exports and giving small scale industries the opportunity to sell their products at competitive prices. Retailing in India is one of the pillars of its economy and accounts for 14 to 15 percent of its GDP. The Indian retail market is estimated to be US$ 500 billion and one of the top five retail markets in the world by economic value. India is one of the fastest growing retail markets in the world, with 1.2 billion people and is projected to reach $1.3 trillion by 2020. The boom in the Indian retail industry is mainly due to the following reasons;

a) Increase in the purchasing power of middle class Indians
b) Indians becoming more and more quality conscious
c) Change in taste and living styles
d) Emergence of big international names in the retail sector
e) The entry of FDI in the retail sector
f) Rapid growth of IT and engineering sectors

Retailing in the recent era stands as an exciting yet complex business sector in most developing economies. According to recent surveys, the Indian Retail economy is growing but it needs to pick up more speed. Nevertheless,

the contribution of the retail sector cannot be underestimated and has extensively helped in enriching the economy of our country. But the Indian retail industry needs to be more organized since retail management offers huge opportunities in future.

5.5 PRODUCT RETAILING Vs SERVICE RETAILING

Product Retailing	Service Retailing
Quality and costs are prime factors and nature of people involved in the case of product retailing	Service retailings are crucial factors in the success
Product retailer and consumer relationship are established only if the consumer frequently visits the outlet.	Service provider and customer relationship are established right from the start.
Products can be stored in an outlet while retailing.	Services are intangible and hence cannot be stored while retailing.
Product retailing can be standardised.	Service retailing cannot be standardised as it highly depends on the human entities involved
In product retailing, the ownership of the purchased product can be transferred from owner to consumer after transaction.	In service retailing, there is no transfer of ownership. The consumer can only assess the service.

5.6 TYPES OF RETAILERS

Generally, retailers are classified into four types:

1. Retailing based on ownership
2. Retailing based on the extent of product lines handled.
3. Retailing based on the services vs. Good retail strategy mix
4. Non-store based retailing.

1. Retailing based on ownership:

Retailing based on ownership primarily includes independent retailers, where a retailer owns only a single retail unit. In India, we have a large number of retailers owning single retail units. Another form of retailing based on ownership is chain retailership. These retailers own several retail outlets. Purchasing decisions and activities are carried out centrally for these various outlets. Example Pantaloons is a chain based retailer. Franchising is another form of retailing based on ownership. Franchising is a contractual and a legally binding agreement between a franchiser and a franchisee. A franchiser may be the owner of a trademark or a trade name, a producer of goods or a service provider. He gives the franchisee right to do business using his trademark, trade name, product or service. This agreement is also known as a franchise or license agreement.

Other types of ownership retailing are vertical marketing units and consumer cooperatives. A vertical marketing unit comprise all the levels of independently owned businesses along a channel of distribution. In vertical marketing unit, all the three functions of business-manufacturing, wholesaling and retailing may be owned by a single person and comprise a fully integrated system. When the three functions are owned by two persons, it comprises a partially integrated system and when they are owned by three different individuals they are called independent systems.

Consumer cooperatives are retail outlets that are owned and operated by a group of consumers. The representatives of these cooperatives look after the day-to-day operations of the retail outlet. Anand Milk Producers' Union Limited (AMUL) is an example of successful milk cooperatives.

2. Retailing based on the extent of product lines handled:

Based on the extent of product lines handled, retailers can be called as general merchandise retailers. This category of retailing includes speciality store, departmental store, discount store, supermarkets and hypermarkets.

a) Speciality store:

Speciality store offer a wide selection of speciality chosen goods

pertaining to a single product line. Thus, these stores provide a narrow product line but a wide assortment of choice within this product line. These stores normally target selective and small segments of the market for sales.

b) Departmental store:

Departmental stores are the general merchandise retailers with considerably large retail space with separate sections allocated for food stuff, body care products, etc. Thus, they offer a wide selection of products to consumers. Generally the quality of goods sold in departmental stores ranges from average to very good quality.

c) Discount store:

Discount stores are similar to departmental stores, except that these stores offer products at less than the retail price. The purpose of doing so is to obtain profits on large volume sales. Discount stores are normally targeted at middle and lower middle class consumers, who are price conscious.

d) Supermarkets:

Supermarkets are retail outlets that are based on the concept of self service. The customers can pick up the products on their own from a wide variety displayed on the shelves.

e) Hypermarkets:

Hypermarkets are a recent phenomenon in India. These are very large supermarkets with the shop floor area ranging between two to three lakh square feet. These stores also offer a wide variety of products ranging from needles to household equipment.

3. Retailing based on the Service vs. Goods retail Strategy Mix

Retailing business can be classified into goods and services. In goods retailing, physical products are sold such as groceries. In service retailing, the consumer does not get the ownership of a product. However, he can access to a service such as travel agent. There are other retailers who offer a combination of both goods and services. Strategies for service

retailing differ from those for retailing of goods. The services sector is growing faster than the goods and manufacturing sector globally. Most economies including India are dependent on the services sector for their growth. Service retailing again can be sub-divided into rented goods services, owned goods services and non-goods services.

In owned goods services retailing, the service provider does not own the goods he services. Annual maintenance for PCs or printers is examples of this category. A company or an individual who provides maintenance services does not own the products.

In non-goods service retailing, personal services are provided. No physical goods are involved. Only the time and expertise of the person who is going to provide the service is bought for a fee. Tutors, personal trainers etc are examples of this category.

4. Non-store based Retailing:

Non-store based retailing involves selling products in ways other than via conventional retail stores. Non-store retailing can be in the form of direct selling, direct marketing and automatic vending.

Direct Selling: It is a process of selling the products directly to the customers by meeting them personally in their homes, offices or in any other convenient locations. Eureka Forbes, Amway etc are examples of direct selling.

Direct marketing: It is a process of exposing the consumer to the product or service, through mailers, telephone calls, television etc and subsequently soliciting a response from the consumer by asking him to contact the company by telephone, email or post. Home Shop18, Tele Shopping Network etc fall in this category.

Automatic vending: It is a type of non-store retailing in which the vending machines are used to dispense goods or services to customers without the involvement of a sales person. When the customer inserts a coin into the vending machine, it delivers the product or service to the customer. For example, Public telephone booths etc.



CHECK YOUR PROGRESS

Q 3: Mention two causes for boom in the retail industry

.....

Q 4: Mention the type of retailers

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5.7 INDIAN AND GLOBAL SCENARIO IN RETAILING

5.7.1 Indian Scenario in retailing

The Indian retail industry remained a largely unorganised sector till the eighties. Corporate houses like Raymond's, Bombay Dyeing and Titan stepped into retailing after recognising the vast potential of this sector. The retailing industry in India has been growing in a significant manner with its contribution to the overall GDP of the country. *The retail companies are found to be rising in India at a remarkable speed with the years and this has brought a revolutionary change in the shopping attitude of the Indian customers.* In last one and half decades, many corporate giants have entered into retailing and have successfully professionalized this business. Many international retailers have entered Indian market and many are about to enter to explore retailing opportunities. Indian retailing system exhibits considerable variety. We find giant shopping malls and a small retail shops operating simultaneously in nearby area. Interestingly, some small sole proprietary retailers are competing successfully with retail corporate giants in neighbouring areas. India being the second highest populated country in the world and considered as a fourth largest economy, the demand for new and varied products are very high and there is a wide scope for market penetration. Therefore, these had led to the growth of the retail industry in India. Retailing provides the highest employment after agriculture in India. This trend is poised to grow even further with the customers being ready to spend higher prices for the products if the

retailers can provide high quality service with increased efficiency, convenience and a wide range of products. The major segments of retailing are consumer durables, followed by furniture, health care, garments, food and services. Retailing of personal care products, apparel, music and books are in the rise. As competition is increasing, retail outlets are vying for better techniques of store differentiation. One of the major and most beneficial differentiation strategies adopted by retailers is to focus on better retail layouts. The layouts are designed so as to derive maximum returns per square foot area as well as to attract the maximum number of customers.

Retail market in India is an amazing assortment of formats. With the changing time, the concept of shopping has gone through tremendous shifts in terms of format and consumer buying behaviour, ushering in a new era of modern retail across the country. With the development, augmentation and modernisation of infrastructure taking place at most major Indian cities, the scope of retail has increased manifold. A joint study from Rai and Knight Frank titled **'Think India. Think 'Connected' Retail 2017'** estimates that currently, the total retail market size in the top six retail markets of the country amounts to INR 4,539 bn and this is projected to reach INR 7,168 bn by 2019. However, modern retail penetration in India is abysmally low compared to the developed and emerging economies. While the share of modern retail is 84%, 71%, and 53% in the US, Singapore and Malyasia, respectively, it is only 19% of the value of the total retail spending in the National Capital Region, Mumbai, Chennai, Bengaluru, Pune and Hyderabad cumulatively. Overall, the degree of penetration in the country would be even lower, since the presence of modern retail in smaller cities and rural areas is not significant. In the forthcoming years, the share of modern retail in these top six cities is expected to be a quarter of the total retail spending by 2019. The unorganised sector in retailing does not provide advanced and technological facilities as provided by the organised sector. However, it thrives on offering customised solutions to its shoppers. But the changes in customer preferences help the

organised retailers to provide a wide variety of state-of-the-art display and stocking capabilities. The retailers in the organised sector set up stores on a large scale with different kinds of products. This allows them to bargain with their suppliers, thus giving them the advantage of lower costs and supply chain efficiencies. Today, a number of leading e-tailers have opened physical stores to showcase their products and service online customers. These stores act as experience centres and offer value-added services, such as trials, instant returns and product demos. On the other hand, a number of traditional brick-and-mortar players have gone online, either with their own websites or by tying up with already existing e-tailers, such as Amazon, Snapdeal, Jabong or Myntra. The figure is set to increase further in the coming years, as more retailers understand the importance of offering multiple touch points to consumers. Several brands are bringing technology into their physical stores, with kiosks to highlight their products and provide customer support. The application of information technology in the retailing sector has been increasing over the past few years. It has significantly improved the effectiveness of various activities like operating the stores, merchandise management, inventory management, sales forecasting etc. Technological advancement has also prompted the retailers to focus on television and online shopping as well.

Although the share of modern retail penetration in the country is not flattering, there is still a lot to cheer about as consumer spending patterns and increasing disposable income levels continue to evolve at a fast pace. There is ample dynamism at present, with a number of international brands entering the market. The existing brands are also working towards reinventing ways to keep up with the pace of growth in the sector. Nevertheless, there is a huge untapped potential for the growth of modern retail in India.

5.7.2 Global scenario in retailing

The face of the retailing industry has undergone significant global changes over the past two decades. An understanding of these

changes will help us assess the future of the industry. Retailing has evolved from a small time local merchandising business to its present global state that involves e-tailing. The effectiveness of e-commerce and its influence on the retail industry has been a subject of constant debate among the marketers. Retailing has always focused on offering the best products to customers. Every retailer wants to offer the customers the right products at the right time and at the right place and price. However, the way in which retailers try to fulfil the mission changes continuously because of the development of disruptive technologies. These help the retailers to innovate new business models that change the economies of the industry. Companies like Amazon.com and others have made significant changes in the e-tailing industry. Businesses across the world are investing heavily to leverage the benefits of e-tailing. Globalisation in the retail industry is the strategy of unlocking sales opportunities in new markets through a mix of exporting best practice and modifying existing models to suit the local needs. As modest growth and mature conditions continue in the domestic markets, overseas operations will become increasingly important for the world's leading grocery retailers. However, new opportunities are being considered more carefully than ever before, with the focus more on building scale in key markets rather than broadening operations by entering additional markets. The latter half of the 20th Century, in both Europe and North America, has seen the emergence of the supermarket as the dominant grocery retail form. The reasons why supermarkets have come to dominate food retailing are not hard to find. The search for convenience in food shopping and consumption, coupled to car ownership, led to the birth of the supermarket. As incomes rose and shoppers sought both convenience and new tastes and stimulation, supermarkets were able to expand the products offered. The invention of the bar code allowed a store to manage thousands of items and their prices and led to 'just-in-time' store replenishment and the ability to carry tens of thousands of individual items. Computer-operated depots and

logistical systems integrated store replenishment with consumer demand in a single electronic system. The superstore was born. On the Global Retail Stage, little has remained the same over the last decade. One of the few similarities with today is that Wal-Mart was ranked the top retailer in the world then and it still holds that distinction. Other than Wal-Mart's dominance, there's little about today's environment that looks like the mid-1990s. The global economy has changed, consumer demand has shifted, and retailers' operating systems today are infused with far more technology than was the case six years ago. Saturated home markets, fierce competition and restrictive legislation have relentlessly pushed major food retailers into the globalization mode. Since the mid-1990s, numerous governments have opened up their economies as well, to the free markets and foreign investment that has been a plus for many a retailer. However, a more near-term concern has been the global economic slowdown that has resulted from dramatic cutback in corporate IT and other types of capital spending. Consumers themselves have become much more price sensitive and conservative in their buying, particularly in the more advanced economies. From an operational point of view, active practitioners have voiced their opinion that the retailer concerns in 2003 have turned to deflation, lack of pricing power, global over-capacity, low interest rates, economic stagnation, slump in world tourism and declining consumer confidence. But, even before the global economic slowdown that forced retailers into monitoring costs more effectively, technological advances were a way of life in retail organizations. Technology has become the real enabler for retailers over the last six years. Supply chain innovations for retailers were particularly strong in the second half of the 1990s and have continued into today. With all the emphasis on technology and cost-cutting, a major thrust of retailers continues to be demand based: finding new markets through globalization efforts. In 1990's, more than half (53 percent) of the top 200 retailers operated in only one country. Today, only 44 per cent remain single-country merchants. This globalization trend

can only intensify in the years ahead. The benefits of increased sales and greater economies of scale are too large to be ignored. From the very inception of retail business, retailers had been involved in international trade, with their involvement primarily centering on the procurement of merchandise. However, retailers from all over the world were venturing beyond their own borders to establish stores even in other countries. Thus, the business of retailing could become a global business. Over the last decade, it was found that there had been sweeping changes in the general retailing business for various reasons like: Changing demographics and industry structure, immense impact of communication technology that had made a major contribution towards educating consumers about the products and services they require and the internet explosion is bound to further this trend, fierce competition that put great emphasis on lower costs and prices, emphasis on greater convenience and service, Focus on productivity and added experimentation, continuing growth of non-store retailing. The world over retail business was dominated by smaller family run chain stores and regionally targeted stores, but gradually more and more markets in the western world were being taken over by billion dollar multinational conglomerates such as Wal-Mart, Sears, Mc Donald's, Marks and Spencer. A major development in recent times had been the emergence of varied retail formats that had started operating in most product categories. For instance, there were large department stores that offer a huge assortment of goods and services. There were discount stores that offer a wide array of products and compete mainly on price. There were also the high-end retailers who target extremely niche markets. Over the past few decades, retail formats had been changed radically worldwide. The basic department stores and cooperatives of the early 20th century had been given way to mass merchandise (Wal-Mart), hypermarkets, warehouse clubs category killers, discounters and convenience stores. The global retailing industry group is defined here as the sum of six segments, each comprising only business to consumer (B2C) sales for certain groups of products: apparel,

accessories, and luxury goods segment including menswear, women-wear, children-wear, footwear, watches, jewellery and related products. The food and grocery segment includes food, beverages, tobacco, household care, personal care, and related products. The electrical and electronics segment includes audio-visual equipment, fixed and mobile telecommunications equipment, computers and peripherals, domestic appliances, photographic equipment, games consoles, and related products. The house and garden segment includes carpets and floor coverings, domestic furniture, garden products, home improvement products, and related goods. The media products segment includes books, newspapers, stationery, recorded music, video and related products. The Food Retail Industry in the Far East has evolved into what could be called 'the breeding ground' for emerging models with countries like Singapore being the home to some of the big players in the industry in these parts of the world. The presence of all the major players of the retailing industry is found in Singapore. Singapore has two hypermarkets, one run by Carrefour and the other by Giant Hypermarket, part of Dairy Farm International. According to the government, there are slightly more than 11,000 market stalls operating in 150 markets located all across Singapore Island. The markets further spread to China, Thailand, and Malaysia thanks to the major support that the local governments provided in creating the necessary regulatory framework in establishing their presence. Singapore, Malaysia and Thailand not only fuelled the retail industry within the country, but also attracted hordes of tourists to experience the shopping "experiences" that they created in these islands. The markets are now saturated with no additional space for a new entrant and are expected to consolidate within the next few years. Apart from Singapore, which is a more recent development, Japan enjoys an active spot on the retailers' map. Global Retailing industry profile provides top-line qualitative and quantitative summary information including: market size (value 2001-2010, and forecast 2010 to 2015). The profile also contains descriptions of the leading players including key financial metrics

and analysis of competitive pressures within the market. Essential resource for top-line data and analysis covering the Global retailing market includes market size and segmentation data, textual and graphical analysis of market growth trends, leading companies and macroeconomic information.

5.8 RETAIL DECISION MAKING PROCESS

The **retailing concept** is a managerial orientation that focuses a retailer on determining its target market's needs and satisfying those needs more effectively and efficiently. The retailing concept emphasizes that high-performance retailers must be strong competitors. They cannot achieve high performance by simply satisfying customers' needs. They must also keep a close watch to ensure that competitors don't attract their customers. The first step in the retail management decision process is getting an understanding of the world of retailing. Retail managers need a good understanding of their environment, especially their customers and competitors, before they can develop and implement effective strategies. The critical environmental factors in the world of retailing are:

I. The macro environment

II. The micro environment

I. The macro environment : Ethical standards and legal and public policy are critical macroenvironmental factors affecting retail decisions. Strategy development and implementation must be consistent with corporate values, legal opinions, and public policies. Retailers rely on ethical standards to guide decision making when confronting questionable situations not covered by laws. Some retailers have policies that outline correct behaviour of the employees in these situations, but in many situations people must rely on their own code of ethics as it may evolve over true.

II. The micro environment: The retailer's micro environment involves the retailer's competitors and customers.

(a) Competitors- At first glance, identifying the competitors appears easy. A retailer's primary competitors are those with the same format. This competition with the same type of retailers is called intratype competition. To appeal to a broader group of consumers and provide one-stop shopping,

many retailers are increasing their variety of merchandise. By offering greater variety in one store, retailers can offer one-stop shopping to satisfy more of the needs of their target market. The offering of merchandise not typically associated with the store type is called scrambled merchandising. Scrambled merchandising increases intertype competition – competition between retailers that sell similar merchandise using different formats.

Increasing intertype competition has made it harder for retailers to identify and monitor their competition. In one sense, all retailers compete against each other for consumers' money spend buying goods and services. But the intensity of competition is high among the retailers located close together with retail offerings that are viewed as very similar.

- Since convenience of location is important in store choice, a store's proximity to competitors is a critical factor in identifying competition.
- Management's point of competition also can differ, depending on the manager's position within the retail firm.

Customers- Customer needs are continually changing at an ever increasing rate. Retailers need to respond to broad demography and lifestyle trends in our society.

To develop and implement an effective strategy, retailers also need to know the information about why customers shop, how they select a store, and how they select among that store's merchandise.

5.8.1 Retail Strategy

Indicates how the firm plans to focus its resources to accomplish its objectives. It identifies:

1. The target market toward which the retailer will direct its efforts;
2. The nature of the merchandise and services the retailer will offer to satisfy needs of the target market.
3. How the retailer will build a long-term advantage over competitors.

5.8.2 Strategic decision areas

- The key strategic decision areas involve determining a market strategy, financial strategy, location strategy, organizational

structure and human resource strategy, and information systems strategy. When major environmental changes occur, the current strategy and the reasoning behind it are re-examined. The retailer then decides what, if any, strategy changes are needed to take advantage of new opportunities or avoid new threat in the environment.

- The retailer's market strategy must be consistent with the firm's financial objectives.
- A retailer's organization design and human resource management strategy are intimately related to its market strategy.
- Retail information and supply chain management systems will offer a significant opportunity for retailers to gain strategic advantage in the coming decade.

5.8.3 Implementing the retail strategy

To implement a retail strategy, management develops a retail mix that satisfies the needs of its target market better than that its competitors. The retail mix is the combination of factors retailers use to satisfy customer needs and influence their purchase decisions.

Elements in the retail mix include-

- The types of merchandise and services offered
- Merchandise pricing
- Advertising and promotional programmes
- Store design
- Merchandise display
- Assistance to customers provided by sales people
- Convenience of the store's location



CHECK YOUR PROGRESS

Q 5: Name three Indian and Global retail brands each.

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Q 6: What are the environmental factors in retailing?

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Q 7: Define Retail strategy

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5.9 LET US SUM UP

- Retail is essentially the business of selling goods or services in small quantities to the ultimate customer or consumer.
- Retail is the sale of goods to end users, not for resale, but for use and consumption by the purchaser. It involves the sale of merchandise from a single point of purchase directly to a customer who intends to use that product.
- Retailers serve as an important intermediary in the distribution channel apart from wholesalers, jobseekers and agents. They bring about greater efficiency in the distribution chain as lesser transactions are required for the manufactures to sell off their goods to the ultimate customers which also helps in curbing the total cost of transactions.
- In the last few years, the traditional food and grocery segment has seen the emergence of supermarkets/grocery chains, convenience stores and fast-food chains.
- The Indian retail market is estimated to be US$ 500 billion and one of the top five retail markets in the world by economic value.
- India is one of the fastest growing retail markets in the world, with 1.2 billion people and is projected to reach $1.3 trillion by 2020.
- Product and service retailing differ from one another in many respects
- There are four types of retailers- retailing based on ownership, retailing based on the extent of product lines handled, retailing based on the services vs. Good retail strategy mix and non-store based retailing
- The Indian retail industry is fast expanding. Think ‘Connected’ Retail 2017’ estimates that currently, the total retail market size in the top six retail markets of the country amounts to INR 4,539 bn and this is projected to reach INR 7,168 bn by 2019.

- The first step in the retail management decision process is getting an understanding of the world of retailing. Micro and Macro environments are the critical environmental factors in the world of retailing.
- A retail strategy indicates how the firm plans to focus its resources to accomplish its objectives.
- The key strategic decision areas involve determining a market strategy, financial strategy, location strategy, organizational structure and human resource strategy, and information systems strategy.
- The types of merchandise and services offered, merchandise pricing, advertising and promotional programmes, store design, merchandise display, assistance to customers provided by sales people, convenience of the store's location are the elements in retail mix.



5.10 FURTHER READING

1) Varma Nidhi and Bajaj Chetan(2010), *Retail Management*.2nd edition, Oxford Univeristy Press

2) Gibson and Vedamani, G.(2017), *Retail Management*.



5.11 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: Retail is essentially the business of selling goods or services in small quantities to the ultimate customer or consumer

Ans to Q No 2: Two characteristics of retailers are: (1) Retailers are the final link in the supply chain between manufacturers and consumers and (2) they bring about greater efficiency in the distribution chain.

Ans to Q No 3: Two causes of boom in the retail industry are: (1) Increase in the purchasing power of middle class and (2) Change in taste and living styles

Ans to Q No 4: Retailers are classified into four types: Retailing based on ownership, Retailing based on the extent of product lines handled,

Retailing based on the services vs. Good retail strategy mix and Non-store based retailing.

Ans to Q No 5: Three Indian retail brands are: Reliance Trends, Pantaloons, Titan. Three Global retail brands are: Wal-Mart, Mc Donald's, Marks and Spencer

Ans to Q No 6: The environmental factors in retailing are: micro environment and macro environment

Ans to Q No 7: Retail strategy indicates how the firm plans to focus its resources to accomplish its objectives. It identifies the target market, the nature of the merchandise and services the retailer will offer and how the retailer will build a long-term advantage over competitors.



5.11 MODEL QUESTIONS

Q 1: Define Retail.

Q 2: Show diagrammatically the transaction between manufacturers and customers under the following conditions:

a) In the absence of intermediary

b) In the presence of intermediary

Q 3: Discuss the causes for boom in the retail industry

Q 4: Distinguish between Product retailing and Service retailing

Q 5: Explain the different types of retailers

Q 6: Write a note on the Retail Decision Making Process.

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Unit 6: THE RETAIL MARKETING SEGMENTATION

UNIT STRUCTURE

6.1 Learning Objectives

6.2 Introduction

6.3 Importance of market segmentation in retail

6.4 Criteria for effective segmentation

6.5 Positioning decisions

6.6 Dimensions of segmentation

6.7 Limitations of segmentation

6.8 Let us Sum Up

6.9 Further Reading

6.10 Answers to check your progress

6.11 Model Questions

6.1 LEARNING OBJECTIVE

After going through this unit, you will be able to:

- define the Importance of market segmentation in retail
- assess the importance of market segments in retail
- explain the criteria for effective segmentation
- learn about the positioning decision
- explain the dimensions of segmentations
- know the limitations of market segmentation.

6.2 INTRODUCTION

In the earlier unit, we have discussed about retailing. In this unit we are going to discuss about retail marketing segmentation.

Retail Marketing deals with identifying and meeting human and social needs. Retail marketing is typically seen as the task of creating promotion and delivering goods and services to retail consumers. The marketer has two options to satisfy the consumers' needs – first he should approach all customers with an identical marketing approach or he should adopt a differentiated approach for different sets of customers. The first approach

in the world of retailing is known as **mass marketing**; the second is termed as **market segmentation**.

Concept of Market Segmentation:

Market segmentation is the process breaking down an entire heterogeneous market into small markets or segments of customers that are identical in terms of some characteristics like needs, wants, and buying behaviour. Retail markets like any other sort of business may enjoy the benefits of segmenting the markets. Due to increased competition, mass marketing approach is not feasible all the time.

Consumers have various retail formats to shop and distance is not an obstacle these days. A consumer can buy any consumer electronic item form a nearby shop or from a super bazaar; he may also visit the electronic Gallery to buy the same. Therefore, in order to attract the customers and sustain them requires market segmentation where a retailer divides his customers into smaller groups and approaches them with different set of promotional programmes.

In evaluating different market segments, retailer considers two factors:

(i) The segment's overall attractiveness

(ii) The firm's objectives and overall resources.

It helps a retailer to customize the goods & services vis a vis its promotional campaigns according to the needs of a narrowly defined customer group.

6.3 IMPORTANCE OF MARKET SEGMENTATION IN RETAIL

Retailers segment the market to identify particular groups of customers in their trading areas so that selling and promotional efforts may be concentrated. The purpose of such exercise is to make the retailer the most attractive destination. Segmenting a market has following advantages as shown in the figure below:

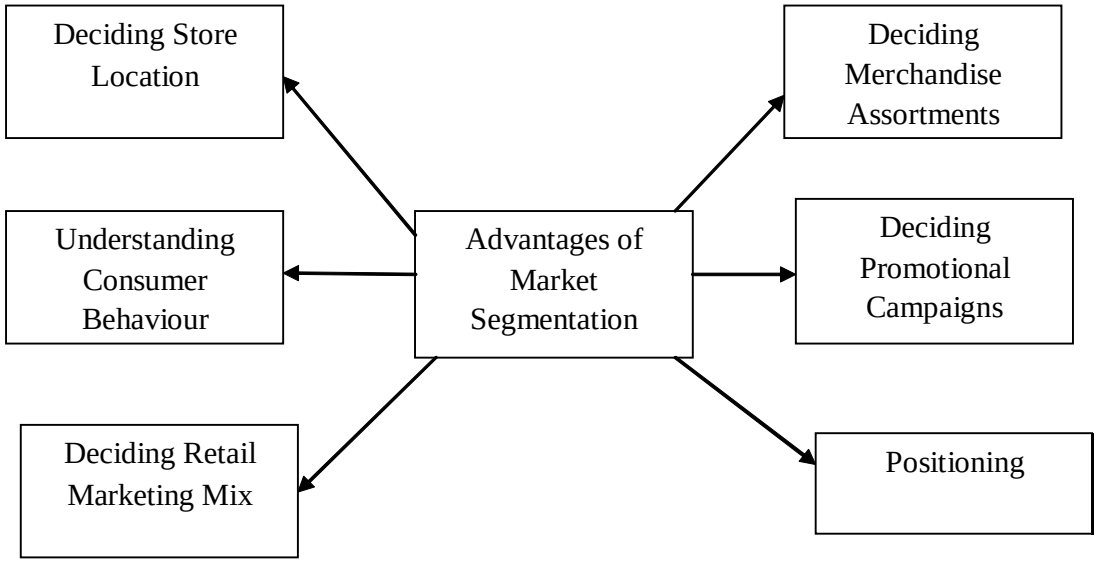


Fig. - 6.1: Importance of market segmentation in Retailing

1. Deciding Store Location:

Market segmentation helps a retailer in deciding the locations for its new outlets in case of expansion. The retail stores may be set up as per the concentration of target population. A location which is attractive and has good traffic flow but serves no target market is of no use to a retailer.

2. Understanding consumer behaviour:

Market segmentation helps a retailer to understand why consumers behave differently in a same set of marketing and promotional efforts. Once a heterogeneous market is divided into few homogeneous groups, it becomes easy for a retailer to develop an effective marketing & promotional strategy.

3. Deciding retail marketing mix:

Marketing segmentation helps a retailers in deciding 7ps (Product, Price, Place, Promotion, People, Procedure, and Presentation) depending upon the target market to serviced.

4. Deciding merchandise assortments:

A retailer is always bothered about which item of inventory should be bought and displayed on the store's shelves. Once the market is segmented, retailer can decide which item will go on the shelves. For a merchandise decision to be made successful, a perfect understanding of particular target market is essential.

5. Deciding promotional campaigns:

Segmentation helps a retailer in deciding and developing accurate promotional campaigns that hit the target at right time and at right place.

6. Positioning:

Segmentation helps a retailer in positioning itself in a particular target market. For Instance, Ebony and Shopper's stop have positioned themselves for higher income level while Vishal Mega Mart and Big Bazaar have targeted the Indian middle class.



CHECK YOUR PROGRESS

Q 1: Retail marketing deals with

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Q 2: In evaluating different market segments, retailer considers two factors ..... and

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Q 3: What are the advantages of market segmentation?

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6.4 CRITERIA FOR EFFECTIVE SEGMENTATION

A retail marketer like any other goods or service retailer, needs to follow a suitable approach as far as segmentation, targeting and positioning are concerned. The STP approach serves as a basis for establishing effective marketing strategies and also developing the right marketing mix for retail firms. In order to successfully appeal to customers, bring in footfalls and bring revenues, retailers have been found to go for well planned segmentation strategies.

There are certain important criteria for effective segmentation:

- Homogenous within
- Heterogeneous between
- Substantial
- Actionable

- Accessible
- Measurable

Any retail segment identified by a retail marketer has to have similarity in terms of demography, psychography, geography and psychological factors within itself but have to be distinctly different when comparisons between segments are made. The size of each segment identified should be substantial meaning they should yield adequate return on investments for marketers. The size should be worthy enough for marketers to act as per the needs and requirements of the segment. The segments should be accessible to marketers so that they can interact with the customers and seek their feedback as and when required. Finally the impact of various marketing activities needs to be measurable through the segment using certain statistical tools and techniques.

6.5 POSITIONING DECISIONS

The act of designing a company's offering and image so that it occupies a distinct position in the minds of the target market is called **positioning**. There are various factors that affect retailer's positioning strategy like the range of merchandise available with the retailer, the retail format, customer service strategy and communication strategy aimed at customers. There can be several bases for positioning retail brands like price, target market etc. *"Isse sasta aur aachaa kahin nahi"* (Big Bazaar; price based), *"India's Family Store"* (Pantaloons; target market based). When retailers find that customers' perceptions about their brands have grown stale, they need to make sincere attempt to present their retail brands in a different manner. That is what is called **repositioning a retail** brand. The objective of retail brand positioning is to enhance footfalls and thus increase the sales revenues. Repositioning can be attempted by changing product features, adding new products to the existing range of merchandise or by bringing about a desirable change in price, distribution mechanism or store image. There are *two* types of store repositioning strategies known in retailing, viz; *absolute repositioning* and *partial repositioning*. When retailers intend to bring about a major shift in customer's perceptions about their retail brand

or add distinctly different customer segments to their existing target market, the repositioning strategy adopted is called absolute repositioning. When Pantaloons changed its positioning statement from *Where India shops for Value* to *Fresh Fashion,* with the objective of wooing the expanding youth market, it was absolute repositioning strategy. Similar was the case with Shoppers Stop when it changed its positioning statement from *Shopping Beyond* to *Start Something New.* An example of partial repositioning is Fashion@Big Bazaar. Big Bazaar presented itself as India's biggest fashion retailer for its affordable fashion clothing meant for the youth. It stayed with its basic premise of offering middle class Indians with affordable quality products but then it highlighted on new trends in fashion through its Fashion@Big Bazaar range by introducing celebrities in its promotional campaigns.

6.6 DIMENSIONS OF SEGMENTATIONS

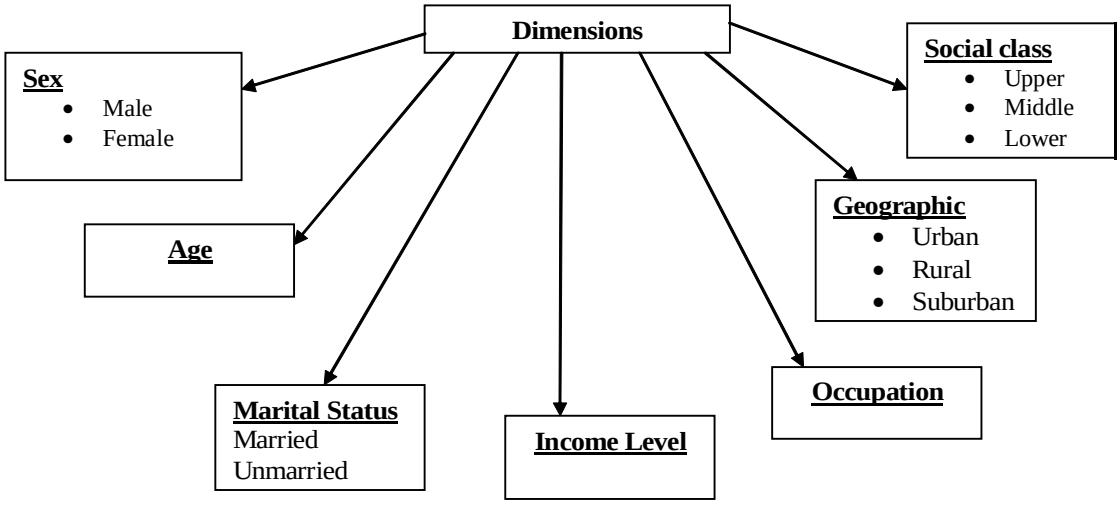
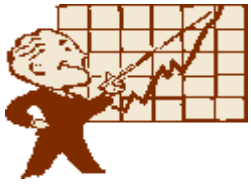


Fig. - 6.2: Dimensions of segmentationas



CHECK YOUR PROGRESS

Q 4: Why segmentation is necessary?

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Q 5: State the important criteria for effective segmentation.

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Q 6: Define Positioning

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Q 7: What are the dimensions of segmentation?

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6.7 LIMITATIONS OF MARKET SEGMENTATION

Segmentation also has its limitations as it needs to be implemented in the proper manner.

1) **Segments are too small** – If the chosen segment is too small then it will not have the proper turnover which in turn will affect the total margins and the viability of the business.
2) **Consumers are misinterpreted** – The right product to the wrong customers. What if the market research says that the customers want a new soap and the firm come out with a new facial cream. The concept is same, cleanliness. But the product are completely different.
3) **Costing is not taken into consideration** – Targeting a segment is necessary but it is also important to know how much amount will have to be spent to target a particular segment. If it is a Sec A segment and the firm does not have the budget to be present in the places the the Sec A customer visits, then the segmentation strategy is a failure.
4) T**here are too many brands** – Along with segmentation, it is also important to check out the competition offered in the same segment from other products. Getting into a segment already saturated will mean higher costs and lesser profit margins.
5) **Consumer are confused** – If the consumer himself does not know whether he will be interested in a particular product or not, then that is an indication for the firm to get out of that segment / product.
6) **Product is completely new** – If a product is completely new then there is no market research to base the segmentation on. It is needed to market it to the masses and as acceptance increases, only then will you be able to focus on one particular segment.



6.8 LET US SUM UP

- Retail Marketing deals with identifying and meeting human and social needs. It is typically seen as the task of creating promotion and delivering goods and services to retail consumers.
- Market segmentation is the process breaking down an entire heterogeneous market into small markets or segments of customers that are identical in terms of some characteristics like needs wants and buying behaviour.
- Retail consumers consider the segment's overall attractiveness and the firms' objectives and overall resources while evaluating different market segments
- Retail market segmentation involves six different stages
- Homogenous within, heterogeneous between, substantial, actionable, accessible and measurable are the criteria for effective segmentation
- The act of designing a company's offering and image so that it occupies a distinct position in the minds of the target market is called positioning.
- When retailers find that customers' perceptions about their brands have grown stale, they need to make sincere attempt to present their retail brands in a different manner. That is what is called repositioning a retail brand.
- There are seven dimensions of segmentation.



6.9 FURTHER READING

1) Varma Nidhi and Bajaj Chetan(2010), *Retail Management*.2nd edition, Oxford Univeristy Press

2) Gibson and Vedamani, G.(2017), *Retail Management*.



6.10 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: Retail marketing deals with identifying and meeting human and social needs.

Ans to Q No 2: In evaluating different market segments, retailer considers two factors: the segment's overall attractiveness and the firm' objectives and overall resources

Ans to Q No 3: The advantages of market segmentation are: deciding store location, understanding consumer behaviour, deciding retail marketing mix, deciding merchandise assortments, deciding promotional campaigns and positioning.

Ans to Q No 4: The segmentation approach serves as a basis for establishing effective marketing strategies and also developing the right marketing mix for retail firms.

Ans to Q No 5: Certain important criteria for effective segmentation are: homogenous within heterogeneous between, substantial, actionable, accessible and measurable

Ans to Q No 6: The act of designing a company's offering and image so that it occupies a distinct position in the minds of the target market is called positioning.

Ans to Q No 7: The dimensions of segmentation are: age, sex, marital status, income level, occupation, geographic and social class.



6.11 MODEL QUESTIONS

Q 1: Define retail marketing

Q 2: What are the dimensions of segmentations? Explain

Q 3: Define Positioning. What do you understand by repositioning of a retail brand?

Q 4: Write a note on retail positioning

Q 5: Explain the criteria for effective segmentation

Q 6: Explain the importance of market segmentation in retail.

Q 7: Why market segmentation in retail is necessary?

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UNIT 7: STORE LOCATION AND LAYOUT

UNIT STRUCTURE

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7.1 LEARNING OBJECTIVE

After going through this unit, you will be able to:

- know about the types of retailers
- identify the factors affecting retail location decisions
- make country/region analysis
- make a Trade Area Analysis
- learn about Location based retail strategy
- assess the site Location.

7.2 INTRODUCTION

In this unit we are going to discuss about store locations and layout.

Location of the store is of significant importance for a retailer because it can provide him with a competitive advantage. A retailer can adapt himself to the changing market conditions by changing his product, price, promotion or distribution strategy but changing the location of the store is very difficult and can impact the business in the long term. Therefore

the retailer has to put considerable effort in choosing the appropriate location that will be relevant even if there are future market changes. Substantial scientific research has been conducted and models have been proposed regarding the choice of a suitable location for a retail outlet.

7.3 PLANNED SHOPPING CENTRES

With the growth in economy, Rece is a boom in the retailing sector. With the advent an organised retail, different formts are emerging in the developed country and emerging ieconomics. In this context we may discuss about planned shopping centres.

The expansion of suburbia brought with it planned residential developments. These new sub divisions are connected by many new city streets and thorough fares along which retail businesses could be established. Thus, the notion of the planned shopping center was born. Developers could plan multi store facilities that would serve the needs of these new neighbourhoods with grocery, drug, and apparel goods. With the availability of large tracts of relatively cheap undeveloped land located many miles from the inner city, but close to these new living areas, large centres could be designed that would offer one stop shopping to entire clusters of residential areas. The last thirty years have witnessed the widespread development of multiunit retail strip centres and the construction of multi-acre shopping malls/theme parks. With the advent of organised retailing new retailing formats have emerged in India in conformity with the western trend.

The term shopping center has been evolving since the early 1950s. Given the maturity of the industry, numerous types of centres currently exist that go beyond the standard definitions. Industry nomenclature originally offered four basic terms: **1) neighbourhood, 2) community, 3) regional, and 4) super regional**. However, as the industry has grown and changed, more types of centres have evolved, and these four classifications are no longer adequate.

1. **Neighbourhood shopping center:** This type is designed to provide

convenience shopping for the day-to-day needs of consumers in the immediate neighbourhood. It is best designed to serve individuals living in the immediate vicinity or frequent passersby who would see the stores in the center as being convenient. The neighbourhood strip center can be placed almost anywhere that land permits.

2. **Community shopping center:** A community center typically offers a wider range of apparel and other soft goods than the neighbourhood center. It accountable are super markets, super drugstores, and discount department stores. A retailer‘s decision to locate with in a community center will be based on the ability to benefit from traffic drawn from across the entire community. Because the rental rates in the community center will normally higher than those for a neighbourhood center, the revenue benefits must be worth the additional costs.
3. **Regional shopping center:** This type provides general merchandise, a large percentage of which is apparel, and services in full depth and variety. Its main attraction is its anchors: traditional, mass merchants, or discount department store or fashion speciality stores. A typical regional center is usually enclosed, with an inward orientation of stores connected by a common walkway. Parking surrounds the outside perimeter. Regional shopping centres provide full depth and variety in apparel, furniture, home furnishings, and general merchandise. A retailer‘s decision to locate with in a regional mall is, again, dependent on the level of demand that is available given rental and utility costs.
4. **Super regional shopping center:** This is similar to a regional center but because of its larger size, a super regional center has more anchors, contains a deeper selection of merchandise, and draws from a larger population base. As with regional center, the typical configuration is an enclosed mall, frequently with multiple levels. In major cities or western countries and emering ecomics we find different formats a retailers are emerging which bear the character a outlined the typer of retailers as above.



CHECK YOUR PROGRESS

Q 1: State the major types of planned shopping centres.

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Q 2: Neighbourhood shopping center provides.

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Q 3: State one characteristic of Community Shopping center.

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7.4 FACTORS AFFECTING RETAIL LOCATION DECISIONS

Even though non store retailing is growing, most of the retailers are still selling from retail store space. Some of these retailers are very small single-store operators, and some are huge superstore discounters. Each location selected by a retailer is a result of an effort to satisfy the needs of the particular market each was designed to serve. Customers' need for convenience, their desire to do comparison shopping, the extent of the purchasing power in a market area, the transportation facilities available. — These are the kind of ???? lead factors to the development of different kinds of **retail locations**. There is an old saying that the value of real estate is determined by three things: location, location, and location. Retail stores should be located where market opportunities are best. Site selection can be the difference between success and failure. A thorough study of customers and their shopping behaviour should be made before a location is chosen. The finest store in the world will not live up to it potential if it is located where customers cannot or will not travel to shop. The primary role of the retail store or center is to attract the shopper to the location. Alternatively, retailers must take the store to where the people are, either at home or in crowds. Examples of taking the store to where

the crowds are include airport location, theme parks and vending machines.

Every retail store strives for its competitive advantage. For some stores, it is price. For others, it is promotional expertise of the special services that are offered. Despite many differences among the various stores that may be competing for the shopper's money location offers a unique asset for all stores because once a site is selected, it cannot be occupied by another store. This advantage, however, points to the importance of **location analysis** and site selection. Once a facility is built, purchased, or leased, the ability to relocate may be restricted for a number of years. In short, location and site selection is one of the most important decisions made by a retail owner.

7.5 COUNTRY/REGION ANALYSIS

In the market of international merketing, there is a need to recognize that country analysis will be an increasingly important aspect of the location strategy as merchants look for growth opportunities. After the decision is made as to what country or countries are to be considered, a regional analysis will need to be done. Most countries are not completely homogeneous and need to be broken down into regions in order for a retailer to understand better the market characteristics. Regions may differ in many characteristics such as population demographics and density, climate, cultures, and distribution infrastructure. The importance of examining countries and regions by their macro characteristics can be illustrated by the importance of today's distribution infrastructure backed by the concept of flow-through replenishment. This concept is based on having information on consumer demand that allows the flow of goods to be regulated by actual needs in the retail stores. Consumer demand is acquired at the point of sale terminal when the UPC bar code is scanned for each product sold. Computers maintain continuous records of product flow. Daily or weekly reorders go directly to manufactures so that exact quantity replacement can be shipped to each individual store or routed to the retailers central distribution center. If this is a part of the firm's

competitive advantage, the country or region must have the transportation, computer, and warehousing infrastructure necessary to support the strategy.

1. Demographic Characteristics

Demography is the study of population characteristics that are used to describe consumers. Retailers can obtain information about the consumers' age, gender, income, education, family characteristics, occupation, and many other items. These demographic variables may be used to select market segments, which become the target markets for the retailer. Demographics aid retailers in identifying and targeting potential customers in certain geographic locations. Retailers are able to track many consumer trends by analyzing changes in demographics. Demographics provide retailers with information to help locate and describe customers. Linking demographics to behavioural and lifestyle characteristics helps retailers find out exactly who their consumers are. Retailers who target certain specific demographic characteristics should make sure that those characteristics exist in enough abundance to justify locations in new countries or regions.

2. Economic Characteristics

Businesses operate in an economic environment and base many decisions on economic analysis. Economic factors such as a country's gross domestic product, current interest rates, employment rates, and general economic conditions etc. affect how retailers in general perform financially. For example, employment rates can affect the quantity and quality of the labour pool available for retailers as well as influence the ability of customers to buy. Normally, growth in a country's gross domestic product indicates growth in retail sales and disposable income. Retailers want to locate in countries or regions that have steadily growing gross national products. As interest rate rises, the cost of carrying inventory on credit rises for retailers and the cost of purchasing durable goods rises for consumers. Countries that have projected significant increase in interest rates should be evaluated very carefully by retailers. Retailers will also be

affected by a rise in employment rates ; this lowers the supply of available workers to staff and support the retail locations. On the coutrary because of high employment problem is some countries labour can be availed at low cost.

3. Cultural Characteristics

Cultural characteristics impact how the consumers shop and what goods they purchase. The values, standards, and language that a person is exposed to while growing up are the indicatous of the p??? future consumption behaviour. Consumers want to feel comfortable in the environment in which they shop. To accomplish this, retailers must understand the culture and language of their customers. In a bilingual area, a retailer may need to hire employees who are capable of speaking both the languages spoken by the customers. Some retailers have found it useful to market to the cultural heritage of their consumers, while other retailers seek to market cross-culturally. Normally larger cultures are made of many distinct subcultures. Retailers need to be aware of the different aspects of culture that will affect the location decision.

4. Demand

The demand for a retailer's goods and services will influence where the retailer will locate its stores. Not only must consumers want to purchase the goods, but they must have the ability or money to do so as well. Willingness and affordable??? determine demand. Demand characteristics are a function of the population and the buying power of the population that the retailer is targeting. Population and income statistics are available for most countries and regions with developed economics. In developing countries the income data may be little more than an informed guess. These statistics allow the comparisons of population and a basic determination of who will be able to purchase the goods carried in the store. This is of utmost importance for retailers, whether they carry higher-priced goods such as durables, furniture, jewellery, and electronics or lower-priced goods-such as basic apparels or toys.

5. Competition

Levels of competitions vary by nation and region. In some areas, retailers will face much stiffer competition than in other areas. Normally, the more industrialized a nation is, the higher the level of competition that exists between the retailers. One of the environmental influences on the success or failure of a retail establishment is how the retailer is able to maximum competitive advantages. A retailer must be knowledgeable concerning both direct and indirect competition in the marketplace — what goods and services they provide, and their image in the mind of the consumer population.

6. Infrastructure

Retailers require some form of channel to deliver the goods and services at the doorstep of ???? customers. Depending on what type of transportation is involved, distribution relies heavily on the existing infrastructure of highways, roads, bridges, river ways, and railways. Legal infrastructures, technical infrastructures such as level of computerization, communication systems, and electrical power availability also influence store location decisions. There is a significant variance in quantity and quality of infrastructures across countries. A retailer whose operation depends on reliable computerization and communications would not need to even consider a country or a region that did not meet those criteria. The legal environment is a part of the overall infrastructure a firm must consider. For example, many countries require non-native businesses to have a native partner before establishing retail locations. The legal requirements in one country will not be the same for another country or region and may be different from state to state.

In conclusion, the demographic, demand, competition, cultural, infrastructure and economic characteristics are important in analyzing a country or region.

7.6 TRADE AREA ANALYSIS

Trade area analysis is a methodology, process or technique that

provides a basis for understanding, visualizing and quantifying the extent and characteristics of known or approximated trade areas.

Trade area analysis provides the foundation for:

- Understanding the geographic extent and characteristics of store patronage.
- Spatially assessing performance.
- Performing competitive analysis.
- Evaluating market penetration and market gap analysis.
- Target marketing.
- Merchandising.
- Identifying/quantifying effects of cannibalization.
- Developing and exploiting demographic profiles.
- Site suitability and site selection studies.

Trade area analysis also employs theoretical techniques that are used to approximate the potential patronage area. These techniques are used in cases where customer level data is not available. Three types of theoretical approaches are commonly employed in trade area analysis, including:

- Radial (ring) studies
- Gravity models
- Drive time analyses

Radial Studies:

Radial or ring based analysis is performed by selecting and evaluating demographic variables that fall within a pre-defined distance from a store location. This technique assumes that the trade area is circular, with the store at its center. Ring analysis does not account for barriers such as rivers or railroad tracks that may cross through a trade area and restrict access to a retail site. Consequently, radial studies are a simplistic approach that can result in an incorrect delineation of the trade area and may result in errors of omission or commission.

Gravity Models:

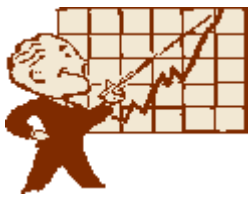
Gravity models, or spatial interaction models, define a trade area based on its attractiveness relative to other trade areas. These models

provide an approximation of store trade area by putting the distribution of all locations (including competitors) into a geographical context and evaluating each location's relative attractiveness. Typically, a distance decay curve is used to model the spatial interaction of individual locations. Often size of the store, or store sales if available, is used to drive the attractiveness parameter.

Drive Time Analyses:

Recently, GIS based tools for modelling the drive time or drive distance from a location have become available. These tools use digitized roadway systems that indicate the type of road such as a city street or a divided highway. Speed limits are assigned based on the type of road, the mode of transportation (car, truck, motorcycle, etc.), congestion parameters, and the time of day. These parameters are used to dictate the ease of travelling along road segments. Through this process, a polygon is generated to represent the extent to which a vehicle can travel outward from the site in all directions along the existing roadway system. Unlike the radial distance or gravity model-based trade area approximations, GIS based drive time analyses account for logistical barriers.

Drive time analyses are generally considered to be valid for "convenience" store scenarios, where patrons are expected to go to the closest or most logistically convenient location. Since this analysis is governed by the presence of properly located and attributed roadway systems, the accuracy of the drive time analysis can be limited by the availability of accurate and up-to-date digitized road data.



CHECK YOUR PROGRESS

Q 4: Why is site location important?

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Q 5: Define Trade Area Analysis .

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7.7 LOCATION BASED RETAIL STRATEGY

Even though non store retailing is growing, most of the retailers are still selling from retail store space. Some of these retailers are very small single-store operators, and some are huge superstore discounters. Each location selected resulted from an effort to satisfy the needs of the particular market each was designed to serve. Whether it was the customer‘s need for convenience, their desire to do comparison shopping, the extent of the purchasing power in a market area, the transportation facilities available etc., many factors together led to the development of different kinds of retail locations. Every retail store strives for its competitive advantage. For some stores, it is price. For others, it is promotional expertise of the special services that are offered. Even though there are differences among the various stores that may be competing for the shopper’s rupees, location offers a unique asset for all stores because once a site is selected, it cannot be occupied by another store. This advantage, however, points to the importance of location analysis and site selection. Once a facility is built, purchased, or leased, the ability to relocate may be restricted for a number of years. In short, location and site selection is one of the most important decisions made by a retail owner. A retailer should first begin with a mission statement. This helps the retailer, its employees, and its customers to understand the purpose of the business. The core concepts and culture that come from a mission statement flow from the choice of the strategies selected in an attempt to achieve a competitive advantage. Location may be the primary strategy selected, or it may be merchandise, pride, service, or communication. Whatever strategy is emphasized, location is a critical variable. The owners or managers who wish to emphasize merchandise quality will require an entirely different location than the managers of a low-margin discount house. Just as the strategy and objectives of a retailer are integral to the location decision process, so is the importance of market research. The use of marketing research criteria in deciding on a location depends on what type of information or answer is needed from the research time and cost factors, and the importance of the decision in the overall strategy.

7.8 SITE SELECTION

There is no such thing as a perfect site. Retailers must decide which attributes are the most important one's to their business. Let's summarize the key criteria critical to the site selection decision:

(1) Sales potential for the site: The demographic, economic, and competition factors and strategies by which management hopes to create a competitive advantage determine the estimate of sales for a site. Growth potential should be a basic consideration in the evaluation of the sales potential.

(2) Accessibility to the site: Automobile and public transportation access to the site and adequate parking may well be a defining criterion. There may be a number of barriers to the target market seeing the site as accessible. The barriers may be geographical, such as mountains or rivers, they may be psychological, such as the perceived quality of the neighbourhoods that customers must travel through. Barriers are often man made, such as one way frontage roads, bridges, clover leafs, and long term public works construction projects.

(3) Pedestrian accessibility at the site: The site must provide reasonable actual and perceived access to the store. Traffic patterns within malls or on city streets can help or hinder pedestrian access. The storefronts can intimidate or encourage entry. Neighbouring stores can bring potential customers near or drive them away.

(4) Synergies from nearby stores: There is cumulative attraction when business can draw more customers together than they could individually. That is why auto dealers will tend to locate where shoppers can visit each of them in a single trip. In a shopping center a group of complementary stores such as apparel and accessories benefit from being near one having similar retailing strategies on dimensions of merchandise quality and price lines, service quality and store atmosphere. Technology is providing new ways to fine tune the site evaluation process in terms of the architectural fit with neighbouring stores. How the store and its exterior design mesh with the

neighbouring stores is a concern. Advanced computer imaging allows the retailer to see how the storefront will look in the area before construction or moving begins.

(5) Site economics: The terms of the lease or purchase contracts have critical implications for the retailers. In a recent survey of retail managers, leasing options and terms were expressed as among their top concerns. Occupancy rates in the immediate or surrounding vicinity also have important implications to retail managers. For example, lower occupancy rates may improve one's ability to negotiate a more favourable lease because the developer is anxious to fill vacant space; but low occupancy may signal poor access, poor market variables, or poor management relations with the center owner /developer. Further low occupancy may signal poor economic viability in the market. In fact, if the vacant space is sufficient, it can quickly be occupied by a competitor that cannot be anticipated. The full range of the costs of occupancy must be considered. Local taxes, maintenance and upkeep costs, renovation costs, utilities, as well as the cost to rent or own are all critical factors.

(6) Legal and political environment: Increasingly, the legal and political environment is an important consideration in site location decisions. Changes in zoning laws, taxing districts, and road maintenance projects can threaten the long run viability of a specific site.

(7) Physical features: The physical features of the site and neighbouring area must not be overlooked. Whether it is raw land or an existing building, the physical dimensions of the site must fit the needs of the retailer. The size and shape of a site, visibility of a site for signs, age of the surrounding buildings, traffic flows by time of day, traffic turning patterns, and number of traffic lanes etc. have critical implications to factors such as access, number of cars that can be parked or room for future expansion. Condition of building or rental space, visibility from the street, disabled and delivery access, parking lot condition and size, and interior décor must also be considered. A site that is functional today may not be functional tomorrow as the

business may expand. As an area grows, the retailer needs to be able to access whether or not the existing streets, highways, and intersections will accommodate the expanded vehicular traffic.



CHECK YOUR PROGRESS

Q 6: State three criteria critical to the site selection decision.

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7.9 LET US SUM UP

- Location of the store is of significant importance for a retailer because it can provide him with a competitive advantage. In this unit we have discussed the major types of location.
- Free standing retail stores stand alone; physically separate from other retail stores.
- Most countries are not completely homogeneous and need to be broken down into regions in order for a retailer to better understand the market characteristics.
- Economic factors such as a country's gross domestic product, current interest rates, employment rates, and general economic conditions affect how retailers in general perform financially.
- Trade area analysis is a methodology, process or technique that provides a basis for understanding, visualizing and quantifying the extent and characteristics of known or approximated trade areas.
- There is no such thing as a perfect site. Retailers must decide which attributes are the most important to their business.



7.10 FURTHER READING

1) Varma Nidhi and Bajaj Chetan(2010), *Retail Management*.2nd edition, Oxford Univeristy Press

2) Gibson and Vedamani, G.(2017), *Retail Management*.



7.10 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: The major types of location are: planned shopping center, the business district and the free standing location

Ans to Q No 2: Neighbourhood shopping center provides convenience shopping for the day-to-day needs of consumers in the immediate neighbourhood.

Ans to Q No 3: Community center typically offers a wider range of apparel and other soft goods.

Ans to Q No 4: Site location is important because it because it gives a retailer the competitive advantage over the others.

Ans to Q No 5: Trade area analysis is a methodology, process or technique that provides a basis for understanding, visualizing and quantifying the extent and characteristics of known or approximated trade areas.

Ans to Q No 6: Three criteria critical to the site selection decision are: sales potential for the site, accessibility to the site and Congenial legal and political environment.



7.11 MODEL QUESTIONS

Q 1: Define Trade Area Analysis. Explain the theoretical approaches that are commonly applied in Trade Area Analysis

Q 2: Explain the key criteria critical to the site selection decision?

Q 3: Write notes on:

i) Planned shopping center

ii) Business district and

iii) Free standing location.

Q 4: What are the factors a retailer must take into consideration while making a country or regional analysis?

Q 5: Write a note on location based retail strategy.

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