Services Marketing

Text and Cases

SECOND EDITION

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Features of

Learning Objectives

Focus on the learning and knowledge you should acquire by the end of the chapter.

OBJECTIVES

After reading this chapter you will be able to understand the

- concept of service processes
- relationship between profitability and service process
- essentials of a service blueprint
- importance of a customer's role in service delivery
- characteristics of a service guarantee
- dimensions of service process matrix

Opening Cases

Help the students connect with the theory explained in the chapter.

30 Minutes or Free

With the addition of 110 outlets in FY13, Domino's, with over 550 outlets, is the fastest growing pizza outlet in the country today. As of now, Domino's accounts for over 70% of the pizza home delivery market.

Ajay Kaul, CEO, Jubilant Foodworks, the master franchisee for Domino's Pizza and Dunkin' Donuts in India, credits this expansion to the customer insight developed by the company since its advent in 1990. Domino's is credited of converting the parantha eating Indian people into pizza aficionados.

The proposition of delivery in 30 minutes was one such action taken to cash in on paucity of time with the working couples. Another way to cash in on this was to offer the pizza free if the delivery was late. This was a risky undertaking given that traffic in India and maze-like residential areas could derail the profitability of the venture. However, it was achieved by scouting for most efficient delivery routes months before an outlet opened in any area. Equipped with clipboards, paper, and pencil, employees painstakingly sketched maps of every lane, and landmarks such as fire stations and temples, and marked the address of every building, to prepare for deliveries in the area. Armed with hand-drawn maps, these delivery men test-drove through lanes to familiarize themselves with the topography of the area and also chart out the shortest possible routes to the nearest landmarks.

Once on the job to deliver pizzas, the delivery men are also not allowed to race to their destinations either—their motorbikes are modified to restrict their maximum speed to 45kph. That means riders must know every street, pothole, traffic light, choke point, construction site, and police roadblock in their sectors of fast-changing, densely populated

Exhibit 6.2 **Car Dealers in China**

China has a number of first time car buyers who have a limited knowledge of cars and these customers visit the showroom a multiple times to look at the cars. On these multiple visits they also bring along family and friends for their opinion and also to negotiate the price. Therefore, the car dealers in China are more patient with these customers and are also working out strategies for these multiple visits from customers to make them feel special and welcomed. There are more than 100 car brands available in China and dealers have to ensure creative ways for return visits. In Shanghai's Pudong district, Ford Motor Showroom provides in-house manicurist and shoe-shiner. Singers perform at barbeques for customers and periodically the dealers hold drawings for gifts such as iPads and TVs. In Foshan, a city in southern Guangdong provinces, a Honda Motor outlet holds talks on feng shui, shows recent hit films from Hollywood and Chinese studios, and offers massage chairs for relaxation. The three-story Mercedes Benz dealership in Shanghai's Putuo district has a 12 seat theatre (often showing movies that feature Mercedes vehicles), a cigar room for repeat customers, a library, a fitness centre, and a game room that includes pool tables and driving games. At lunch there is a buffet with five different meat and vegetable dishes, and a full-time tea artist brews various types of Chinese tea.

Exhibits

Help in understanding the application of the theory discussed in the chapter.

Tables and Figures

Illustrate the topics discussed in the chapter.

Table 14.1 Direct recipients of service

Nature of service act	People	Possession
Tangible action	Service directed at people's bodies (health-care services)	Service directed at people's possessions (car repair)
Intangible action	Service directed at people's minds (art performance and religion)	Service directed at intangible assets (religion and counselling)

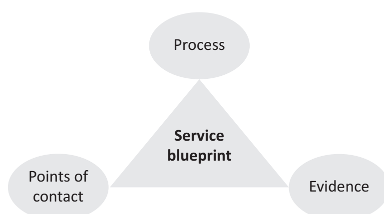

Fig. 14.2 The service blueprint

the Book

SUMMARY

Managing services is a complex task, which requires a lot of planning for front as well as back office operations. Various categories of services are offered, which can be classified in numerous ways. Marketers have to plan their strategies appropriately so that they address issues of demand management. Service experience is a critical element and the service encounters have to be managed well. The role of the customer in a service process has to be assessed carefully. Also, service guarantees have to be looked into. The chapter has discussed the roles that service providers will have to manage. It has also examined the case of a leading

KEY TERMS

Foreign investment Investment in the domestic economy by foreign individuals or companies. It takes the form of either direct investment in productive enterprises or investment in financial instruments, such as a portfolio of shares.

Liberalization To remove or loosen restrictions on an economic or political system.

Marketing mix The factors controlled by a company that can influence consumers' buying of its products. Product, pricing, promotion, and place are the four components of a marketing mix. The potential profitability of a particular Marketing mix and its acceptability to its market are assessed by marketing research.

Promotion An activity designed to boost the sales of a product or service. It may include an advertising campaign, increased PR activity, a free-sample campaign, offering free gifts or trading stamps, arranging demonstrations or exhibitions, setting up competitions with attractive prizes, temporary price reductions, door-to-door selling, telemarketing, mailers, etc.

Place Activities such as sales and distribution of the product, transportation services, and desirable stock levels.

Service Any activity or benefit that one party can offer to another that is intangible and does not result in the transfer of ownership of any physical object.

EXERCISES

Concept Review Questions

1. Critically discuss the importance of services in the economic growth of a developing country.
2. Which extended elements of the marketing mix are absent in the marketing of traditional products? Critically discuss their importance in the marketing of services.
3. What are the different ways by which services can be classified? Discuss any two.
4. Should services be classified? Discuss.

Critical Thinking Questions

1. Discuss how services are increasingly forming an important component in the marketing of traditional products.

Project Assignments

1. Visit any pure services outlet, such as a hotel or a bank, and examine the marketing strategies employed to overcome the different characteristics of services.
2. Visit the government website of any developing Asian country and try to identify the importance of the service sector in the development of their economy. (*Hint*: you can consider services as a percentage of GDP, employment generated, exports and imports of services, etc.)

Internet Exercises

Identify two organizations whose services are possible only because of the Internet.

Summary

Draws together the main concepts discussed within the chapter. This will help you reflect and evaluate important concepts.

Key Terms

Help you retain all the new technical terms that you have learnt in the chapter.

Chapter-end Exercises

Contain concept review and critical thinking questions as well as project assignments that highlight the major topics covered in the chapter. The questions enhance learning and can be used for review and classroom discussion.

Chapter-end Cases

Consolidate your understanding of the chapter subject and broaden your financial decision-making skills.

CASE STUDY **The Online Advertising Food Chain***

Online advertising is growing by leaps and bounds, but are there opportunities for smaller players?

It is said that during any economic downturn, the first sector to get impacted is advertising as it is the first place where companies like to cut back. However, thanks in part to a small base, the Indian online advertising and marketing sector is growing at a fast pace offering many opportunities for different classes of people.

From around ₹150–200 crore in the financial year 2007, online ad spends targeting Indians are expected to have jumped to around ₹500 crore in FY 2008, according to industry estimates. 'In 2008–09, we expect it to hit ₹900 crore', says Mahesh Murthy, whose firm Pinstorm alone would have bought ₹115 crore worth of ads by the end of this year (Fig. 17.1).

In other words, Pinstorm, which claims a market share of around 15 per cent in India, will alone oversee ad sales almost 50% higher than the total industry turnover of ₹80 crore during 2006.

While still accounting for just around 5% of the estimated ₹15,000 crore spent on advertising in India, online promotions account for between 15 to 20% in places like the US and parts of Europe (Fig. 17.2). Recently, a new media specialist research firm eMarketer, revised down its estimate for online promotion expenditure by US companies due to the economic recession. Yet, the new estimate for 2008 for US companies alone stood at

* Eluvangal, S. (2008), 'The online advertising food chain', *The Online Advertising Food Chain*, DARE, 31 August 2008. Reprinted with the permission of Mr Krishna Kumar, Group Editor, DARE, www.dare.co.in.

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- Multiple Choice Questions

For Students

- Flashcard Glossary

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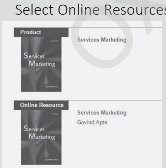

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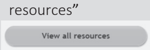

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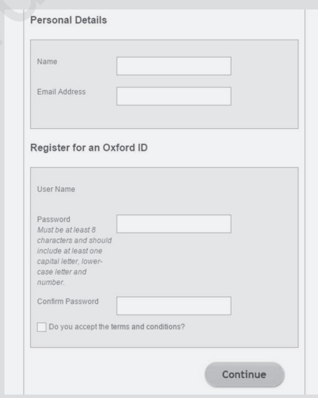

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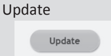

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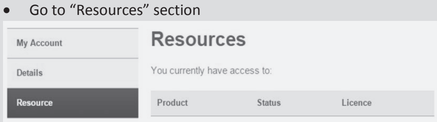

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Preface to the Second Edition

The contribution of the services sector towards the growth of the global economy is significant. It plays a crucial role in a country's development—helps in poverty alleviation along with better access to amenities such as health and education. Services results in inclusive growth due to the manufacturing and employment linkages. As per the World Bank Group's Global Economic Prospects report, 2015, the growth in South Asia (5.5% in 2014) is promising after a 10-year low (at 4.9% in 2013) and is expected to rise to 6.8% by 2017. As per the report, the country driving this growth in South Asia is India. India's services sector (at 57% in 2014) is leading all other sectors and has contributed considerably towards the nation's income, employment, investment, and trade*.

Since the publication of the last edition, we have received valuable feedback from faculty members regarding the inclusion of certain topics and have included their suggestions while revising the text.

The second edition of this textbook continues to provide an exhaustive yet lucid coverage of the various aspects of the services industry. We sincerely hope that this edition of the book will further aid students in understanding the basic concepts and applications of this subject.

About the Book

Services Marketing is designed to meet the needs of the students of undergraduate, postgraduate, and diploma courses in management. The comprehensive nature of the text along with case studies, review questions, and practical exercises makes it useful for faculty. It provides information for industry practitioners who are involved in marketing services in their current organization. The book is relevant for individuals who wish to gain a sound knowledge of services so as to apply these skills in the future roles they hope to play in the organization, non-marketing professionals who wish to get leadership positions in their organizations, and business leaders of various functional areas in the services industry. Individuals who want to start a business in the services sector will also find this book beneficial as it provides a comprehensive discussion of services management and marketing.

Key Features

- Integrates theory with corporate examples and provides rich insights into the dynamics of the services sector
- Discusses the practices of Indian and global companies
- Explains concepts through examples, exhibits, tables, and case studies
- Includes Internet-based exercises which will help students apply the concepts learnt to different business situations

*http://commerce.nic.in/

New to This Edition

- **New chapters** on Managing the Services Brand and Managing Demand and Supply
- **New sections** on Managing E-service and E-service Quality, Employee Engagement in Service Industry, Creating an Empowered Employee, and Customer Feedback and Service Management Orientation
- **Updated and revised content**
- **New case studies** on Café Coffee Day Lounge, Music World, Bluestone, Zomato, Visa, Online Shopping, Online Grocery Retailing, and Yatra

Online Resource Centre

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Coverage and Structure

The book is divided into 21 chapters. It discusses various aspects of the services industry. Each chapter starts with an opening exhibit to introduce the topic and concludes with one or more case studies so that readers can practically apply the learnings from the chapter. The case studies are contemporary and will help in the development of analytical skills. The book has critical review questions, caselets, and Internet-based exercises, which help the readers apply the theory to real-life situations.

Chapter 1, *Introduction to Services*, gives an introduction to the services sector in the global and Indian context. The chapter delineates the characteristics of services and compares them with the characteristics of products. It also brings out the importance of services in case of manufactured products. The challenges for the services industry have been discussed and the critical success factors have also been elaborated upon. The services marketing environment and the service mix elements—product, price, place, promotion, people, physical evidence, and process—have been explained.

Chapter 2, *The Service Product*, gives an understanding of the product in the context of services. It discusses the levels of service offering and the steps involved in new product development. The concept of the product life cycle as well as the strategies involved in managing the product during the different stages of the life cycle have also been discussed.

Chapter 3, *Managing the Services Brand*, highlights the relevance of branding a services product. Concepts such as brand equity, brand knowledge, and brand associations have been discussed. Creating a brand and building brand loyalty are explained along with managing the service brand portfolio over a period of time.

Chapter 4, *Marketing Research*, emphasizes the importance of market research in understanding and delivering services to markets. The chapter gives an overview of the marketing research process. The methodology for conducting research and the tools and techniques of research have been elaborated upon. The chapter also gives an insight into the marketing research strategies followed by firms in the Indian market and the challenges faced by the marketing research firms.

Chapter 5, *Understanding Consumer Behaviour*, gives insights into understanding consumer behaviour before, during, and after consuming the service. It analyses the values and perceptions of customers and their disposition towards the purchase process. The chapter discusses the dynamics of Indian consumers and examines the factors leading to increased consumption of new services. It also gives an overview of the factors influencing consumer behaviour. It further discusses the concepts of relationship marketing, consumer loyalty, customer delight, and consumerism in the context of the services sector.

Chapter 6, *Segmentation, Targeting, and Positioning for a Services Firm*, gives an overview of the strategies involved in helping the service marketer to arrive at the basis of segmentation in the marketplace. The chapter delineates the criteria that help service organizations to choose the segment in which they are going to focus on for marketing the service product. Keeping the target segment in mind, the chapter highlights the different strategies for positioning the service in the mind of the consumers.

Chapter 7, *Customer Perceptions of Service*, highlights the service quality dimensions affecting the customers' perception of services. It further discusses the gaps in service delivery and their effect on consumer perceptions. Managing e-service and e-service quality are also explained keeping in mind the growing online market. It also delineates the concept of service encounter and touches upon the Gap model of service quality. It discusses the concept of service quality and also the SERVQUAL model.

Chapter 8, *Customer Expectations*, examines customers' anticipation about a service based on their perceptions. The chapter also gives a perspective on managing customer expectations, thus leading to customer satisfaction and even 'delight' with the services provided.

Chapter 9, *Pricing Strategies for Services*, explains the various pricing strategies which could be adopted by service firms. These could be cost-based or market-based strategies. There are a range of options that service firms could initiate in each category. The chapter helps to bring in a perspective on implications of pricing strategies for the service provider.

It gives insights into the pricing strategies adopted by the current service providers in India keeping in mind the value to the customer.

Chapter 10, *Strategies for Promotion for Service Sector*, discusses the management of the marketing communications for a service organization. It covers advertising, sales promotion, personal selling, direct marketing, and public relations, and focuses on the management of these different channels of marketing communications to position the product in the minds of the customers and create realistic expectations. It also explains the concept of e-marketing.

Chapter 11, *Managing Distribution Channels in Service Industry*, discusses the distribution channels available for the services sector. It discusses the management of these channels so that there is optimization of service availability for the customer. It also studies the impact of the Internet on distribution.

Chapter 12, *Physical Evidence*, delineates the different factors that have a bearing on the customer's perception about the service provider. It further elaborates on the management of different dimensions of physical evidence to create a perception, which is in line with the services being provided.

Chapter 13, *Managing People in Service Industry*, provides an understanding of the importance of managing people in the process of service delivery. Individuals employed in the services industry have to be involved and highly motivated as well as committed to the job to deliver to the best of their abilities. This has numerous implications for the service managers to manage their teams well. The kind of people recruited by the service organization depends on the availability of people in the labour market in a country or region. The demand and supply dynamics in labour markets also influences the availability of skills and competencies for a particular industry. The chapter also gives an understanding of the role of culture, which influences individuals' behaviour in the organizational setting. The chapter further discusses service culture and the aspects that influence it. The issues of recruitment, retention, teamwork, training and development, rewards, and job security have been explained.

Chapter 14, *Managing Service Processes*, analyses the management of service processes by service firms. The chapter establishes the relationship between profitability and service process. It details the blueprinting process, which maps all the activities right from the time that the customer begins the contact with the marketer to the time that he departs from the service provider's premises. The chapter also gives insight into managing the demand and supply dynamics.

Chapter 15, *Managing Demand and Supply*, is an important aspect of services as it greatly impacts the profitability of the firm and has a strong bearing on the customer satisfaction level. The waiting line strategies have also been discussed in the chapter. The chapter discusses the importance of managing demand and supply, demand issues, capacity constraints and more. It also discusses the solutions to overcome demand–supply issues.

Chapter 16, *Customer Feedback and Service Recovery*, examines the issues that need to be managed when the service delivered falls short of customer expectations. It discusses the strategies to retain customers after a service delivery failure. Customer feedback is an extremely important way to improvise the service processes. The recovery mechanisms enable a firm to reduce the attrition level and could have an immense bearing on consumer loyalty. It discusses various ways of managing the service recovery and also examines the issue of service warranties.

Chapter 17, *Impact of Technology on Marketing of Services*, gives an overview of the technology issues that are faced by the service firms. Technology influences the strategies adopted by the service firms. They impact the way the service is provided. The chapter delineates the impact of technology on different aspects of the business such as productivity, new services, control mechanisms, distribution networks, new relationships, and customer relationships. The chapter also traces the impact of online technologies on service businesses. It also discusses the concepts of service innovation and key influencers. The concepts of data mining and data warehousing have also been discussed.

Chapter 18, *Managing Quality and Excellence*, gives a perspective on the management of services in totality. It discusses different service excellence models such as the Malcolm Baldrige Quality Award, ISO, European Quality Award, and CII awards in India. It develops a critique on these models and discusses a blueprint for service excellence in the form of the balanced scorecard model.

Chapter 19, *Ethics in Service Firms*, introduces the concepts of ethics and values. The global businesses will have to imbibe the models of sustainable development in order to perform well. The chapter argues the need for pursuing ethical business practices.

Chapter 20, *Strategies for Business Growth*, gives insight into the strategies adopted by service firms for growth. The chapter discusses the various options such as green field ventures, joint ventures, mergers and acquisitions, strategic alliances, franchising, and management contracts. The advantages and disadvantages of the same have also been elaborated upon.

Chapter 21, *Emerging Service Sectors in India*, discusses four important service sectors in India—healthcare, biotechnology, retailing, and banking. Each sector is discussed in detail, along with the industry structure, critical success factors, and major challenges faced by it.

Acknowledgements

We would like to express our heartfelt gratitude to a number of institutions, publications, and individuals without whose support and encouragement we would have not been able to complete this work. First of all we would like to thank our host institutions which have always been supportive of our efforts.

We would like to express deep thanks to the following publications and institutions, which have been very supportive of sharing the resources for publication: *Emerald Group of Journals*, *The Business Standard*, *Hindustan Times*, *The Times of India*, *Business World*, *Journal of Services Research*, *International Journal of Contemporary Hospitality Management*, *Indian Management*, *The Economic Times*, World Bank, Institute for International Management and Technology (IIMT), and Institute of Chartered Financial Analysts of India (ICFAI).

I would like to thank my husband Sunil and son Shaurya for their love and support. I would like to acknowledge the role of my parents and parents-in-law and the entire family for the encouragement that I have always received. It has been a blessing to have such a loving family. The role of Prof. Chihiro Watanabe for all his motivation and support for my research endeavours is something I really cherish. His constant encouragement has had a big influence on my research agenda and work. I would also like to thank all my friends and professional mentors for their inspiration and guidance. We would like to thank the entire team of Oxford University Press for the standards laid by them and in motivating us for improving our earlier drafts. The painstaking efforts of the team are indeed commendable.

Vinnie Jauhari

The constant encouragement provided by my husband Mr Anil Dutta and daughters Yoshita and Ridhima has been a big influence in my research agenda. This work would not have been possible without their inspiration and dedicated support. The interest shown by Yoshita and Ridhima in the field of management and their participation and assistance have provided an impetus in developing and redefining this work. The motivation by my parents (Mrs Sudesh and Mr K.K.M. Mehta), brother Vijay Bali and Yash Mehta and sister Jaya Rishi Kinger, and their families—Neelam, Tarun, Ankita; Archana, Kshamta; Rishi, Mahima, Devya, and Abhijat has helped me in hours of strife. The guidance provided by Dr Parsa, Kirti and Pankaj Madan, and Dr Urvashi and Haren Makkar has helped me in my research endeavours.

Kirti Dutta

Preface to the First Edition

The contribution of the services sector in the growth of the global economy is significant. Business operations are getting more complex on account of liberalization of economies and rapid changes in technology. In light of the changing market structures, aspirations of the consumers, and internationalization of firms, it is important to understand the changing business dynamics in India and other emerging economies. India is one of the faster growing economies in the world. The estimates of the Organisation for Economic Co-operation and Development (OECD) indicate that India would emerge to be the third largest economy by 2026. The service industry in India contributes to more than 53 per cent of the GDP (World Development Indicators 2007). This book is an attempt to understand the dynamics of the services industry, especially in the Indian and South Asian context.

About the Book

This book is targeted to meet the requirements of management students, faculty, and practitioners by presenting a comprehensive overview of services management. To understand services management, it is important to have an understanding of the specific characteristics of the services industry. There is a need to understand the broad economic environment as well as elements of the service mix, such as the service product, price, place, promotion, people, physical evidence, and process. A business manager should also have an understanding of consumer behaviour, segmentation, targeting, positioning, perceptions, and customer expectations to deliver a commercially viable service product. The understanding of services management also requires an insight into technological issues, ethical issues, and future options available for growth of the business. There is a need to appreciate alternatives to implement excellence in service businesses, as short-term approach may not be conducive for long-term survival.

Pedagogical Features

The book explores the emerging issues in the services sector from an Indian perspective. It touches upon various key concepts by bringing in examples from the business world. The practices at Indian and global companies, such as HDFC, Hewlett–Packard ITC, HUL, KFC, and McDonald's, have been discussed.

Every chapter begins with outlining the scope of the chapter. The key definitions and summary at the end of each chapter help the reader in better assimilation of the content. The text in each chapter is interspersed with the suitable corporate examples in the form of boxed exhibits to facilitate the understanding of various concepts relating to services.

The book captures the changing business dynamics of the services sector. It discusses emerging issues in the services sector, which business managers would need to address—excellence, innovation, technology, and strategy. The Internet-based exercises will provide the reader with a wider exposure to the key areas in services management.

The following are the key highlights of the book:

- Integrates theory with corporate examples
- Provides rich insights into the dynamics of the service sector

- Includes aspects such as technology management, ethics, strategies for growth, business excellence, and balanced scorecard approach
- Gives a perspective on emerging service sectors such as software and ITES, healthcare, banking, and retailing
- Discusses the practices of Indian and global companies such as HDFC, Hewlett–Packard, LIC, Ferns 'n' Petals, KFC, and McDonald's
- Contains exhibits which give insights into the Indian service industry
- Explains concepts through examples, exhibits, tables, caselets, and case studies
- Includes Internet-based exercises which will help the students to apply the theory to business situations

Acknowledgements

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First of all, we would like to thank our host institutions which have been supportive of our efforts. The leadership at IIMT, Dr R. Kapur, Mr K.B. Kachru, and the entire team, including Dr Kamlesh Misra, Dr Umashankar Venkatesh, Kamal Manaktola, have all been wonderful colleagues and have always stood by us. Ashok Sahu has always been a source of great strength and his contribution is beyond description. Amit Sexena and Manjit have always worked very hard in our endeavours and have rendered outstanding support.

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A very warm word of thanks to dear Shivangi Gupta and Himani Kaul whose support has been immeasurable during very tough periods. They played a very important role in evolving the final draft version of this book. We would remember their contribution forever.

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We would like to express our heartfelt thanks to our families. Our respective spouses Sunil and Anil as well as children Shaurya and Yoshita, and Ridhima, brothers Shallen and Yash, sister Jaya, parents, and in-laws, who have always been on our side to help us progress in our professional careers. Without them it would never have been possible to accomplish all this.

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Vinnie Jauhari
Kirti Dutta

Brief Contents

Detailed Contents

CHAPTER

15 Managing Demand and Supply

OBJECTIVES

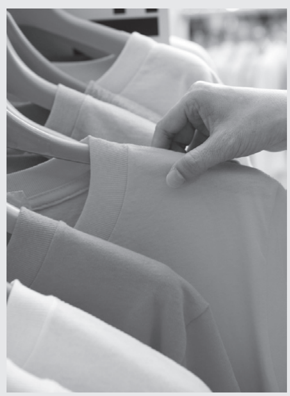
After reading the chapter you will be able to understand the

- need for managing demand and supply
- demand issues and capacity constraints
- matching demand and supply
- waiting line strategies
- yield management

Fluctuations in Demand

Devya was confused. She had recently hired two more people to cater to the clientele at the Connaught Place outlet where she was retailing her high-end designer clothes. She had done this as the existing staff could not service all the customers resulting in them walking away to competition. She realized that in spite of this, on weekdays from 5 o'clock till the closing time, the customers still had to wait to be shown the right size or design. Weekends were also busy and she had a feeling that she was losing out on business.

She had thought of hiring more staff but she would rather do that at the production end as she wanted to showcase different designs every week. This would keep the customers excited and they would want to come back for more. Also, the two people recently hired were not being optimally utilized during the off-peak hours. Devya had even toyed with the idea of hiring part-time employees



Credit: IndiaPicture/Mahatta Multimedia Pvt. Ltd.

but then, they were not trained to handle the kind of clientele she was dealing with.

After going through the chapter, you will be able to answer the following questions:

1. What is the difficulty that Devya is facing?
2. Why cannot she overcome this difficulty by doing the obvious, that is, hiring more people?

INTRODUCTION

Services industry is distinct from other industries because unlike other industries the product traded is not tangible. Once the moment is gone the product perishes. That is it cannot be stored like a product and then sold at a later date. According to Fitzsimmons (2014), 'a service is a time-perishable, intangible experience performed for a customer acting in the role of a co-producer'. Service firms on the other hand facilitate the production and distribution of goods, and support other firms in meeting their goals, and add value to our personal lives. A case in point being the hospitality industry which creates packages according to customer requirements or the airline industry which develops offers to attract travellers to fly during lean season. All this is done to fill the rooms/airline seats with guests so that there is optimum capacity utilization and an increased profitability. This is done as the airline seats that are not sold in the lean period cannot be inventoried and stored for a period when the demand exceeds the capacity of the flight. A critical aspect of the service industry is managing and balancing the demand and supply sides of the industry. This is a feat that the service manager must be adept at all times, while keeping in mind the perishable nature of the 'product'. This chapter focuses on how service firms can manage sales so that there is no loss to the company because of no demand or more demand than they can cater to.

NEED FOR MANAGING DEMAND AND SUPPLY

Managing demand is critical in providing a better service experience. The excess demand may lead to chaos and long queues in a service operation wherein the consumers experience may suffer. Demand and supply mismatch could manifest by:

Demand exceeding supply This results in price increase of the product and as in our case, the availability of the services. The price increases because there is fewer products supplied and more people are purchasing the product. A higher demand will increase the price of the product.

Supply exceeding demand This is known as a surplus. In such a scenario the price of a product will decrease. The price decreases because there are more products supplied than people that are purchasing the product. When the supply of a product/service exceeds the demand of a product/service, the price will decrease.

Matching demand and supply This a self-regulatory mechanism that is created by economic forces. This in turn determines the cost of goods or services offered at an obtainable optimum price. It is a largely self-regulatory mechanism generally resulting in market equilibrium where products demanded at a price are equalled by products supplied at that price.

Lovelock (2000) provides an insight into understanding the patterns of demand, raising the following issues.

- Does demand follow a predictable cycle?
- What are the causes of cyclical variation in demand?

It is imperative to therefore understand demand patterns and market segments that create demand at various points in time, in a fluctuating service business. An organization therefore has to chart the demand patterns over a relevant time period either formally through predictive systems or informally by observing the consumer trends.

The graphic representation thus created can then be used to predict variations of demand levels. Depending upon the nature of the service industry, these representations can then be used to forecast the demand levels on hourly, weekly, monthly/seasonally, or yearly basis. Additionally, these representations can also deduce—what are the underlying causes for fluctuating demand? This in turn can help the service provider to serve its customers efficiently and profitably.

There could also be a 'hand of' in the demand fluctuations. These random variations are often unpredictable and depend upon (a) seasons which call for medical services, natural disasters that need of medical, telecom, and insurance services and (b) unpredictable acts of terrorisms and political action. These make countries going to war or deploying troops overseas call for movement or creations of niche services within the services sector, for example, AT&T used its ingenuity, capacity, and responsiveness to overcome the communication hurdles of the American army personnel that were deployed in the Gulf war. It installed temporary telephone installations that helped the deployed personnel to place 2.5 million calls to their family and friends.

Detailed records of customer transactions can help in identifying myriad patterns within the market segment. Additionally, a service manager can also analyse a segment for its demand predictability or randomness. A case in point would be scheduling of Monday as the Open day for walk-in patients or the Out Patients' Department in the hospitals and clinics. This is based on the rush that the hospitals observe at the start of the week. Hospitals therefore schedule the specialists and consultants for the middle of the week.

Demand Issues and Capacity Constraints

The need for understanding demand patterns arises because a company plans for serving a set number of customers. Their resources are managed around this. Thus, Devya in the opening case knows that the customers are not being serviced appropriately and were walking away to competition especially from 5 o'clock onwards. This was also happening on weekends and the existing staff was not being able to cope with the clientele flowing in. Hiring more people was the obvious solution but the two salespersons she had recently employed were not being optimally utilized during the off-peak hours. This shows that companies have capacity issues which can be any of the following:

Constraint in the financial resources Companies have a limit as far as their financial resources are concerned. Their budget is planned and they have to build their infrastructure within these resources. This is done keeping in mind a fixed number of customers that they want to serve. Thus, the number of rooms built in a hotel, number of tables that can be accommodated in the restaurant, and the number of beds in a hospital are all planned. The supplementary facility like car parking is also planned for a fixed number. If over time there is an increase in the number of customers, then the infrastructure will have to be enhanced to accommodate the increased number.

Constraint in the physical facility Hotels, hospitals, clinics, and classrooms are all designed for a particular capacity. The furnishings, service production (if required, say, in hotels or restaurants), etc. are all planned for this capacity. If the number of customers is more than the capacity planned for, then it will be difficult to accommodate all.

Constraint in operational resources Airports, warehouses, restaurants, etc. plan to serve a fixed number of people to a maximum limit. Their resources are planned accordingly and include labour, facilities, and equipment. For example, airports can accommodate a fixed number of flights and customers, their check-in facility detecting instruments are all as per these numbers. If more customers come in, it would put a drain on the resources resulting in delays and inconvenience to all.

Constraint in human resource personnel Companies hire a specific number of employees to serve the customers according to the planned capacity. If the demand exceeds the optimum capacity, then it leads to crowding in the service outlet, employees are overworked, and service quality might deteriorate.

Constraints on time Service organizations are characterized by simultaneous production and consumption. Hence, in a given time (say lunch hours from 1200 to 1500 hours), they can serve a specific number of people. If more number of people turn up, then within the existing operational facility it might not be possible to effectively serve all the customers while maintaining the promised service quality.

Thus, companies plan their outlets to effectively service a fixed number of customers. The following situations can arise as far as demand for the service is concerned:

Demand exceeds available capacity When demand is more than the capacity of the organization to serve them, then it results in loss of business as all the customers cannot be accommodated. For example, on weekends in Connaught Place in New Delhi, most of the restaurants are full and there is a lot of waiting for the customers. Many times the customers do not like to wait and so, business is lost for that restaurant.

Demand is more than the optimum capacity When demand is more than the optimum capacity then all the customers get occupancy. But because of the crowding, employees might be overworked leading to deterioration in the quality of service. Customers would hence not get the quality they would otherwise have got leading to dissatisfaction.

Balance between demand and supply When the demand is as per the optimum capacity planned for the outlet, then the employees are busy but not overworked. Customers get good service quality as planned.

Excess capacity When the demand is low, there would be less number of customers than what have been planned for. This would result in resources not being utilized to the fullest. These resources are wasted and impact profitability. The customers who do come in might feel the absence of other customers disturbing. They might also attribute the low turnout to the quality of service delivered at the outlet (Lovelock, Wirtz, and Chatterjee 2007).

This highlights the fact that the resources of the service organization is fixed to serve an optimum capacity. To accommodate an increased demand, the facility needs to be upgraded which results in incurring further costs. This might be a drain on the financial resources for companies when the demand is fluctuating and might not always be so high.

Companies therefore need to plan their demand and capacity so that there is uniform demand always resulting in optimum utilization of all resources. The following section looks at how organizations can strive to maintain this balance.

Managing Demand and Capacity

Service managers face various issues while managing supply and demand in services, such as (a) having limited ability to alter capacity in terms of the extent of the change and response time to make the change, while having to deal with rapid fluctuations in demand, (b) the need to deliver consistent levels of customer service, and (c) the varying degrees of uncertainty in demand. These issues often affect their ability to maintain quality standards while trying to achieve productivity targets (Lovelock 1984, Rhyme 1988, Heskett, et al. 1990). Additionally, the nature of the process of service delivery restricts the options of the manager to match the supply with demand across the entire delivery system. Therefore, the only options of operational control, that are left open for a service manager is (a) holding (pre-inventory or work storage) in anticipation of demand, (b) altering the capacity, and (c) influencing the demand in other creative ways. However, managers in capacity constrained services such as hotels, airlines and utilities, where profitability is closely linked both to the prices charged and the existent capacity—have to match service production with supply and demand.

It can therefore be said that capacity management is both the ability and the capability to balance customer demand and service delivery by the manager. Additionally, a manager has to be adept (a) in forecasting the nature of the demand and (b) in managing capacity options to meet the expected customer requirement. According to Sasser (1976), there are two basic strategies for managing capacity in services, namely the level strategy and the chase strategy. In the case of the level strategy, the focus is usually to influence demand in line with the capacity, while in the case of the chase strategy, the supply can be changed in line with the demand.

A service manager can allocate demand to the most profitable business segments by identifying which demand to serve and at what price. In service industry allotment, management and overbooking techniques can help in reducing inventory spoilage. Additionally, demand segmentation and price optimization can enable the service manager to differentiate and manage high demand periods, and to better balance supply and demand. Further, companies can generate incremental revenue by recapturing excess demand, that which could not be accommodated during the peak time, during the off-peak time.

There may be day-to-day strategies for shifting demand to match capacity. If the demand is too low then some of the following strategies may be initiated.

Sales and advertising strategies

Direct selling A customer can buy products online with a credit card on the Internet. This is especially true for supplies and other commodity items that can be grouped by category and offered in a catalogue format by numerous companies. There are literally millions of websites using this approach.

Generate sales lead Smaller firms have limited budgets, which can be best used for advertising in order to generate quick leads which can be converted into sales. Advertisements of such nature encourage customer response by making a free offer of, for example, a free initial consultation, free estimate, free evaluation of a problem, or some such free information. These leads if funnelled properly to the sales team, can enhance a company's gross sales each year.

Educate your prospects Advertising can help a customer to differentiate between different brands of a product. In addition, it can also highlight key differences like how a particular product works, what are its benefits, what are its reliability factors, etc. It also conveys information about your services and unique approach, business, and philosophies to the customer. Usually, service firms take a very educational approach to tell the readers of the advertisement/viewer of the TV ad or the listener of the Radio spot about their products. A case in point is the advertisements of insurance and financial companies, which are filled with facts and comparative figures. Readership of these advertisements are high because of the information that they have.

Create awareness A service company just by placing an advertisement ensures that it has a presence and is ready for business at all times. This creates awareness in the minds of the customers and also gives them alternatives to the existing service providers.

Establish credibility It is important that the service company uses advertisements to establish its credibility in the market and in the minds of its customers by using authentic and trustworthy sources. By giving useful information to current and potential clients, a service company can assist them in making better buying decisions. This is a nice way to retain and build relationships.

Keep the name of the company in limelight A service company by regularly advertising in select media can help build familiarity with the company's name and establish its identity. In order to convince a customer to do business with it, a service company must first cross its 'threshold of consciousness.' The first time a prospective customer sees the brand name he/she may not recognize the brand name. The second time, they might think they have seen this name before. But on the third time, most prospective customers will begin to remember the name and what the company stands for.

The bottom line however is that advertising is a costly affair and building awareness through the use of paid advertising is an expensive proposition. The most cost-effective way for top-of-the-mind customer recall is through the combination of advertising and the word-of-mouth publicity that a service company earns through its efficient and timely service.

Modify the service offering and appeal to new marketing segments

The basis of this strategy is to identify groups of customers in different market segments that could benefit from a given service by highlighting the relevance and suitability of that service. This could be done by:

Innovating through disruptions These innovations could be incremental service refinements or radical breakthroughs, in a manner that is valued by major customers in the major markets. Disruptive innovations that are radical in nature more often than not initially result in worse performance compared with established products and services in mainstream markets. However, disruptive innovations are often cheap, simple, small, and more convenient to use. For example, creating an expertise in servicing a domestic water filtering device which is not dependent upon electricity but has high end filter membranes installed, could take away a large chunk of customers from the service agents of the regular water filters.

Create or overtake the existing markets through disruptive actions This is done through identification of a new area of competition outside the existing market. For example, customers who as a rule find themselves at sea with complex technologies, welcome service companies that can help them identify and overcome their technology block. These customers are the worst nightmares of the existing service providers. Moving into this domain may create new avenues of growth for any service company willing to cater to the tech-challenged customer. The new service provider can harness asymmetries of motivation created by low-end disruptions.

Service companies can thus use this new plane to disrupt the strangle hold of bigger corporations. Service companies typically start small in such markets which are usually ill defined. The existing companies do not feel threatened by the new entrant as it does not affect their core business. A case in point would be the stand-alone service centres of vacuum tube television sets, that are often unable to take on new age service centres dedicated to new improved television sets. The older lot therefore can either be pushed out by the creeping march of the new age centres or reinvent themselves according to the times.

Offer discounts This is a common response to low demand. This strategy is all about price differentiation and the price sensitivity of the customer. It is all about supply and demand curves, for example, business travellers are less sensitive to the cost than the families travelling on vacation.

Modify hours of operations Theatres and banks often operate on different timelines to accommodate their customers. Additionally, schools with large auditoriums and playgrounds rent these facilities during their summer vacations when these facilities are not in use.

Remove obstacles to consumption Highly sophisticated services are based on a credible commitment of the service provider and the trust of the client and therefore, entry of these services in a market may not be enough for them to take off. There are many barriers such as those of laws, tariffs, and taxes besides 'movement of natural persons' for the provision of services, that could cause hindrance in the establishment of these services.

If the demand is too high, then some of the following strategies may be initiated.

Use signage to communicate busy days for reservations Additionally, boarding and lodging industry and parking lots often put small sign boards outside their facility to indicate a full capacity. This could be reflected in advertisements as well.

Provide incentives to consumers to use non-peak times For example, restaurants and hotels offer seasonal discounts. Power companies are currently experimenting with dynamic pricing by using 'time of use' rates in order to lower peak demand of electricity.

Take care of loyal consumers first For example, AmEx gives priority to its own credit card users by designating separate queues for them. Banks and sports clubs also give preferential treatment to their high value clients in terms of facilities like last minute seasonal passes/privilege cards to a theatrical or sporting event or accessing out-of-stock products.

Charge full price When the demand is high, service marketers are likely to enhance revenue by deploying premium pricing to contribute to their profitability. For example, hotels in Delhi charge a higher price on account of higher number of tourists visiting India during the peak seasons (winter/spring).

Service inventory and capacity constraints

Companies in the service industry, namely leisure and entertainment, cargo and freight, hospitality, media, and passenger industries serve different segments of customers with diverse products and services. It is therefore important that the service companies have the ability to identify each customer segment and its willingness to pay. The service managers need to optimally match the service demand to their complex capacity constraints, thereby dramatically increasing their revenue and profits. It is therefore imperative that companies in the services sector allocate the right amount of perishable inventory or constrained capacity to the right customer segments to achieve maximum profitability.

Consequently, a service manager needs to identify an appropriate form of service inventory and thereby, offer value through competitive pricing, fast response time, customization, and good quality produced through a set of processes.

There are two types of service inventory namely (a) work storage based on information and (b) facilitating goods.

A work storage based inventory is created when a service company in anticipation of the customer needs, does some amount of work and stores it, even before the customer requests for the service. For example, these could be legal documents as provided by the real estate companies, books and magazines in case of publishing houses, etc. Forms and reports provided by consultancy firms also come under this category.

Facilitating goods on the other hand, are the goods which are given as or along with the core service. They are the materials or items purchased or consumed by the buyer and/or provided to the customer, for example, food and beverages provided by the airlines, repair parts/consumer goods provided by repair and maintenance stores, etc. These could also be goods provided by retailers.

Ideally a service inventory can be built in the following circumstances:

1. When the cost of building the inventory is low and when there is a possibility of it being used by the customer.
2. When customized service can be delivered through application of standard process, for example, online auctions, self-service check-ins at airports, and automated teller machines at banks.
3. When there is the presence of frequent users of the customized services, for example, hotels store data about repeat customers and adapt it to other customers. Web portals build high levels of service inventory because the marginal cost of adding and storing records is miniscule, and there is a greater breadth of coverage which increases the value of the service to customers.
4. When there is a presence of system modularity that allows the service inventory to increase the variety of offerings exponentially.

Application of Theory of Constraints in Service Industry

According to Goldratt's (1990) Theory of Constraints, a service organization cannot achieve optimum performance level until it can identify and manage the constraints that it faces.

The Theory of Constraints helps the service manager to identify the weakest elements of the processes that occur within the service organization. In other words, Theory of Constraints can help a service organization to identify/fine-tune its goals, zero-in on the constraints affecting the performance of the organization, and develop effective solutions to facilitate improvements in the processes, namely, policies and procedures regarding manpower, training, empowerment, can-do attitude, etc. Additionally, uniqueness of each sector of the service economy ensures distinct actions to improve throughput, inventory, and operating expenses.

Throughput This is the rate at which a service system generates revenue for services in a way which is consistent with the organizational goal, for example, throughput in banks is created when banks invest in such markets as real estate, investment firms, customer lending, and institutional lending. Moreover, service firms can generate money by offering a variety of services depending upon its area of operation.

Inventory According to Goldratt (1990), inventory is the money the service organization invests in purchasing, both tangibles and intangibles needed to generate throughput, except for labour and overhead.

Operating expense This includes all the financial resources, both direct and indirect, that a service firm spends converting inventory into throughput, with the objective to increase throughput and/or decrease inventory and operating expenses in such a way as to increase profit, cash flow, and return on investment.

A service firm as mentioned earlier can thus differentiate itself from its competitors on the basis of its supply and demand strategies. These critically separates service firms from good service firms, thereby helping to (a) offset market fluctuations and (b) generate stable and high-margin revenue flow.

WAITING LINE STRATEGIES

Matching capacity and demand entails a number of strategies as discussed earlier. However, it is not always possible to maintain this fine balance. It might not be economically viable to increase the service capacity or demand fluctuations could be so high that the loss in sales during peak periods might not make economic sense to invest further. Companies can then look at managing demand at their sales outlet. For example, a hairdresser might face a lot of demand during a particular period but absolutely no footfalls might occur at other points of time. Hence, investing in increasing the service capacity would lead to very low return on investment. Thus, it would make more sense to manage the customers during high demand periods. This can be done by ensuring that the customers wait for the organization to deliver them their services. However, it is easier said than done. Customers are hard pressed for time and there are a number of service providers in the market waiting eagerly to serve the customers. Thus, waiting for the services might not be something that the customers would be happy about. These waiting lines can be on the phone (when services are provided at an arm's length) or at the physical outlet. In either case, the customer might get impatient and quit leading to a loss in potential business for the service organization. Thus, companies need to take cognizance of the delay and explore the reason for the same.

They can build in operational efficiencies so that the delay is reduced and customers are serviced quicker. For example, automated teller machines (ATMs) has reduced the waiting lines in the banks. Companies can also opt for a reservation system so that customers can book their services in advance and do not have to wait for the same. However, not all customers will reserve their orders in advance and for them, the companies need to have a queuing system and manage the customers' perception of these waiting periods. The queuing system can be managed by following any of the alternative configurations listed here.

Single line and single server There can be only a single line and the customers can queue up there. The service provided can be in single stage or a sequential stage when there are a number of serving operations. For example, if you have to get a visa, then there can be a number of sequential stages such as getting the filled form verified, going through the various identification processes, etc. In these sequential stages, if there is delay at any one stage, then there would be a piling up.

Parallel lines and multiple servers This occurs when there are a number of servers or service lines and the customer can choose which line they want to wait in. This example is common in toll gates, fast food restaurants, etc. where a number of service providers are sitting at the billing counter and the customer can choose which one to approach. The drawback of this system is that the other line may move faster leading to dissatisfaction among the customers.

Designated line Here, the service provider can dedicate lines for specific services, for example, if you are travelling first class, business class, etc., then there are different check-in counters at the airports for these travellers.

Single line and multiple servers This can be done to avoid the problem of some lines in the parallel lines moving slower. The customers here wait in a single line and as soon as any server is free, they go to that server.

Taking a number Here, the customers are allocated a number and they wait for their turn to come. For example, in a bank, if you want to withdraw money, then a token is allocated and the customer is then served as per the token number. The benefit of this is that customers have a fair idea of the time it is going to take to be served.

The queuing system can be differentiated on the basis of factors like paying price premiums where companies can charge more prices for the same service (for example, airlines can charge different prices from the customers boarding the same flight for the same destination). These customers are then given differential treatment—for example, different lines for faster check-ins, boarding, etc. Another basis is the importance of the customer where loyal customers who frequent the service outlet can be given preferential treatment by providing them special wait areas, serving complementary refreshments, etc. Service outlets can also differentiate the customers on the basis of urgency. For example, patients arriving in emergency health care are given preferential treatment. Also, less complicated requirements of the customer that can be catered to quicker can also be given preference, like in banks and supermarkets.

Companies can also solicit the support of the customers by involving them in the service process. For example, if a customer wants to book a ticket at the PVR Ambience Mall, then they can do this online through Bookmyshow.com, or at www.pvrcinemas.com at the booking window of the PVR, or mobile ticketing through Airtel, Idea, or Vodafone. They can also get tickets home delivered by calling on the PVR telephone numbers for group booking.

*Managing waiting time**

The waiting time for the customers can be managed to make the waiting tolerable if not pleasurable. The idea is that the waiting time does not lead to dissatisfaction and feelings of displeasure among the customers. The perception of the waiting time by the customers can be managed by the following:

*(Based on Lovelock et al. (2007) and Zeithaml et al. 2011)

Keeping customers occupied during the wait time Customers can be kept occupied while they are waiting for the service to be delivered. For example, Allen Solly showroom in inner circle, Connaught Place, New Delhi offers coffee and muffins to the customers waiting for their family or friend to make a purchase. Physicians and dentists stock magazines in their waiting rooms to keep the customers occupied. This is because the waiting time is then perceived to be shorter and the wait is also bearable.

Keeping the customers informed on the time it would take while they are waiting The customers can be informed about the time they would have to wait for them to be served. For example, restaurants when fully occupied generally book the tables on a first come basis. They also generally tell the customers how long it would take for their turn to come. This is helpful as customers can then utilize this time to finish any pending work. However, the drawback is that these customers might not come back and end up in another restaurant down the block. To overcome this, the restaurant can start the process of serving the customers. They can, for example, have a waiting area where the customers can be served a welcome drink. They can then be asked to place the order so that the time to serve them when they actually occupy a table can be shortened.

Reducing the anxiety during waiting period Customers generally get anxious while waiting as they feel that the wait is indefinite. To manage this, companies can keep the customers informed about the balance waiting time at regular intervals.

Explaining the reason for the delay The customers can be informed about the reason because of which the delay has occurred. If consumers are informed, they feel less irritated. For example, a longer waiting period on a visit to the doctor can be explained by informing about the reason—probably the doctor was attending to a critical patient which took longer, an emergency situation wherein someone was badly hurt, etc. Once explained to the customers, it would lead to acceptance and they would feel less irritated.

Making waits equitable Customers get irritated when they feel that a person who has arrived after them was served before they got a chance. Hence, the waiting line strategies need to be in place so that customers who came in first are served before the others.

Waiting in groups Customers accept the waiting time more amicably when they are waiting in groups rather than alone. This is because there are fellow customers to talk to that keeps the customer occupied.

YIELD MANAGEMENT

Yield management acknowledges the fact that the services cannot be inventoried and therefore need to be sold at the best price to get the maximum revenue. This entails the employment of differential pricing for the same product or service. The airline industry was the first to experiment with the idea of yield management when in the early 1970s, it offered discounted fares so that the seats would be occupied. To overcome the possibility of high-fare passengers shifting to the discounted rates, the fares were discounted well in advance (say, 21 days prior to the flight), and the number of seats that could be sold at these discounted prices were limited. 'The systematic process of predicting demand and accurately controlling seat inventory allocation marked the beginning of what came to be called "yield management" as yield was an important airline statistic representing revenue per passenger per mile' (Cross 1995 cited in Cross, Higbie, and Cross 2009). This yield management was adapted by lodging industry 'in the late 1980s and early 1990s' and revenue management 'as an essential way to offer and control differentially priced, time-sensitive products to diverse market segments to increase the hotel revenue' (Hanks, Cross, and Noland 1992 and Cross, Higbie, and Cross 2009).

Exhibit 15.1 **Tracing Yield Management**

The airline industry was the first to introduce differential prices 'for essentially the same seats during early 1970s'. British Overseas Airways Corporation (now British Airways) in 1972 offered 'early bird discounts to stimulate demand for seats that would otherwise fly empty'. The fares for the US scheduled airlines were set by Civil Aeronautics Board which in mid-1970s set up the concept of 'public charters' where charter airlines could 'sell seats on a quasi-scheduled basis for fares far less than the cost-plus fares offered by the scheduled airlines.' Bob Crandall who was then the Senior Vice President, Marketing, American Airlines called a meeting to brainstorm how they could lower their costs to compete. They realized that they had a revenue problem as millions of seats were flown empty per year. They started with the 'Super Saver Fares' in 1977 and in each flight 30% of the seats were allocated to this. They quickly realized that fluctuating demand patterns by route, time of day, and day of week required a different mix of discount seats. Large databases were constructed and computer systems were developed to forecast and monitor passenger demand. Skilled analysts were trained to oversee the system to account for variance and allocate seats with greater precision. Bob Crandall is credited with giving this integrated set of people, process, and systems a name—'yield management'. Other airlines such as Delta Airlines, United Airlines, KLM Royal Dutch Airways, British Airways, and Lufthansa also adopted yield management.

J.W. Bill Marriott Jr heard about yield management directly from Bob Crandall at a chance meeting in the mid-1980s. Marriott International had many of the same issues that airlines did—perishable inventory, customers booking in advance, lower-cost competition, and wide swings with regard to balancing demand and supply. Bill Marriott adopted the practice of yield management at all the Mariott Hotels and called it revenue management. By mid-1990s, Marriott was adding $150–200 million to the annual revenue due to successful implementation of the revenue management. Other hotel chains were quick to adopt this as were restaurants, cruise lines, golf courses, rental car firms, etc. United Parcel Service (UPS) then carried this science to business-to-business (B2B) operations where they applied this to control price discounts offered to clients.

Early 1990s saw revenue management being applied to ad sales on television. Canadian Broadcast Corporation was the first to implement this in 1992. National Broadcasting Company (NBC) and American Broadcasting Company (ABC) adopted this in late 1990s for ad sales. Ford Motor Company was the first to apply this model on 'non-perishable inventory' in mid-1990s. Ford applied this on the marketing programs

(*Contd*)

Exhibit 15.1 **(Contd)**

to understand what customers wanted—cash rebate, product configuration, vehicle type, etc. This led to an understanding of the customer preference in different geographical markets and across different product lines. This resulted in making more money from the same number of vehicles.

Post the tragic events of 9/11, service providers realized that just controlling inventory and selling at the lowest price available was not sufficient. Intercontinental Hotels Group (IHG) took an initiative to 'understand the price sensitivity of consumer demand.' They realized that customer perception of rates offered changed when the competitor changed its rate. This brought a twist to the revenue management as now they could 'simultaneously optimize price based on forecasted demand, price elasticity, and competitive rates.'

Source: Based on Cross, Higbie, and Cross (2010)

$$\text{Yield/Revenue} = \text{Actual revenue/potential revenue}$$

where

$$\text{Actual revenue} = \text{Actual capacity used} \times \text{Average actual price}$$

$$\text{Potential revenue} = \text{Total capacity} \times \text{Maximum price}$$

Consider a hotel property has 150 rooms with a maximum room rate of ₹2,000. Thus, the potential revenue = 150 × 2,000 = ₹300,000

Now assume that the hotel rents 80 rooms at ₹2,000 at a point of time. In a second instance it rents 120 rooms at ₹1,000 and in a third instance it rents 100 rooms at ₹1,500.

In the first instance the hotel's actual revenue is (80 × 2,000) = 160,000.

In the second instance the hotel's actual revenue is (120 × 1,000) = 120,000.

And in the third instance the hotel's actual revenue is (100 × 1,500) = 150,000.

Then the third case scenario is the one that gets the maximum revenue for the hotel.

Now assume that the hotel rents 50 rooms at ₹2,000; 40 at ₹1,500, and 60 at ₹1,000. In this case the hotel's actual revenue will be (50 × 2,000 + 40 × 1,500 + 60 × 1,000) = ₹220,000 which is the maximum. The yield/revenue management approach is to maximize the yield/revenue to get maximum returns from different customer segments.

Thus, we can say that the yield/revenue management is to efficiently distribute the available services to get the maximum revenue. It allows the managers to forecast business demands and price it dynamically so that demand can be met with maximum revenue to the organization. However, this should be strategically enforced otherwise the following issues might hamper the business.

Focus on profitability rather than customers Customers paying a higher price for the same service might feel dissatisfied once they know about the differential prices charged. This can be overcome by giving preferential/complimentary services to the customers who have paid a higher price for the same service so that they feel that they have got a fair value for their money spent. Also, the loyal customers can be identified and low prices can be offered to them first so that they feel that favourable treatment has been offered to them.

Internal focus Revenue management's focus is internal, that is 'to predict and optimize the impact of transactions on the hotel.' This can be overcome through 'customer-centric revenue management' (Cross and Dixit 2005) where revenue management can be used 'as an external device to grow and develop customers and customer segments' (Cross et al. 2009).

Lack of proper training Employees need to have a sound understanding of the science involved in revenue management. This is generally lacking and companies need to have proper training in place to make the employees understand how it works and how decisions are made. This can be overcome through the obvious, that is, provide relevant training to the employees designated for this task.

Lack of access to information Service providers need to have a central reservation system for yield management to be effective. However, when companies do not have such centralization, they find it difficult to operate yield management effectively.

Overbooking Yield management works effectively when service providers overbook, that is, book more number of customers than is possible to service. Customers that are a victim of this and whose service experience was not satisfactory as a result would be alienated (Zeithaml et al. 2011). Thus, service providers need to be cautious when overbooking happens and ensure that such customers are adequately compensated by enforcing service recovery and/or recovery paradox.

Yield and revenue management has been developed to provide solutions to business issues. It can be applied to not only services but products as well. The idea is to understand the demand and supply and what motivates the customers to make the purchase.

RESEARCH INSIGHT

Demand and Capacity Management Decisions in Services: How They Impact on One Another

Klassen, Kenneth J. and Thomas R. Rohleder (2002), 'Demand and capacity management decisions in services: How they impact on one another', *International Journal of Operations & Production Management*, vol. 22, issue 5, pp. 527–548.

Service managers are continually challenged with balancing customer demand and service capacity. Recent studies have raised awareness of various demand and capacity management practices available to services, but little numerical work has been done to identify how these decisions work together and how they relate to one another. For instance, reducing prices may attract customers during a slow period, but the extent of impact this should have on cross-training staff is not clear. A simulation based on theoretical and empirical insights explores the impact of various decisions on profitability and operations. The decisions modelled include the impact of automation, customer participation, cross-training employees, informing customers about the operation, and others. It is shown that demand and capacity decisions do indeed impact on each other—sometimes in ways that are not initially obvious. Results provide useful thought-starters for service managers striving to improve their operations.

SUMMARY

Services by their intrinsic nature are perishable and cannot be inventoried. This leads to a situation in which demand and supply needs to be balanced for optimum revenue generation. Excess demand can lead to deterioration in the service quality and ultimately, loss in sales. Excess supply can also lead to loss in revenue as there were no customers to avail the services created. Service providers need to study and understand the demand fluctuations so that the same can be predicted for the future and strategies put in place to gain maximum revenue for the demand available. Thus, companies can use sales and advertising to increase demand and modify the service offering to attract new segments of customers. They can also offer discounts, modify hours of operations, etc. to manage demand and supply.

Companies can adopt waiting line strategies to retain their customers when there is excess demand for the services offered. The waiting period is very cumbersome for customers and service providers need to manage this waiting period so that the customers do not leave without availing the services. A number of waiting line strategies can be used by service providers to manage the customers while they are waiting for the services to be delivered to them.

Yield/revenue management talks about situations when there is low demand and how companies can, through attractive pricing techniques, attract new customers. This strategy is increasingly being used by companies to balance pricing and capacity utilization to increase sales.

KEY TERMS

Demand Number of consumers willing to purchase the service.

Supply This includes the total amount of services or goods that a service organization has to offer for all the consumers.

Waiting line strategies When demand is more than supply, consumers have to wait for their turn to experience the service. These are the strategies that are employed by service organizations to manage this waiting time so that consumers stay and their overall satisfaction is not diminished.

Yield/Revenue management Balancing the capacity of the service organization so that the best price is charged for the same service from different segments of consumers to whom service is sold so as to maximize revenue.

EXERCISES

Concept Review Questions

1. Why is there a need to manage demand and supply in service organizations?
2. Discuss the various situations that can arise when demand varies.
3. What can companies do when the demand for the service is low?
4. Discuss various strategies that can be adopted by companies when demand is high.
5. Write a note on service inventory and capacity constraints.
6. Write a note on yield management.

Critical Thinking Questions

1. What are the various constraints that service organizations face while servicing the customers? Which are the three most important ones and why?
2. Differentiate between optimum capacity and maximum capacity. What are the implications of these for a service organization?
3. Discuss the theory of constraints in context of any service organization.
4. What are the waiting line strategies? Discuss the ones that can be adopted by (a) banks, (b) hotels, and (c) airports. Give reasons for your answer.

5. Discuss the relevance of yield management in service organizations.

Internet Exercises

1. Visit the website of two hotels in Shimla or any other hill station. Identify the strategies that they are adopting for managing their demand.
2. Visit the website of an airline. Can you identify any yield management strategies? Discuss the same. What further strategies can you suggest to the airline so that the regular consumer segment is not alienated?
3. Visit the website of a local restaurant. Can you identify any strategies that they are adopting so that the consumer does not have to wait for the service once they actually visit the restaurant? If not, then what can you suggest to the service provider? Make relevant assumptions.

CASE STUDY Driving Sales and Customer Satisfaction*

Introduction

Abhijat had taken over the management of his father's hotel at Khan Market in New Delhi. He could now apply all the decisions he had been itching to take for so long, though his father would be there to guide him. The property was a 12 table restaurant that had been doing fairly well. On weekends there was a waiting time for half an hour and on an average, the business was good compared to the competitors in the vicinity. He had eight waiters serving at any given time. Abhijat knew for sure that customer satisfaction was of paramount importance and the customer would come back only if he/she was satisfied with the service and the food. He was paying a handsome amount to the chef and the kitchen staff and believed that good talent did not come cheap. Profit was good and he had some money kept aside that could be ploughed back into the business.

The problem was that on weekends he was not being able to manage the demand. People had to wait for half an hour and many times they would not come back. He knew for sure that they were walking away to competition. He felt that he was losing out on business. On the other hand, his staff was sitting idle on weekdays—specially on Tuesday and Wednesday when the footfalls were minimum. His father was not willing to make any changes and so his hands were tied. With relief he realized that now was the time when he could break the shackles and implement his decisions.

Though Abhijat wanted to grow his business, he knew that he could not do this by alienating his customers. If the customers wanted to linger after dinner, he would let them be. The waiters would grumble about the waiting customer but Abhijat would not let them bother the customer. He wanted the customer in the restaurant to be happy and satisfied with the experience and not feel rushed. He had to make the waiting customer come back on weekends and attract more customers on weekdays.

Abhijat hired a resource person—Raman, whose duty was to stand outside the hotel on weekends and note the names and mobile numbers of people who were waiting for their turn. This ensured that the first come customers were served first. If people wanted to shop while waiting for their turn, Raman would politely call them once their turn came. Abhijat ensured that these numbers and names were entered into the system. Thus slowly, he started working on creation of his database. He knew his loyal customers by face and now he knew them by name also. Their order was entered along with their phone numbers thus, giving him an idea of their favourite dishes. The people who did not return were also noted and the next day he would personally send an SMS apologizing for the unavailability of a table when the customer had visited. This was followed with a phone number where customers could make a reservation so that they were sure of their place during crowded times. In the end,

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he gave an offer of 5% discount to make-up for not being able to serve them if the customer decides to visit them on the coming Tuesday/Wednesday.

The Result

Within a month Abhijat could see the result. He was able to serve twice the number of customers. His staff could recognize the regular customers by name. They would ask if the customer wanted their favourite dishes and this brought a smile on the customer's face who would gush that how could he remember amid so much rush. Abhijat could feel the customers smiling more while leaving the restaurant. The other benefit was that there was a noticeable rise in footfalls on Tuesdays and Wednesdays which was mostly thanks to the promotional offer he was providing, but Abhijat was happy. At the end of the first six months of taking over, he had doubled the revenue of the restaurant.

Questions

1. What was the problem that Abhijat was facing?
2. What demand and supply management strategy did he implement?
3. What further strategy can you suggest to Abhijat to increase the revenue of his small business?

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