

SERVICE INDUSTRY: A THEOROTICAL PERSPECTIVE

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ABSTRACT

With turn of the century global economy has seen some major changes. Service sector has played a crucial role in these changes, because service is the interface between the customer and the companies. Organizations are realizing that their existence no longer solely depend on their products they present, but also on the supplementary offerings they make to their customers that distinguishes them from their competitors. Innovative organizations offers unique services that are now triumphing in markets where existing organizations have failed.

Key words: Service Sector, Global Economy, Supplementary Offerings

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INTRODUCTION

Services marketing concepts, frameworks and strategies came into existence because of interlinked elements of many industries, organizations, and individuals who have understood the increasingly essential role services are playing in the current global economy. Initially the spread of services marketing was limited to the service industries. However, it didn't take too long for manufacturing and technology industries to realize that services are essential to support their products, so that they can compete successfully in the market place. Nowadays in almost all the industries, providing a service is no longer a choice but a compulsion.

What is service?

A service can be defined as an act or performance offered by one party to another. The process may be attached to a physical product, but the performance is basically intangible and ownership of any of the factors of production is not transferred between the parties.

Kotler (1996) defines service as an activity that one party offers another that is essential intangible and does not result in the ownership of anything. Grönroos (1990) identifies a service as an activity or series of activities of more or less intangible nature that normally, but not necessarily, takes place in interaction between the customer and service employees and/or physical resources or goods and/or systems of the service provider, which are provided as solutions to customer problems.

Service can be separately identified, primarily intangible acts resulting in want-satisfaction, and may not be tied to the sale of a product or another service. Services can be produced without tangible goods also. And when such goods are required, transfer of title (permanent ownership) to these tangible goods does not take place.

Services are economic activities whose result may not be a physical product or construction, are generally consumed at the time when they are produced, and provide added value in different intangible forms like amusement, convenience, comfort, timeliness, or health for its first buyer.

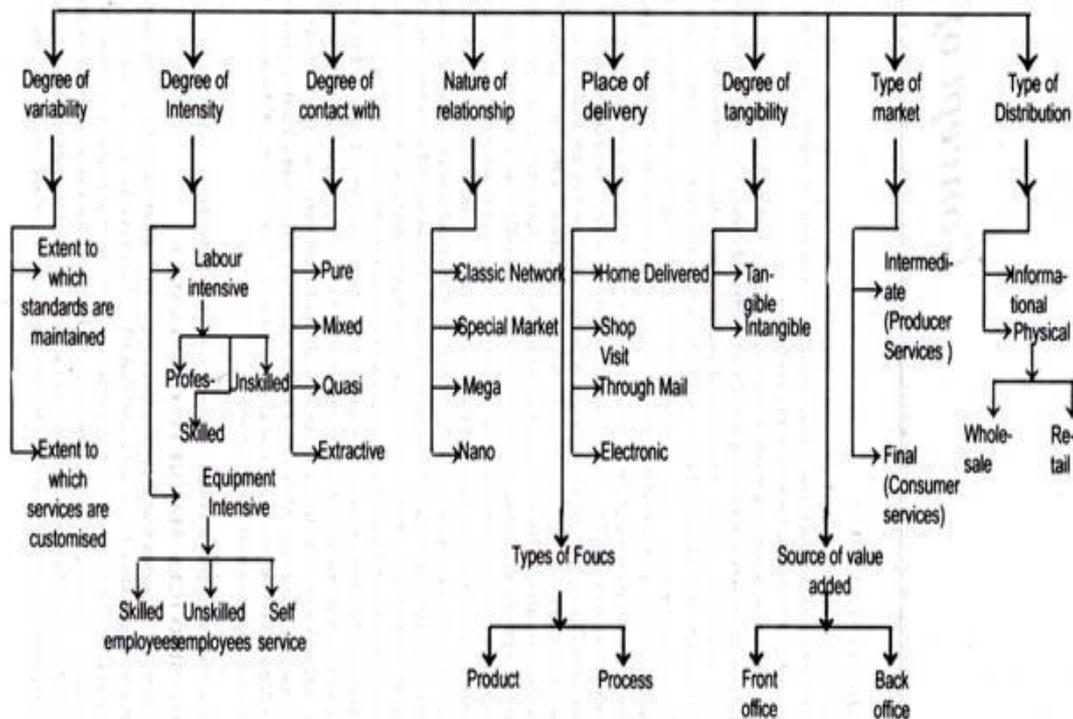
Services results in creating economic values and benefits customer's in terms of times and places, which brings about desired change for the recipient of the service.

EXAMPLES OF SERVICES ARE

Transportation & public utilities, Hotels and other lodging places, Rail-road transportation, Personal services, Local and inter-urban passenger transit, Business services, Trucking and warehousing, Auto repair, services and garages, Water transportation, Miscellaneous repair services, Air transportation, Motion pictures, Pipelines except natural gas, Amusement and recreation services, Health service, Communication, Legal services, Telephone and telegraph, Educational services, Radio and television broadcasting, Social services and membership organizations, Electricity, Gas, Sanitary services, Miscellaneous professional services, Wholesale trade, Private household services, Retail trade, Finance, insurance, and real estate, Banking, Military, Credit agencies other than banks, Government enterprises Security & commodity brokers, Local government, Real estate, Education, Holding and other investment companies and Other services. (yourarticlelibrary.com)

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SERVICE ECONOMY

In reference to economic developments in service economy two developments can be taken into account. One is industrialized economies have made services even more important. Services sector occupied a higher percentage of US GDP than 20 years back. More service companies have found their place in the current list of Fortune 500 companies and fewer manufacturing companies than ten years back. The developing countries’ service industry is mostly dominated by financial services, health, and education. Today’s products have a higher service component than what used be a decade back. This is also called as sterilization of products in management literature thesis.

Almost every product today has a service element to it. The old classification between product and service has been substituted with a service-product continuum. Many products are being converted into services. For example, computer giant IBM considers its business as a service business. Although it still produces computers, it thinks of the physical goods as a minor part of the "business solutions" industry. They could trace that the price elasticity of demand for "business solutions" is much lesser than for hardware. A corresponding shift has taken place pricing model, making it subscription based. Manufacturers are preferring receipt of a steady stream of revenue for ongoing contracts over a single payment for a piece of manufactured equipment. James Murrdock, the chief executive officer of 21st Century Fox once said "When GDP are low...the service based economy must be also."



The above figure points out that in order to succeed a service organization should carry out all three types of marketing and it is all about making and keeping promises to customers. The right side of the figure shows the external marketing efforts that the company makes in order to set up its customers' expectations and make promises to customers about what it wants to deliver to customer. In short any communicates to the customer before delivery of the service can be seen as part of external marketing function.

In case of service companies many factors are communicated to customers going beyond the traditional elements of advertising, sales, special promotions, and public relations. For instance, the company employees and the physical facilities also form a part of such type of communication. Joining the internal and external marketing is "interactive marketing" which is at the bottom of the triangle. It is also called as "real-time marketing". At this point the actual service delivery takes place. It is the interface between company personnel and customers where employees directly interact with customers. It is here the promise gets delivered or at times not delivered. It is important to have positive connection between external marketing through which promise is made and interactive marketing through which promise is delivered. Entire external is futile if the company fails to keep its promise. That is why the left side of the triangle is of immense importance i.e. internal marketing, employees are enabled to fulfil the promises that have been made to customers.

Internal marketing consists of various activities that the company must carry out to train, motivate, and reward its employees. Service marketing triangle can be utter failure if the service employees unable and unwilling to deliver the promises that the company has made to its customers. Internal marketing is based on the assumption that employee satisfaction and customer satisfaction are intrinsically related.

DIFFERENCE BETWEEN GOODS AND SERVICES

Given below are the fundamental differences between physical goods and services:

Goods	Services
A physical commodity	A process or activity
Tangible	Intangible
Homogenous	Heterogeneous
Production and distribution are separation from their consumption	Production, distribution and consumption are simultaneous processes
Can be stored	Cannot be stored
Transfer of ownership is possible	Transfer of ownership is not possible

(Source: <http://www.managementstudyguide.com/definition-and-characteristics-of-services.htm>)

MAIN CHARACTERISTICS OF SERVICES ARE

1. Intangibility

Services are not physical objects, we cannot touch them. According to Carman and Uhl, consumer sees it as his right and opportunity to see, touch, hear, smell or taste the product before he buys it. In case of services this is not possible. The consumer can't touch or smell or touch the service. So when it comes to selling and convincing the service, the seller has to focus on the satisfaction and benefit can get after having spent money on buying the service. E.g. A movie theatre selling a movie ticket. The consumer can't touch or smell the service, he can only perceive it and make his judgment based on actual service given and what he expected.

2. Perishability

Just like labor, services too have high degree of perishability. Element of time assumes a very important position in case of services. If we don't use labor today, it is gone forever. If employees stop working, it becomes a complete waste which cannot be recovered back. It is not possible to store labor. Unutilized or underutilized services are a complete waste. E.g. an unoccupied hotel room, an empty movie hall, a bus running without passengers is matter of financial loss for the organization.

3. Inseparability

Services are produced and consumed simultaneously. One cannot separate services from the person or machine rendering them. They are inseparable. For example, professionals working in health sector or entertainment industry create and offer services at the same time. Services and people giving them are closely associated and are not separable. According to Donald Cowell, "Goods are produced, sold and then consumed whereas the services are sold and then produced and consumed." This characteristic of proves challenging to service management industry.

4. Heterogeneity

Because of this it becomes difficult to set a standard for any service. Quality of service cannot be standardized. Even if consumers are paying the same price, the kind of service which gets offered to customers tends to variate. It because of the fact that after all humans offer services and all humans are not equally qualified or expert or skilled. Some are excellent, others very poor. So one cashier may be quick in serving one customer, the other may take longer time. The perception of the buyer too differ. One customer may find the service good, the other may think of the same service as poor. It is due to the problem setting standards for service delivery is very difficult. Atomization of service or better training of personnel can be the solution for this problem.

5. Ownership

In case of goods after they are sold, the ownership of goods gets transferred to the buyer. But this is not possible in case of services. The customer can have access to the services but cannot own the service. For example, a customer can use the hotel room or a swimming pool, or gym but he doesn't become the owner. The ownership remains with the provider.

6. Quality Measurement

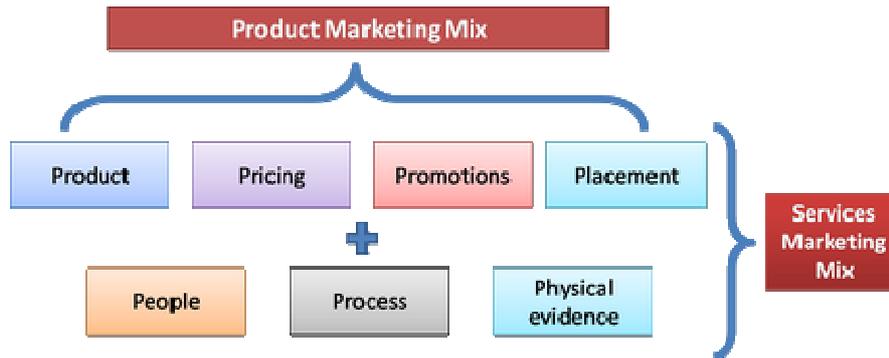
Service sector requires different criteria for measurement of quality. In case of goods it can be easy to judge its quality. We can measure the service level. But services require different criteria for different processes in total service experience. For example, food served in the restaurant may be extremely good, but the customer's experience may get distorted due to the way it was served to them by the waiter or may be because of the ambience of the restaurant.

7. Nature of Demand

In case of services the demand is extremely of fluctuating nature. For example, there may spike in demand in tourism sector during certain seasons and other times may have lackluster demand. A movie may attract more spectators for matinee show but less for the night shows. A restaurant may be flooded with customers during breakfast and lunch times and deserted during other times. Same is true with hotel business. At times customers find it difficult to book a room due to season time and on other occasions most of the rooms remain unoccupied. This calls for lots of adjustments and flexibility in supply of the services.

PS OF SERVICE MARKETING

Just like traditional marketing, the first four elements in the services marketing mix are same. However, unique in nature of services makes marketing of services a little different from marketing of products.



(Image Source: <http://www.marketing91.com/service-marketing-mix/>)

Product

Unlike traditional product, here in services product is actually benefits creating economic values in terms of times and places. In cases of services, the product is intangible, heterogeneous and perishable. In addition to that its production and consumption is done simultaneously. So lot of customization can take place while offering according to customer requirements. On the other side, too much customizing may undermine the standard delivery of the service and negatively affect service quality. It calls for tremendous care while designing the service offering.

Pricing

Pricing of services is more challenging than pricing of goods. Products can be priced easily by considering the cost of the raw material, but in case of services attendant costs like labor and overhead costs - also need to be taken into account. Thus a movie theatre not only has to charge for the cost broadcasting the movie but also has to calculate a price for the ambience provided. The final price can be arrived after adding markup to the total cost for making a reasonable profit.

Place

Since service is delivered simultaneously with its production and there can't be an inventory held for the services nor they can transported, the deciding the location of the service is of immense importance. Nobody would like to travel 10 kms for having a regular dinner, although it is of good quality and priced reasonably. A restaurant would do well if it is located in a busy, upscale market rather than on the outskirts of the city. On the other hand a holiday resort would require to be situated away from the city with less noise and rush. Place utility plays a vital role when it comes to selection of the service provider. There is a higher probability of the purchase if the service is available closer to the customer. Place utility becomes very important while making strategy regarding other 6 Ps.

Promotion

The pattern of service offering can be easily copied by the competitor of a service provider. So in order to differentiate the offering promotion becomes important in creating a unique perception in the mind of consumers. As there are many service providers offering same services like airlines or banks or insurance, these organizations are found to be investing heavily in advertising their offering. So for attracting customers of a particular segment where the services providers have nearly same offerings, promotion can play a crucial role.

Apart from four traditional Ps, there are three unique Ps in the services marketing mix - people, process and physical evidence.

People

Since services are inseparable from its provider, people are a factor of paramount importance in a service delivery process. Thus, an airline is known as much for extremely efficient operations, deep focus on the customer experience, low-cost pricing and logistics solutions, active forward thinking, a motivated team of employees and associates that will give the airline company a competitive edge. The same applies to banks and department stores. Because of this reason, training for staff for better customer service has become a top priority for many organizations today.

Process

It is the process of service delivery which is vital it constitutes the real service and care needs to be taken to maintain consistency in the standard of service that gets repeatedly offered to the customers. Service blue print comes handy in describing the entire delivery process, its parts and details regarding it; as minute details as greeting phrases that are to be used by the service staff.

Physical Evidence

It refers to an environment in which an interaction takes place between an employee and a customer which may have a tangible commodity along with it. Information about the service can be given through physical objects like brochures, company stationery, business cards, reports, company website, etc. If we take an example of a hotel, its design, furnishing, lighting and decoration as well as the appearance and the attitudes of the staff affects the quality of the service and the way customers perceive the experience. As services are intangible in nature, customers continuously look for definite clues which can assist them in understanding the nature of the service company. The more intangible the service, it becomes more important to give tangible clues regarding availability of the service.

CONCLUSION

As consumers, knowingly or unknowingly we use services every day. Like watching TV, using telephone or mobile phones to talk, using a bus or train or plane to reach our desired destination, going to doctor when we are unwell, using a private courier service or government post service for sending letters, visiting a salon for getting haircut, filling petrol or diesel or gas for running the car, using banking services for financial transactions or sending clothes to the laundry, the list is endless.

However most of the time we feel unhappy with the kind of service we get and the price we pay for it. Many times we get late deliveries, we get to meet impolite or amateurish staff, troublesome service hours, lackluster performance, unnecessary cumbersome procedures and a number of other problems. On the other hand service providers have their own problems. They complain about difficulty in making profit, problems in finding skilled and motivated employees, or pleasing ever demanding customers. Fortunately, like most of the fields there are service providers who keep on learning and finding innovative ways to satisfy their customers and yet being a productive, profitable organization, with its hard working and motivated employees.

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