SERVICES MARKETING

Introduction

The lecture continues with management of supply side and looks into strategies for managing demand. Toward strategic formulation, the tools for managing demand are discussed. The thrust of the lecture is toward learning when to *stimulate* demand with incentives in low periods and when to *shift* demand from peak period to low period. The important concepts of differential pricing and yield management are also discussed.

Increase customer participation: To serve more customers and optimize revenues, companies like to involve customers in the delivery process to hasten it. Examples are self-service cafeterias and buffet lunches or dinners. The idea is to keep their employees at a number not exceeding the one that exists during lean hours and let the customers do the job through their involvement.

Whereas it may work for buffets and cafeterias and ATMs, it may arouse feelings of dislike for certain other jobs that customers may have to do by themselves. Just think of a minor service of checking the tire pressure of your car or motorbike. Your involvement as a customer who has to do it himself may take you to another location where you are fully served. Businesses have found many services getting choked up due to customers' inexperience or dislike and therefore they have to be sensitive to the nature of business they are in.

Sharing facilities: Many firms may like to share facilities with other firms to improve their capacity. To internationalize its service, a courier service may like to get into such an agreement with another firm that may offer to handle the wishing company's business internationally, as long as it is not a threat to the offering company's business and offers viable commercial attractions. Actually, the offering company may get into some other kind of venture with the wishing company to make gains on another account.

Outsourcing: Yet another important approach to capacity enhancement, outsourcing works well for certain industries like catering and data processing. A better decision is to outsource to another outfit the peripheral services and not the core. A catering service outsourcing part of the food is not doing it for the core product, which is a composite of specializations in different kinds of foods, menu management, and a unique style of delivery.

Outsourcing frees up a company's time for the core service products and hence giving it more capacity. Outsourcing jobs like "data processing" is very popular for the reason that it may not be the company's core product. Call centers are a classic example of outsourcing of voice data handling and management. Think of a call center that handles the operations of huge retail stores and airlines.

Even HR function is nowadays being outsourced to HR consultants who specialize in functions like hiring, staffing, keeping employee records, and maintaining other HR information systems.

Demand management strategies[1]

There are basically three strategies that companies can use to manage demand.

- Shift usage to a lean period
- Decrease usage at the peak period
- Stimulate usage during lean period

Shifting usage to a lean period has some advantages. By shifting usage we do not lose business. Service quality is not affected. Income is not lost. Efficiency improves, for we can bring the business to an optimal level. However, whether or not we *can* shift usage is a question. The answer lies in understanding the demand pattern and the causes of variation.

Shifting the usage depends, in many cases, on customers' ability to have control over the causes of fluctuation. If customers use a particular bus service for commuting to office in the morning and back home in the evening, this business cannot be shifted, for customers do not have control over the cause that may actuate them to shift the usage – getting to office and home at timings of their choice.

Services on which customers can exercise a control relating the cause of shift, sellers should try to actuate that shift with certain incentives. Incentive-based shift may work for air travel in the case of those travelers who may opt to travel during the week days at lower rates. In such a situation, airlines can shift the week end rush to the week days for those who are willing to accept the shift.

Decreasing usage becomes inevitable when usage cannot be shifted and demand has exceeded the supply.

Stimulating demand during the lean period is done in a bid to utilize the resources and ensure there is no wastage. Hotels at resorts can get into this mode during slow periods. Restaurants do the same thing if demand is low for lunch; they may opt to start a breakfast service to fully utilize all the resources that stand committed to the operation.

Tools for managing demand[2]

Sellers have at their disposal the following tools they can use as strategic moves to better manage demand. These are:

- Reservations
- Differential pricing
- Communication

Reservations are used as a standard practice by professional services like medical, legal, and consultancies of different kinds with the basic objective of managing a consistent customer inflow and hence demand. Services like hotels, restaurants, and airlines also do the same to ensure availability for their customers upon arrival and thus managing demand in an optimal manner. In addition to guaranteeing availability of the service, the sellers can shift demand and hence the usage to periods, which are desired by sellers for being more practical. They will never let the customers know of this move, who will upon revelation of this maneuver be annoyed.

Differential pricing is another interesting tool available for managing demand. A low price for low demand period and a high price during high demand period are reflections of a differential pricing model.

Incentives during low demand periods and higher prices at peak demand periods are the moves companies make. Incentives during low demand period may stimulate demand, while higher prices during peak periods help to curtail excessive demand and shift it to low demand periods. Demand will decrease in the case customers are not willing to pay a higher price. This may not cause a loss to the company that in any case is not in a position to entertain the excess demand.

Using high differential pricing is a good strategy, for it brings in more revenue regardless of whether demand can be shifted or not. It is even better if demand consistently exceeds supply. And, it is best if the shift takes place!

It is for this reason that airlines have a unique system of charging you a higher price as and when plane capacity increases. Same is the case with hotels and business centers.

Communication of the strategic moves lets customers know what companies are up to. Whether they are stimulating demand or shifting usage, there has to be communication from the seller directed at customers to know what is going on. Communication by employees can also be undertaken to educate customers about scheduling their activities in a manner most conducive to the sellers' work schedules. In an auto garage, workers can convincingly tell their customers the best time of the day they should prefer. In other words, the frontline or onstage component can easily convince customers to alter their demand.

Advertising can do a trick when companies announce their long working hours. The objective is to give customers the flexibility of visiting the facility by altering their demand pattern. When people know they can avail of a certain service after office hours, they will flex their schedules. The problem, however, will occur, if most of the customers shift their usage after office hours. Given that, communication from the staff can help a lot.

Communication by customers to other customers is yet another way of spreading the word around for the intended strategy. Customers tell other customers from their experience about which time of the day or the season is the best time to buy a particular service. This helps others in altering their demand patterns if they can.

Coping with fluctuating demand[3]

It basically relates to flexing supply and expanding it to absorb an upsurge in demand. There are a few strategies at the disposal of sellers, but the ones that are most common among many of them are:

- Going for part-timers
- Having existing staff work overtime
- Cross-training, and
- Outsourcing

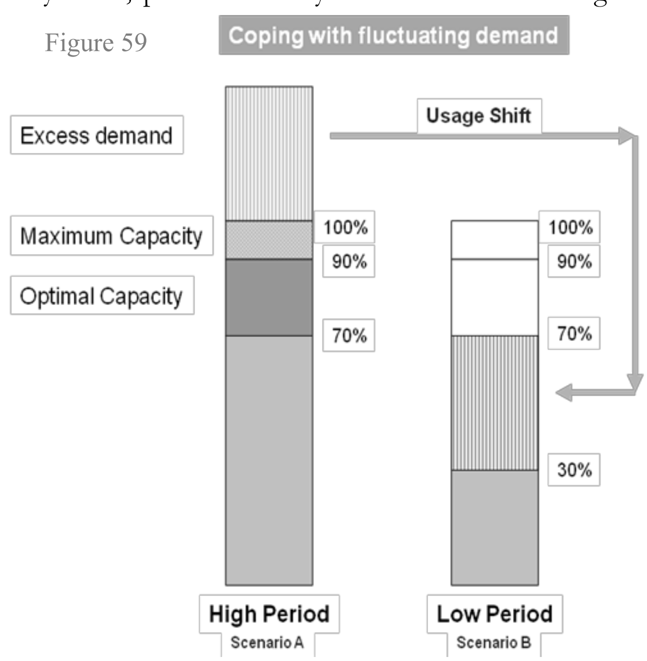
Part-timers are good for low-skill jobs that are offered by sellers of cost efficiency position. Conversely, regulars are not good for such positions, for they add to costs. Regulars are best suited to businesses that are into customization and functional quality positions.

For services like tax consultancies or accountancy firms, part-timers may not be as useful as regular ones putting in overtime. This owes to special skills and knowledge about the jobs that are undertaken by the staff.

Outsourcing is another popular strategy that works in both cost-efficiency and customization positions. Cost efficiency position can relate to catering and janitorial services etc. Customization can relate to consultancies and HR etc. Many consultancy firms hire freelance, but highly qualified personnel whenever there is an upsurge in demand making expansion of capacity inevitable.

The fact remains that fluctuating demand can best be managed by a mix of both supply side and demand side strategies. This implies *expanding supply* and *curtailing demand* at peak time. Most companies will expand their capacity first to the maximum. Thereafter, they get into curtailing the peak demand. By doing so, they can maximize their revenues. The phenomenon is illustrated graphically in the accompanying figure 59.

Figure 59



The presentation is self-explanatory. However, what is of interest here is the shift that is shown taking place from "high period" to "low period".

Yield Management[4]

This concept is about balancing capacity utilization, pricing, market segmentation, and financial returns. Basically a pricing tool, it seeks help of a methodology that maximizes revenues based on a detailed analysis of the past purchase behavior of different segments a company serves.

The analysis is carried out with the help of computer-based models that use historical data and sophisticated mathematical algorithms to come up with a mix of pricing for different segments. By selling at differential pricing, organizations find the best balance among the prices charged, available capacity, and the segments to which the capacity is sold. The objective remains to maximize financial returns from the capacity.

The model is extensively used by the airlines industry and works opposite to the concept of running out stocks of tangible goods. In case of tangibles, the arrival of a new model or design may make the existing stocks less attractive and force sellers to start reducing their prices in order to make room for the new model. Yield management, conversely, starts with selling at the lowest price and gradually builds up on pricing as capacity starts receding.

As an example, an airline instead of selling all 200 seats at PKR 5,000 each and generating PKR 1 million would like to maximize this level of revenue by keeping the base price of 5,000 for a certain segment and charging higher price to other segments. The accompanying graphical presentation as figure 60 makes it clear.

Yield Management

Figure 60

Seats		Price	Revenue
90	45%	5,000	450,000
60		6,000	360,000
30		7,000	210,000
20		10,000	200,000
200			1,220,000

The revenue generated by using the yield management pricing model is 22% higher than the traditional way of working out pricing and revenue, which would have been PKR 1 mil.

People who buy tickets early pay less; they are price conscious customers. Those who come later pay more. They may still be price conscious customers or leisure travelers; they pay a little higher for buying a little late. The ones who are further late pay even more. And, those who are the last ones to buy tickets are the ones whose schedules are inflexible; they have to fly for business or emergencies due to which they buy almost at the last moment and at the highest price. The interesting phenomenon about yield management is its ability to maximize revenues in any situation.

If it is low period and sales are projected to be half the plane's capacity, yield management still has the potential to bring the company more revenue than cutting the price to stimulate demand. Instead of giving a straight price cut, airlines offer different pricing even in a low period by offering different pricing to different segments and maximize revenues.
Yield management, however, suggests that sellers work pricing for different segments at different times. Therefore, we can say that yield management is the "process of allocating the right capacity to the right segment at the right price" to maximize revenues.

Yield therefore is a measure of the extent to which a company's capacities can exploit its revenue generating potential.

How does the model work?

Once the model has worked out the potential capacities for different segments, the information is passed on to sales people and representatives who make bookings accordingly. Since the model is most successful in airlines and has been in existence for more than 20 years, decisions are continuously made on how many seats to give to which segment at what price; it may change on hourly basis.

There are two important conditions for this model to work:

1. A service seller has more than one segment to serve and those segments arrive for reservations at different times.
2. Those who arrive early for reservations are more price conscious than those who arrive late.

Over-bookings are done to compensate for "no shows". In case they are more than it was projected or cancellations take place, the last minute sale at low pricing is initiated to stimulate demand generally through internet and also agents.

Challenges[5]

Along with benefits of revenue maximization, it also carries some disadvantages.

- Too much revenue focusing may result in a loss of competitive focus and hence quality of service.
- Customers get annoyed upon revelation of having paid more than others. Customer education is important for them to understand the reasons and rationale behind it.
- Employees feel a little down for not being able to use their judgment and discretion because of restrictions inherent in the working of the model.
- Employees may also not find it compatible with the rewards that they get against bookings.
- Employees may feel they have not been trained to effectively use the model.

Summary

The greatest challenge that sellers face is expansion of supply when demand for the service soars and filling capacity when demand drops. Tools to deal with both situations should be carefully considered and then applied to cope with the emerging situation. Differential pricing is an exciting idea that helps sellers look into the variations of demand patterns and then come up with the relevant price with the objective of optimizing revenues. It should reflect that proper considerations of flexing supply, shifting of usage, and offering customer-suitable timings have been taken into account.

Bibliography

1. *Kenneth E. Clow and David L. Kurtz, "Services Marketing – Operation, Management, and Strategy", 2e; Biztantra (292-294)*
2. *Ibid (294-296)*
3. *Ibid (297-298)*
4. *Valarie A. Zeithaml and Mary Jo Bitner, "Services Marketing – Integrating Customer Focus Across The Firm", 3rd edition; McGraw Hill (424-428)*
5. *Ibid (428-429)*