DegreeLive

BBA | Semester II | UK2MDCMGT102

Services Marketing

Course Code: UK2MDCMGT102 • Module 2 Notes

Module 2: The Expanded Services Marketing Mix (The 7 Ps)

Course: Services Marketing (UK2MDCMGT102) • Semester II • BBA FYUGP Kerala University

1. Evolution from the Traditional 4 Ps to the Extended 7 Ps Framework

In classical marketing management, E. Jerome McCarthy (1960) formulated the universal marketing mix framework known as the **4 Ps**: Product, Price, Place, and Promotion. While the 4 Ps paradigm provided an effective tactical framework for mass-manufactured physical consumer goods moving through wholesale distribution channels, marketing scholars recognized its profound inadequacy when applied to the intangible, perishable, heterogeneous, and inseparable nature of services.

In 1981, marketing theorists **Bernard H. Booms and Mary Jo Bitner** revolutionized services management by introducing three additional tactical elements specifically tailored to the unique operational realities of service encounters: **People**, **Physical Evidence**, and **Process**. Together, these seven tactical levers constitute the **Extended Services Marketing Mix (The 7 Ps)**:

Mix Element	Core Tactical Definition	Strategic Relevance to Services Marketing
Product	The bundle of core and supplementary benefits delivered to the consumer.	Services are experiential performances; must be designed as multi-layered product architectures (The Flower of Service).
Price	The financial and non-monetary sacrifices made by the customer.	Functions as a direct proxy for intangible quality; utilizes dynamic pricing and yield management to balance perishable capacity.
Place	The delivery channels and geographical or digital touchpoints.	Determines customer convenience, physical accessibility, and multi-site consistency across digital and branch networks.
Promotion	Integrated marketing communications conveying value propositions.	Must actively overcome intangibility through physical metaphors, manage customer expectations, and stimulate word-of-mouth advocates.
People	All human actors who play a role in service delivery.	Frontline employees embody the brand during the "Moment of Truth"; emotional labor and employee empowerment dictate service quality.
Physical Evidence	The physical environment (Servicescape) and tangible cues.	Provides tangible proof of abstract service quality through architecture, lighting, layout, staff uniforms, and digital UI design.
Process	The actual procedures, mechanisms, and flow of activities.	Mapped via Service Blueprinting to eliminate operational bottlenecks, ensure Six Sigma quality, and manage customer waiting lines.

Degreelive

2. The Service Product: Architecture and the Flower of Service Model

A service product is not a single, isolated transaction; rather, it represents a carefully engineered constellation of core and supplementary performances. Christopher Lovelock conceptualized this multi-layered architecture through the **Flower of Service Model**, where the central core product (the flower's nucleus) is surrounded and protected by eight distinct petals representing supplementary service elements:

The Core Product

The **Core Product** delivers the fundamental benefit or problem-solving performance that addresses the customer's primary need. For example, in passenger aviation, the core product is the safe, rapid physical transportation of a human body from City A to City B; in luxury hospitality, the core product is a restful night's sleep in a secure room.

The Eight Supplementary Petals of the Flower

Lovelock partitioned the supplementary petals into two functional categories: **Facilitating Services** (essential for service delivery; without them, the core service cannot be consumed) and **Enhancing Services** (add extraordinary value, luxury, and delight to the customer experience):

Category A: Facilitating Services

1. **Information:** Clear, timely, accurate data required by the customer to consume the service effectively (e.g., flight schedules, fee structures, operating hours, terms of use, surgical preparation guidelines).
2. **Order-Taking:** The formal acceptance of the customer's purchase intent (e.g., airline ticket reservations, hotel room booking engines, restaurant table bookings, university course enrollment systems). Order-taking must be fast, polite, and error-free.
3. **Billing:** The clear, transparent presentation of financial charges. Inaccurate, complex, or late billing is a leading cause of customer dissatisfaction in telecom, utility, and hospital services. Bills must be itemized, legible, and delivered promptly.
4. **Payment:** Providing diverse, frictionless payment mechanisms: digital UPI gateways, credit cards, net banking, automated monthly debits, and point-of-sale (POS) terminals.

Category B: Enhancing Services

5. **Consultation:** Tailored, professional advisory support designed to diagnose customer needs and provide customized solutions (e.g., financial planning advice, dietary counseling at a wellness resort, executive coaching).
6. **Hospitality:** Greeting, greeting courtesy, physical comfort, and warmth demonstrated to the customer (e.g., complimentary beverages upon hotel arrival, comfortable waiting lounges, attentive flight attendants).
7. **Safekeeping:** Protecting the physical possessions and personal data that customers entrust to the service provider (e.g., coat check-in, hotel safe deposit boxes, vehicle valet parking, baggage handling, digital data privacy protocols).

DegreeLive

8. **Exceptions:** Managing supplementary requests that fall outside routine operating procedures (e.g., special dietary requirements for airline meals, emergency flight rescheduling, addressing special disabilities, handling customer grievances). Service excellence is defined by how effectively an organization manages unexpected exceptions.

3. Pricing of Services: Financial Strategies, Non-Monetary Costs, and Yield Management

Pricing intangible services is significantly more complex than pricing physical goods. Because services lack raw material physical substance, customer price perception is heavily mediated by perceived prestige, brand trust, and context.

The Tripartite Foundation of Service Pricing

- **Cost-Based Pricing:** Establishing prices based on calculated operational costs plus a target profit margin. In services, this involves computing direct labor hours, facility overhead, and amortized technology infrastructure. A major hazard is that fixed overheads are difficult to apportion accurately when customer demand fluctuates unpredictably.
- **Competition-Based Pricing:** Pegging service prices relative to rates charged by direct industry rivals. Common in commoditized services (budget airlines, ridesharing cabs, retail banking fees). However, excessive reliance on competition-based pricing can trigger destructive price wars that erode industry profitability.
- **Value-Based Pricing:** Establishing prices strictly based on the customer's perceived value and economic benefit derived from the service, irrespective of the service provider's internal production cost. For instance, a top corporate restructuring lawyer charging ₹10 lakhs for a two-hour strategic boardroom consultation is pricing based on the immense financial liability averted for the client, not the physical time expended.

Non-Monetary Costs in Service Consumption

Marketers must recognize that the total cost incurred by a service customer encompasses significantly more than the monetary ticket price. Service consumers incur four profound **Non-Monetary Costs**:

1. **Time Cost:** The hours or days expended searching for, traveling to, waiting in line for, and consuming the service.
2. **Search Cost:** The cognitive effort and physical energy required to research, evaluate, and compare complex, high-credence service alternatives.
3. **Physical Effort:** The bodily fatigue caused by navigating sprawling airports, climbing steps, or enduring uncomfortable seating.
4. **Psychological & Sensory Costs:** The anxiety, fear, embarrassment, or mental stress associated with consuming services (e.g., dental phobia, fear of surgical failure, embarrassment when applying for debt restructuring, sensory discomfort from loud noise or unpleasant hospital antiseptic odors).

DegreeLive

Yield Management (Dynamic Capacity Pricing)

Pioneered by American Airlines in the post-deregulation 1980s, **Yield Management** (also termed Revenue Management) is a sophisticated algorithmic pricing technique that allocates perishable service capacity among diverse market segments at dynamic price points to maximize total revenue per available capacity unit:

Yield management operates under the classic formula:

```
Revenue Yield = Actual Total Revenue Realized / Maximum Potential Revenue at Full Rack Rate
```

Where Maximum Potential Revenue equals total available capacity multiplied by the highest published premium tariff.

In the hospitality industry, the definitive performance metric combining occupancy and pricing power is **RevPAR (Revenue Per Available Room)**:

```
RevPAR = Occupancy Rate × Average Daily Rate (ADR)
```

Alternatively formulated as Total Room Revenue divided by Total Available Rooms in the establishment.

Worked Numerical Example: RevPAR and Yield Management Optimization

A luxury business hotel in Kochi maintains a total capacity of 200 rooms. The hotel management evaluates two distinct operational pricing strategies for an upcoming commercial conference week:

- **Strategy A (High Fixed Rack Rate):** The hotel maintains a rigid premium price of ₹8,000 per room night. Due to price resistance, the hotel achieves a 50% Occupancy Rate (100 rooms booked).
- **Strategy B (Yield-Managed Dynamic Pricing):** The hotel deploys tiered yield pricing: 80 rooms booked early by conference delegates at ₹5,000; 60 rooms booked by mid-tier corporate travelers at ₹6,500; and 40 rooms booked last-minute by urgent executive travelers at ₹9,000. Total rooms booked = 180 (90% Occupancy Rate).

Step-by-Step Mathematical Resolution:

- *Evaluating Strategy A:*
  - Total Room Revenue = 100 rooms × ₹8,000 = ₹8,00,000.
  - Average Daily Rate (ADR) = ₹8,00,000 / 100 = ₹8,000.
  - Occupancy Rate = 100 / 200 = 0.50 (50%).
  - RevPAR = 0.50 × ₹8,000 = **₹4,000 per available room**.
- *Evaluating Strategy B:*
  - Tier 1 Revenue = 80 × ₹5,000 = ₹4,00,000.
  - Tier 2 Revenue = 60 × ₹6,500 = ₹3,90,000.
  - Tier 3 Revenue = 40 × ₹9,000 = ₹3,60,000.
  - Total Room Revenue = ₹4,00,000 + ₹3,90,000 + ₹3,60,000 = ₹11,50,000.

- Average Daily Rate (ADR) = ₹11,50,000 / 180 = ₹6,388.89.
- Occupancy Rate = 180 / 200 = 0.90 (90%).
- RevPAR = ₹11,50,000 / 200 = **₹5,750 per available room**.

Managerial Implication: Although Strategy B achieved a lower Average Daily Rate (₹6,389 vs ₹8,000), dynamic yield management generated an incremental ₹3,50,000 in gross nightly room revenue, expanding RevPAR from ₹4,000 to ₹5,750 (a 43.75% increase in capital productivity).

Tactical Service Pricing Paradigms and Fairness Perceptions

Beyond baseline cost and competition models, service marketers deploy specialized tactical pricing structures:

- **Price Bundling:** Combining multiple complementary service items into a unified package at a discounted price:
  - *Pure Bundling:* The consumer can only purchase the services as a collective bundle (e.g., all-inclusive resort packages covering lodging, meals, and water sports).
  - *Mixed Bundling:* Customers can purchase the services separately or together as a bundle with clear financial savings (e.g., telecommunications triple-play bundles combining broadband internet, cable television, and landline phone).
- **Two-Part Pricing:** Partitioning the price into a mandatory fixed base fee for access, coupled with a variable usage fee based on volume (e.g., amusement parks charging a gate admission fee plus per-ride tickets, or cloud hosting platforms charging a monthly subscription plus per-gigabyte data transfer fees).
- **Peak-Load Pricing:** Charging higher tariffs during predictable periods of peak capacity strain (e.g., electricity utilities charging premium rates during afternoon air-conditioning surges, or toll roads charging peak-hour rush tariffs).
- **Customer Perceptions of Price Fairness:** In behavioral economics, Daniel Kahneman's *Dual Entitlement Principle* dictates that consumers perceive price increases as fair only when driven by demonstrable cost increases (e.g., fuel surcharges during oil crises). Arbitrary surge pricing during natural disasters or medical emergencies is perceived as exploitative gouging, triggering severe brand backlash and regulatory intervention.

4. Integrated Service Promotion: Overcoming Intangibility

Promoting services requires specialized communication strategies designed to counteract intangibility and manage customer expectations:

Leonard Berry's Framework for Tangibilizing Services in Advertising

Leonard Berry formulated four strategic communication techniques to overcome the advertising challenges of intangible services:

DegreeLive

1. **Visualization:** Depicting vivid, concrete physical imagery of people, facilities, or experiences to illustrate the service benefit (e.g., cruise advertisements showcasing crystalline ocean waters, sun decks, and gourmet banquets rather than abstract concepts of 'relaxation').
2. **Association:** Linking the intangible service to a recognizable, memorable tangible personality, physical animal, or cultural symbol (e.g., Prudential's Rock of Gibraltar symbolizing unyielding financial stability, or the Merrill Lynch Bull symbolizing bullish financial strength).
3. **Physical Representation:** Showcasing the actual physical evidence, staff, or high-tech equipment that will deliver the service (e.g., hospitals displaying cutting-edge robotic surgical suites and accredited physicians in clean white lab coats).
4. **Documentation:** Providing verifiable empirical facts, statistical metrics, objective track records, and third-party certifications (e.g., airlines publishing audited on-time arrival percentages, or business schools publishing verified salary placement audits).

5. Distribution and Place in Services: Multi-Channel Networks

The "Place" element in services encompasses the decisions regarding *where*, *when*, and *how* the service is delivered to the customer. Christopher Lovelock identified three primary delivery options:

1. **Customer Visits the Service Site:** The customer must travel physically to the service facility (e.g., movie cinemas, physical university campuses, surgical hospitals). Location selection is paramount: proximity, highway accessibility, ample parking, and aesthetic surroundings dictate commercial success.
2. **Service Providers Visit the Customer:** The service firm travels directly to the client's home or commercial premises (e.g., pest control, corporate auditing, home plumbing, food delivery). Location convenience is replaced by scheduling precision, mobile fleet management, and logistics reliability.
3. **Arm's Length / Digital Transactions:** The customer and service provider interact remotely via telecommunications, mobile applications, or the internet with zero physical co-presence (e.g., internet banking, digital streaming, SaaS software, remote customer support). Physical location becomes completely irrelevant; success hinges on digital UI design, server uptime, and cybersecurity.

6. People: Human Resource Strategy and Emotional Labor

In services marketing, **People** encompass all human actors who participate in service delivery and influence the buyer's perceptions. Frontline employees are the literal personification of the service brand during the "Moment of Truth."

Boundary-Spanning Roles and Emotional Labor

Frontline service personnel occupy **Boundary-Spanning Roles**: they operate at the delicate, stressful boundary between the internal organization and the external customer. They must simultaneously satisfy corporate demands for speed and low cost, while satisfying customer demands for personal empathy and lavish attention, creating chronic role stress.

Degreelive

Sociologist Arlie Hochschild (1983) introduced the concept of **Emotional Labor**—the psychological effort required of service workers to display organizationally desired emotions (warmth, cheerfulness, calm) during service encounters, regardless of their personal emotional state:

- **Surface Acting:** Frontline workers mechanically simulate required facial expressions and vocal tones (putting on a "fake smile") while their internal feelings remain frustrated or depressed. Prolonged surface acting causes severe psychological alienation, emotional exhaustion, and rapid workplace burnout.
- **Deep Acting:** Employees actively modify their internal cognitive perceptions and feelings to genuinely empathize with the customer, generating authentic warmth. Deep acting yields superior customer satisfaction and protects workers from emotional cynicism.

Empowerment and the Cycle of Failure versus Cycle of Success

Lovelock and Schlesinger contrasted two opposing organizational paradigms in services management:

- **The Cycle of Failure:** Begins with short-sighted cost-cutting: hiring cheap, low-skilled workers; providing minimal training; imposing rigid, repetitive scripts; and paying low wages. Result: bored, frustrated workers who deliver poor service; customers defect; company profits plummet; management responds by cutting labor costs further, locking the firm into an accelerating downward death spiral.
- **The Cycle of Success:** Begins by recruiting high-caliber employees based on emotional intelligence; investing heavily in comprehensive training; paying above-market compensation; and **Empowering** frontline workers with the authority and financial discretion (e.g., Ritz-Carlton empowering every employee with up to $2,000 to resolve any customer grievance without managerial approval). Result: proud, loyal employees deliver extraordinary service; customer retention explodes; corporate profitability surges; profits are reinvested in staff, creating an upward virtuous spiral.

7. Physical Evidence: The Servicescape and Environmental Psychology

Because services are fundamentally intangible, customers desperately search for tangible cues to evaluate the competence, hygiene, and reliability of the service provider. **Physical Evidence** encompasses the physical environment where the service is delivered (the **Servicescape**) along with all tangible collaterals (brochures, bills, business cards, websites, and staff uniforms).

Mary Jo Bitner's Servicescape Framework (1992)

Bitner formulated an influential environmental psychology model explaining how physical surroundings impact the emotional and behavioral responses of both customers and employees. The framework operates across three environmental dimensions:

1. **Ambient Conditions:** Background environmental stimuli that affect the five human senses:
    - *Lighting:* Dim, warm lighting in fine-dining restaurants creates intimacy and encourages prolonged leisurely dining; bright, sterile fluorescent lighting in fast-food outlets encourages rapid consumption and fast table turnover.

DegreeLive

- *Music & Sound:* Slow-tempo classical music in supermarkets increases customer browsing time and basket spend; high-tempo electronic music in retail clothing stores energizes younger shoppers.
- *Aromas & Temperature:* Subtle vanilla or citrus scents in luxury hotel lobbies evoke relaxation and luxury; uncomfortable room temperatures trigger immediate consumer irritation.

2. **Spatial Layout and Functionality:** The physical arrangement of machinery, furniture, counters, and aisles. Layout must facilitate intuitive navigation, comfortable seating, and operational ergonomics without congestion (e.g., IKEA's guided maze layout maximizing product discovery, or airport security screening lines engineered for high passenger throughput).
3. **Signs, Symbols, and Artifacts:** Explicit and implicit navigational cues: clear directional signage, emergency exit markings, company logos, diplomas and licenses displayed on walls, and cultural artworks that communicate brand heritage and institutional professionalism.

8. Process: Service Delivery Systems and Service Blueprinting

The **Process** element represents the operational architecture through which the service is assembled and delivered to the consumer. A poorly designed process causes long waiting queues, frequent service errors, customer frustration, and employee fatigue.

G. Lynn Shostack's Service Blueprinting Methodology

Developed by Lynn Shostack (1984), a **Service Blueprint** is an exhaustive, visual flowchart mapping every operational micro-step of a service delivery system from start to finish. A blueprint simultaneously visualizes the customer journey alongside all underlying employee actions, digital server processes, and support infrastructure.

The Five Structural Components of a Service Blueprint

A standard service blueprint is organized into horizontal layers separated by distinct functional demarcation lines:

1. **Customer Actions:** The chronological sequence of steps, choices, and interactions performed by the customer (e.g., arriving at hotel, approaching desk, presenting credit card, entering room).
2. --- *The Line of Interaction* ---
3. **Onstage (Visible) Contact Employee Actions:** Face-to-face or visible digital actions performed by frontline service staff that are directly seen and experienced by the customer (e.g., desk clerk greeting guest, handing over room key card).
4. --- *The Line of Visibility* ---
5. **Backstage (Invisible) Contact Employee Actions:** Operations performed by employees behind the scenes, completely hidden from the customer's view (e.g., telephone reservation agent booking room in system, chef cooking meal in kitchen).
6. --- *The Line of Internal Interaction* ---

DegreeLive

7. **Support Processes:** Internal enterprise systems, databases, software platforms, and non-contact personnel required to execute the service (e.g., automated credit card authorization gateways, central reservation database, housekeeping linen laundry).
8. **Physical Evidence:** Mapped at the very top of each step, detailing every tangible cue the customer encounters at each specific touchpoint (e.g., hotel exterior facade, parking signage, lobby marble floor, room key card, plush bed linen).

Strategic Utility: Fail-Safing (Poka-Yokes) and Bottleneck Remediation

By mapping the entire operational workflow, service blueprinting enables management to achieve three vital operational objectives:

- **Identifying Critical Failure Points:** Pinpointing the exact operational steps where errors are most likely to occur (e.g., baggage misdirection during airport flight transfers).
- **Deploying Service Poka-Yokes (Fail-Safing Mechanisms):** Introducing behavioral or physical fail-safes borrowed from Japanese manufacturing:
  - *Server Poka-Yokes:* Color-coded medical trays ensuring surgeons never leave instruments inside patients; automated restaurant order printers preventing forgotten kitchen orders.
  - *Customer Poka-Yokes:* ATMs beeping insistently and forcing customers to remove their debit card before dispensing cash, preventing customers from walking away and forgetting their card.
- **Managing Waiting Lines and Queuing Psychology:** David Maister's psychology of waiting lines: unoccupied time feels longer than occupied time (placing mirrors or television news in elevator lobbies); uncertain waits feel longer than known, finite waits (displaying estimated wait times in app queues); unexplained waits feel longer than explained waits.

9. Environmental Psychology and Servicescape Behavioral Dynamics

The design of the physical service environment exerts a profound subconscious influence over consumer psychology. Academic researchers utilize environmental psychology models to predict consumer behavior inside the servicescape:

1. The Mehrabian-Russell Stimulus-Organism-Response (S-O-R) Model

Developed by Albert Mehrabian and James Russell (1974), the S-O-R paradigm explains that external environmental stimuli impact consumer purchasing through three sequential cognitive-emotional phases:

- **Environmental Stimuli (S):** The multidimensional servicescape inputs: ambient acoustic volume, color temperatures, ceiling heights, seating textures, and spatial layouts.
- **Organism Internal State (O):** The conscious and subconscious affective states evoked inside the customer, structured across the **PAD Framework**:
  1. *Pleasure:* The degree to which the individual feels happy, satisfied, or joyful in the environment.
  2. *Arousal:* The level of mental stimulation, excitement, alertness, or sensory energy evoked.

3. *Dominance:* The degree to which the customer feels in control, autonomous, and unconstrained versus restricted and overwhelmed.

- **Behavioral Responses (R):** The ultimate behavioral outputs, classified into two polar categories:
  - *Approach Behaviors:* Positive responses including prolonged physical stay, exploration of retail aisles, increased discretionary impulse spending, and high willingness to repeat visits.
  - *Avoidance Behaviors:* Negative responses including immediate physical departure, desire to terminate the transaction rapidly, cognitive distress, and permanent avoidance of the establishment.

2. The Russell Model of Affect

James Russell conceptualized human emotional reactions to environments along a two-dimensional circumplex map defined by two orthogonal axes: **Pleasantness** (Horizontal Axis: Unpleasant to Pleasant) and **Arousal** (Vertical Axis: Low Arousal / Sleepy to High Arousal / Stimulating):

- **Exciting Environment (Pleasant + High Arousal):** The target zone for amusement theme parks, rock concert venues, casino floors, and sports arenas, where bright pulsing lights and energetic music stimulate spending.
- **Relaxing Environment (Pleasant + Low Arousal):** The target zone for luxury day spas, meditation retreats, fine-dining restaurants, and airport first-class lounges, designed to de-stress the traveler through soft tones and tranquil acoustic soundscapes.
- **Gloomy Environment (Unpleasant + Low Arousal):** Poorly illuminated, dreary government offices, neglected transit waiting rooms, and run-down libraries that induce depression and low cognitive motivation.
- **Distressing Environment (Unpleasant + High Arousal):** Chaotic hospital emergency wards, overcrowded, screeching subway stations, and noisy, aggressive bargain basements that induce intense anxiety and aggressive escape impulses.

10. Franchising, Multi-Site Expansion, and Service Quality Governance

When service organizations scale from a single successful flagship unit to hundreds of nationwide branches, maintaining uniform service quality becomes the paramount strategic hurdle:

The Service Franchising Paradigm

In service franchising, the **Franchisor** grants the legal right to a local independent entrepreneur (the **Franchisee**) to operate a duplicate business unit utilizing the franchisor's proprietary brand name, service blueprints, trade dress, and operating recipes, in exchange for an upfront franchise fee and continuous monthly royalty percentages on gross sales.

- **Advantages of Franchising:** Enables lightning-fast geographic expansion without requiring enormous corporate capital expenditure; leverages motivated local owner-managers who possess deep community relationships and local market knowledge.

- **Strategic Hazards of Franchising:** The constant danger of *Free-Riding and Brand Dilution*. If a rogue franchisee cuts corners on hygiene, uses inferior ingredients, or under-trains frontline staff to pocket short-term profits, they tarnish the global brand equity of the entire franchise network.
- **Quality Governance Mechanisms:** To enforce brand consistency across thousands of franchised locations, franchisors deploy three mandatory compliance mechanisms:
  1. *Comprehensive Operations Manuals:* Exhaustive, multi-volume encyclopedias detailing the exact SOP for every single business process, from cashier greeting scripts to bathroom cleaning schedules.
  2. *Mystery Shopping Audits:* Professional evaluators posing anonymously as regular customers who audit the facility against rigorous, multi-point scoring checklists (measuring food temperature, greeting warmth, transaction speed).
  3. *Net Promoter Score (NPS) Governance:* Tying franchise contract renewals and geographic territory expansion rights strictly to the franchisee maintaining minimum verified customer satisfaction and NPS thresholds.

DegreeLive