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BBA | Semester II | UK2MDCMGT102

Services Marketing

Course Code: UK2MDCMGT102 • Module 4 Notes

Module 4: Segmentation, Capacity Management, and Service Delivery

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

1. Market Segmentation, Targeting, and Positioning (STP) in Services

In modern marketing management, no single service organization can be all things to all customers. Because services represent experiential performances delivered by human employees within constrained physical or digital facilities, attempting to serve an undifferentiated mass market inevitably leads to operational confusion, diluted brand equity, and mediocre service quality. Service enterprises must deploy disciplined **Segmentation, Targeting, and Positioning (STP)** strategies to focus operational capacity on customer cohorts they can serve with distinctive excellence.

Tailoring Segmentation Bases to the Service Context

While traditional consumer goods segmentation relies heavily on demographic variables (age, gender, income), service segmentation must capture how consumers experience, evaluate, and interact with the service delivery process:

- **Behavioral & Usage Segmentation:** Segmenting customers by transaction frequency, booking lead time, and volume. For instance, commercial airlines segment passengers into *Frequent Corporate Road Warriors* (booking last-minute flights, price-inelastic, requiring flexible ticket cancellation and priority security clearance) versus *Occasional Leisure Travelers* (booking months in advance, highly price-sensitive, traveling in family groups).
- **Benefit-Sought Segmentation:** Grouping customers based on the specific core or supplementary benefits they prioritize in the service encounter. In fitness hospitality, one segment seeks high-intensity bodybuilding equipment and athletic coaching; another segment seeks post-work stress reduction, sauna facilities, and yoga mindfulness.
- **Service Sensitivity Segmentation (Channel Preference):** Categorizing customers by their comfort with technology versus personal human interaction:
  - *Digital Self-Service Maximizers:* Prefer automated mobile banking apps, self-checkout kiosks, and AI chatbots for lightning-fast, autonomous transactions.
  - *High-Touch Relationship Seekers:* Prefer sitting down face-to-face with a dedicated personal relationship manager in a comfortable physical branch, valuing personal empathy and reassurance.
- **Psychographic & Lifestyle Segmentation:** Aligning service propositions with customer values, social status aspirations, and lifestyle attitudes (e.g., eco-friendly boutique resorts targeting environmentally conscious travelers who demand zero-carbon credentials and organic cuisine).

Service Positioning and Perceptual Mapping

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Positioning is the deliberate act of designing the service offering and brand image to occupy a distinctive, valued psychological place in the mind of the target consumer relative to competing market alternatives. Jack Trout and Al Ries famously noted: *"Positioning is not what you do to a product. Positioning is what you do to the mind of the prospect."*

To design an effective positioning strategy, service marketers deploy **Perceptual Mapping (Service Positioning Maps)**. A perceptual map is a two-dimensional visual grid plotting competing service brands along two decisive customer decision attributes (e.g., Price vs Speed, or High Personal Touch vs High Technological Automation). Perceptual mapping enables management to:

1. Identify direct competitive vulnerabilities and crowded, hyper-competitive market clusters.
2. Discover lucrative, unexploited market white spaces (unserved customer niches).
3. Track whether corporate repositioning campaigns are successfully altering public brand perception over time.

2. Managing Demand and Capacity: The Perishability Dilemma

The defining operational headache in services marketing stems from the immutable reality of **Perishability** coupled with **Fixed Capacity**. Manufactured goods can buffer fluctuating market demand by accumulating physical inventory in warehouses during sluggish periods and selling from stock during peak surges. Services, however, cannot be inventoried. If service capacity is unused, the economic value is lost forever; if customer demand exceeds capacity, customers are turned away dissatisfied or experience degraded service quality.

The Four Basic States of Capacity Utilization

Christopher Lovelock categorized the relationship between customer demand and operational capacity into four distinct operational states:

Operational State	Demand vs Capacity Relationship	Systemic Repercussions & Quality Impacts
State 1: Excess Demand	Demand significantly exceeds Maximum Operational Capacity.	Customers are turned away; business revenue is lost permanently to competitors; customers who are admitted endure agonizing wait times, severe crowding, and employee exhaustion.
State 2: Demand Exceeds Optimum Capacity	Demand is within Maximum Capacity, but exceeds Optimum Capacity.	No customers are turned away, but the physical servicescape is congested; ambient noise is elevated; frontline staff are rushed and stressed; service quality and customer satisfaction deteriorate visibly.
State 3: Optimum Capacity (Ideal Equilibrium)	Demand exactly matches Optimum Operational Capacity.	Staff are productively engaged without being stressed; facilities are utilized efficiently; customers receive attentive, unhurried, high-quality service; equipment runs smoothly without maintenance failures.

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Operational State	Demand vs Capacity Relationship	Systemic Repercussions & Quality Impacts
State 4: Excess Capacity	Demand is substantially below Optimum Operational Capacity.	Facilities, expensive machinery, and salaried personnel sit idle; fixed operating overhead is wasted; the empty servicescape creates a sterile, lonely, or depressing atmosphere (e.g., an empty restaurant or desolate hotel lobby raising doubts about brand quality).

Defining the Productive Capacity Elements

The operational capacity of any service organization is constrained by four fundamental productive resources:

1. **Physical Facilities:** The number, square footage, and configuration of physical operating units (e.g., hotel rooms, hospital beds, restaurant dining tables, aircraft passenger seats, university lecture halls).
2. **Physical Equipment:** Machinery and technical tools utilized to perform service delivery (e.g., aircraft fleet, dialysis machines, diagnostic MRI scanners, bank ATMs, kitchen ovens).
3. **Human Labor:** The headcount, skill mix, and scheduled working shifts of professional and frontline service personnel (e.g., nurses, airline pilots, software engineers, chefs).
4. **Time and Infrastructure Bandwidth:** The hours of operation, digital server throughput, telecommunications bandwidth, and payment gateway transaction processing speed.

3. Strategic Paradigms for Balancing Demand and Capacity

To resolve the perishability dilemma, service management must deploy a dual-pronged strategy: either **Shifting Demand to Match Capacity**, or **Adjusting Capacity to Match Demand**.

Strategy 1: Shifting Demand to Match Available Capacity

This market-oriented approach seeks to smooth out the jagged peaks and deep troughs of consumer demand curves, redirecting excess peak demand into off-peak periods:

- **Dynamic Pricing Incentives:** Lowering tariffs during off-peak periods (happy hours in restaurants, mid-week budget hotel rates, matinee cinema discounts) to attract price-sensitive consumers; raising prices during peak hours to ration demand and extract consumer surplus.
- **Modifying the Service Offering and Target Segment:** Repurposing the service to appeal to alternate market segments during off-peak seasons. For example, business hotels in metropolitan centers cater to corporate executives from Monday to Thursday, but transform their marketing on Friday to Sunday to offer discounted weekend leisure packages, wellness retreats, and wedding banquets to local families.
- **Advance Reservation and Appointment Systems:** Mandating pre-bookings and taking non-refundable advance deposits (e.g., medical clinics, hair salons, fine dining). Reservations guarantee

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service access for the customer while providing the service firm with predictable demand schedules, enabling precise labor rostering.

- **Queuing Architecture and Waiting-Line Psychology:** When demand cannot be shifted, management must design efficient queuing systems (single-line multi-server serpentine queues ensuring absolute fairness) combined with psychological diversion: installing mirrors in elevator lobbies, broadcasting financial news on screens, providing comfortable seating, and offering complimentary beverages to alter customer perception of elapsed time.

Strategy 2: Adjusting Capacity to Match Fluctuating Demand

This operations-oriented approach, known as **Chase-Demand Strategy**, flexes physical and human capacity dynamically to track incoming customer volume:

- **Hiring Part-Time and Seasonal Employees:** Employing flexible part-time staff (e.g., college students or seasonal workers) during peak festival seasons, holidays, and evening rushes, keeping baseline fixed payroll expenses low.
- **Cross-Training and Multi-Skilling Personnel:** Training employees to perform diverse operational roles. During mealtime peak surges in a restaurant, administrative office staff or managers assist as table runners and bussers; during off-peak hours, frontline staff perform kitchen prep and inventory audits.
- **Inviting Customer Participation (Self-Service Technologies - SSTs):** Shifting labor-intensive operational steps onto the customer through digital self-service: self-check-in baggage drops at airports, self-ordering touchscreen kiosks at quick-service restaurants, and mobile banking apps, expanding transaction capacity infinitely with zero incremental payroll cost.
- **Renting Temporary Physical Facilities and Equipment:** Leasing supplementary delivery vans, banquet furniture, or outsourced medical testing laboratories during demand spikes rather than carrying expensive, idle owned capital year-round.
- **Scheduling Routine Maintenance During Off-Peak Windows:** Executing hospital deep-cleaning, hotel room repainting, aircraft engine overhauls, and IT server updates strictly during the dead of night or during low-season months, ensuring 100% equipment availability during peak revenue windows.

4. Advertising, Branding, and Building Brand Equity in Services

Because physical products are tangible, consumers can easily distinguish a Coca-Cola can from a Pepsi can through trade dress and packaging. In services, where the core offering is an intangible performance, **Branding** serves as the indispensable anchor of consumer trust, perceived quality, and emotional reassurance.

Kevin Lane Keller's Customer-Based Brand Equity (CBBE) Applied to Services

Adapted to the service context, Keller's **Brand Equity Pyramid** illustrates the four progressive stages of building a powerhouse service brand:

1. **Brand Salience (Who Are You?):** Achieving deep brand awareness and top-of-mind recall when a customer experiences a service need (e.g., thinking immediately of FedEx when an urgent parcel must reach London overnight).
2. **Brand Performance and Imagery (What Are You?):** Establishing service meaning across two pillars:
   - *Performance:* Flawless reliability, transaction speed, customer empathy, and servicescape comfort.
   - *Imagery:* The psychological associations, heritage, and social prestige linked to the brand (e.g., American Express Centurion Black Card evoking elite exclusivity).
3. **Consumer Judgments and Feelings (What Do I Think and Feel About You?):** Evoking customer judgments of credibility, competence, and service quality, coupled with positive emotional feelings of safety, warmth, and self-respect.
4. **Brand Resonance (What Kind of Bond Do We Have?):** The ultimate pinnacle of brand loyalty. Customers experience an intense, active psychological attachment to the brand, becoming vocal evangelists who reject all competing alternatives even if offered substantial discounts.

5. The Critical Role of Frontline Personnel: The Service-Profit Chain

In services marketing, frontline employees are not merely operational laborers executing mechanical tasks; they are **Brand Ambassadors**, **Marketers**, and **Value Creators**. During the service encounter, the frontline employee *is* the brand in the customer's perception.

Boundary-Spanning Roles and Chronic Role Stress

Frontline service workers operate as **Boundary-Spanners**, standing directly at the turbulent intersection connecting the internal organization with external public customers. Boundary-spanning positions generate three acute structural role conflicts:

- **Organization versus Client Conflict:** Employees are caught between corporate mandates enforcing speed, cost containment, and strict rules, and customer demands for customized attention, flexible exceptions, and time-consuming empathy.
- **Person versus Role Conflict:** Occurs when the employee is required to display personal submissiveness, wear uncomfortable costumes, or force artificial smiles for rude, abusive customers, conflicting directly with personal self-respect and dignity.
- **Inter-Client Conflict:** Occurs when serving multiple customers concurrently whose demands conflict directly (e.g., a flight attendant managing a passenger demanding complete silence to sleep while an adjacent passenger insists on watching a loud film with overhead lights on).

Empowerment, Internal Service Quality, and the Service-Profit Chain Dynamics

To insulate frontline employees from role burnout and unleash customer-centric excellence, leading service organizations institutionalize **Employee Empowerment**:

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- **Authorizing Discretionary Action:** Granting frontline staff the formal legal and financial authority to make on-the-spot decisions to resolve customer problems without seeking managerial sign-off (e.g., Nordstrom empowering retail staff to accept merchandise returns without question, or hotel receptionists comping room nights to resolve billing errors).
- **Investing in Human Capital:** Rigorous hiring based on emotional intelligence and natural warmth, followed by extensive training in conflict de-escalation, emotional resilience, and technical systems.
- **Closing the Service-Profit Chain Loop:** When management delivers high *Internal Service Quality* (supportive leadership, ergonomic tools, psychological safety, fair compensation), *Employee Satisfaction* surges. Satisfied workers remain with the firm over many years, delivering superior *External Service Value* that drives intense *Customer Loyalty*, ultimately compounding long-term corporate *Profitability and Shareholder Returns*.

6. Queuing Theory and Waiting-Line Operations Architecture

In services marketing and operations management, waiting lines represent the physical manifestation of capacity-demand imbalances. When customer arrivals exceed service counter throughput, queues inevitably form. Queuing theory provides the mathematical and behavioral framework to optimize customer wait times while minimizing idle employee overhead.

Structural Topologies of Queuing Configurations

- **Multiple Queues (Parallel Independent Lines):** Common in traditional supermarket checkout counters and highway toll plazas. Customers select a specific line upon arrival.
  - *Disadvantages:* Highly frustrating for customers when adjacent lines move faster due to complicated transactions, triggering acute perceptions of unfairness and line-jumping anxiety.
- **Single-Queue, Multi-Server (Serpentine Queue):** Universal standard in modern international airports, bank branches, and fast-food flagship counters. Customers form a single, winding line guided by stanchion belts, feeding into the next available service counter.
  - *Advantages:* Guarantees absolute First-Come, First-Served (FCFS) procedural fairness; cuts overall average customer waiting time; eliminates line-selection anxiety; prevents bottleneck stalls caused by a single slow transaction.
- **Virtual and Mobile Queuing Systems:** Customers check in digitally via mobile application or physical kiosk, receive an electronic SMS token number, and are free to browse retail stores, sit in comfortable cafes, or walk outside until their phone vibrates alerting them that their counter is ready. Eliminates physical queue fatigue entirely.

Mathematical Modeling of Service Queues: The M/M/1 Queuing Formulation

In standard single-server operational queuing systems (M/M/1 model where arrivals follow a Poisson distribution and service times follow an exponential distribution), key operating performance metrics are mathematically derived as follows:

- **System Utilization Rate:**

```
Utilization Rate = Arrival Rate / Service Rate
```

Where Arrival Rate represents average customer arrivals per hour, and Service Rate represents average customer service capacity per hour. System is stable only when Utilization is strictly less than 1.0.

- **Average Number of Customers Waiting in the Queue:**

```
Average Queue Length = (Arrival Rate × Arrival Rate) / [ Service Rate × (Service Rate - Arrival Rate) ]
```

- **Average Waiting Time Spent in Queue:**

```
Average Wait Time = Arrival Rate / [ Service Rate × (Service Rate - Arrival Rate) ]
```

Worked Numerical Example: Queuing Performance Optimization

A regional retail customer service banking desk in Thiruvananthapuram observes an average customer arrival rate of **12 customers per hour**. The single frontline customer relationship officer can service an average of **15 customers per hour**.

Step-by-Step Mathematical Resolution:

- Given Arrival Rate = 12 customers/hour.
- Given Service Rate = 15 customers/hour.
- *1. Compute System Utilization:*

```
Utilization Rate = 12 / 15 = 0.80 (80% Capacity Utilization)
```

- *2. Compute Average Queue Length:*

```
Average Queue Length = (12 × 12) / [ 15 × (15 - 12) ] = 144 / [ 15 × 3 ] = 144 / 45 = 3.20 Customers
```

- *3. Compute Average Waiting Time in Queue:*

```
Average Wait Time = 12 / [ 15 × (15 - 12) ] = 12 / 45 = 0.2667 Hours
```

```
Average Wait Time in Minutes = 0.2667 × 60 = 16.0 Minutes
```

Managerial Interpretation: At 80% utilization, customers wait an average of 16 minutes in line with an average of 3.2 people waiting. If arrival rates surge during festival periods from 12 to 14 customers per hour, utilization surges to 93.3% and average waiting time explodes from 16 minutes to **56**

minutes, mathematically proving why service managers must deploy cross-trained backup servers whenever utilization approaches 80%–85%.

7. Customer Co-Production and Self-Service Technologies (SSTs)

Unlike physical goods manufacturing where consumers are completely passive recipients of the finished product, services marketing recognizes the customer as an active **Partial Employee and Co-Producer** of value:

Degrees of Customer Participation

- **Low Participation Level:** The customer is merely physically present, with virtually all operational work performed by employees (e.g., airline passenger travel, symphony orchestra concerts, cinema viewing).
- **Moderate Participation Level:** The customer must provide essential information, customized specifications, or physical effort to assist delivery (e.g., tax preparation, hair styling, physical medical examinations).
- **High Participation Level:** The customer actively co-creates the service benefit. If the customer does not exert substantial intellectual, physical, or behavioral effort, the service fails entirely (e.g., higher university education, physical fitness weight-loss programs, psychotherapy counseling).

Technology Acceptance Model (TAM) and Overcoming SST Resistance

To scale capacity and reduce labor costs, service organizations deploy **Self-Service Technologies (SSTs)**: ATMs, mobile apps, airline self-baggage drops, and hotel digital key kiosks. Fred Davis's **Technology Acceptance Model (TAM)** dictates that customer adoption of SSTs is determined by two decisive cognitive beliefs:

1. **Perceived Usefulness (PU):** The degree to which the customer believes using the automated technology will enhance transaction speed, provide convenience, or save money.
2. **Perceived Ease of Use (PEOU):** The degree to which the customer believes using the digital system will be effortless, intuitive, and error-free.

To overcome customer technophobia and generational resistance, service firms must provide on-site human guides (technology navigators) to train first-time users, design foolproof touchscreen interfaces, and provide instant fallback to live human agents whenever digital transactions encounter system errors.

8. Building Brand Equity Through Unconditional Service Guarantees

Christopher Hart (1988) established that an **Unconditional Service Guarantee** is one of the most powerful strategic tools to overcome customer perceived risk and enforce internal operational excellence:

Attributes of an Extraordinary Service Guarantee

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- **Unconditional:** Carries zero fine print, zero legal disclaimers, and zero "act-of-god" escape loopholes (e.g., Hampton Inn's *"100% Satisfaction Guarantee: If you're not 100% satisfied, we don't expect you to pay. That's our promise to you."*).
- **Easy to Understand and Communicate:** Phrased in simple, transparent language so both customers and employees immediately understand the promise (e.g., Domino's famous historical pledge: *"Fresh, hot pizza delivered to your door in 30 minutes or less, or it's free."*).
- **Meaningful and Significant:** The compensation offered must sting the organization financially and provide substantial value to the customer (e.g., reimbursing the full transaction fee rather than offering a trivial 5% coupon).
- **Easy to Invoke:** Customers should not be forced to fill out ten-page forms, mail receipts, or endure aggressive interrogations.
- **Swift to Collect:** Frontline staff must be empowered to payout or credit the guarantee immediately on the spot.

9. Measuring Service Brand Equity: The Net Promoter Score (NPS) Architecture

In modern service management, tracking customer loyalty has been revolutionized by the **Net Promoter Score (NPS)** framework, pioneered by Fred Reichheld of Bain & Company and Satmetrix in his influential Harvard Business Review article: *"The One Number You Need to Grow"* (2003).

The Ultimate Loyalty Question and Customer Classification

Rather than administering cumbersome 50-question surveys that suffer from survey fatigue and low response rates, the NPS framework evaluates brand loyalty through a single foundational question:

> *"On an 11-point scale from 0 to 10, how likely are you to recommend our company, service, or brand to a friend, family member, or professional colleague?"*

Based on their numerical rating, respondents are partitioned into three distinct behavioral cohorts:

- **Promoters (Scores 9 to 10):** Highly enthusiastic, loyal brand champions who repeat purchases, increase their wallet share over time, and generate powerful positive word-of-mouth that drives organic customer acquisition.
- **Passives (Scores 7 to 8):** Satisfied but unenthusiastic customers. They are price-sensitive and hold zero emotional loyalty, remaining highly vulnerable to defecting to competitors offering promotional discounts. Passives are excluded from the mathematical NPS formula.
- **Detractors (Scores 0 to 6):** Deeply dissatisfied, frustrated, or alienated customers. They actively complain, demand refunds, discourage friends from using the service, and damage brand equity through viral negative social media commentary.

The Mathematical Formulation of NPS

The Net Promoter Score is computed as the percentage of Promoters minus the percentage of Detractors:

```
NPS = % Promoters - % Detractors
```

Where the resulting score is expressed as a pure integer ranging from -100 (where 100% of customers are Detractors) to +100 (where 100% of customers are Promoters). An NPS above +50 is considered excellent; an NPS above +70 indicates world-class customer loyalty.

Worked Numerical Example: Computing Enterprise Net Promoter Score

A regional premier healthcare hospital network in Kerala surveys 1,000 recently discharged surgical and medical inpatients:

- Total Surveyed Patients = 1,000
- Patients rating 9 or 10 (Promoters) = 650
- Patients rating 7 or 8 (Passives) = 230
- Patients rating 0 through 6 (Detractors) = 120

Step-by-Step Mathematical Resolution:

- *1. Compute Percentage of Promoters:*

```
% Promoters = (650 / 1,000) × 100 = 65.0%
```

- *2. Compute Percentage of Detractors:*

```
% Detractors = (120 / 1,000) × 100 = 12.0%
```

- *3. Note Percentage of Passives:*

```
% Passives = (230 / 1,000) × 100 = 23.0% (Excluded from NPS formula)
```

- *4. Apply the NPS Formula:*

```
NPS = 65.0% - 12.0% = +53 Points
```

Managerial Interpretation: The hospital achieves a strong Net Promoter Score of **+53**. However, hospital leadership must not become complacent. Management must deploy automated follow-up calls within 24 hours to the 120 Detractors (the 12%) to conduct root-cause forensic interviews, addressing clinical communication failures or billing disputes before negative reviews damage hospital reputation.

10. Emotional Contagion and Co-Customer Dynamics in Shared Servicescapes

In high-contact, shared service environments—such as commercial passenger flights, cinema theaters, university classrooms, and wellness spas—customers do not consume the service in isolation; they

consume it in physical co-presence with other customers (Co-Customers).

Emotional Contagion Theory

Formulated by Elaine Hatfield, John Cacioppo, and Richard Rapson (1994), **Emotional Contagion Theory** demonstrates that human beings automatically and subconsciously mimic and synchronize their facial expressions, vocalizations, postures, and movements with those of other people around them, converging emotionally. In a service setting:

- **Positive Contagion:** A warm, enthusiastic, smiling flight attendant or restaurant host triggers unconscious facial mimicry in customers, elevating their emotional mood and subjective perception of service quality.
- **Negative Contagion:** An aggressive, loudly complaining patron at an airline boarding gate infects the entire waiting passenger lounge with anxiety, hostility, and impatience, multiplying customer stress across the facility.

Managing Incompatible Customer Segments

Service marketers must actively manage the social environment inside the servicescape to prevent customer-to-customer conflict:

- **Physical Spatial Segregation:** Separating incompatible customer groups into dedicated zones (e.g., family pools with water slides versus quiet adult relaxation pools at resorts; designated quiet cars on passenger trains).
- **Establishing and Enforcing Behavioral Codes of Conduct:** Displaying clear, courteous signage prohibiting mobile phone speaker use in hospital waiting rooms, requiring athletic footwear in gym facilities, and enforcing dress codes in fine dining.
- **Proactive Staff De-escalation:** Training frontline security and hospitality staff to intervene swiftly, tactfully, and firmly to manage disruptive, intoxicated, or abusive customers before their behavior ruins the experience for surrounding patrons.

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