BBA 8346
Services Marketing
Study Module

স্কুল অব বিজনেস

SCHOOL OF BUSINESS

বাংলাদেশ উন্মুক্ত বিশ্ববিদ্যালয়

BANGLADESH OPEN UNIVERSITY

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Services Marketing

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1	**Introduction to Services:** What are Services? Why Service Marketing? Service and Technology, Characteristics of Services, Service Marketing Mix, Staying Focused on the Customer.
2	**The Gaps Model of Service Quality:** The Customer Gap, The Provider Gaps, Putting It All Together: Closing the Gaps.
3	**Customer Expectations of Service:** Service Expectations, Factors that Influence Customer Expectations of Service, Issues Involving Customers' Service Expectations.
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9	**Physical Evidence and the Servicescape:** Physical Evidence, Types of Servicescapes, Strategic Roles of the Servicescape, Framework for Understanding Servicescape Effects on Behavior, Guidelines for Physical Evidence Strategy.
10	**Delivering and Performing Service:** Service Culture, The Critical Role of Service Employees, Boundary-Spanning Roles, Strategies for Delivering Service Quality Through People. The Importance of Customers in Service Cocreation, Customers' Roles.
11	**Integrated Service Marketing Communications:** The Need for Coordination in Marketing Communication, Key Service Communication Challenges, Five Categories of Strategies to Match Service Promises with Delivery.
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INTRODUCTION TO SERVICES

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- Service characteristics & Marketing mix

Technologies Used for Content Delivery

- BOUTUBE
- BOU LMS
- WebTV
- Web Radio
- Mobile Technology with MicroSD Card
- LP+ Office 365
- BTV Program
- Bangladesh Betar Program

Lesson-1: Service—Primary Discussion

Objectives of the lesson: After completing this lesson, students will be able to —

- Understand the meaning services.
- Identify the differences between service products, customer service & after sales service
- Realize the importance of service-based businesses

Introduction

Services have become one of the most important sectors in the global and Bangladeshi economies. Modern businesses increasingly depend on services such as banking, healthcare, education, transportation, telecommunications, hospitality, and digital platforms to create customer value and economic growth. Unlike physical goods, services are intangible, variable, inseparable, and perishable, making their marketing and management more complex.

What are Services?

Services are economic activities performed by one party to another. Often time based, these performances bring about desired results to recipients, objects, or other assets. involved. In exchange for money, time, and effort, service customers expect value from access to labor, skills, expertise, goods, facilities, networks, and systems. However, they do not normally take ownership of the physical elements.

For example, using bKash, a customer sends money or pays bills by paying a small fee. In return, the customer gets quick and secure access to bKash's system and network. The customer receives the service benefit, not ownership of any physical asset.

Service Products versus Customer Service and After-Sales Service

As the service economy expands, the distinction between manufacturing and services is becoming increasingly blurred. Many manufacturing firms now compete by adding value-enhancing services to their physical products rather than selling products alone. For example, Toyota offers maintenance contracts, warranties, and after-sales support along with cars, making service an essential part of the customer experience.

Many firms have gone a step further by transforming supplementary services into standalone service offerings. For instance, Rolls-Royce earns significant revenue from its "power-by-the-hour" model, where airlines pay for engine usage and maintenance rather than just buying engines. Here, the core value lies in reliability and performance, not ownership of the engine itself.

Because of this shift, services marketing principles—such as pricing services, managing capacity, improving service quality, and managing service employees—are now just as important for manufacturing firms. Scholars argue that the traditional "product versus service" view is outdated; instead, value comes from how a product serves customers during use. This idea, known as *value-in-use*, suggests that customers value a smartphone, car, or aircraft not for owning it, but for the service it provides in everyday life.

Why Service Marketing

Learning about service marketing, service quality, and service management is essential because services now dominate modern economies and present marketing challenges that are fundamentally different from those of manufactured goods. The rapid growth of service industries worldwide has increased the need for specialized concepts, frameworks, and strategies to effectively design, deliver, and manage services. Unlike physical goods, services are intangible, produced and consumed simultaneously, and heavily dependent on human interaction, making traditional goods-marketing approaches insufficient.

Growth of Service-Based Economies

One of the primary reasons for the development of service marketing is the expansion of service-based economies**.** In advanced economies such as th**e** United States**,** services account for over 80% of employment and GDP**,** with major growth in sectors like healthcare, IT, and professional services. Internationally, trade in services has also expanded rapidly, with the U.S. becoming the world's leading exporter of services.

A similar pattern is visible in Bangladesh**,** where sectors such as banking (Public & private banks), telecommunications (e.g., GP, Robi, Banglalink), education (Schools, colleges, universities), healthcare (Public & private hospitals), ride-sharing (e.g., Pathao, Uber), and mobile financial services (e.g., bKash, Nagad) have grown significantly. The increasing contribution of services to GDP and employment has created an urgent need for effective service marketing and management practices.

Services as a Strategic Imperative for Goods-Based Firms

Service marketing is no longer relevant only for traditional service industries. Many manufacturing and goods-focused firms have adopted services as a core growth strategy due to product commoditization and intense price competition. Internationally, companies like IBM, Xerox, GE, and Procter & Gamble have expanded into services to create customized solutions, improve profitability, and build long-term customer relationships. For example, Xerox now offers document management services, while Procter & Gamble has extended brands like Tide into dry cleaning and laundry services.

In Bangladesh**,** similar trends can be observed. Walton**,** originally known for electronics manufacturing, now emphasizes after-sales services, warranties, and customer support as key differentiators. Likewise, telecom operators such as Grameenphone compete not only on network coverage but also on service quality, customer care, and digital solutions.

Deregulation and Professional Service Growth

The demand for service marketing concepts has also increased due to deregulation and the growing competitiveness of professional services. In industries such as airlines, banking, and telecommunications, deregulation shifted pricing and service decisions from governments to firms, intensifying competition and customer focus. For example, international airlines now rely heavily on service differentiation, loyalty programs, and dynamic pricing.

Professional services — such as doctors, lawyers, accountants, and consultants—have also embraced marketing as competition has increased and advertising restrictions have eased. In Bangladesh, private hospitals, law chambers, and consultancy firms actively use branding, service quality, and customer relationship management to differentiate themselves in crowded markets.

Why Service Marketing Is Different from Goods Marketing

Marketing services differs significantly from marketing manufactured goods because services are intangible, heterogeneous, perishable, and inseparable from their providers**.** Ensuring consistent quality is challenging when the service depends on employee performance, such as in consulting, education, or healthcare. Managers transitioning from packaged-goods firms often find that traditional marketing tools do not fully apply to services, creating the need for new service-specific frameworks such as the 7Ps of services marketing**.**

Service Quality and Profitability

Finally, firms have learned that service quality drives customer satisfaction, loyalty, and profitability**.** High-quality service leads to repeat purchases, positive word of mouth, and long-term competitive advantage. For example, international hotel chains like Marriott and Bangladeshi hotels such as Pan Pacific Sonargaon Dhaka invest heavily in service quality to enhance customer experience and financial performance.

In today's competitive environment, service equals profits. Understanding service marketing, service quality, and service management is crucial because services dominate economies, differentiate firms, strengthen customer relationships, and ensure sustainable profitability across both service and goods-based industries.

Some demerits of service marketing could be —

- Many companies now offer **tiered service levels**, so a large number of customers receive less service than before.
- The increasing use of **self-service and technology-based services** reduces human interaction and personalization.
- **Rising customer expectations**, driven by excellent service from a few leading firms, cause disappointment when others fail to match them.
- **Cost-cutting and understaffing** leave organizations unable to deliver consistent service quality.
- **Frontline service jobs are often filled by less-skilled employees**, while capable workers leave or get promoted quickly.
- Many firms **talk about customer focus** but do not provide enough training, rewards, or support to employees to actually deliver quality service.

Activity-1:
Select a Bangladeshi service organization (e.g., bKash, Pathao, BRAC Bank, Grameenphone, or Square Hospital). Identify its core service and explain how it creates value for customers.

Discussion Questions

1. Differentiate between service, customer service, and after-sales service with suitable examples from Bangladesh.
2. Grameenphone and bKash compete mainly through service quality rather than physical products. Explain how this reflects the growing importance of service marketing in Bangladesh.
3. Walton provides installation, warranty, and maintenance services along with its products. Explain how these supplementary services create customer value.
4. "Customers today purchase solutions and experiences rather than products alone." Discuss this statement with examples from the Bangladeshi market.

Lesson-2: Service characteristics & Marketing mix

Objectives of the lesson: After completing this lesson, students will be able to—

- Understand service characteristics & their marketing implications
- Learn about service marketing mix

Service Characteristics

(i) Intangibility:

Services are intangible because they are performances or actions rather than physical objects. They cannot be seen, touched, or stored like goods, which makes them difficult for customers to evaluate before purchase. For example, when a patient visits Popular Diagnostic Centre, the medical consultation or diagnosis itself cannot be physically examined. The patient only experiences the outcome of the service, such as test results or medical advice, while tangible elements like machines or reports merely support the core service.

Marketing Implications:

- Services are difficult to display, evaluate, and price.
- Quality assessment before purchase is hard.
- Demand fluctuates and services cannot be inventoried (e.g., hotel rooms in peak vs. off-season).

(i) Heterogeneity:

Services are heterogeneous because they involve human interaction, and no two service experiences are exactly the same. Service quality may vary depending on the service provider, customer behavior, time, or situation. For instance, two customers visiting the same branch of BRAC Bank may receive different service experiences based on the officer's attitude, workload, or the customer's specific needs, even though the service type is identical.

Marketing Implications:

- Consistent service quality is difficult to ensure.
- Service outcomes depend on employee skills, customer behavior, and demand conditions.
- Standardization and training become critical.

(i) Simultaneous Production and Consumption:

Many services are produced and consumed at the same time, meaning customers are often present during service delivery and may influence the service process. For example, when a passenger uses Pathao, the ride service is created and consumed simultaneously. The behavior of both the rider and driver, as well as traffic conditions, directly affect the quality of the service experience.

Marketing Implications:

- Mass production is difficult.
- Service quality depends on real-time interactions.
- Offers high opportunity for customization, but limited economies of scale.

Perishability:
Services are perishable because they cannot be stored or reused once the opportunity to deliver them has passed. Unused service capacity is lost forever. For example, if seats remain empty on a Biman Bangladesh Airlines flight, those seats cannot be sold or used later. This makes demand forecasting and capacity management critical for service providers.

Marketing Implications:

- Demand forecasting and capacity management are crucial.
- Firms must use pricing, promotions, and scheduling to manage demand.
- Strong service recovery strategies are needed when failures occur.

Goods	Services	Resulting Marketing Implications (Services)
Tangible	Intangible	• Services cannot be inventoried • Services cannot be easily patented • Services cannot be readily displayed or communicated • Pricing services is difficult
Standardized	Heterogeneous (Variable)	• Service quality varies by employee, customer, and situation • Customer satisfaction depends on employee performance and customer behavior • Service quality is difficult to control and standardize
Production separate from consumption	Simultaneous production and consumption	• Customers participate in and influence the service process • Customers affect each other's service experience • Employees directly affect service outcomes • Decentralized service delivery may be required • Mass production is difficult
Non-perishable	Perishable	• Services cannot be stored for future use • Services cannot be returned or resold • Unsold service capacity (e.g., empty seats, idle time) is lost forever

Table: Comparing goods and services
Source: Zeithamal et al., (2020)

Service Marketing Mix

Traditional marketing of goods focuses on the 4 Ps—product, price, place, and promotion. However, services have unique characteristics that create additional marketing challenges, so the traditional 4 Ps are not sufficient. As a result, the marketing mix must be adapted and extended for services.

To address service-specific issues and the customer interface, three additional elements are added: process, physical environment, and people. Together with the original four, these form the 7 Ps of services marketing.

Figure: Service Marketing Mix
Source: Geeks for Geeks (2025)

These seven elements act as strategic tools that help organizations design effective service strategies to meet customer needs profitably in competitive markets.

1. Product (Service Product)

Service products are the core of a firm's marketing strategy. A well-designed service creates value for customers; a poor one fails even if other Ps are strong.

- Core service: Meets the main customer need
- Supplementary services: Add value and support the core service (information, consultation, hospitality, problem handling)

For example, Bangladesh Open University (BOU) offers education as its core service, fulfilling the primary need of students who seek flexible and affordable higher education. This core service is supported by several supplementary services such as printed course materials, online learning platforms, academic counseling, examination support, and regional study centers across the country. Together, these supplementary elements add value by making the core educational service more accessible and effective for diverse learner groups, including working adults and students in remote areas.

2. Place (Service Distribution)

Services can be delivered through physical channels**,** digital channels, or both. Customers today want speed, convenience, and flexibility**.**

- Services may be delivered directly or via intermediaries
- Internet enables instant delivery of information-based services
- Time convenience (24/7 access) is a competitive advantage

For example, Bkash allows customers to access financial services through mobile apps, USSD codes, and thousands of agents nationwide. Customers can send money, pay bills, or recharge mobile balances at any time, demonstrating how convenience, speed, and 24/7 availability create competitive advantage in the Bangladeshi market.

3. Price & Other Customer Outlays

Customers evaluate service value not only by money, but also by:

- Time spent
- Physical and mental effort
- Convenience and comfort

Service pricing is often dynamic, changing with demand, time, and capacity.
For instance, users of ride-sharing services such as Pathao or Uber often pay higher fares during peak hours or bad weather. However, many customers accept the higher price because it saves time, reduces physical effort, and offers greater comfort compared to public transportation, especially in congested cities like Dhaka.

4. Promotion

Promotion involves all the activities used to communicate the value of the service to the target audience and persuade them to purchase or use it. Promotion strategies in services marketing may include advertising, public relations, personal selling, sales promotions, and digital marketing tactics.

For example, Grameenphone regularly uses advertising, social media campaigns, SMS notifications, and customer service centers to inform and educate customers about new data packages, internet usage rules, roaming services, and value-added offerings. Since telecom services are intangible and technical in nature, GP’s promotional activities focus heavily on educating customers—such as explaining how to activate packages, check data balance, or use mobile apps—rather than just persuading them to buy. These communication efforts reduce customer confusion, build trust, and encourage timely usage of services, demonstrating the critical role of promotion and education in services marketing.

5. People

When we talk about "People" in service marketing, we're highlighting how important the workers are in providing the service. This includes everyone from the folks you see up front helping you, like waiters or cashiers, to the managers making sure things run smoothly behind the scenes, and even the support staff helping out in different ways. Basically, how you feel about the service often depends on how friendly, skilled, and helpful these people are.

For example, in hotels like Pan Pacific Sonargaon Dhaka, the courteous behavior, communication skills, and professionalism of employees strongly influence customer satisfaction. Well-trained and motivated service staff provide a key competitive advantage by delivering consistent and high-quality service experiences.

6. Process

Refers to the procedures, systems, and workflows involved in delivering the service. A well-defined and efficient service process is crucial for ensuring consistency, quality, and customer satisfaction. Process design may involve aspects such as service blueprinting, automation, standardization, and continuous improvement efforts.

For example, commercial banks such as Dutch-Bangla Bank have improved service efficiency through ATM booths, online banking, and mobile apps, enabling customers to perform self-service transactions. In many cases, customers act as co-producers of the service, actively participating in the process to receive faster and more convenient service.

7. Physical Evidence

"Physical Evidence" means the stuff you can see, touch, or notice when you're using a service. It's like the things around you that give you an idea of what the service is like. For example, in Bangladesh, organizations such as Star Cineplex, modern hospitals, and upscale restaurants in Gulshan or Banani invest heavily in clean interiors, clear signage, comfortable seating, and professional staff appearance. These tangible cues help customers judge service quality and enhance overall satisfaction.

Staying Focused on The Customer

In the Bangladesh context, staying focused on the customer means that businesses design all their strategies and services by considering customers' needs, expectations, and satisfaction first. For example, banks like bKash or telecom companies such as Grameenphone continuously improve their apps, customer support, and service delivery based on customer convenience and feedback.

Modern service organizations in Bangladesh no longer see customers as one-time buyers. Instead, they try to build long-term relationships and customer loyalty through quality service, quick response, personalized communication, and trust. Departments such as marketing, operations, and human resources work together to ensure better customer experiences.

Thus, customer relationship management (CRM) is not only software but also a business philosophy where every decision is taken with the customer at the center to retain and develop loyal customers over time.

Activity-2:

- Select a Bangladeshi service organization such as bKash, Pathao, or BRAC Bank.
- Identify and explain the four characteristics & 7ps of services with practical examples and present your findings in class.

Discussion Questions

1. Explain the four characteristics of services with suitable examples from Bangladesh.
2. Why are the traditional 4Ps insufficient for service organizations? Discuss the importance of the additional 3Ps.
3. A customer receives excellent service at one branch of a bank but poor service at another branch of the same bank. Which characteristic of services is illustrated in this situation? Explain.
4. During Eid holidays, airline tickets become unavailable, whereas many seats remain empty during off-peak periods. Which characteristic of services explains this situation? How should service organizations manage it?
5. Suppose you are the marketing manager of Pathao. Which elements of the 7Ps would you prioritize to improve customer satisfaction? Justify your answer.

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THE GAPS MODEL OF SERVICE QUALITY

2

Unit Highlights

- Discussion of service quality gaps

Technologies Used for Content Delivery

- BOUTUBE
- BOU LMS
- WebTV
- Web Radio
- Mobile Technology with MicroSD Card
- LP+ Office 365
- BTV Program
- Bangladesh Betar Program

Lesson-1: **Discussion of service quality gaps**

Objectives of the lesson: After completing this lesson, students will be able to—

- Understand the concept of the Gaps Model of Service Quality
- Identify the customer gap and provider gaps in service organizations
- Explain the causes of service quality gaps with practical examples
- Realize the importance of closing service gaps to improve customer satisfaction and loyalty

Introduction

Service quality is one of the most important determinants of customer satisfaction and organizational success. Customers compare their expectations with actual service performance, and dissatisfaction occurs when gaps exist between the two. The Gaps Model of Service Quality helps organizations identify these gaps and understand the reasons behind service failures.

The Gaps Model of Service Quality

The Gaps Model of Service Quality is a conceptual framework that helps organizations identify problems in service delivery and understand why customers may become dissatisfied. The model explains that service quality problems occur when there is a difference or "gap" between customer expectations and the actual service delivered by the organization. It is also known as "SERVQUAL Model".

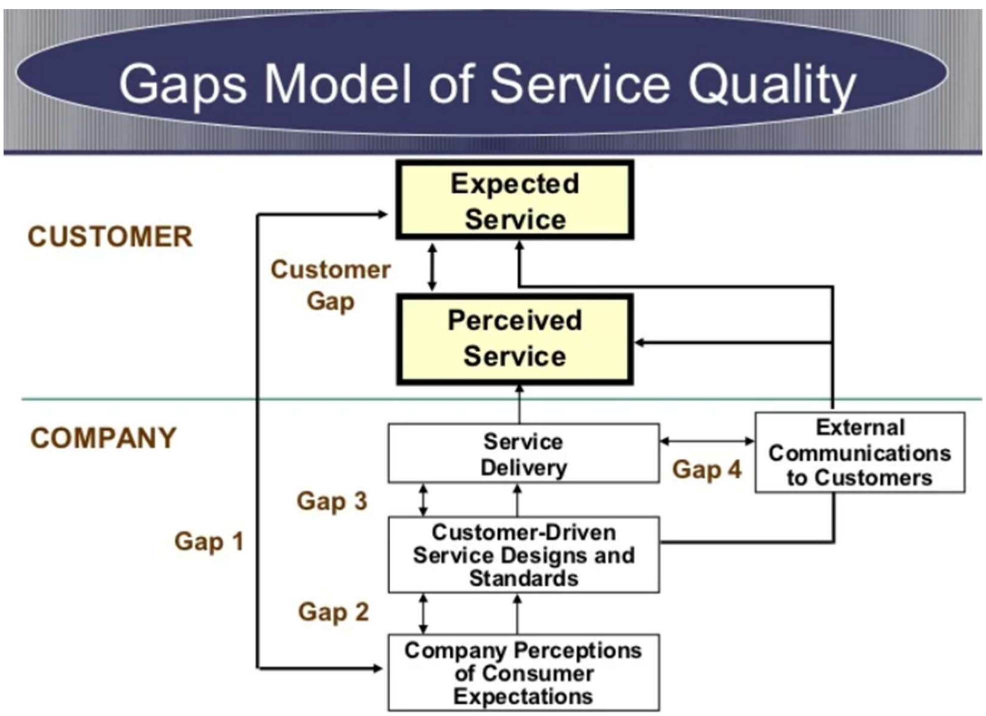

Figure: The gaps model of Service Quality
Source: Zeithaml et al. (2018).

The model focuses on one major gap called the customer gap and four provider gaps that occur within the organization. By identifying and reducing these gaps, companies can improve service quality, customer satisfaction, and long-term profitability.

For example, in Bangladesh, customers often expect fast and reliable service from banks, telecom operators, hospitals, airlines, or ride-sharing companies. However, when actual service performance fails to meet expectations, dissatisfaction occurs. The Gaps Model helps organizations identify where the problem exists and how it can be solved.

The Customer Gap

The customer gap refers to the difference between customer expectations and customer perceptions of the actual service received.

Customer expectations are influenced by factors such as previous experiences, advertising, word of mouth, personal needs, and competitor offerings. Customer perceptions are formed after customers experience the service.

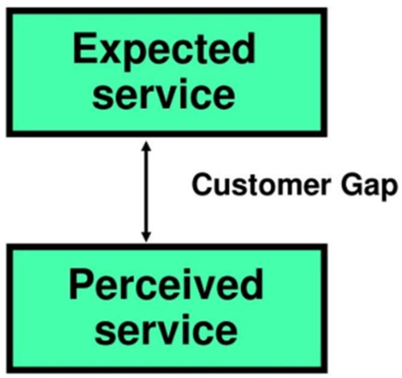

Figure: The Customer Gap
Source: Zeithaml et al. (2020).

When customer perceptions meet or exceed expectations, satisfaction occurs. However, if the service experience falls below expectations, customers become dissatisfied. For example, a customer using Pathao may expect quick driver availability and safe transportation. If the app shows long waiting times, poor driver behavior, or ride cancellations, the customer perceives the service negatively, creating a customer gap.

Causes of the Customer Gap

The customer gap arises when there is a mismatch between what customers expect and what they actually perceive after experiencing the service. This gap may result from shortcomings in understanding customer needs, delivering services consistently, or communicating service promises accurately. The major causes of the customer gap include the following:

- Poor understanding of customer expectations
- Inconsistent service delivery
- Overpromising through advertising
- Lack of employee training
- Inefficient service systems and processes

Importance of Closing the Customer Gap

Closing the customer gap is essential for delivering high-quality services and ensuring long-term organizational success. When organizations consistently meet or exceed customer expectations, they are more likely to satisfy customers, strengthen relationships, and achieve a sustainable competitive advantage. The key benefits of closing the customer gap include:

- Increases customer satisfaction
- Builds customer loyalty and trust
- Encourages positive word of mouth
- Improves competitive advantage
- Enhances profitability and long-term relationships

Provider Gaps

The customer gap is mainly caused by problems inside the organization, known as provider gaps. There are four provider gaps. Let's see the figure first.

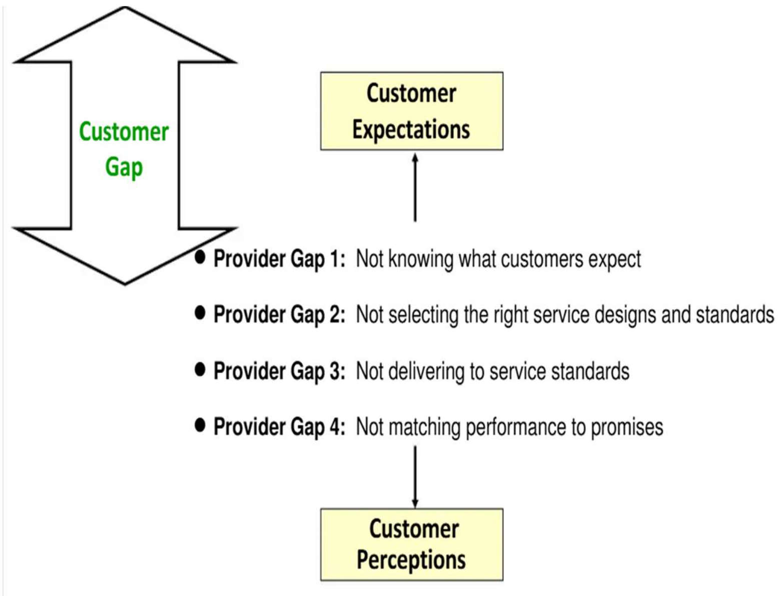

Figure: The Provider Gaps
Source: Zeithaml et al. (2020)

Provider Gap 1: The Listening Gap

The listening gap occurs when management does not correctly understand what customers expect from the service. Organizations may fail to collect customer feedback, ignore complaints, or misunderstand customer needs. As a result, managers make decisions based on assumptions rather than actual customer expectations.

For example, a private hospital in Bangladesh may focus heavily on modern equipment but ignore patients' concerns about long waiting times and staff behavior. Even though the hospital invests in technology, patients may still remain dissatisfied.

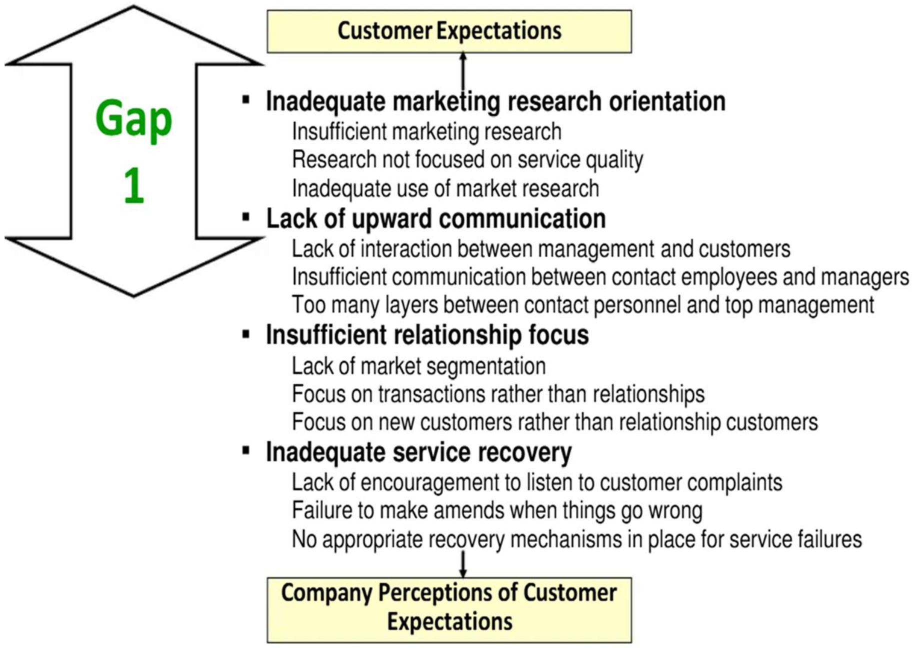

Figure: Factors leading to provider gap-1
Source: Zeithaml et al. (2020)

Causes of the Listening Gap

The listening gap occurs when managers fail to accurately understand what customers expect from a service. This often happens because organizations do not collect sufficient customer information or fail to communicate customer insights effectively within the organization. As a result, service decisions may be based on assumptions rather than actual customer needs. The major causes of the listening gap include:

- Lack of market research
- Poor communication between frontline employees and management
- Failure to listen to customer complaints
- Inadequate relationship with customers

Marketing Implications

Reducing the listening gap requires organizations to actively gather customer information and ensure that it is effectively communicated throughout the organization. By understanding customer expectations more accurately, firms can design and deliver services that better meet customer needs. The following strategies can help minimize the listening gap:

- Firms should conduct regular customer surveys.
- Organizations should encourage customer feedback.
- Managers must maintain strong communication with frontline employees.
- Social media reviews and online feedback should be monitored carefully.

Provider Gap 2: The Service Design and Standards Gap

This gap occurs when organizations understand customer expectations but fail to translate them into proper service designs, processes, and standards. Even when managers know what customers want, the company may lack proper systems, policies, or service standards to deliver quality service consistently.

For example, customers of food delivery services such as Foodpanda expect timely delivery. However, if the company lacks efficient routing systems, delivery coordination, or performance standards for riders, delays may occur frequently.

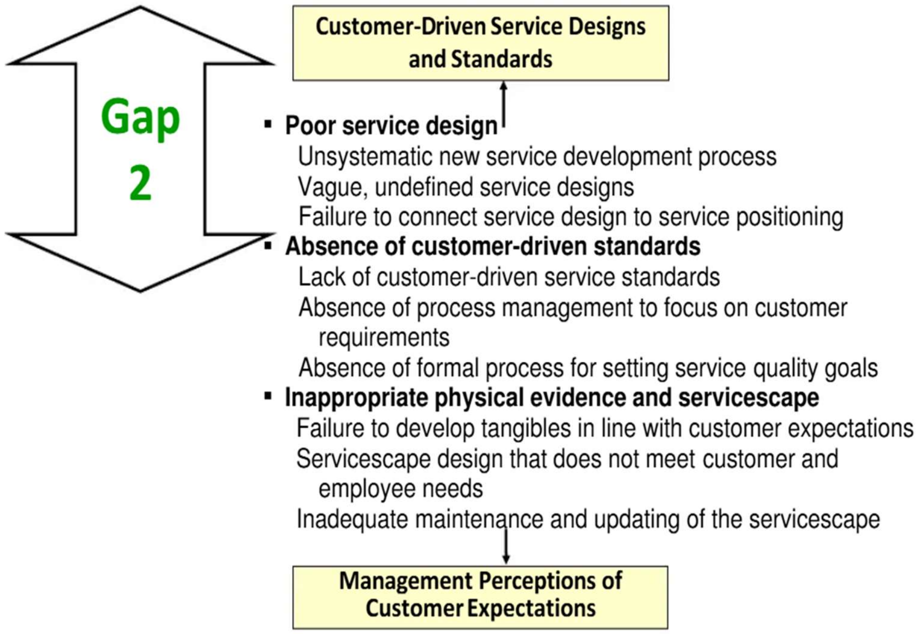

Figure: Factors leading to provider gap-2
Source: Zeithaml et al. (2020)

Causes of the Service Design and Standards Gap

The service design and standards gap occur when organizations understand customer expectations but fail to translate them into effective service designs, processes, and performance standards. Without well-designed systems and customer-oriented standards, it becomes difficult to deliver consistent and high-quality services. The major causes of this gap include:

- Poor service design
- Lack of customer-driven standards
- Inadequate service processes
- Insufficient technology and operational support

Marketing Implications

To minimize the service design and standards gap, organizations should develop service systems and standards that are aligned with customer expectations. Well-designed processes, supported by appropriate technology and continuous improvement efforts, enable firms to deliver consistent and reliable service experiences. The following strategies can help reduce this gap:

- Service processes should be customer-focused.
- Clear service standards must be established.
- Technology should be used to improve service efficiency.
- Continuous process improvement is necessary.

Provider Gap 3: The Service Performance Gap

The service performance gap occurs when employees or systems fail to deliver services according to the established standards. This is one of the most common service quality problems because services heavily depend on human performance.

For example, a bank may promise customers quick service within 10 minutes. However, due to employee inefficiency, system downtime, or heavy customer pressure, customers may still face long waiting times.

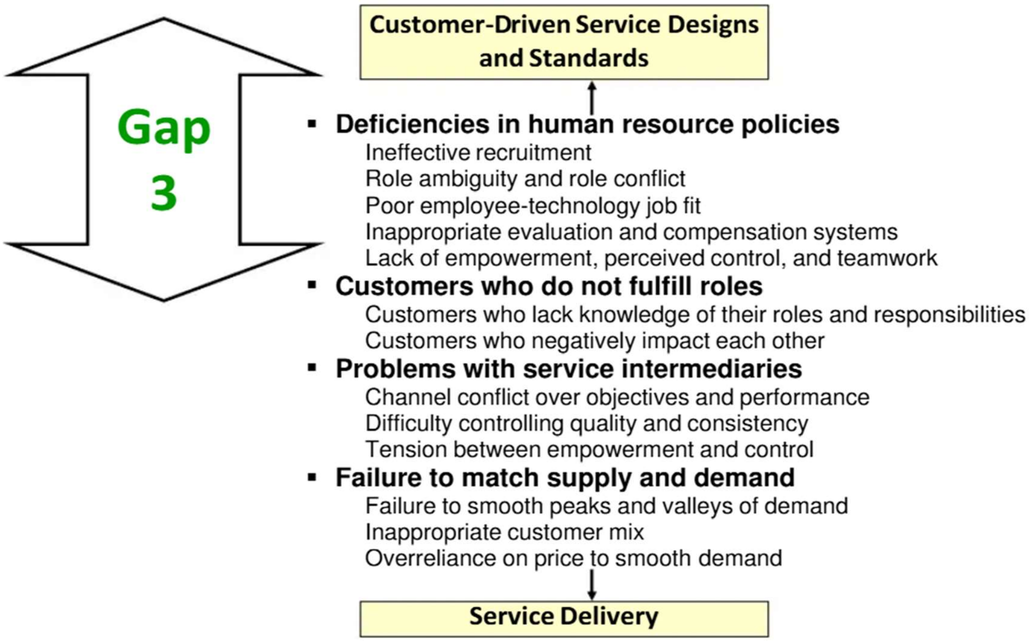

Figure: Factors leading to provider gap-3
Source: Zeithaml et al. (2020)

Causes of the Service Performance Gap

The service performance gap arises when employees or service systems fail to deliver services according to the established standards. Since service quality largely depends on the performance of employees and the efficiency of operational processes, any shortcomings in these areas can negatively affect the customer experience. The major causes of the service performance gap include:

- Lack of employee training
- Low employee motivation
- Insufficient staffing
- Poor teamwork
- Technology failures
- Unclear employee roles

Marketing Implications

Organizations can reduce the service performance gap by ensuring that employees have the necessary skills, motivation, and resources to perform their jobs effectively. In addition, strong internal communication, employee empowerment, and performance-based reward systems contribute to consistent service delivery and improved customer satisfaction. The following strategies can help minimize the service performance gap:

- Employees should receive proper training and motivation.
- Organizations should improve internal communication.
- Service employees should be empowered to solve customer problems.
- Performance evaluation and rewards should support service quality.

Provider Gap 4: The Communication Gap

The communication gap occurs when organizations promise more than they can actually deliver. This gap is created when advertising, social media promotions, or salespeople give customers unrealistic expectations.

For example, a mobile operator may advertise “uninterrupted high-speed internet everywhere in Bangladesh.” However, if customers experience poor network quality in many areas, dissatisfaction will increase because the promised service does not match actual performance.

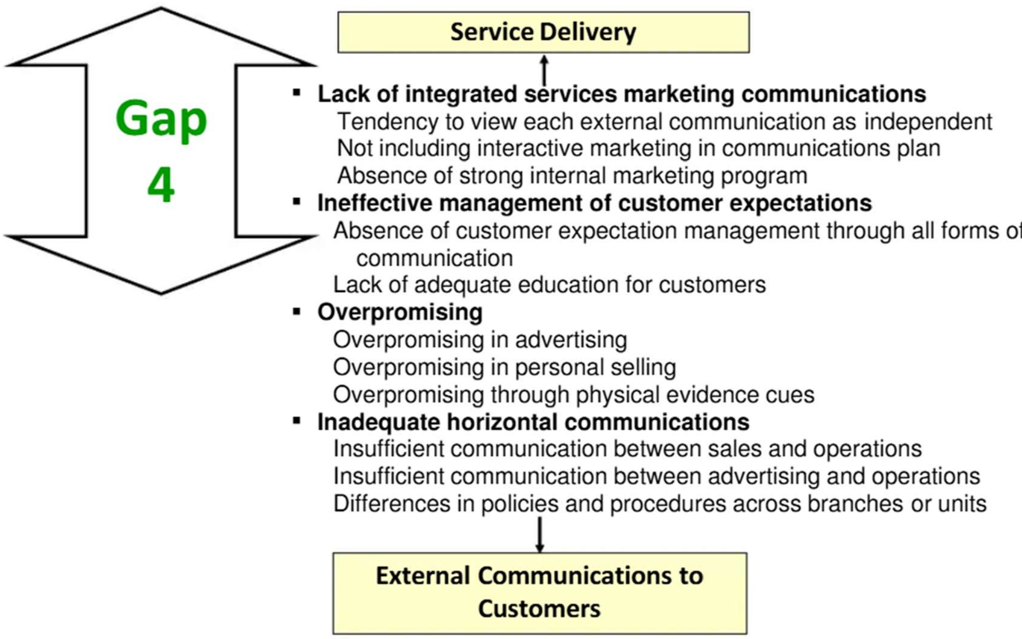

Figure: Factors leading to provider gap-4
Source: Zeithaml et al. (2020)

Causes of the Communication Gap

The communication gap occurs when there is a mismatch between what an organization promises through its marketing communications and what it actually delivers to customers. This gap often results from poor coordination among departments or unrealistic promotional messages, leading customers to develop expectations that the organization cannot fulfill. The major causes of the communication gap include:

- Overpromising in advertisements
- Lack of coordination between marketing and operations departments
- Inconsistent communication
- Failure to manage customer expectations properly

Marketing Implications

To minimize the communication gap, organizations should ensure that all external communications accurately reflect the actual service being delivered. Effective coordination among departments and realistic communication strategies help build customer trust, reduce dissatisfaction, and strengthen the organization's credibility. The following strategies can help reduce the communication gap:

- Companies should make realistic promises.
- Marketing communication must match actual service delivery.
- Coordination among departments is essential.

- Customer expectations should be managed carefully.

Closing the Service Quality Gaps

Closing the service quality gaps is essential for delivering superior customer experiences and achieving long-term organizational success. Since the customer gap is primarily caused by the four provider gaps, organizations must address these internal issues to ensure that service performance meets or exceeds customer expectations. The following strategies can help organizations close service quality gaps:

- Listening carefully to customers
- Designing customer-focused service systems
- Training and motivating employees
- Improving communication and coordination
- Delivering services consistently
- Using technology effectively

In Bangladesh, successful organizations such as bKash, Grameenphone, BRAC Bank, and Pathao continuously collect customer feedback, improve digital services, and update service processes to reduce service gaps and enhance customer satisfaction.

Importance of the Gaps Model in Service Marketing

The Gaps Model of Service Quality provides organizations with a systematic framework for identifying the causes of service failures and improving overall service performance. By understanding the gaps between customer expectations and service delivery, managers can take appropriate actions to enhance customer satisfaction, strengthen relationships, and achieve sustainable competitive advantage. The model offers several important benefits to service organizations:

The Gaps Model is important because it helps organizations:

- Identify service quality problems
- Understand customer dissatisfaction
- Improve service delivery systems
- Increase customer retention and loyalty
- Build competitive advantage
- Enhance organizational performance and profitability

The model also encourages firms to adopt a customer-focused approach where all departments work together to deliver better service experiences.

Activity-1:

- Select a Bangladeshi service organization such as bKash, Pathao, Grameenphone, or BRAC Bank.
- Identify one customer gap and one provider gap in the organization and present possible solutions.

Activity-2:

- Work in groups of 4–5 students.
- Analyze how poor communication or employee performance can create customer dissatisfaction in service businesses.
- Prepare a short presentation using real-life examples from Bangladesh.

Discussion Questions

1. Explain the difference between the customer gap and the provider gaps in the Gaps Model of Service Quality.
2. Why do organizations fail to meet customer expectations even when they invest heavily in service quality? Explain with reference to the provider gaps.
3. A private hospital has modern medical equipment but receives frequent complaints about long waiting times and poor staff behavior. Identify the provider gap(s) involved and justify your answer.
4. Compare the Listening Gap and the Communication Gap. How can each of these gaps influence customer satisfaction?
5. How can organizations reduce the four provider gaps to improve overall service quality? Discuss with suitable examples.
6. Suppose you are the service manager of BRAC Bank. What strategies would you adopt to minimize service quality gaps and enhance customer satisfaction?
7. "Closing the provider gaps is the key to closing the customer gap**."** Do you agree with this statement? Support your answer with logical arguments and practical examples.
8. Digital technologies such as mobile banking, online feedback systems, and AI-powered chatbots are increasingly used by service organizations in Bangladesh. Discuss how these technologies can help reduce service quality gaps.

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CUSTOMER EXPECTATIONS OF SERVICE

3

Unit Highlights

- Identification of factors influencing customer expectations

Technologies Used for Content Delivery

- BOUTUBE
- BOU LMS
- WebTV
- Web Radio
- Mobile Technology with MicroSD Card
- LP+ Office 365
- BTV Program
- Bangladesh Betar Program

Lesson-1: Identification of factors influencing customer expectations

Objectives of the lesson: After completing this lesson, students will be able to —

- Understand the meaning of customer expectations in services
- Identify different types of service expectations
- Explain the factors influencing customer expectations
- Realize the importance of managing customer expectations in service organizations

Introduction

Customer expectations play a central role in service marketing because customers evaluate services based on what they expect and what they actually experience. Expectations are shaped by various factors including advertising, recommendations, personal needs, and previous service experiences. If organizations fail to meet these expectations, customer dissatisfaction occurs.

Customer Expectations of Service

Customer expectations refer to the standards or reference points that customers use to judge service performance. Before receiving a service, customers usually develop certain expectations regarding how the service should be delivered. These expectations are shaped by previous experiences, advertisements, word of mouth communication, personal needs, and competitor offerings. Customer satisfaction largely depends on whether the actual service performance meets or exceeds these expectations.

For example, customers using Daraz expect timely delivery, secure payment systems, and accurate product information. If the service experience matches these expectations, customers become satisfied and are more likely to use the platform again.

Understanding customer expectations is extremely important because expectations directly influence customer perceptions, satisfaction, loyalty, and future purchasing decisions.

Types of Customer Expectations

Customers usually have two major levels of service expectations:

(i) Desired Service

Desired service refers to the level of service customers hope to receive. It represents the ideal service expectation. For example, passengers traveling through US-Bangla Airlines may expect comfortable seating, on-time flights, polite staff behavior, and quick baggage handling.

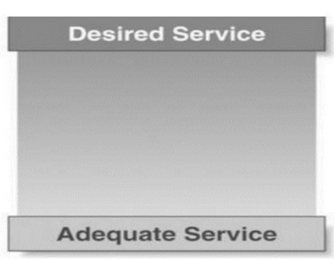

Figure: Dual Customer Expectation Levels
Source: Zeithaml et al.(2018)

(ii) Adequate Service

Adequate service refers to the minimum acceptable level of service customers are willing to tolerate. For instance, a customer visiting a restaurant may tolerate slightly delayed service during busy hours, but extremely slow service may create dissatisfaction.

Zone of Tolerance

The zone of tolerance refers to the range between desired service and adequate service.

Figure: Dual Customer Expectation Levels
Source: Zeithaml, V. A., Bitner, M. J., & Gremler, D. D. (2018)

If service performance falls within this range, customers may remain reasonably satisfied. However, if performance falls below adequate service, customers become dissatisfied. For example, customers of food delivery platforms such as Foodpanda may expect delivery within 30 minutes. However, during bad weather or heavy traffic, customers may tolerate moderate delays. This acceptable range represents the zone of tolerance.

Importance of the Zone of Tolerance

Understanding the zone of tolerance helps service organizations recognize the range of service performance that customers are willing to accept. Since customer expectations are not fixed, identifying this acceptable range enables managers to design realistic service standards, prioritize service improvements, and respond effectively when service performance varies. The major benefits of understanding the zone of tolerance include:

- Helps firms understand customer flexibility
- Assists organizations in setting realistic service standards
- Helps reduce customer dissatisfaction
- Supports better service recovery strategies

Factors Influencing Customer Expectations

Customer expectations are shaped by a variety of internal and external factors before customers experience a service. Some factors influence the level of service customers ideally desire, while others influence the level of service they realistically expect to receive. Understanding these factors enables organizations to design services that better align with customer expectations.

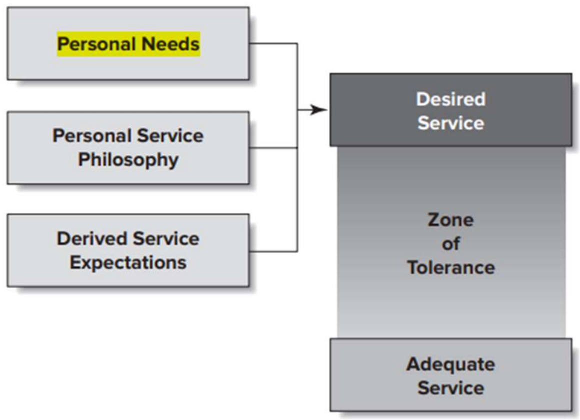

Figure: Factors influencing customer expectations
Source: Zeithaml, V. A., Bitner, M. J., & Gremler, D. D. (2018)

(i) Personal Needs

Personal needs strongly influence what customers expect from a service. For example, patients visiting Evercare Hospital usually expect quick treatment, professional medical care, cleanliness, and emotional support because healthcare services are highly important and sensitive.

Marketing Implications

Since customers have different needs and preferences, service organizations should understand these differences and design services accordingly. Identifying customer needs helps organizations deliver personalized experiences, improve customer satisfaction, and build stronger long-term relationships. The following strategies can help firms address customers' personal needs effectively:

- Organizations should understand specific customer needs.
- Personalized services improve customer satisfaction.
- Service firms should segment customers based on their expectations.

(ii) Word of Mouth Communication

Customers often rely on recommendations and experiences shared by friends, family members, colleagues, or online reviews. For example, students may choose coaching centers or private universities based on recommendations from friends or social media reviews. Positive word of mouth increases customer expectations, while negative comments reduce trust and interest.

Marketing Implications

Word of mouth significantly influences customer expectations because customers often trust recommendations from friends, relatives, and online communities more than organizational advertisements. Therefore, organizations should encourage positive customer experiences and actively manage their online reputation. The following practices can help strengthen positive word of mouth:

- Service firms should encourage positive customer experiences.
- Online reviews and social media feedback should be monitored.
- Satisfied customers can become effective promoters of the brand.

(iii) Past Experience

Previous experiences greatly influence future service expectations. For example, if a customer receives fast and efficient service from BRAC Bank in the past, the customer will expect similar service quality in future interactions. However, repeated service failures can reduce customer trust and expectations.

Marketing Implications

Customers often compare their current service experience with previous experiences. Consistently delivering high-quality service helps organizations build trust and encourages repeat patronage, whereas repeated service failures may lower customer expectations and satisfaction. Organizations should therefore focus on maintaining consistency and responding effectively to service failures through the following strategies:

- Consistency in service quality is important.
- Firms should focus on long-term relationship building.
- Service recovery is essential after service failures.

(iv) Explicit Service Promises

Explicit service promises are directly communicated by the company through advertising, websites, brochures, or salespeople. For example, Robi may advertise uninterrupted internet connectivity and affordable internet packages. Such promotional messages create customer expectations regarding service quality.

Marketing Implications

As explicit service promises made through advertisements and promotional activities strongly influence customer expectations, organizations should ensure that these promises accurately reflect their actual service capabilities to avoid customer dissatisfaction. The following practices help reduce the gap between promises and performance:

- Organizations should avoid overpromising.
- Advertisements should reflect actual service capabilities.
- Marketing communication should be realistic and accurate.

(v) Implicit Service Promises

Implicit promises are created through pricing, physical appearance, branding, and other indirect cues. For example, customers often expect high-quality service from premium hotels such as Hotel Sarina because of their elegant environment, higher pricing, and professional branding.

Marketing Implications

Customers also develop expectations from indirect cues such as price, brand image, physical facilities, and employee appearance. Therefore, organizations should ensure consistency between these cues and the actual service experience to maintain customer confidence. The following strategies support effective management of implicit promises:

- Physical evidence strongly influences expectations.
- Premium pricing creates higher service expectations.
- Service firms must maintain consistency between image and actual performance.

(vi) Situational Factors

Situational factors are temporary conditions that influence customer expectations. For example, customers may tolerate delayed courier delivery during severe weather conditions, political unrest, or national holidays.

Marketing Implications

Unexpected situations such as natural disasters, traffic congestion, or national holidays may temporarily influence customer expectations and service performance. During such situations, organizations should communicate openly and keep customers informed to minimize dissatisfaction. The following practices can help organizations manage these situations effectively:

- Customers should be informed during unexpected situations.
- Transparency helps reduce dissatisfaction.
- Proper communication is important during service disruptions.

(vii) Predicted Service

Predicted service refers to the level of service customers believe they are likely to receive. For example, during Eid holidays, passengers traveling by launch or airlines may expect delays because of heavy customer demand.

Marketing Implications

Customer's form predicted service expectations based on available information, previous experiences, and current circumstances. Organizations should carefully manage these expectations through realistic communication and effective planning, particularly during periods of high demand. The following strategies can help manage predicted service expectations:

- Customers form realistic expectations based on circumstances.
- Firms should manage customer expectations carefully.
- Demand forecasting becomes important during peak seasons.

Importance of Managing Customer Expectations

Managing customer expectations is essential because unrealistic expectations often lead to dissatisfaction even when service performance is acceptable. Organizations that effectively manage expectations can improve customer satisfaction, trust, loyalty, and positive word of mouth.

In Bangladesh, service firms such as Aarong, Chaldal, and City Bank regularly update customers through SMS, apps, and social media to manage expectations regarding delivery time, service availability, and promotional offers.

Strategies for Managing Customer Expectations

Managing customer expectations is an essential responsibility of service organizations because unrealistic expectations often lead to customer dissatisfaction. By communicating honestly, delivering consistent service, and responding effectively to service failures, organizations can build customer trust and strengthen long-term relationships. The following strategies can help organizations manage customer expectations effectively

i. **Make Realistic Promises:** Companies should avoid exaggerated advertising and unrealistic commitments. For example, internet service providers should avoid promising uninterrupted high-speed internet if technical limitations exist in certain areas.

ii. **Educate Customers:** Customers should receive clear information regarding service processes, pricing, policies, and delivery time. For example, airlines usually inform passengers about baggage policies, check-in procedures, and possible delays to reduce confusion.

iii. **Improve Internal Communication:** Employees should clearly understand organizational promises and service standards.

iv. **Deliver Consistent Service Quality:** Consistency helps customers develop trust and confidence in the organization. For example, customers expect similar service quality from all branches of popular retail chains such as Shwapno supershop.

v. **Use Effective Service Recovery:** Quick response and problem-solving help restore customer trust after service failures. For example, courier companies often provide apology messages and compensation when important deliveries are delayed.

Customer Expectations in the Digital Service Environment

Technology has significantly changed customer expectations. Modern customers expect:

- Fast service
- 24/7 availability
- Mobile app support
- Quick response on social media
- Online tracking systems
- Personalized digital experiences

For example, customers using Chaldal expect real-time order tracking, digital payment options, and accurate delivery updates. As competition increases, customer expectations continue to rise. Therefore, organizations must continuously improve their services to remain competitive.

Importance of Customer Expectations in Service Marketing

Understanding customer expectations helps organizations:

- Improve customer satisfaction
- Design better services
- Reduce service quality gaps
- Build stronger customer relationships
- Increase customer loyalty
- Gain competitive advantage

Service firms that understand and manage customer expectations effectively are more likely to achieve long-term success.

Activity-1:

- Select a Bangladeshi service organization such as Daraz, BRAC Bank, Chaldal, or Robi.
- Identify different customer expectations related to the organization's service and discuss whether the company is successfully meeting those expectations.

Activity-2:

- Work in groups of 4–5 students.
- Analyze how advertisements, social media reviews, and previous experiences influence customer expectations in service businesses.
- Prepare a short presentation using examples from Bangladesh.

Discussion Questions

1. Differentiate between desired service and adequate service with suitable examples from Bangladeshi service organizations.
2. Explain the concept of the zone of tolerance. Why is it important for service organizations to understand customers' zone of tolerance?
3. Customer expectations are influenced by several factors. Discuss how personal needs, word of mouth, and past experiences shape customers' expectations of a service.
4. A customer accepts a delayed Foodpanda delivery during heavy rain but complains about the same delay on a normal day. Explain this situation using the concept of the zone of tolerance.
5. A mobile operator advertises "uninterrupted high-speed internet across Bangladesh," but customers frequently experience network problems. Which factor influencing customer expectations is responsible for the resulting dissatisfaction? Justify your answer.
6. How can service organizations effectively manage customer expectations to improve customer satisfaction? Discuss with suitable examples from Bangladesh.
7. Digital technologies have significantly changed customer expectations in recent years. Explain how mobile apps, online reviews, and social media have influenced customer expectations in the Bangladeshi service sector.
8. "Meeting customer expectations is not always enough; organizations must also manage those expectations effectively." Do you agree with this statement? Support your answer with logical arguments and practical examples.

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CUSTOMER PERCEPTIONS OF SERVICE

4

Unit Highlights

- Customer Perceptions & Service encounter
- Service Quality Dimensions

Technologies Used for Content Delivery

- BOUTUBE
- BOU LMS
- WebTV
- Web Radio
- Mobile Technology with MicroSD Card
- LP+ Office 365
- BTV Program
- Bangladesh Betar Program

Lesson-1: Customer Perceptions & Service encounter

Objectives of the lesson: After completing this lesson, students will be able to —

- Understand the meaning of customer perceptions in services
- Differentiate between customer satisfaction and service quality
- Explain the factors influencing customer perceptions
- Understand the importance of service encounters in shaping customer perceptions

Introduction

In service marketing, customer perceptions are highly important because services are evaluated mainly through experiences rather than physical ownership. Positive perceptions increase customer satisfaction, loyalty, and positive word of mouth, while negative perceptions may damage organizational reputation.

Customer Perceptions of Service

Customer perceptions refer to customers' opinions, feelings, and evaluations regarding the service they receive from an organization. These perceptions are formed based on actual service experiences. For example, customers visiting a restaurant such as KFC Bangladesh may evaluate service based on employee behavior, food delivery speed, cleanliness, and overall dining experience. Positive customer perceptions increase satisfaction and loyalty, while negative perceptions create dissatisfaction and complaints.

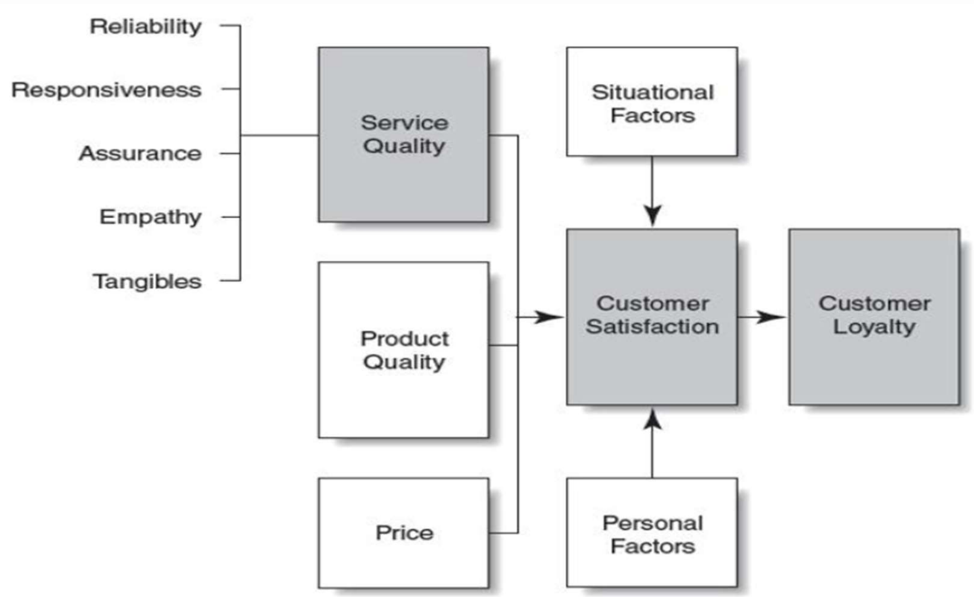

Figure: Customer perceptions of quality & customer satisfaction
Source: Zeithaml et al. (2018)

Customer Satisfaction versus Service Quality

Although customer satisfaction and service quality are closely related, they are different concepts. Customer satisfaction is based on a customer's evaluation of a specific service experience, whereas service quality reflects the customer's overall judgment about the excellence of a service over time. Understanding this distinction helps organizations design effective strategies to improve both customer satisfaction and long-term service quality.

Customer Satisfaction

Customer satisfaction refers to customers' short-term emotional reactions after experiencing a service. For example, a passenger using Shohoz may feel satisfied if ticket booking is quick and convenient.

Service Quality

Service quality refers to customers' long-term overall evaluation of service excellence. For instance, if customers repeatedly experience reliable and efficient services from Eastern Bank, they may develop a positive perception of the bank's service quality.

Difference between Satisfaction and Service Quality

Customer Satisfaction	Service Quality
Short-term evaluation	Long-term evaluation
Based on a specific service experience	Based on overall service performance
Emotional reaction	Cognitive judgment
Can change quickly	Develops over time

Table: Difference between satisfaction & service quality

Source: Zeithaml et al., (2018).

Types of Customer Perceptions

Customer perceptions may be formed in two ways:

i. Transaction-Specific Perception: This refers to customer evaluation of a single service experience. For example, a customer may evaluate one specific ride experience with Uber.

ii. Overall Perception: This refers to the customer's overall opinion about a company developed through repeated experiences. For example, customers may develop long-term positive perceptions about Swapno super shop because of consistent product quality and customer service.

Factors Influencing Customer Perceptions

Customer perceptions are influenced by several factors experienced before, during, and after service delivery. These factors shape how customers evaluate service quality and determine whether they feel satisfied or dissatisfied. Understanding these factors enables organizations to improve the overall customer experience.

i. **Service Quality:** Customers evaluate whether the organization delivers reliable and satisfactory service. For example, patients visiting Square Hospital expect professional treatment and organized services.

ii. **Price and Value:** Customers compare service quality with the price paid. For example, customers paying premium prices at luxury hotels expect superior service quality.

iii. **Employee Behavior:** Frontline employees strongly influence customer perceptions through their behavior and communication. For example, helpful employees at City Bank can create positive customer experiences.

iv. **Physical Environment:** Customers also judge services through cleanliness, comfort, and physical appearance. For example, customers visiting Star Cineplex evaluate seating arrangements, lighting, and cleanliness.

v. **Echnology and Digital Services:** Modern customers expect smooth digital experiences. For example, Chaldal customers expect easy app navigation, accurate order tracking, and secure payment systems.

Service Encounters

Service encounters are interactions between customers and service providers during service delivery. These encounters are often called "moments of truth" because customers form important impressions during these interactions. For example, when customers visit a beauty salon such as Persona, their interaction with employees strongly shapes their overall perception of the service.

Importance of Service Encounters

Service encounters play a critical role in shaping customer perceptions because they represent the moments when customers directly experience the service. Positive encounters create favorable impressions, whereas negative encounters may lead to dissatisfaction and customer switching. The major importance of service encounters includes:

- Create first impressions
- Influence customer satisfaction
- Affect customer loyalty
- Shape overall service perceptions
- Influence word of mouth communication

Types of Service Encounters

Service encounters occur through different communication channels depending on how customers interact with the organization. Each type of encounter requires different managerial approaches to ensure consistent service quality.

i. **Remote Encounters:** These occur without direct human interaction. For example, customers using ATM booths or online banking services experience remote encounters.

ii. **Phone Encounters:** These occur through telephone communication. For example, customers contacting airline call centers experience phone encounters.

iii. **Face-to-Face Encounters:** These involve direct interaction between customers and employees. For example, hotel reception services involve face-to-face encounters.

Sources of Customer Pleasure and Displeasure

Customers develop positive or negative perceptions based on their service experiences. Pleasant experiences generally result from timely service, courteous employee behavior, effective communication, and successful problem resolution. Conversely, delays, poor employee attitudes, service failures, and inadequate communication often create dissatisfaction and negative word of mouth.

Activity-1:

- Select a Bangladeshi service organization such as City Bank, Chaldal, Star Cineplex, or Persona.
- Identify factors that influence customer perceptions and discuss how the organization creates positive customer experiences.

Discussion Questions

1. Differentiate between customer satisfaction and service quality with suitable examples from Bangladeshi service organizations.
2. Explain how employee behavior, physical environment, and technology influence customers' perceptions of a service.
3. Why are service encounters often referred to as "moments of truth"? Explain with an example from a Bangladeshi service organization.
4. A customer receives excellent service at one branch of a bank but poor service at another branch of the same bank. Which factors have influenced the customer's perception? Explain your answer.

Lesson-2: Service Quality Dimensions

Objectives of the lesson: After completing this lesson, students will be able to—

- Understand the dimensions of service quality
- Explain the importance of customer satisfaction and loyalty
- Identify the impact of technology on customer perceptions
- Realize the role of service quality in organizational success

Service Quality Dimensions

Customer perceptions of service quality are generally evaluated through five widely accepted dimensions proposed by Parasuraman, Zeithaml, and Berry. Together, these dimensions provide a comprehensive framework for assessing customers' evaluations of service performance.

i. **Reliability:** The ability to provide promised service accurately and dependably. Example: Customers expect Sundarban Courier Service to deliver parcels safely and on time.
ii. **Responsiveness:** Employees' willingness to help customers quickly. Example: Airline customer care responding quickly during flight changes.
iii. **Assurance:** Employees' knowledge and ability to create trust and confidence. Example: Patients expect professional behavior from doctors and nurses.
iv. **Empathy:** Providing caring and personalized attention to customers. Example: Educational institutions supporting students individually during academic difficulties.
v. **Tangibles:** Physical facilities, employee appearance, and equipment. Example: Customers judge shopping malls through cleanliness and interior design.

Customer Satisfaction and Loyalty

Customer satisfaction is one of the strongest determinants of customer loyalty. Customers who consistently receive satisfactory service experiences are more likely to continue their relationship with the organization and recommend its services to others. The major outcomes of customer satisfaction include:

- Repeat purchases
- Recommend the organization to others
- Develop long-term relationships
- Trust the organization

For example, satisfied customers of Shwapno often continue shopping regularly and recommend the retail chain to friends and family.

Outcomes of Positive Customer Perceptions

Positive customer perceptions contribute significantly to an organization's long-term success. They strengthen customer relationships, enhance organizational reputation, and improve business performance. The major outcomes include:

- Increase customer loyalty
- Generate positive word of mouth
- Improve competitive advantage
- Increase long-term profitability

For example, satisfied customers of Shwapno often continue shopping regularly and recommend the brand to others.

Technology and Customer Perceptions

Technology has transformed the way customers interact with service organizations. As digital services become increasingly common, customers expect faster, more convenient, and personalized service experiences. Consequently, service providers must continuously improve their digital capabilities to remain competitive. Modern customers generally expect:

- Quick online responses
- Mobile applications
- Self-service technologies
- Digital payment systems
- Online tracking facilities

For example, customers using food delivery apps expect real-time updates and convenient digital experiences.

Challenges in Managing Customer Perceptions

Organizations face numerous challenges in managing customer perceptions because customer expectations continue to evolve in a highly competitive environment. Service failures, employee inconsistency, technological issues, and negative online reviews can quickly influence customers' opinions about an organization. For example, a negative viral social media review may damage customer perceptions of a service organization. Some of the major challenges include:

Strategies for Improving Customer Perceptions

Organizations can improve customer perceptions by consistently delivering high-quality services and maintaining effective communication with customers. Employee competence, technology, and prompt service recovery also play important roles in creating positive customer experiences. The following strategies can help improve customer perceptions:

i. **Deliver Consistent Service Quality:** Consistency builds trust and reliability.
ii. **Train Employees Properly:** Employees should develop communication and problem-solving skills.
iii. **Improve Customer Communication:** Clear communication reduces confusion and dissatisfaction.
iv. **Use Technology Effectively:** Digital systems should improve convenience and efficiency.
v. **Respond to Complaints Quickly:** Fast problem-solving improves customer trust and satisfaction.

Importance of Customer Perceptions in Service Marketing

Understanding customer perceptions enables organizations to evaluate how customers experience their services and identify opportunities for improvement. Positive customer perceptions contribute to customer satisfaction, loyalty, and sustainable competitive advantage. The major benefits include:

- Improve service quality
- Increase customer satisfaction
- Strengthen customer relationships
- Enhance organizational image

- Increase customer loyalty
- Achieve competitive advantage

Organizations that successfully manage customer perceptions are more likely to achieve long-term success in competitive markets.

Activity-2:

- Choose a service organization and analyze its service quality based on reliability, responsiveness, assurance, empathy, and tangibles.
- Prepare a short presentation explaining how these dimensions influence customer perceptions.

Discussion Questions

1. Discuss how the five dimensions of service quality help organizations improve customer perceptions.
2. Employee behavior is often considered the most important determinant of customer perceptions. Do you agree? Justify your answer with examples.
3. How can service organizations use technology to improve customer perceptions and customer satisfaction? Discuss with examples from Bangladesh.
4. A restaurant receives excellent online reviews for food quality but frequent complaints about employee behavior. How might this affect customers' overall perceptions of the restaurant? Explain.
5. "Positive customer perceptions create a sustainable competitive advantage for service organizations." Critically evaluate this statement using practical examples.

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LISTENING TO CUSTOMERS THROUGH RESEARCH

5

Unit Highlights

- Service Marketing Research- Importance, methods & challenges
- Elements of service marketing research

Technologies Used for Content Delivery

- BOUTUBE
- BOU LMS
- WebTV
- Web Radio
- Mobile Technology with MicroSD Card
- LP+ Office 365
- BTV Program
- Bangladesh Betar Program

Lesson-1: Service Marketing Research- Importance, methods & challenges

Objectives of the lesson: After completing this lesson, students will be able to —

- Understand the importance of customer research in service marketing
- Identify the objectives of service marketing research
- Explain different methods of listening to customers
- Realize the challenges of customer research

Introduction

Listening to customers is essential for service organizations because customer expectations and experiences continuously change in competitive markets. Service organizations must regularly collect customer feedback to identify service problems, improve customer satisfaction, and reduce service quality gaps.

Listening to Customers through Research

Service organizations must continuously listen to customers to understand their expectations, needs, complaints, and experiences. Customer research helps firms identify service problems and improve customer satisfaction. Unlike physical products, services are intangible and experience-based. Therefore, organizations need regular customer feedback to improve service quality and reduce service gaps.

For example, online shopping platforms such as Daraz regularly collect customer ratings and reviews to understand customer experiences and improve their services.

Importance of Customer Research

Customer research is one of the most valuable tools in service marketing because it helps organizations understand customer expectations, perceptions, and experiences. By collecting and analyzing customer feedback, service organizations can identify service weaknesses, improve customer satisfaction, and make more informed managerial decisions. The major benefits of customer research include:

- Understand customer expectations
- Measure customer satisfaction
- Identify service problems
- Improve service quality
- Develop customer-focused strategies
- Increase customer loyalty

Objectives of Service Marketing Research

Service marketing research is conducted to gather reliable information that supports customer-focused decision-making and continuous service improvement. By systematically collecting and analyzing customer feedback, organizations can better understand customer expectations, evaluate service performance, identify service failures, and develop effective strategies to enhance customer satisfaction. The major objectives of service marketing research include:

i. Understanding Customer Expectations: Research helps firms understand what customers expect from the service. For example, hospitals often collect patient feedback regarding waiting time, doctor behavior, and treatment quality.

ii. Monitoring Service Performance: Research helps organizations evaluate whether service standards are being maintained. For example, banks may conduct customer surveys to measure satisfaction regarding branch services and digital banking facilities.

iii. Identifying Service Problems: Customer feedback helps organizations identify areas needing improvement. For example, food delivery companies may analyze complaints regarding delayed deliveries.

iv. Measuring Customer Satisfaction: Organizations use research to evaluate overall customer satisfaction levels.

v. Supporting Decision Making: Research findings help managers make customer-focused decisions.

Methods of Listening to Customers

Organizations use a variety of research methods to gather customer information because no single technique can provide a complete understanding of customer expectations and experiences. Each method has its own strengths and limitations, and service organizations often use multiple methods together to obtain accurate and reliable customer insights.

i. Customer Surveys

Customer surveys are one of the most common research methods. Organizations collect information through questionnaires, online forms, telephone interviews, or face-to-face discussions. For example, telecom operators often conduct customer satisfaction surveys regarding internet speed and customer care services. Surveys provide direct customer feedback. Comparatively, online surveys reduce research costs. Poorly designed surveys may produce inaccurate results.

ii. Complaint Analysis

Customer complaints provide valuable information regarding service failures. For example, courier companies may analyze customer complaints related to delayed parcel delivery. Complaints help identify weaknesses and fast response improves customer trust. Thus, organizations should encourage customer feedback.

iii. Focus Group Discussion

Focus groups involve small groups of customers discussing their experiences and opinions. For example, mobile operators may arrange focus groups before launching new internet packages. Focus groups provide detailed customer insights and customer opinions help improve services. But here, skilled moderators are necessary.

iv. Observation Method

Organizations may observe customer behavior during service experiences. For example, supermarkets may observe customer shopping patterns and checkout behavior. Observation provides real-life customer insights. Customer behavior may differ from survey responses. So, observation helps improve service processes.

v. Social Media Monitoring

Organizations monitor social media comments, reviews, and online discussions to understand customer opinions. For example, restaurants often monitor Facebook reviews and food delivery app ratings. Social media provides immediate customer feedback. Negative reviews may quickly damage brand image. Organizations should respond professionally to online criticism.

vi. SERVQUAL and Service Research

One of the most popular tools used in service research is SERVQUAL. It measures customer expectations and perceptions regarding service quality. SERVQUAL mainly focuses on five dimensions: Reliability, Responsiveness, Assurance, Empathy, Tangibles.

For example, banks and hospitals may use SERVQUAL-based surveys to evaluate customer satisfaction regarding employee behavior, waiting time, cleanliness, and reliability. SERVQUAL helps identify service quality gaps. Organizations can compare customer expectations and perceptions by this tool. Research findings from SERVQUAL tool support service improvement strategies.

vii. Technology and Customer Research

Technology has significantly improved customer research methods. Modern organizations use online surveys, mobile apps, website analytics, customer databases, artificial intelligence tools& social media analytics. For example, e-commerce platforms analyze customer browsing and purchasing behavior to understand customer preferences.

viii. Customer Complaints as a Source of Research

Customer complaints provide important information regarding service failures and operational weaknesses. Complaints help organizations understand customer dissatisfaction and identify areas needing improvement. For example, airlines may receive complaints regarding delayed flights, baggage handling, or poor communication. Such complaints help management improve service processes.

Importance of Complaint Analysis

- Identifies recurring service problems
- Improves service recovery strategies
- Helps reduce customer dissatisfaction
- Supports better employee training

Challenges in Customer Research

Although customer research provides valuable insights, organizations often face several difficulties while collecting and interpreting customer information. These challenges may reduce the accuracy of research findings and limit their usefulness in managerial decision-making. Some common challenges include:

- Low survey response rates
- Biased customer responses
- High research costs
- Difficulty interpreting customer feedback
- Rapidly changing customer expectations

For example, customers may provide inaccurate responses if surveys are too lengthy or complicated.

Activity-1:

- Select a Bangladeshi service organization such as Daraz, Robi, or City Bank.
- Identify the methods the organization may use to collect customer feedback and discuss how the information can improve service quality.

Discussion Questions

1. Why is customer research essential for service organizations? Discuss its role in understanding customer expectations and improving service quality.
2. Compare different methods of listening to customers. Which method do you think is most effective for service organizations? Justify your answer.
3. A hospital receives frequent complaints about long waiting times, but management believes patients are satisfied. Which customer research method(s) would you recommend to identify the actual problem? Explain.
4. How can customer complaints and social media monitoring help organizations improve service quality? Discuss with suitable examples.

Lesson-2: Elements of service marketing research

Objectives of the lesson: After completing this lesson, students will be able to —

- Explain the importance of customer relationship research
- Understand the elements of an effective service marketing research program
- Identify the role of technology in customer listening systems
- Realize the importance of using research findings effectively

Relationship Marketing Research

Relationship marketing research focuses on understanding long-term customer relationships rather than only individual transactions. Organizations try to measure:

- Customer trust
- Customer commitment
- Loyalty intentions
- Relationship strength
- Overall customer experience

For example, mobile banking providers may regularly evaluate customer loyalty and satisfaction to maintain long-term relationships.

Elements In an Effective Service Marketing Research Program

An effective service marketing research program uses a combination of research methods to collect comprehensive information about customer expectations, perceptions, and experiences. Because service organizations face diverse managerial challenges, relying on a single research technique is often insufficient. A well-designed research program integrates multiple approaches to support continuous service improvement and customer-focused decision-making.

i. **Complaint solicitation:** Good service organizations take complaints seriously. Not only do they listen to complaints but they also employ complaint solicitation as a way of communicating about what can be done to improve their service and their service employees.

ii. **Critical incident studies:** The critical incident technique (CIT), is a qualitative interview procedure in which customers are asked to provide verbatim stories about satisfying and dissatisfying service encounters they have experienced. According to a summary of the use of the technique in services, CIT has been used to study satisfaction in hotels, restaurants, airlines, amusement parks, automotive repair, retailing, banking, cable television, public transportation, and education.

iii. **Requirements Research:** Requirement's research involves identifying the benefits and attributes that customers expect in a service. This type of research is very basic and essential because it determines the type of questions that will be asked in surveys and ultimately the improvements that will be attempted by the firm. Because these studies are so foundational, qualitative techniques are appropriate to begin them.

iv. **Relationship Surveys:** Relationship surveys measure customers' overall opinions regarding a company. These surveys focus on overall satisfaction, loyalty, trust, service quality perceptions, future purchasing intentions. For example, banks may regularly conduct relationship surveys to understand customer loyalty and satisfaction.

v. **Transaction Surveys:** Transaction surveys focus on specific service experiences. For example, customers may receive SMS surveys immediately after using ride-sharing services or airline support services. Transaction surveys provide quick feedback. Organizations can identify immediate service problems. Frequent surveys may irritate customers.

vi. **Mystery Shopping:** Mystery shopping involves trained individuals acting as customers to evaluate service quality. For example, restaurant chains may use mystery shoppers to evaluate employee behavior, cleanliness, and service speed. Mystery shopping measures actual service performance. This method helps evaluate employee behavior. Employees may behave differently if they know evaluation is occurring.

vii. **Customer Panels:** Customer panels consist of selected customers who regularly provide opinions and feedback. For example, telecom companies may maintain customer panels to test new digital services. Customer panels support long-term feedback collection. Firms can better understand changing customer expectations. Maintaining customer participation may be difficult by this method.

viii. **Lost Customer Research:** Organizations sometimes research because customers stop using their services. For example, banks may contact former customers to identify reasons for account closure. This method helps identify major service weaknesses & supports customer retention strategies. It also provides opportunities for service improvement.

Upward Communication & its importance

Upward communication refers to communication from frontline employees to management. Frontline employees interact directly with customers and often understand customer problems better than managers. For example, retail employees may inform management about common customer complaints regarding product availability.

Benefits of Upward Communication

Upward communication enables frontline employees to share customer feedback, complaints, and service-related information with management. Since frontline employees interact directly with customers, they often possess valuable insights that help organizations improve service quality and customer satisfaction. The major benefits of upward communication include:

- Improves management understanding of customers
- Helps solve service problems quickly
- Improves employee involvement
- Supports better decision making

Using Customer Research Effectively

Collecting customer feedback alone is not enough. Organizations must properly analyze and use research findings.

Effective Use of Research Findings

Collecting customer feedback alone does not improve service quality unless organizations effectively analyze and use the information. Research findings should be translated into practical actions that enhance service processes, employee performance, and customer satisfaction. Organizations can use research findings in the following ways:

- Identify customer problems quickly
- Improve service processes
- Train employees properly
- Develop customer-focused policies
- Improve communication systems

For example, educational institutions may improve online learning systems after receiving student feedback.

Customer Journey Mapping

Customer journey mapping helps organizations visualize every stage of customer interaction with the service. The customer journey may include: Information search, service purchase, service delivery, complaint handling, post-service communication. For example, airlines may analyze customer experiences from online ticket booking to airport services and post-flight feedback.

Benefits of Customer Journey Mapping

Customer journey mapping enables organizations to understand the complete sequence of customer interactions with a service. By identifying each touchpoint, organizations can recognize service failures, redesign processes, and create more satisfying customer experiences. The major benefits of customer journey mapping include:

- Identifies service failure points
- Improves customer experience
- Helps redesign service processes
- Supports customer-focused strategies

Customer Experience Mapping

Customer experience mapping helps organizations understand the complete customer journey. It identifies: Customer interactions, service touchpoints, pain points and opportunities for improvement. For example, airlines may map passenger experiences from ticket booking to baggage collection.

Importance of Listening to Customers in Service Marketing

Listening to customers is a fundamental practice in service marketing because it enables organizations to understand customer needs, expectations, and changing preferences. Organizations that actively seek and respond to customer feedback are better positioned to improve service quality, strengthen customer relationships, and achieve long-term success. The major benefits of listening to customers include:

- Improve service quality
- Reduce customer dissatisfaction
- Build stronger relationships
- Increase customer loyalty
- Gain competitive advantage

In competitive markets, customer feedback helps organizations continuously improve their services.

Activity-2:

- Work in groups of 4–5 students.
- Choose a service organization and identify possible customer complaints or service problems.
- Suggest suitable customer research methods the organization can use to improve customer satisfaction.

Discussion Questions

1. Explain the key elements of an effective service marketing research program. Why should organizations use multiple research methods instead of relying on a single method?
2. Mystery shopping, transaction surveys, and relationship surveys are commonly used in service marketing research. Compare these methods and discuss when each is most appropriate.
3. Why is upward communication important in-service organizations? How does it help managers make better customer-focused decisions?
4. "Collecting customer feedback alone is not enough; organizations must effectively analyze and utilize research findings." Critically evaluate this statement with suitable examples.

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BUILDING CUSTOMER RELATIONSHIPS

6

Unit Highlights

- Relationship Marketing: Concept & Benefits
- CRM strategies

Technologies Used for Content Delivery

- BOUTUBE
- BOU LMS
- WebTV
- Web Radio
- Mobile Technology with MicroSD Card
- LP+ Office 365
- BTV Program
- Bangladesh Betar Program

Lesson-1: Relationship Marketing: Concept & Benefits

Objectives of the lesson: After completing this lesson, students will be able to —

- Understand the concept of relationship marketing
- Explain the importance of customer relationships in service businesses
- Identify the benefits of long-term customer relationships
- Understand how organizations build customer loyalty

Introduction

In modern service marketing, organizations focus not only on attracting customers but also on maintaining long-term relationships with them. Strong customer relationships help organizations improve customer satisfaction, loyalty, and profitability. Because service businesses involve continuous interaction between organizations and customers, relationship marketing has become extremely important.

Building Customer Relationships

In service marketing, building strong customer relationships is extremely important because services are often based on continuous interaction between organizations and customers. Modern businesses no longer focus only on attracting new customers; they also try to retain existing customers through quality service and relationship-building strategies.

Relationship marketing refers to developing, maintaining, and strengthening long-term relationships with customers. The main goal is to create customer satisfaction, trust, loyalty, and long-term engagement.

For example, banks in Bangladesh such as BRAC Bank and Eastern Bank regularly communicate with customers through mobile apps, SMS alerts, loyalty benefits, and personalized financial services to maintain long-term relationships.

Importance of Customer Relationships

Strong customer relationships provide several advantages to service organizations. Satisfied and loyal customers are more likely to continue using the service, recommend the organization to others, and forgive occasional service failures.

For example, many customers repeatedly purchase products from Aarong not only because of product quality but also because of the trust and emotional connection they have developed with the brand over time.

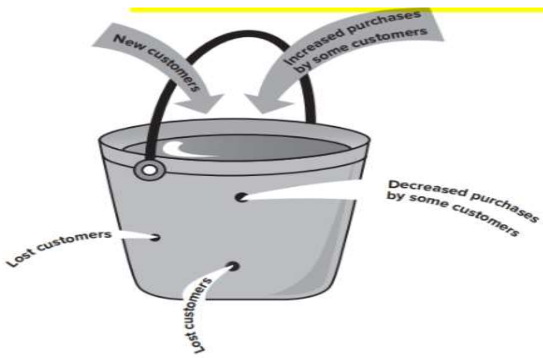

Figure: Why relationship development makes sense
Source: Zeithaml et al., (2018)

Customer relationships are particularly important in-service businesses because customers directly experience the service process and often interact with employees regularly.

Relationship Marketing

Relationship marketing focuses on creating long-term customer value instead of short-term sales. Organizations attempt to understand customer needs, communicate regularly, and provide personalized services. For example, mobile financial service providers such as Nagad and Rocket regularly introduce customized offers, cashback facilities, and digital payment benefits to strengthen customer relationships.
Relationship marketing helps organizations:

- Improve customer satisfaction
- Increase customer loyalty
- Reduce customer switching
- Generate positive word of mouth
- Increase long-term profitability

Customer Loyalty

Customer loyalty refers to a customer's commitment to continue purchasing services from the same organization over time. Loyal customers often prefer a particular brand even when competitors offer similar services. Loyalty develops when customers consistently receive satisfactory experiences.

For example, many customers continue using Grameenphone because they trust the network quality, customer service, and digital facilities developed over the years.

Factors Influencing Customer Loyalty

Several factors influence customer loyalty in service businesses.

i. Service Quality

Consistent and reliable service quality strongly influences customer loyalty. For example, customers continue visiting popular hospitals such as Square Hospital because they expect professional healthcare services and organized treatment systems.

ii. Customer Satisfaction

Satisfied customers are more likely to remain loyal. For example, customers who regularly receive accurate and timely deliveries from Chaldal are more likely to continue using the platform.

iii. Trust

Trust is extremely important in service relationships. For example, customers trust financial institutions to protect their money and personal information.

iv. Communication

Regular and effective communication strengthens customer relationships. For example, airlines often send SMS and email updates regarding flight schedules, promotional offers, and travel guidelines.

v. Personalization

Customers appreciate personalized services that match their preferences and needs. For example, streaming services and online shopping platforms often recommend products based on previous customer behavior.

Benefits of Loyal Customers

Loyal customers provide several benefits for organizations. They often purchase repeatedly, spend more money, and promote the organization through positive word of mouth. For example, loyal restaurant customers frequently recommend their favorite restaurants to friends and family members.

Customer loyalty also reduces marketing costs because retaining existing customers is generally less expensive than attracting new customers.

Customer Retention

Customer retention refers to an organization's ability to maintain long-term customer relationships. In competitive markets, customer retention is extremely important because customers can easily switch to competitors if they become dissatisfied. For example, telecom operators continuously introduce internet offers, loyalty rewards, and digital services to reduce customer switching.

Strategies for Customer Retention

Organizations use different strategies to retain customers.

i. Delivering Consistent Service Quality

Customers expect reliable service experiences every time they interact with the organization.

ii. Developing Loyalty Programs

Many organizations use reward programs to encourage repeat purchases.
For example, airlines provide frequent flyer programs and reward points to loyal passengers.

iii. Improving Customer Service

Fast and professional customer support increases customer satisfaction.
For example, e-commerce companies often provide live chat support and easy return systems.

iv. Building Emotional Connections

Organizations often create emotional relationships through branding and customer engagement.

For example, many fashion brands in Bangladesh connect with customers through cultural campaigns during Eid and Pohela Boishakh.

Activity-1:

- Select a Bangladeshi service organization such as Persona, Chaldal, BRAC Bank, or Grameenphone.
- Discuss how the organization builds customer loyalty and maintains long-term customer relationships.

Discussion Questions:

1. Why is relationship marketing more important for service organizations than for product-based businesses? Explain with suitable examples.
2. How do customer satisfaction, trust, and service quality work together to build customer loyalty? Illustrate your answer with a service example.
3. A telecom company offers attractive promotional discounts but continues to lose customers. Which factors influencing customer loyalty may be responsible? Discuss.
4. "Retaining existing customers is often more profitable than attracting new customers." Critically evaluate this statement with suitable examples.

Lesson-2: CRM strategies

Objectives of the lesson: After completing this lesson, students will be able to —

- Understand customer relationship strategies in service organizations
- Explain the role of technology in relationship building
- Identify relationship challenges in service marketing
- Realize the importance of customer relationship management (CRM)

Customer Relationship Management (CRM)

Customer Relationship Management (CRM) refers to the process of managing interactions and relationships with customers using customer information, communication systems, and service strategies. CRM helps organizations understand customer preferences, purchasing behavior, and service expectations. Modern CRM systems often use technology to store customer information and improve communication.

For example, banks use CRM systems to provide customers with personalized loan offers, account information, and financial services.

Role of Technology in Relationship Building

Technology has transformed the way service organizations communicate and interact with customers. Digital tools enable organizations to provide faster services, personalized communication, and continuous customer support, thereby strengthening long-term customer relationships. Common technologies used for relationship building include:

- Mobile apps
- SMS notifications
- Social media communication
- Digital payment systems
- Online customer support
- Artificial intelligence chatbots

For example, online food delivery platforms regularly send promotional offers and order updates through mobile applications. Technology improves convenience, communication speed, and customer engagement.

Relationship Bonds

Organizations use different types of relationship bonds to strengthen customer relationships and encourage long-term commitment. These bonds create value for customers in different ways and make it more attractive for them to continue their relationship with the organization. The major types of relationship bonds are: Organizations create different types of bonds to strengthen customer relationships.

i. Financial Bonds: Organizations provide financial benefits such as discounts, cashback offers, or reward points. For example, digital payment services often offer cashback during online shopping campaigns.

ii. Social Bonds: Social bonds develop through friendly communication and personalized interactions. For example, beauty salons and boutique stores often maintain personal relationships with regular customers.

iii. Structural Bonds: Structural bonds are created when organizations provide systems or services that become difficult for customers to replace. For example, companies using cloud-based business software may become highly dependent on the service provider's systems.

Customer Switching

Customer switching occurs when customers discontinue using one service provider and choose another. Understanding the reasons behind switching behavior enables organizations to identify service weaknesses and implement strategies to improve customer retention. Customers may switch service providers for the following reasons:

- Poor service quality
- High prices
- Better competitor offers
- Negative service experiences
- Poor employee behavior

For example, mobile network users may switch operators if they frequently experience poor internet connectivity.

Customer Profitability

Not all customers contribute equally to organizational profitability. Some customers purchase more frequently, remain loyal for longer periods, and generate positive word of mouth. Organizations often try to identify profitable customers and provide them with better services and relationship benefits. For example, banks sometimes offer premium services to high-value customers.

Challenges in Building Customer Relationships

Although developing strong customer relationships offers numerous benefits, organizations often face challenges in maintaining these relationships over time. Rapid technological changes, increasing customer expectations, and intense market competition require organizations to continuously improve their relationship-building efforts. Some major challenges include: Organizations face several challenges while maintaining customer relationships.

- One major challenge is rising customer expectations. Modern customers expect fast service, personalized communication, and immediate responses.
- Another challenge is intense competition. Customers can easily compare services and switch to competitors.
- Technology also creates challenges because negative online reviews can quickly spread through social media.

For example, dissatisfied customers may share poor restaurant or delivery experiences online, affecting organizational reputation.

Strategies for Strengthening Customer Relationships

Retaining existing customers requires organizations to implement strategies that consistently create value and strengthen customer relationships. Effective retention strategies improve customer satisfaction, reduce switching behavior, and support long-term profitability. Some common customer retention strategies are:

i. Understanding Customer Needs

Organizations should regularly collect customer feedback and monitor customer expectations.

ii. Improving Service Recovery
Quick response to customer complaints improves trust and satisfaction.

ii. Personalizing Services
Customized communication and services improve customer engagement.

iv. Maintaining Ethical Practices
Honest communication and fair treatment help develop customer trust.

v. Building Strong Brand Image
A positive organizational image supports long-term relationship building.

For example, organizations involved in social responsibility activities often create stronger emotional connections with customers.

Importance of Customer Relationships in Service Marketing

Customer relationships are the foundation of successful service organizations because services often involve continuous interaction between customers and service providers. Building strong relationships helps organizations enhance customer satisfaction, encourage repeat purchases, and create long-term loyalty. The importance of customer relationships can be understood through the following benefits:

Strong customer relationships help organizations:

- Improve customer satisfaction
- Increase customer loyalty
- Reduce customer switching
- Generate positive word of mouth
- Increase long-term profitability
- Achieve competitive advantage

Organizations that successfully maintain customer relationships are more likely to survive and grow in competitive service markets.

Activity-2:

- Work in groups of 4–5 students.
- Choose a service organization and analyze how it uses technology and customer service strategies to maintain customer relationships.
- Suggest additional ideas the organization can use to improve customer loyalty.

Discussion Questions

1. What is relationship marketing? Why are customer relationships important in service businesses?
2. Explain the factors influencing customer loyalty using examples.
3. What is customer retention? Discuss the importance of CRM in service marketing.
4. A ride-sharing company receives frequent complaints on social media regarding driver behavior and delayed customer support. Explain how CRM and technology can be used to improve customer relationships.
5. Explain different types of relationship bonds.
6. Why do customers switch service providers?

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SERVICE RECOVERY

7

Unit Highlights

- Service failure & recovery
- Service recovery strategies

Technologies Used for Content Delivery

- BOUTUBE
- BOU LMS
- WebTV
- Web Radio
- Mobile Technology with MicroSD Card
- LP+ Office 365
- BTV Program
- Bangladesh Betar Program

Lesson-1: Service failure & recovery

Objectives of the lesson: After completing this lesson, students will be able to —

- Understand the concept of service recovery
- Explain the causes of service failure in service organizations
- Identify customer responses to service failure
- Understand the importance of effective complaint handling

Introduction

Service failures are unavoidable in many service organizations because services involve human interaction, technology, and operational processes. Customers may become dissatisfied because of delays, mistakes, poor communication, or technical problems. Therefore, organizations must develop effective service recovery systems to restore customer satisfaction and trust.

Service Recovery

Service recovery refers to the actions taken by organizations to solve customer problems and restore customer satisfaction after a service failure occurs. In service businesses, failures are sometimes unavoidable because services involve human interaction, technology, and operational processes. Even highly successful organizations occasionally experience service failures such as delayed delivery, technical problems, employee mistakes, or communication errors. What becomes important is how the organization responds to the problem.

For example, customers using online shopping platforms in Bangladesh may occasionally receive delayed deliveries or incorrect products. If the company responds quickly, apologizes sincerely, and solves the problem efficiently, customers may continue trusting the organization.

Service Failure

Service failure occurs when service performance does not meet customer expectations. Failures may occur during any stage of service delivery.

For example, airline passengers may experience flight delays, luggage problems, or poor communication during schedule changes. Similarly, restaurant customers may become dissatisfied because of delayed food service or incorrect orders.

Service failures often create negative customer emotions such as frustration, disappointment, anger, and dissatisfaction.

Causes of Service Failure

Service failures may arise from different organizational, technological, and external factors. Identifying the root causes of service failures helps organizations prevent recurring problems, improve service delivery, and enhance customer satisfaction. The major causes of service failure include:

i. Employee Errors

Employees may make mistakes during service delivery because of lack of training, stress, or communication problems. For example, bank employees may provide incorrect information to customers regarding account procedures.

ii. Technology Failures

Modern service organizations depend heavily on technology. Technical problems may interrupt service delivery. For example, customers may face difficulties using mobile banking apps during server downtime.

iii. Poor Service Processes

Inefficient systems and operational problems may create service failures. For example, hospitals may experience long waiting times because of poor appointment management systems.

iv. Unrealistic Customer Expectations

Sometimes organizations create unrealistic expectations through advertising and promotional communication. For example, internet service providers may promise uninterrupted high-speed internet even though network limitations exist in some areas.

v. External Factors

Certain service failures occur because of factors beyond organizational control such as weather conditions, political disruptions, or traffic congestion. For example, courier delivery delays may occur during severe floods or transportation disruptions.

Customer Responses to Service Failure

Customers react differently after experiencing service failures. Some customers complain directly to the organization, while others share their dissatisfaction through social media or word of mouth communication.

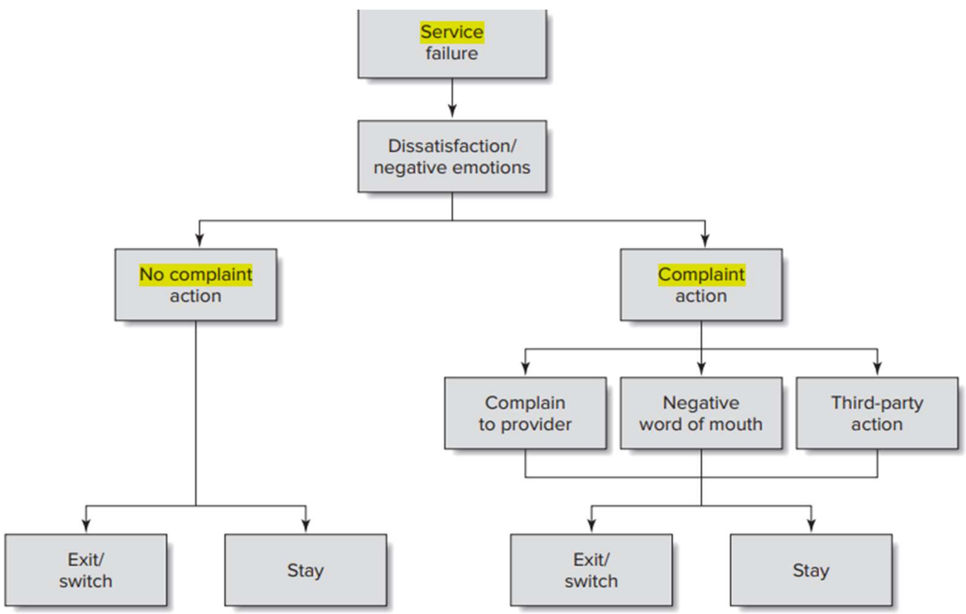

Figure: Customer complaint actions following service failure
Source: Zeithaml et al., (2018)

Some customers silently switch to competitors without submitting complaints. For example, dissatisfied restaurant customers may post negative online reviews that influence other potential customers.

Customer Complaint Behavior

Customer complaints provide organizations with opportunities to identify problems and improve services. Organizations should encourage customers to express complaints because silent dissatisfaction may lead to customer switching.

For example, many organizations now provide online complaint forms, customer care numbers, and social media support systems to collect customer feedback.

Types of Complainers

Customers react differently after experiencing service failures. Understanding different types of complainers helps organizations manage complaints more effectively.

i. Passives

Passive customers usually do not complain directly to the organization even when they are dissatisfied. Instead, they may silently switch to competitors. For example, a dissatisfied restaurant customer may stop visiting the restaurant without informing management about the problem.

ii. Voicers

Voicers complain directly to the organization and expect the problem to be solved. For example, bank customers may contact customer care services regarding transaction problems or service delays.

iii. Irates

Irates are highly dissatisfied customers who may complain aggressively and spread negative word of mouth. For example, dissatisfied customers may post angry comments on social media after experiencing poor customer service.

iv. Activists

Activists take complaints seriously and may involve consumer rights organizations, legal authorities, or media platforms. For example, customers facing serious service problems may file formal complaints with regulatory authorities.

Organizations should handle all types of complainants professionally because effective complaint management helps restore customer trust.

Importance of Complaint Handling

Effective complaint handling is extremely important in-service marketing because proper recovery efforts can restore customer trust and satisfaction. Customers often evaluate organizations not only by the service failure itself but also by how the organization handles the problem.

For example, if an airline quickly reschedules a canceled flight and communicates clearly with passengers, customers may remain satisfied despite the inconvenience.

Principles of Effective Service Recovery

Successful service recovery requires organizations to respond promptly, fairly, and professionally to customer complaints. By following well-established recovery principles, organizations can restore customer trust, improve satisfaction, and reduce the likelihood of customer switching. Important principles of effective service recovery include:

i. Quick Response: Organizations should respond to complaints as quickly as possible.
ii. Empathy and Courtesy: Employees should communicate politely and show concern for customer problems.
iii. Fair Solutions: Customers expect fair compensation or reasonable solutions.
iv. Clear Communication: Organizations should explain the situation honestly and transparently.
v. Follow-Up: Following up with customers after problem resolution improves customer trust. For example, many online service providers send follow-up messages after resolving customer complaints.

Service Recovery Paradox

The service recovery paradox suggests that customers may become even more loyal after experiencing a successful service recovery than they were before the failure occurred. For example, customers may appreciate a restaurant more if management quickly corrects a mistake, apologizes sincerely, and offers complimentary service.
However, organizations should not intentionally allow failures because repeated service problems can still damage customer trust.

Activity-1:

- Identify a common service failure experienced in Bangladesh such as delayed delivery, poor customer support, or technical problems.
- Discuss how the organization handled the problem and suggest better service recovery strategies.

Discussion Question:

1. Why is service recovery considered a critical element of service marketing? Explain with suitable examples.
2. How do employee errors, technology failures, and unrealistic customer expectations contribute to service failures? Illustrate your answer with examples.
3. A customer receives the wrong food order at a restaurant but leaves without complaining and posts a negative review online. Identify the type of complainer and discuss how the restaurant could have managed the situation more effectively.
4. "Customers often judge an organization more by its response to a service failure than by the failure itself." Critically evaluate this statement.

Lesson-2: Service recovery strategies

Objectives of the lesson: After completing this lesson, students will be able to —

- Understand different service recovery strategies
- Explain the role of employees in service recovery
- Identify the impact of service recovery on customer loyalty
- Understand how organizations can improve recovery systems

Service Recovery Strategies

Organizations use different strategies to recover from service failures and restore customer satisfaction. One important strategy is providing compensation. Compensation may include refunds, discounts, replacement services, or additional benefits. For example, airlines may provide meal vouchers or hotel facilities when flights are significantly delayed.

Another strategy is apology. A sincere apology often reduces customer anger and improves customer perceptions. For example, online delivery companies frequently apologize through SMS or customer support communication after delayed deliveries.
Organizations also use problem-solving strategies by correcting mistakes immediately and ensuring customers receive the promised service.

Employee Role in Service Recovery

Employees play a critical role in successful service recovery because they directly interact with dissatisfied customers. Frontline employees should:

- Listen carefully to customer complaints
- Remain calm and professional
- Show empathy and respect
- Provide quick solutions
- Communicate clearly

For example, hotel reception employees often manage guest complaints regarding room facilities or booking issues.
Organizations should train employees properly so that they can handle customer complaints confidently and professionally.

Empowerment in Service Recovery

Employee empowerment means giving employees authority to solve customer problems without waiting for management approval.

Empowered employees can provide faster service recovery and improve customer satisfaction. For example, restaurant managers may allow employees to replace incorrect food orders immediately without lengthy approval procedures.

Technology and Service Recovery

Technology has transformed the way organizations manage customer complaints and service recovery. Digital tools enable organizations to respond more quickly, monitor complaints efficiently, and provide convenient support across multiple communication channels. Common technologies used in service recovery include:

- Online complaint management systems
- Live chat support
- Automated response systems

- Social media customer care
- Mobile app support services

For example, digital payment platforms provide instant complaint tracking and customer support through mobile applications.

Technology improves communication speed and helps organizations respond to customer problems more efficiently.

Service Guarantees

Service guarantees are promises made by organizations regarding service quality and customer satisfaction. Organizations may promise refunds, replacements, or compensation if customers become dissatisfied. For example, courier companies sometimes guarantee delivery within a specific timeframe.

Service guarantees help organizations:

- Build customer trust
- Reduce customer uncertainty
- Encourage service quality improvement
- Increase organizational accountability

Challenges in Service Recovery

Organizations often face several challenges while managing service recovery. One major challenge is dealing with highly emotional or angry customers. Employees may find it difficult to manage customer frustration professionally.

Another challenge is balancing recovery costs and profitability. Excessive compensation may increase organizational expenses. Social media also creates challenges because dissatisfied customers can quickly spread negative experiences online. For example, a viral customer complaint regarding restaurant hygiene or poor customer service may significantly damage organizational reputation.

Benefits of Effective Service Recovery

Effective service recovery provides several benefits for organizations. It helps improve customer satisfaction, strengthen trust, reduce customer switching, and generate positive word of mouth. Organizations that handle service failures professionally often develop stronger customer relationships. For example, customers are more likely to remain loyal to organizations that respond quickly and respectfully during service problems.

Strategies for Improving Service Recovery Systems

Organizations usually apply service recovery strategies from two important perspectives: fixing the problem and fixing the customer.

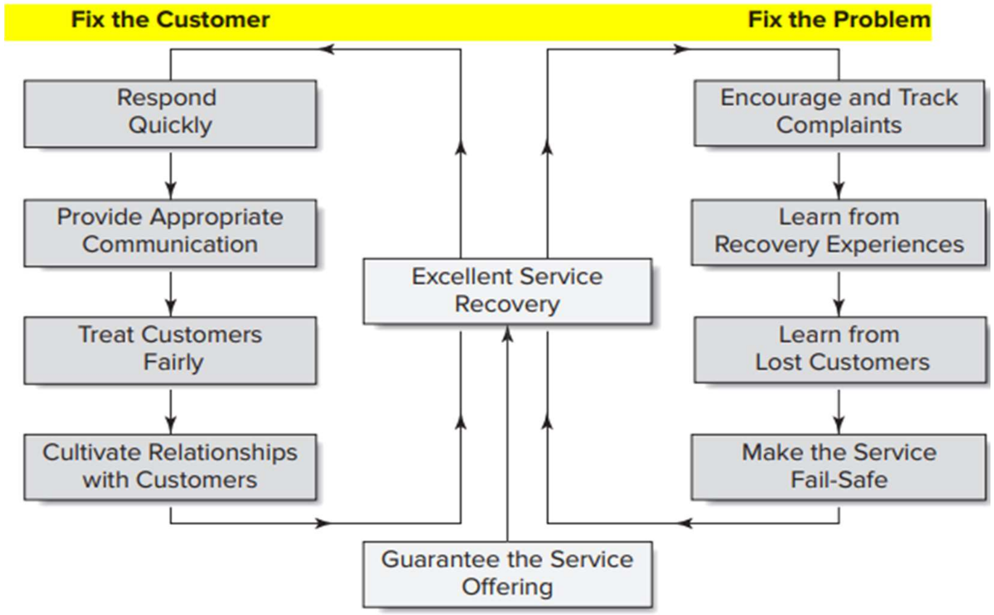

Figure: Service recovery strategies
Source: Zeithaml et al., (2018)

Both approaches are necessary for restoring customer satisfaction and maintaining long-term relationships.

i. Fix the Problem

Fixing the problem means correcting the actual service failure quickly and efficiently. Organizations focus on operational solutions so that customers receive the promised service properly.

Common solutions include:

- Correcting the mistake immediately
- Replacing defective or incorrect service/products
- Providing refunds or compensation
- Improving service processes
- Reducing delays and operational errors

For example, if an online shopping platform delivers the wrong product, the company may quickly replace the product and arrange free return service. Similarly, airlines may provide alternative flights or refunds after flight cancellations.

ii. Fix the Customer

Fixing the customer means addressing customers' emotional dissatisfaction after service failure. Customers often expect respect, empathy, and proper communication during problem situations.

Common solutions include:

- Offering sincere apologies
- Showing empathy and courtesy
- Providing clear explanations
- Maintaining respectful communication
- Following up after problem resolution

For example, restaurant managers may personally apologize for delayed service and offer complimentary items to restore customer satisfaction. Similarly, banks may contact customers directly after transaction problems to rebuild trust and confidence.

Importance of Service Recovery in Service Marketing

Effective service recovery is important because it helps organizations:

- Restore customer satisfaction
- Build customer loyalty
- Improve organizational reputation
- Reduce negative word of mouth
- Strengthen customer relationships
- Improve service quality

Organizations that successfully recover from service failures are more likely to maintain long-term customer relationships in competitive service markets.

Activity-2:

- Work in groups of 4–5 students.
- Choose a service organization and analyze how it handles customer complaints and service failures.
- Suggest additional strategies the organization can use to improve customer satisfaction after service failures.

Discussion Questions

1. Differentiate between 'fixing the problem' and 'fixing the customer'. Why are both approaches necessary for effective service recovery?
2. How do employee empowerment and technology improve the effectiveness of service recovery? Explain with examples.
3. A ride-sharing company receives a large number of complaints about driver cancellations. Recommend suitable service recovery strategies to restore customer satisfaction and loyalty.
4. Discuss the advantages and limitations of service guarantees in service organizations.

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SERVICE INNOVATION & DESIGN

8

Unit Highlights

- Service Innovation: Concept & classifications
- Service Design & Blueprinting

Technologies Used for Content Delivery

- BOUTUBE
- BOU LMS
- WebTV
- Web Radio
- Mobile Technology with MicroSD Card
- LP+ Office 365
- BTV Program
- Bangladesh Betar Program

Lesson-1: Service Innovation: Concept & classifications

Objectives of the lesson: After completing this lesson, students will be able to —

- Understand the concept of service innovation
- Explain the importance of service design in service marketing
- Identify different types of service innovation
- Learn service growth strategy matrix

Introduction

Rapid technological development and changing customer expectations have made service innovation extremely important for modern organizations. Service organizations must continuously improve their services, technologies, and customer experiences to remain competitive. Effective service design helps organizations create customer-friendly, efficient, and high-quality service systems. This unit introduces service innovation, service design, service blueprinting, and new service development processes. It also discusses the role of employees, technology, and customer needs in successful service innovation and design.

Service Innovation

Service innovation refers to the process of introducing new or improved services, service processes, technologies, or customer experiences to create value for customers and organizations. In today's competitive business environment, organizations must continuously innovate to meet changing customer expectations and maintain competitive advantage. Service innovation helps firms improve customer satisfaction, operational efficiency, and organizational growth.

For example, mobile banking services in Bangladesh transformed the financial sector by making financial transactions faster and more convenient for customers. Customers can now transfer money, pay bills, and receive payments through digital platforms without visiting physical bank branches.

Service innovation does not always mean creating completely new services. Sometimes organizations improve existing services through better technology, improved communication, faster delivery systems, or customer-friendly processes.

Importance of Service Innovation

Service innovation is important because customer expectations continuously change. Modern customers expect faster, easier, and more personalized services. Organizations that fail to innovate may lose customers to competitors offering better service experiences.

For example, online shopping platforms in Bangladesh continuously improve delivery systems, digital payment facilities, and customer support services to remain competitive.

Service innovation helps organizations:

- Improve customer satisfaction
- Increase operational efficiency
- Reduce service costs
- Strengthen customer relationships
- Build competitive advantage
- Increase long-term profitability

Types of Service Innovation

Service organizations adopt different forms of innovation depending on their objectives, available resources, and customer needs. Some innovations involve introducing entirely new services, while others focus on improving existing service processes or delivery methods. The major types of service innovation include:

i. Major Service Innovation: Major innovation introduces completely new services or business concepts. For example, app-based ride-sharing services changed transportation experiences in Bangladesh by allowing customers to book rides through smartphones.

ii. Process Innovation: Process innovation improves the way services are delivered. For example, hospitals using online appointment systems reduce waiting time and improve patient convenience.

iii. Technology-Based Innovation: Technology-based innovation uses digital systems and modern technologies to improve service experiences. For example, online banking apps allow customers to transfer money, check balances, and pay utility bills from home.

iv. Service Delivery Innovation: This innovation focuses on improving customer interactions and service delivery methods. For example, restaurants introducing self-order kiosks or digital menus improve service speed and convenience.

v. Incremental Innovation: Incremental innovation involves small but continuous improvements in existing services. For example, educational institutions improving online learning platforms gradually through better video quality, digital content, and communication systems.

Drivers of Service Innovation

Service organizations adopt different forms of innovation depending on their objectives, available resources, and customer needs. Some innovations involve introducing entirely new services, while others focus on improving existing service processes or delivery methods. The major types of service innovation include:

Changing Customer Expectations: Modern customers expect quick, convenient, and personalized services.

Technological Development: Technology creates opportunities for improving service delivery.

Competitive Pressure: Organizations innovate to remain competitive in the market.

Globalization: Global competition encourages organizations to improve service standards.

Government Policies and Social Changes: Changes in regulations and customer lifestyles also influence service innovation. For example, digital payment adoption increased significantly in Bangladesh because of changing customer behavior and technological development.

Customer-Focused Service Innovation

Successful service innovation should focus on customer needs and experiences. Organizations must understand:

- Customer problems
- Customer expectations
- Customer convenience
- Customer preferences

For example, grocery delivery services became highly popular because they solved customer problems related to time, traffic congestion, and shopping convenience. Organizations that ignore customer expectations may fail even after introducing technologically advanced services.

New Service Development Process

Developing new services usually involves several stages. Organizations first generate ideas through customer feedback, employee suggestions, market research, and competitor analysis. After idea generation, organizations evaluate ideas based on feasibility, customer demand, and profitability. The selected idea is then designed, tested, and introduced into the market. For example, telecom operators often test new internet packages before launching them nationally.

Service Growth Strategies

There are four growth strategies which any service-based business can apply for expansion.

OFFERINGS	MARKETS	
	Current customers	New customers
Existing services	Share Building	Market development
New Services	Service Development	Diversification

Figure: Service Growth Strategy Matrix
Source: Zeithaml et al., (2018)

i. Share Building: Share building refers to increasing sales of existing services among current customers. Organizations encourage existing customers to purchase more frequently or use additional services. For example, BRAC Bank encourages its existing customers to use mobile banking, credit cards, savings accounts, and loan facilities together.

ii. Market Development: Market development means offering existing services to new customers or new market segments. For example, Bangladesh Open University expanded online and distance learning services to reach students from remote areas across the country.

iii. Service Development: Service development refers to introducing new services for existing customers. For example, Grameenphone introduced digital entertainment platforms, GPAY, and online education services for its existing users.

iv. Diversification: Diversification means introducing new services for completely new markets or customers. For example, Daraz expanded beyond online shopping by introducing digital payment partnerships and logistics services for broader customer groups.

Activity-1:

- Select a Bangladeshi service organization such as Nagad, Pathao, or a private hospital.
- Identify recent service innovations introduced by the organization and discuss how they improved customer convenience.

Discussion Questions

1. Why is continuous service innovation essential for service organizations operating in highly competitive markets? Explain with suitable examples.
2. Compare the different types of service innovation. Which type is most suitable for a growing service organization? Justify your answer.
3. A food delivery company plans to introduce AI-powered order recommendations and drone delivery services. Identify the type(s) of service innovation involved and discuss the possible benefits and challenges.
4. How do changing customer expectations and technological developments drive service innovation? Illustrate your answer with examples from Bangladesh.

Lesson-2: Service Design & Blueprinting

After completing this lesson, students will be able to —

- Understand the concept of service design
- Explain the importance of service blueprinting
- Identify challenges in service innovation and design
- Understand strategies for successful service design

Service Design

Service design refers to planning and organizing service processes, employee roles, physical evidence, and customer interactions to create effective customer experiences. Good service design helps organizations deliver services efficiently and consistently. It also improves customer satisfaction and operational performance. For example, modern hospitals carefully design patient registration systems, waiting areas, doctor consultation processes, and digital reporting systems to improve patient experiences. Service design focuses on both organizational efficiency and customer convenience.

Elements of Service Design

Several important elements are involved in service design.

i. Customer Experience

Organizations should design services from the customer's point of view. For example, airlines design online booking systems to make ticket purchasing easier and faster.

ii. Service Processes

Service processes should be simple, organized, and efficient. For example, banks using automated queue management systems improve customer flow and reduce waiting time.

iii. Employee Roles

Employees should clearly understand their responsibilities during service delivery. For example, hotel employees often follow standardized procedures to maintain consistent service quality.

iv. Physical Evidence

Physical environments influence customer experiences. For example, restaurants design lighting, seating arrangements, and decoration carefully to create pleasant dining experiences.

v. Technology Integration

Technology should improve convenience and operational efficiency. For example, educational institutions use online portals for course registration, examination results, and communication.

Service Blueprinting

Service blueprinting is a visual tool used to map service processes and customer interactions.

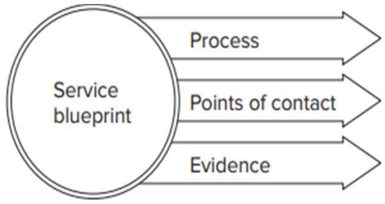

Figure: Service blueprint
Source: Zeithaml et al., (2018)

A service blueprint identifies customer actions, employee activities, service touchpoints, support systems & possible service failure points. For example, airlines may use service blueprints to analyze customer experiences from ticket booking to baggage collection. Service blueprinting helps organizations identify operational weaknesses and improve service quality. Service blueprinting helps an organization to:

- Improve service processes
- Identify service failures
- Improve employee coordination
- Increase customer satisfaction
- Improve operational efficiency

Challenges in Service Innovation and Design

Organizations face several challenges while introducing new services and designing service systems.

- One major challenge is high customer expectations. Customers expect innovative services to work smoothly and efficiently.
- Another challenge is technology failure. Poorly designed digital systems may create customer frustration.
- Organizations also face employee resistance when introducing new service systems or technologies.

For example, customers may become dissatisfied if online service apps frequently crash or provide inaccurate information.

Role of Employees in Service Innovation

Employees play an important role in successful service innovation. Frontline employees interact directly with customers and often understand customer problems better than management. Organizations should encourage employees to:

- Share innovative ideas
- Suggest service improvements
- Identify customer problems
- Participate in service redesign processes

For example, customer support employees may suggest improvements based on frequen]tly reported customer complaints.

Technology and Digital Service Innovation

Technology has transformed service innovation significantly. Organizations now use:

- Artificial intelligence
- Chatbots
- Mobile applications
- Self-service technologies
- Online customer support systems
- Digital payment systems

For example, online food delivery platforms provide real-time order tracking and digital payment facilities to improve customer experiences. Technology improves speed, convenience, accuracy, and accessibility.

Strategies for Successful Service Innovation

Successful service innovation requires a systematic approach that combines customer insights, employee involvement, technological capability, and continuous improvement. Organizations that follow structured innovation strategies are more likely to develop services that create value for both customers and the organization. Important strategies include:

i. Conducting Customer Research: Customer feedback helps organizations understand customer expectations.

ii. Encouraging Creativity: Organizations should encourage employees to generate innovative ideas.

iii. Testing Services before Launch: Pilot testing reduces service failure risks.

iv. Training Employees Properly: Employees should understand new systems and technologies.

v. Continuously Improving Services: Organizations should regularly update services based on customer feedback and market changes.

Importance of Service Innovation & Design in Service Marketing

Service innovation and effective service design help organizations create superior customer experiences while improving operational performance and competitive advantage. Organizations that continuously innovate are better prepared to respond to changing market conditions and customer expectations. The major benefits include:

- Improve customer experiences
- Increase customer satisfaction
- Enhance service quality
- Improve operational efficiency
- Build competitive advantage
- Achieve long-term growth

Organizations that continuously innovate and improve service design are more likely to succeed in competitive service industries.

Activity-2:

- Work in groups of 4–5 students.
- Choose a service organization and analyze its service design process from the customer's perspective.
- Suggest innovative ideas that can improve customer experience and service efficiency.

Discussion Questions

1. How does effective service design contribute to customer satisfaction and organizational performance? Explain with suitable examples.
2. Why is service blueprinting considered an effective tool for improving service quality? Discuss with an appropriate service example.
3. A hospital experiences long patient waiting times despite having qualified doctors. Explain how service design and service blueprinting could help improve the patient experience.
4. "Successful service innovation depends as much on employees and organizational culture as on technology." Critically evaluate this statement.

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PHYSICAL EVIDENCE AND THE SERVICESCAPE

9

Unit Highlights

- Physical Evidence- Concept & elements
- Servicescape design & challenges

Technologies Used for Content Delivery

- BOUTUBE
- BOU LMS
- WebTV
- Web Radio
- Mobile Technology with MicroSD Card
- LP+ Office 365
- BTV Program
- Bangladesh Betar Program

Lesson-1: Physical Evidence- Concept & elements

Objectives of the lesson: After completing this lesson, students will be able to —

- Understand the concept of physical evidence in service marketing
- Explain the meaning of servicescape
- Identify the elements of physical evidence
- Understand the importance of physical surroundings in customer perceptions

Introduction

In highly competitive service industries, organizations must develop clear and attractive positions in customers' minds. Service positioning helps organizations differentiate themselves from competitors and communicate unique value to target customers. Customers often choose service organizations based on reputation, service quality, convenience, and brand image.

Physical Evidence in Service Marketing

Services are intangible in nature, meaning customers cannot see, touch, or evaluate services before purchasing them. Because of this intangibility, customers often depend on physical evidence to judge service quality. Physical evidence refers to the tangible elements surrounding a service that help customers evaluate the organization and form perceptions regarding service quality. For example, customers visiting a hospital often evaluate cleanliness, waiting areas, employee appearance, signage systems, and medical equipment before judging the overall service quality.

Servicescape	Other Tangibles
Facility exterior	Business cards
Exterior design	Stationery
Signage	Billing statements
Parking	Reports
Landscape	Employee dress
Surrounding environment	Uniforms
Facility interior	Brochures
Interior design	Web pages
Equipment	Virtual servicescape
Signage	
Layout	
Air quality/temperature	
Sound/music/scent/lighting	

Table: Elements of physical evidence
Source: Zeithaml, V. A., Bitner, M. J., & Gremler, D. D. (2018)

Physical evidence plays an important role in shaping customer expectations, satisfaction, and organizational image.

Importance of Physical Evidence

Physical evidence is important because it reduces uncertainty and helps customers evaluate service quality. Customers often form first impressions based on physical surroundings before experiencing the actual service. For example, customers visiting modern shopping malls such as Jamuna Future Park often develop positive perceptions because of organized layouts, lighting, decoration, cleanliness, and security systems. Physical evidence also influences employee behavior and organizational efficiency.

Types of Physical Evidence

Physical evidence includes several visible and tangible elements.

i. Exterior Facilities: Exterior facilities include building design, parking facilities, landscaping, entrances, and signage. For example, luxury hotels in Bangladesh often use attractive exterior designs and lighting to create premium customer impressions.

ii. Interior Facilities: Interior facilities include furniture, decoration, lighting, music, air conditioning, cleanliness, and seating arrangements. For example, restaurants carefully design seating arrangements and lighting to create comfortable dining experiences.

iii. Employee Appearance: Employee uniforms, grooming, and professional appearance also serve as physical evidence. For example, airline employees often wear professional uniforms that create customer confidence and organizational identity.

iv. Other Tangible Cues: Brochures, websites, receipts, digital displays, and packaging materials also influence customer perceptions. For example, banks providing organized documents and user-friendly mobile applications create positive customer experiences.

Servicescape

The term servicescape refers to the physical environment where service delivery takes place and where customers and employees interact. Servicescape includes all physical surroundings that influence customer experiences, emotions, and behaviors. For example, educational institutions carefully design classrooms, libraries, laboratories, and campus environments to create better learning experiences. The servicescape affects both customers and employees because people spend significant time within the service environment.

Dimensions of Servicescape

Servicescape mainly consists of three important dimensions.

i. Ambient Conditions

Ambient conditions include background characteristics such as lighting, temperature, music, noise, air quality, and scent. For example, coffee shops often use soft music and comfortable lighting to create relaxing environments.

ii. Spatial Layout and Functionality

Spatial layout refers to the arrangement of furniture, equipment, and service areas. Functionality refers to how effectively customers and employees can use the physical environment. For example, hospitals design waiting areas, registration desks, and consultation rooms carefully to improve patient movement and convenience.

iii. Signs, Symbols, and Artifacts

Signs and symbols help customers understand directions, service procedures, and organizational identity. For example, airports use directional signs and digital displays to guide passengers efficiently.

Role of Servicescape in Customer Behavior

The servicescape strongly influences customer emotions and behaviors. Positive environments create comfort, satisfaction, and trust, while poor physical environments create stress and dissatisfaction. For example, customers are more likely to spend longer time in clean and comfortable restaurants. Similarly, attractive retail environments may encourage customers to make additional purchases.

Servicescape and Employee Behavior

The physical environment also affects employee productivity, motivation, and job satisfaction. Employees working in organized and comfortable environments often perform more efficiently. For example, modern office designs with proper lighting and technology support may improve employee productivity and communication.

Activity-1:

- Visit or select a service organization such as a bank, hospital, restaurant, or educational institution.
- Analyze the physical evidence and servicescape elements that influence customer perceptions.

Discussion Questions

1. Why is physical evidence more important in service marketing than in product marketing? Explain with suitable examples.
2. How do different types of physical evidence influence customers' perceptions of service quality? Illustrate your answer with examples.
3. A newly established private hospital has highly qualified doctors but receives complaints about its waiting area, cleanliness, and signage. Explain how these physical evidence elements may affect customer satisfaction and organizational image.
4. "Customers often evaluate service quality before receiving the actual service." Critically discuss this statement in the context of physical evidence.

Lesson-2: Servicescape design & challenges

Objectives of the lesson: After completing this lesson, students will be able to—

- Understand the strategic importance of servicescape design
- Explain the impact of technology on physical evidence
- Identify challenges in managing servicescapes
- Understand strategies for improving physical environments in service organizations

Strategic Role of Servicescape

Servicescape is more than a physical setting; it is a strategic marketing tool that communicates an organization's positioning and brand identity. A well-designed servicescape differentiates the organization from competitors while supporting customer satisfaction and operational efficiency. Servicescape helps organizations to:

- Create brand image
- Differentiate from competitors
- Influence customer behavior
- Improve service experiences
- Support organizational positioning

For example, premium restaurants and hotels use luxurious interior designs to position themselves as high-quality service providers.

Servicescape and Branding

Physical environments often communicate organizational values and brand identity. For example, fashion retail brands such as Aarong use traditional decoration, cultural themes, and organized store layouts to reflect Bangladeshi heritage and brand identity. Similarly, modern technology companies often use minimalist office and showroom designs to communicate innovation and professionalism.

Technology and Physical Evidence

Technological developments have expanded the concept of physical evidence by integrating digital tools into service environments. Modern organizations use technology to improve convenience, efficiency, and customer experiences while maintaining consistent service quality. Common technology-based physical evidence includes:

- Self-service kiosks
- Digital displays
- Automated queue systems
- Online booking systems
- Mobile applications
- Smart payment systems

For example, banks use ATM booths, digital queue systems, and online customer support to improve customer convenience. Technology-based physical evidence improves speed, efficiency, and customer experiences.

Online Servicescape

The concept of servicescape now also includes virtual or online environments. Websites, mobile apps, and digital platforms act as online servicescapes because customers interact with organizations through digital interfaces. For example, customers evaluate e-commerce websites based on design, navigation, payment security, and user-friendliness. A poorly designed website may create negative customer perceptions even if the actual service quality is good.

Challenges in Managing Servicescape

Designing and maintaining an effective servicescape requires continuous investment and careful planning. Organizations must balance customer expectations, technological advancements, operational efficiency, and financial resources to create attractive and functional service environments. Some common challenges include:

- One major challenge is cost. Creating attractive and comfortable environments often requires significant investment.
- Another challenge is changing customer expectations. Modern customers expect technologically advanced and visually attractive service environments.
- Organizations also need to maintain cleanliness, safety, and comfort consistently. For example, hospitals and restaurants must maintain strict hygiene standards because poor physical environments may damage customer trust.

Strategies for Effective Servicescape Management

Organizations can improve customer experiences by continuously managing and enhancing their physical environments. Effective servicescape management requires understanding customer expectations, integrating technology appropriately, and maintaining consistency with the organization's brand image. Important strategies include:

i. Understanding Customer Needs: Organizations should design environments based on customer expectations and convenience.

ii. Maintaining Cleanliness and Safety: Clean and safe environments improve customer confidence.

iii. Using Technology Effectively: Technology should improve convenience and operational efficiency.

iv. Creating Comfortable Environments: Comfortable seating, lighting, and temperature improve customer experiences.

v. Ensuring Consistency with Brand Image: The physical environment should reflect organizational identity and positioning.

Importance of Physical Evidence and Servicescape in Service Marketing

Physical evidence and servicescape contribute significantly to customer satisfaction, organizational image, and competitive advantage. Organizations that carefully design and manage their physical environments create memorable service experiences that encourage customer loyalty and positive word of mouth. The major benefits include:

- Reduce customer uncertainty
- Improve customer perceptions
- Increase customer satisfaction
- Build strong brand image
- Influence customer behavior
- Improve employee performance

Organizations with attractive and customer-friendly physical environments are more likely to create positive customer experiences and competitive advantage.

Activity-2:

- Work in groups of 4–5 students.
- Choose a service organization and evaluate how its physical environment supports customer experience and brand image.
- Suggest improvements that can make the servicescape more attractive and customer-friendly.

Discussion Questions

1. How does the servicescape influence both customer behavior and employee performance? Explain with suitable examples.
2. Discuss the strategic role of servicescape in creating a strong brand image and competitive advantage.
3. An e-commerce company redesigns its mobile app to improve navigation, payment security, and visual appearance. Explain how the concept of an online servicescape applies in this situation.
4. "A beautiful servicescape alone cannot ensure customer satisfaction without efficient service delivery." Critically evaluate this statement.

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DELIVERING & PERFORMING SERVICE

10

Unit Highlights

- Service culture & Service profit chain
- Boundary spanner, Employee & Customer Participation

Technologies Used for Content Delivery

- BOUTUBE
- BOU LMS
- WebTV
- Web Radio
- Mobile Technology with MicroSD Card
- LP+ Office 365
- BTV Program
- Bangladesh Betar Program

Lesson-1: Service culture & Service profit chain

Objectives of the lesson: After completing this lesson, students will be able to —

- Understand the concept of service culture
- Explain the critical role of service employees
- Learn service marketing triangle & service profit chain
- Identify boundary-spanning roles in service organizations
- Understand how employee behavior influences service quality

Introduction

Because services are intangible, customers often rely on physical evidence to evaluate service quality and organizational professionalism. Physical surroundings such as buildings, interior decoration, employee appearance, signage, and digital interfaces strongly influence customer perceptions and satisfaction.

Employees' Role in Service Marketing

Employees play a central role in service marketing because services are highly dependent on human interaction. In many service organizations, employees directly communicate with customers and influence customer satisfaction through their behavior, communication, and problem-solving ability. Customers often evaluate the organization based on employee performance rather than only the service itself. Therefore, employees are considered one of the most important elements in service businesses.

For example, customers visiting hospitals often judge service quality not only by medical treatment but also by nurses' behavior, staff responsiveness, and communication quality.

Service Culture

Service culture refers to an organizational environment that emphasizes customer service, employee support, teamwork, and customer satisfaction. Organizations with strong service cultures encourage employees to provide excellent service experiences consistently. A positive service culture develops when management values employees, supports teamwork, and focuses on customer-centered service delivery. For example, successful hospitality organizations often train employees to maintain professional behavior, politeness, and customer care standards.

Importance of Service Culture

A strong service culture creates an organizational environment where employees are committed to delivering excellent customer service. Organizations that promote teamwork, employee support, and customer orientation are more likely to achieve higher customer satisfaction and long-term business success. A strong service culture helps organizations:

- Improve customer satisfaction
- Increase employee motivation
- Improve teamwork
- Build customer loyalty
- Strengthen organizational reputation

Organizations with poor service culture may experience employee dissatisfaction, inconsistent service delivery, and customer complaints.

The Critical Role of Service Employees

Service employees are extremely important because they directly influence customer experiences and organizational image. Employees often perform several important functions simultaneously. They deliver services, solve customer problems, represent the organization, and maintain customer relationships. For example, customer care representatives in telecom companies handle customer complaints, explain service packages, and provide technical support. Employees also influence customer emotions. Friendly and professional employees often create positive customer experiences, while rude or unhelpful behavior creates dissatisfaction. Customers frequently view employees as representatives of the organization itself. For example, hotel guests often evaluate the entire hotel based on interactions with reception employees, housekeeping staff, and restaurant employees. Therefore, employee behavior strongly affects organizational image and customer trust.

Service Marketing Triangle

The Service Marketing Triangle is a model that explains the relationships among the company, employees, and customers in service marketing. It highlights the importance of delivering promises through effective coordination between the organization and employees.

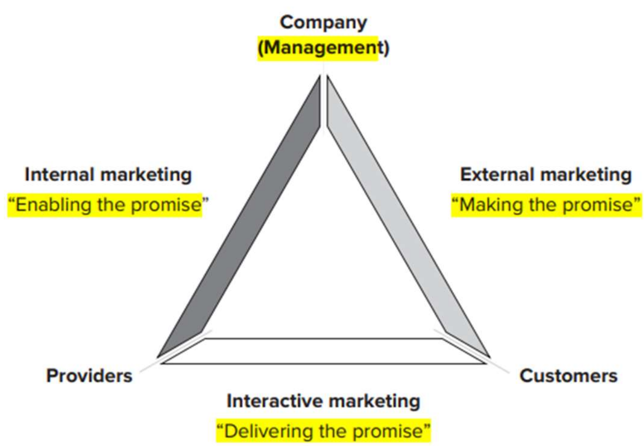

Figure: Service marketing triangle
Source: Zeithaml et al., (2018).

The triangle includes three important types of marketing activities:

i. External Marketing: External marketing refers to promises made by the organization to customers through advertising, promotion, and communication. For example, a hospital may advertise quick emergency services and professional healthcare facilities to attract patients.

ii. Internal Marketing: Internal marketing refers to training, motivating, and supporting employees so they can deliver quality service. For example, banks regularly train employees regarding customer care, digital services, and communication skills.

iii. Interactive Marketing: Interactive marketing occurs during direct interaction between employees and customers during service delivery. For example, restaurant employees interacting politely and efficiently with customers help create positive dining experiences.

The Service Marketing Triangle shows that successful service delivery requires coordination among organizational promises, employee performance, and customer experiences.

Service Profit Chain

The Service Profit Chain explains how employee satisfaction, service quality, customer satisfaction, and profitability are connected in service organizations. According to this concept, satisfied and motivated employees provide better service, which increases customer satisfaction and loyalty. Loyal customers then contribute to higher organizational profits and growth.

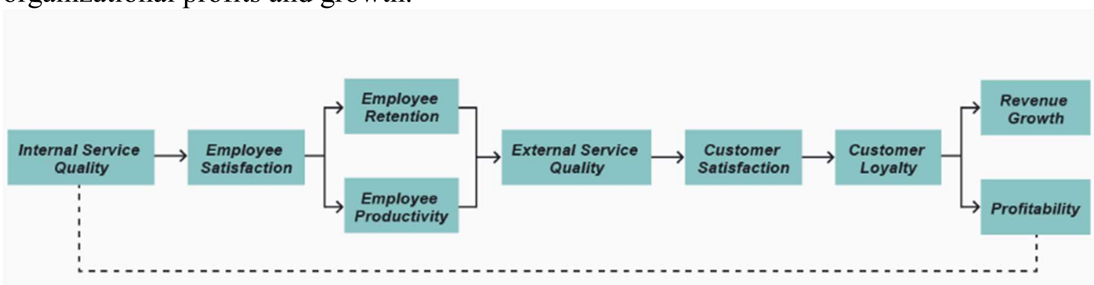

Figure: The service profit chain
Source: Zeithaml et al., (2018)

For example, organizations that provide supportive work environments, training, and employee recognition often achieve better customer service performance. In Bangladesh, many successful hospitality and banking organizations focus on employee development to improve customer satisfaction and long-term customer relationships.
The Service Profit Chain emphasizes that organizations should value employees because employee performance directly affects customer experiences and organizational success.

Activity-1:

- Select a service organization such as a hospital, bank, hotel, or telecom company.
- Discuss how employee behavior and service culture influence customer satisfaction.

Discussion Questions

1. Why is service culture considered a strategic asset for service organizations? Explain with suitable examples.
2. How does the Service Marketing Triangle help organizations fulfill customer promises? Illustrate your answer with examples.
3. A private hospital invests heavily in employee training, recognition, and workplace well-being. Explain how these initiatives may improve customer satisfaction using the Service Profit Chain.
4. "Satisfied employees create satisfied customers." Critically evaluate this statement in the context of service organizations.

Lesson-2: Boundary spanner, Employee & Customer Participation

Objectives of the lesson: After completing this lesson, students will be able to —

- Understand the concept of Boundary Spanner
- Learn strategies for delivering service quality through people
- Explain the importance of customers in service cocreation
- Identify customers' roles in service delivery
- Understand how organizations can improve employee and customer participation

Boundary-Spanning Roles

Boundary-spanning roles refer to positions where employees interact directly with customers while also representing organizational policies and objectives. Employees performing boundary-spanning roles often face pressure from both customers and management. For example, bank employees must satisfy customers while also following organizational policies, legal requirements, and operational procedures.
Boundary-spanning employees commonly work in:

- Customer service
- Sales
- Hospitality
- Healthcare
- Banking
- Transportation services

Challenges of Boundary-Spanning Roles

Employees performing boundary-spanning roles frequently experience various challenges because they must balance customer expectations with organizational objectives. Effectively managing these challenges helps improve employee performance and customer satisfaction. Common challenges include:

- Role Conflict: Role conflict occurs when employees receive conflicting expectations from customers and management. For example, restaurant employees may face pressure to serve customers quickly while also maintaining service quality standards.
- Role Ambiguity: Role ambiguity occurs when employees are uncertain about responsibilities and expectations. For example, customer support employees may become confused if organizational policies are unclear.
- Emotional Labor: Emotional labor refers to managing emotions while interacting with customers. Employees are often expected to remain polite and professional even when dealing with angry or difficult customers. For example, airline employees may need to remain calm during flight delays and customer complaints.

Importance of Employee Satisfaction

Satisfied employees are more likely to provide better customer service. Organizations that support employee well-being, training, and motivation often achieve higher customer satisfaction. For example, organizations that provide supportive work environments and employee recognition programs usually experience better employee performance.

Strategies for Delivering Service Quality Through People

Organizations can improve service quality by properly managing and supporting employees. Because employees directly influence customer experiences, organizations must focus on employee recruitment, training, motivation, communication, and empowerment.

Recruiting the Right Employees

Service organizations should recruit employees with good communication skills, positive attitudes, and customer-oriented behavior. For example, airlines and hospitality organizations often prioritize communication skills and professional appearance during recruitment.

Training and Development

Employee training is essential for improving service quality. Training programs help employees develop--communication skills, problem-solving ability, technical knowledge, customer handling skills, teamwork ability. For example, banks regularly train employees regarding digital services, customer care, and financial systems.

Employee Empowerment

Employee empowerment means giving employees authority to solve customer problems and make service-related decisions. Empowered employees can respond to customer needs more quickly and effectively. For example, restaurant managers may allow employees to replace incorrect food orders immediately without lengthy approval processes.

Teamwork and Internal Communication

Strong teamwork and communication improve service consistency and organizational efficiency. For example, hospitals require coordination among doctors, nurses, technicians, and administrative staff to provide quality healthcare services.

Reward and Recognition Systems

Organizations often motivate employees through financial rewards, promotions, recognition programs, and career development opportunities. Employees who feel valued are usually more committed to customer service.

The Importance of Customers in Service Cocreation

In many services, customers actively participate in the service delivery process. This participation is known as service cocreation. Unlike physical products, services are often produced and consumed simultaneously. Therefore, customer participation directly influences service quality and outcomes. For example, students actively participate in educational services through class participation, assignments, discussions, and examinations. Similarly, patients must cooperate with doctors by sharing accurate medical information for effective healthcare services.

Customers’ Roles in Service Delivery

Customers contribute to service delivery in different ways depending on the type of service. Their participation may reduce organizational costs, improve service efficiency, and influence service outcomes.

i. Customers as Productive Resources

Customers often contribute to the service process. For example, customers using self-service technologies such as ATM booths or online ticket booking systems perform part of the service themselves.

ii. Customers as Contributors to Quality and Satisfaction

Customer cooperation influences service quality. For example, passengers arriving late at airports may negatively affect check-in and boarding processes.

iii. Customers as Competitors

Sometimes customers replace employee roles through self-service technologies. For example, customers using online banking services reduce the need for direct employee assistance.

Benefits of Customer Participation

Customer participation provides several benefits. Organizations may reduce operational costs and improve service efficiency, while customers often receive faster and more convenient services. For example, digital payment systems reduce waiting time and improve transaction speed.

Challenges of Customer Participation

Organizations also face challenges when customers participate in service delivery. Some customers may lack technical knowledge or fail to follow service procedures properly. For example, elderly customers may face difficulties using mobile banking apps or online ticket booking systems. Organizations should provide proper instructions and support to help customers participate effectively.

Strategies for Managing Customer Participation

Organizations should actively guide customers so they can participate effectively during service delivery. Proper communication, user-friendly systems, and customer education improve both customer experiences and operational efficiency. Effective strategies include:

i. Educating Customers----Customers should clearly understand service procedures and expectations.

ii. Providing Customer Support----Organizations should provide guidance through employees, websites, apps, and customer care systems.

iii. Designing User-Friendly Systems----Service systems should be simple and convenient to use.

iv. Encouraging Positive Customer Behavior----Organizations should encourage customers to cooperate respectfully during service delivery.

Importance of Employees and Customers in Service Marketing

Both employees and customers play important roles in service delivery. Employees influence customer satisfaction through behavior and service quality, while customers contribute through participation and cooperation. Organizations that successfully manage both employees and customers are more likely to improve service quality, customer satisfaction, and organizational performance.

Activity-2: • Work in groups of 4–5 students. • Choose a service organization and analyze how employees and customers both participate in service delivery. • Suggest strategies that can improve employee performance and customer participation.

Discussion Questions

1. What are boundary-spanning roles? Why do employees performing these roles often experience role conflict and emotional labor?
2. How can employee empowerment improve service quality and customer satisfaction? Explain with suitable examples.
3. A bank encourages customers to use self-service kiosks and mobile banking applications, but many elderly customers continue visiting physical branches. Discuss the challenges of customer participation and recommend suitable managerial strategies.
4. "Employees and customers are co-producers of service quality." Critically discuss this statement with appropriate examples.

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INTEGRATED SERVICE MARKETING

11

Unit Highlights

- Concept of ISMC, communication role & challenges
- Major service quality categories, role of technology

Technologies Used for Content Delivery

- BOUTUBE
- BOU LMS
- WebTV
- Web Radio
- Mobile Technology with MicroSD Card
- LP+ Office 365
- BTV Program
- Bangladesh Betar Program

Lesson-1: Concept of ISMC, communication role & challenges

Objectives of the lesson: After completing this lesson, students will be able to —

- Understand the concept of integrated service marketing communications
- Explain the need for coordination in marketing communication
- Identify major communication challenges in service marketing
- Understand the role of communication in managing customer expectations

Introduction

In today's competitive business environment, organizations communicate with customers through multiple channels such as advertising, websites, social media, mobile apps, sales representatives, and customer care services. Customers expect consistent, accurate, and meaningful communication from organizations across all these channels. Effective integrated communication helps organizations build strong brands, improve customer trust, manage customer expectations, and strengthen long-term customer relationships.

Integrated Service Marketing Communications

Integrated service marketing communications refer to the coordination of all communication activities used by service organizations to deliver clear, consistent, and customer-focused messages. Service organizations communicate with customers through advertising, websites, social media, employees, mobile applications, customer care services, and physical environments. All these communication channels should work together to create a consistent organizational image.

For example, airlines communicate with customers through advertisements, websites, ticketing systems, airport employees, SMS notifications, and social media updates. Customers evaluate the organization based on all these communication experiences.

Integrated communication is extremely important in service marketing because customers often rely heavily on communication to evaluate intangible services.

The Need for Coordination in Marketing Communication

Coordination in marketing communication is essential because inconsistent communication may confuse customers and damage organizational credibility. Organizations must ensure that all departments and communication channels deliver similar promises and messages. For example, if a hotel advertises luxury service experiences but customers experience poor room quality and unprofessional employee behavior, customer dissatisfaction will increase. Similarly, if customer care employees provide information different from advertisements or websites, customers may lose trust in the organization.

Coordinated communication helps organizations:

- Build customer trust
- Reduce customer confusion
- Create strong brand image
- Improve customer satisfaction
- Manage customer expectations effectively

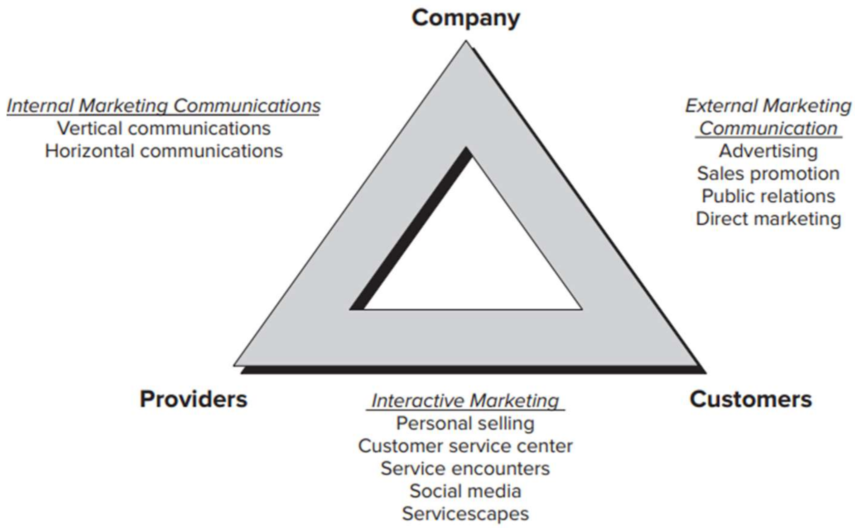

Figure: Communications & service marketing triangle
Source: Zeithaml et al., (2018).

Internal Marketing Communication

Internal communication is important because employees must understand organizational promises and service standards. Employees who are not properly informed may provide incorrect information to customers. For example, banks regularly inform employees regarding new digital services, policy changes, and promotional campaigns. Strong internal communication improves service consistency and customer satisfaction.

Interactive Marketing Communication

Interactive communication occurs during direct interaction between employees and customers. Customer experiences are strongly influenced by employee behavior, communication style, and responsiveness.

For example, hotel reception employees communicating politely and professionally help create positive customer impressions.

Marketing communication strongly influences customer expectations. Advertisements, social media promotions, websites, and employee interactions all shape what customers expect from the service.

For example, educational institutions promoting modern facilities and quality teaching create high expectations among students. If actual service performance does not match communication promises, customers become dissatisfied. Therefore, organizations should avoid unrealistic or exaggerated communication.

Key Service Communication Challenges

Service organizations face numerous communication challenges because services are intangible, variable, and highly dependent on customer experiences. Failure to manage communication effectively may create unrealistic expectations, reduce customer trust, and weaken organizational reputation. Some major challenges include:

i. Intangibility of Services

Customers cannot evaluate services before purchase. Therefore, organizations must communicate service benefits clearly. For example, hospitals often use testimonials, equipment displays, and doctor profiles to reduce customer uncertainty.

ii. Inconsistency in Service Delivery

Service quality may vary because of employee performance and operational conditions. For example, customers may receive different experiences from different employees of the same organization.

iii. Overpromising

Organizations sometimes create unrealistic expectations through excessive advertising. For example, internet service providers may advertise uninterrupted high-speed internet even though network limitations exist in some areas.

iv. Communication Gap between Departments

Lack of coordination between marketing and operations departments may create communication problems. For example, promotional offers announced by marketing teams may not be properly communicated to frontline employees.

v. Negative Word of Mouth and Social Media

Dissatisfied customers can quickly spread negative experiences through social media platforms. For example, negative restaurant or airline reviews may influence large numbers of potential customers.

Activity-1:

- Choose a service organization such as an airline, bank, hospital, or telecom company.
- Analyze how the organization communicates with customers through advertisements, employees, websites, and social media.

Discussion Questions

1. Why is integrated service marketing communication more important for service organizations than for product-based businesses? Explain with suitable examples.
2. How does coordination among different communication channels improve customer trust and organizational credibility?
3. A private university advertises state-of-the-art facilities and personalized student support, but students complain that the actual services do not match the promotional messages. Explain this situation using the concept of integrated service marketing communications.
4. "Overpromising is one of the major causes of customer dissatisfaction in service organizations." Critically evaluate this statement.

Lesson-2: Major service quality categories, role of technology

Objectives of the lesson: After completing this lesson, students will be able to —

- Understand strategies for matching service promises with delivery
- Explain the role of technology in service communication
- Identify methods for improving communication effectiveness
- Understand the importance of integrated communication in service quality management

Five Categories of Strategies to Match Service Promises with Delivery

Organizations should ensure that their external communication accurately reflects actual service performance. Matching service promises with service delivery helps reduce customer dissatisfaction, strengthen trust, and improve long-term customer relationships. The five major strategies include:

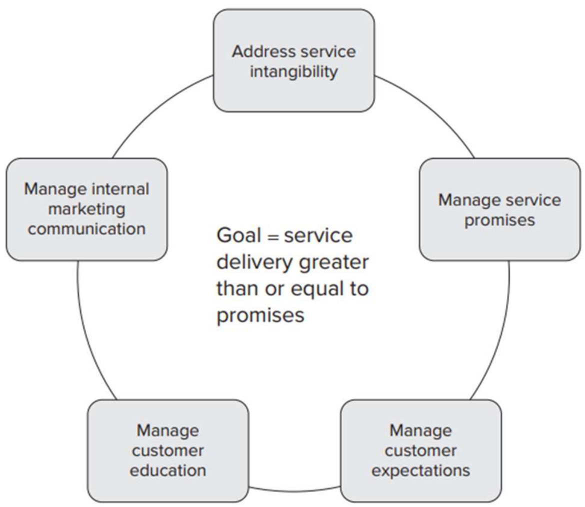

Figure: Five major approaches for overcoming communication barriers
Source: Zeithaml et al., (2018).

i. Managing Service Promises

Organizations should make realistic and accurate promises. Exaggerated advertising may create unrealistic customer expectations and dissatisfaction. For example, airlines should communicate realistic flight schedules and service facilities.

ii. Managing Customer Expectations

Organizations should educate customers regarding service procedures, waiting times, limitations, and responsibilities. For example, hospitals often inform patients regarding appointment schedules, treatment procedures, and service processes.

iii. Improving Customer Education

Customer education helps customers understand how services work and how they can participate effectively. For example, banks educate customers regarding mobile banking security and digital transaction procedures.

iv. Managing Internal Marketing Communication

Employees should clearly understand organizational promises and customer service standards. For example, restaurant employees should know promotional offers before communicating with customers.

v. Managing Customer Expectations through Service Recovery

Organizations should communicate effectively during service failures and recovery situations. For example, airlines often send updates and apology messages during flight delays.

Role of Technology in Service Communication

Technology has transformed service communication by enabling organizations to communicate quickly, consistently, and interactively with customers. Digital communication platforms also improve customer convenience, engagement, and access to service information.

- Social media platforms
- Mobile applications
- Websites
- SMS notifications
- Email communication
- Online customer support systems

For example, e-commerce organizations regularly communicate delivery updates, promotional offers, and payment information through apps and SMS services. Technology improves communication speed, convenience, and customer engagement.

Word of Mouth Communication

Word of mouth communication is extremely important in service marketing because customers often trust personal recommendations more than advertisements. Positive customer experiences generate favorable recommendations, while negative experiences may damage organizational reputation. For example, customers frequently choose restaurants, coaching centers, and hospitals based on recommendations from friends and relatives.

Organizations should therefore focus on delivering consistent service quality to encourage positive word of mouth.

Branding and Communication

Strong communication strategies help organizations build powerful service brands. Brand communication should reflect organizational values, service quality, and customer experience.

For example, premium hotels often use elegant visual communication and professional employee behavior to support luxury brand positioning.

Challenges in Integrated Service Marketing Communications

Managing integrated service marketing communications has become increasingly complex due to multiple communication channels, rapidly changing technologies, and rising customer expectations. Organizations must coordinate communication efforts across departments while ensuring consistent and transparent messaging. Some major challenges include:

- One major challenge is maintaining consistency across different communication channels.
- Another challenge is responding quickly to customer feedback and social media criticism.
- Organizations also face difficulty controlling customer-generated online content.

For example, a single negative viral review may significantly affect organizational reputation.

Strategies for Effective Service Communication

Organizations can improve communication effectiveness by ensuring consistency, transparency, employee involvement, and customer engagement across all communication channels. Effective communication strengthens customer trust and supports long-term relationship building. Important strategies include:

i. Maintaining Consistent Messages--All communication channels should deliver similar messages.

ii. Training Employees Properly--Employees should understand communication standards and organizational promises.

iii. Using Technology Effectively--Digital communication systems should improve customer convenience.

iv. Monitoring Customer Feedback--Organizations should regularly analyze customer reviews and social media comments.

v. Building Customer Trust--Honest and transparent communication improves organizational credibility.

Importance of Integrated Service Marketing Communications

Integrated Service Marketing Communications enables organizations to create consistent customer experiences before, during, and after service delivery. By coordinating all communication efforts, organizations can strengthen customer relationships, reduce communication gaps, and build sustainable competitive advantage.

- Build strong organizational image
- Improve customer trust
- Manage customer expectations
- Reduce communication gaps
- Improve customer satisfaction
- Strengthen customer relationships

Organizations that successfully coordinate communication with actual service delivery are more likely to achieve long-term customer loyalty and competitive advantage.

Activity-2:

- Work in groups of 4–5 students.
- Select a service organization and analyze whether its advertisements and communication messages match actual customer experiences.
- Suggest communication strategies that can improve customer trust and satisfaction.

Discussion Questions

1. Discuss the five major strategies for matching service promises with actual service delivery. Why are these strategies important for service organizations?
2. How does technology improve integrated service marketing communication? Explain with suitable examples.
3. A restaurant receives several negative reviews on Facebook after launching a new promotional campaign. Recommend communication strategies that can help restore customer trust and protect the restaurant's brand image.
4. "Positive word of mouth is more powerful than paid advertising in service marketing." Critically discuss this statement with appropriate examples.

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INTRODUCTION TO SERVICES

12

Unit Highlights

- Service Pricing-Primary Discussion
- Pricing strategies, Pricing & customer value relationship

Technologies Used for Content Delivery

- BOUTUBE
- BOU LMS
- WebTV
- Web Radio
- Mobile Technology with MicroSD Card
- LP+ Office 365
- BTV Program
- Bangladesh Betar Program

This unit discusses the concept and importance of pricing in service marketing and explains how service pricing differs from product pricing. The unit covers customer perceptions of price and value, nonmonetary costs, approaches to pricing services, and pricing strategies linked to customer value definitions. It also discusses revenue management, dynamic pricing, price discrimination, psychological pricing, and ethical issues in service pricing.

Lesson-1: Service Pricing-Primary Discussion

Objectives of the lesson: After completing this lesson, students will be able to —

- Understand the concept of service pricing
- Explain how service pricing differs from product pricing
- Identify important factors influencing service pricing
- Understand customer perceptions regarding service prices and value

Pricing of Services

Pricing is one of the most important decisions in service marketing because price directly influences customer perceptions, organizational profitability, and competitive positioning. In service businesses, pricing becomes more challenging because services are intangible, variable, and perishable. Customers often evaluate service quality and value based on price.

For example, customers may expect premium service quality from luxury hotels or specialized hospitals because of higher prices.

Organizations must therefore develop pricing strategies carefully to balance customer satisfaction, profitability, and competitive advantage.

Importance of Pricing in Service Marketing

Pricing is a critical element of the service marketing mix because it directly influences customer demand, perceived value, organizational profitability, and competitive positioning. Unlike physical products, services are intangible, perishable, and often difficult for customers to evaluate before purchase. Therefore, organizations must develop pricing strategies that balance customer expectations with business objectives. The major importance of service pricing includes:

- Generate profits
- Recover operational costs
- Position services in the market
- Influence customer perceptions
- Manage customer demand
- Build competitive advantage

For example, airlines often use different pricing strategies during peak and off-peak seasons to manage customer demand effectively.

Pricing of Services: Three Key Ways that Service Prices are Different for Customers

Customers evaluate service prices differently from product prices because services involve both monetary and nonmonetary costs. Since customers cannot inspect a service before purchase, they often use price as an indicator of quality and overall value. The three major differences include:

i. Customers Often Lack Price Information

Because services are intangible and variable, customers often find it difficult to compare prices.

For example, patients may find it difficult to compare treatment costs among different hospitals because pricing structures vary depending on services, doctors, and medical procedures.

Similarly, educational institutions may have different tuition fee structures based on facilities and academic programs.

ii. Nonmonetary Costs are Important

Customers do not only consider monetary prices; they also evaluate nonmonetary costs such as time, effort, stress, and convenience.

For example, customers may prefer online banking services because they reduce travel time, waiting time, and physical effort.

Similarly, grocery delivery services save customers from traffic congestion and crowded shopping experiences.

iii. Price is Often Used as an Indicator of Quality

Customers frequently use price to judge service quality because services cannot be evaluated before purchase.

For example, customers may assume that higher-priced hospitals, hotels, or coaching centers provide better service quality.

Therefore, organizations must ensure that service quality matches customer expectations created by pricing.

Factors Influencing Service Pricing

Service pricing decisions are influenced by several internal and external factors. Organizations should carefully consider customer expectations, operating costs, market competition, and business objectives before determining service prices. Important factors influencing service pricing include:

Cost of Service Delivery--Organizations must consider operational costs, employee salaries, technology expenses, and infrastructure costs.

Customer Demand--Prices often change depending on customer demand. For example, hotels and transportation services may increase prices during holidays or peak travel seasons.

Competition—Competitor's pricing strongly influences service pricing strategies.

Customer Perceptions of Value--Organizations must understand how customers evaluate service value.

Organizational Objectives--Pricing strategies may vary depending on whether the organization focuses on profitability, growth, market share, or customer retention.

Customer Perceptions of Price and Value

Customers evaluate services based on perceived value rather than only price. Perceived value refers to customers' evaluation of what they receive compared to what they give up. For example, customers may willingly pay higher prices for faster delivery, personalized services, or better customer support.
Organizations should therefore focus on delivering superior value instead of competing only through low prices.

Approaches to Pricing Services

Service organizations use different pricing approaches depending on their objectives, market conditions, customer expectations, and competitive environment. Selecting an appropriate pricing approach enables organizations to achieve both customer satisfaction and long-term profitability. Common approaches include:

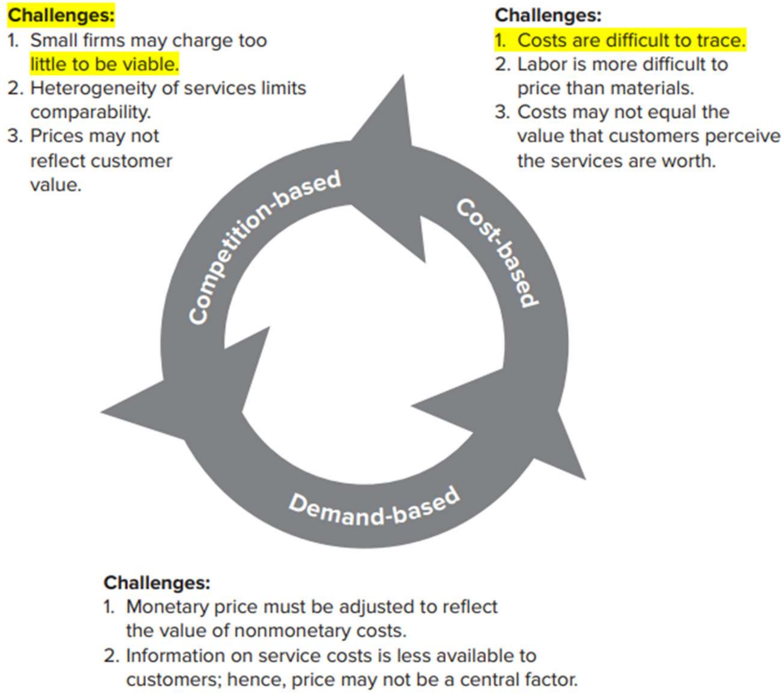

Figure: Three basic pricing structures
Source: Zeithaml, V. A., Bitner, M. J., & Gremler, D. D. (2018).

i. Cost-Based Pricing

In cost-based pricing, organizations determine prices by adding a profit margin to service costs. For example, restaurants calculate food costs, employee salaries, rent, and operational expenses before setting menu prices.

ii. Competition-Based Pricing

Organizations set prices based on competitor pricing strategies. For example, mobile operators often adjust internet package prices according to competitor offers.

iii. Demand-Based Pricing

Demand-based pricing depends on customer demand and willingness to pay. For example, airlines charge higher ticket prices during Eid holidays because of increased travel demand.

iv. Value-Based Pricing

Value-based pricing focuses on customer perceptions of value rather than only service costs. For example, premium hospitals charge higher fees because customers perceive higher service quality and specialized healthcare facilities.

Activity-1:

- Select a service organization such as an airline, hospital, bank, or online delivery service.
- Analyze how the organization sets prices and how customers perceive the value of its services.

Discussion Questions

1. Why is pricing more challenging for services than for physical products? Explain with suitable examples.
2. How do monetary and nonmonetary costs influence customers' perceptions of service prices? Illustrate your answer with examples.
3. A private hospital charges significantly higher consultation fees than nearby hospitals but continues to attract many patients. Explain this situation using the concepts of perceived value and service pricing.
4. "Customers often use price as an indicator of service quality." Critically evaluate this statement with appropriate examples.

Lesson-2: Pricing strategies, Pricing & customer value relationship

Objectives of the lesson: After completing this lesson, students will be able to —

- Understand different service pricing strategies
- Explain the relationship between pricing and customer value
- Identify ethical and strategic pricing issues in services
- Understand methods for improving pricing effectiveness

Pricing Strategies That Link to the Four Value Definitions

Customers perceive value differently depending on their needs, expectations, and purchasing behavior. Therefore, organizations should align pricing strategies with different customer value perceptions to improve customer satisfaction and competitive advantage.

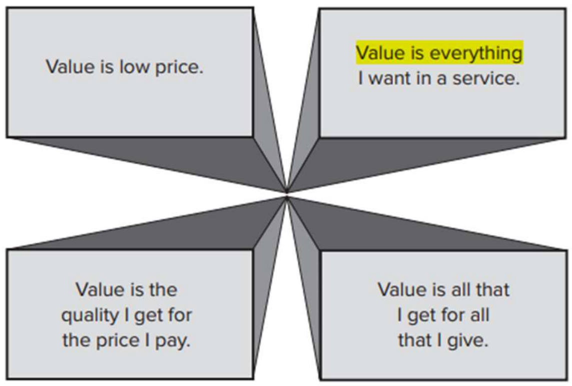

Figure: Four customer definitions of value
Source: Zeithaml et al., (2018).

i. Value is Low Price

Some customers consider value as paying the lowest possible price. Organizations targeting price-sensitive customers often use discount pricing, promotional pricing, and low-cost service strategies.

For example, budget transportation services attract customers by offering lower fares.

ii. Value is Whatever I Want in a Service

Some customers define value as receiving desired benefits and service features. These customers focus more on service quality, convenience, and benefits rather than only low prices.

For example, customers choosing premium healthcare facilities often prioritize specialized treatment and service quality.

iii. Value is the Quality I Get for the Price I Pay

Many customers compare service quality with the price paid. For example, customers selecting hotels often evaluate room quality, cleanliness, food services, and employee behavior in relation to hotel prices.

Organizations should therefore maintain balance between price and service quality.

iv. Value is What I Get for What I Give

Customers also evaluate nonmonetary sacrifices such as time, effort, and convenience. For example, customers may prefer online shopping platforms because they save travel time and physical effort.

Organizations that reduce customer inconvenience often create higher perceived value.

Pricing Strategies Linked to Customer Value Definitions

Organizations develop different pricing strategies depending on how customers define value.

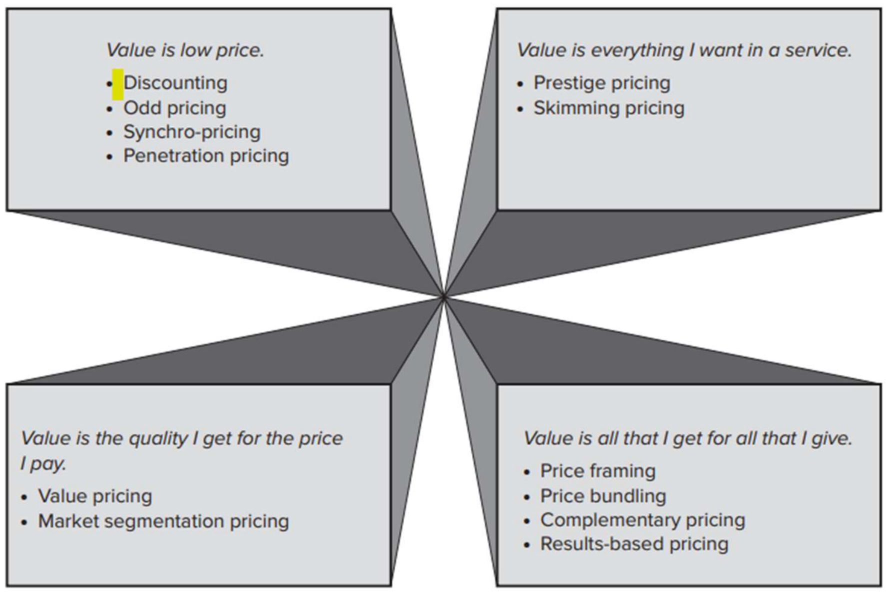

Figure: Service pricing strategies for four customer definitions of value
Source: Zeithaml et al., (2018).

i. Value is Low Price

Some customers define value as paying the lowest possible price. Organizations targeting these customers usually focus on affordable pricing strategies.

Discounting-- Organizations temporarily reduce prices to attract customers and increase sales. For example, Daraz regularly offers discounts during campaign periods such as 11.11 and Eid sales.

Odd Pricing--Prices are set slightly below round numbers to create lower price perceptions. For example, restaurants and retail stores often use prices such as 499 taka instead of 500 taka.

Synchro-Pricing--Prices change according to demand conditions to manage customer flow. For example, ride-sharing services such as Uber may increase fares during heavy rain or peak traffic hours.

Penetration Pricing-- Organizations introduce services at low initial prices to attract customers quickly. For example, new internet service providers often offer low introductory package prices to increase market share.

ii. Value is Everything I Want in a Service

Some customers focus more on prestige, quality, and exclusive benefits rather than low prices.

***Prestige Pricing*--**Organizations charge high prices to create perceptions of superior quality and exclusiveness. For example, Pan Pacific Sonargaon Dhaka uses premium pricing to position itself as a luxury hotel.

***Skimming Pricing*--**Organizations initially charge high prices for new or innovative services before gradually reducing prices. For example, premium smartphone launch events and early digital subscription services often follow skimming pricing strategies.

iii. Value is the Quality I Get for the Price I Pay

Many customers evaluate whether service quality justifies the price paid.

Value Pricing-- Organizations provide acceptable quality at reasonable prices. For example, Shwapno focuses on providing quality shopping experiences at competitive prices.

***Market Segmentation Pricing*--**Organizations charge different prices for different customer groups or market segments. For example, transportation services often provide discounted fares for students and senior citizens.

iv. Value is All that I Get for All that I Give

Customers also consider nonmonetary sacrifices such as time, effort, and convenience.

Price Framing--Organizations present prices in ways that make customers perceive greater value. For example, gyms and training centers often promote “only 50 taka per day” instead of showing the total monthly fee.

Price Bundling--Organizations combine multiple services into one package at a combined price. For example, Grameenphone offers bundled internet, talk-time, and entertainment packages.

Complementary Pricing-- Organizations charge separately for additional or supporting services. For example, airlines may charge separately for extra baggage, meals, or seat selection services.

Results-Based Pricing--Prices are linked to service outcomes or performance. For example, some coaching centers may offer partial refund facilities if promised academic support services are not properly delivered.

Revenue Management and Dynamic Pricing

Many service organizations use revenue management strategies to maximize profits. Revenue management involves adjusting prices according to demand, customer segments, and service timing. For example, airlines and hotels often charge higher prices during weekends, holidays, and peak seasons. Dynamic pricing helps organizations manage service capacity and demand more efficiently.

Price Discrimination

Price discrimination means charging different prices to different customer groups for similar services. For example, transportation services may provide discounted fares for students or senior citizens. Organizations must apply price discrimination carefully to avoid customer dissatisfaction.

Psychological Pricing

Psychological pricing influences customer perceptions and buying behavior. For example, organizations often use prices such as 999 taka instead of 1000 taka to create lower price perceptions. Similarly, premium pricing may create perceptions of superior quality.

Ethical Issues in Service Pricing

Ethical pricing practices help organizations build customer trust and maintain long-term relationships. Customers expect prices to be transparent, fair, and free from deceptive practices. Organizations should therefore avoid pricing strategies that create confusion or reduce customer confidence. Common ethical concerns include:

- Service organizations should maintain fairness and transparency in pricing.
- Hidden charges, misleading pricing, and unfair price increases may damage customer trust. For example, customers may become dissatisfied if online service platforms add unexpected delivery charges during payment.
- Organizations should clearly communicate prices, conditions, and additional costs.

Challenges in Service Pricing

Setting service prices is often more complex than pricing physical products because organizations must balance customer expectations, operating costs, market competition, and demand fluctuations. Some common challenges include:

- One major challenge is fluctuating customer demand. Because services are perishable, unused service capacity cannot be stored.
- Another challenge is customer price sensitivity. Customers can easily compare prices through digital platforms.
- Organizations also face difficulty measuring customer perceptions of value because different customers evaluate value differently.

Strategies for Effective Service Pricing

Effective service pricing requires organizations to understand customer value perceptions, monitor market conditions, and develop pricing strategies that support both customer satisfaction and business objectives. Important strategies include:

i. Understanding Customer Value Perceptions--Organizations should understand how customers evaluate price and service quality.
ii. Maintaining Pricing Transparency--Clear pricing communication improves customer trust.
iii. Matching Price with Service Quality--Service quality should justify pricing levels.
iv. Using Flexible Pricing Strategies--Organizations should adjust pricing according to demand and market conditions.
v. Reducing Nonmonetary Costs--Organizations should reduce waiting time, complexity, and customer effort.

Importance of Pricing in Service Marketing

Appropriate pricing contributes significantly to organizational success by improving profitability, managing customer demand, and enhancing customer value perceptions. Organizations that adopt customer-oriented pricing strategies are better positioned to achieve long-term competitive advantage. The major benefits include:

- Improve profitability
- Manage customer demand
- Build organizational image
- Improve customer satisfaction
- Strengthen competitive advantage
- Increase customer value perceptions

Organizations that successfully balance pricing, quality, and customer value are more likely to achieve long-term success.

Activity-2:

- Work in groups of 4–5 students.
- Choose a service organization and analyze its pricing strategies from the customer’s perspective.
- Suggest ways the organization can improve customer value while maintaining profitability.

Discussion Questions

1. Discuss how the four customer definitions of value influence service pricing strategies. Explain with suitable examples.
2. How do revenue management and dynamic pricing help airlines, hotels, and ride-sharing companies maximize revenue?
3. A ride-sharing company increases fares during heavy rainfall through surge pricing. Discuss the advantages, ethical concerns, and managerial implications of this pricing strategy.
4. "Long-term customer trust is more important than short-term profit when setting service prices." Critically discuss this statement with suitable examples.

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