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## UNIT 5 PRODUCT AND PRICING DECISIONS

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### Objectives

After studying this unit, you should be able to:

- Define the service product concept, describe the various elements of the total service package and suggest how to go about developing a new service offering.
- Understand the concepts of service branding and positioning.
- Describe how characteristics of the services influence the pricing decisions.
- Discuss the pricing strategies that may be used to sell services.

### Structure

- 5.1 Introduction
- 5.2 The Service Product
- 5.3 Developing New Service Offerings
- 5.4 Service Branding and Positioning
- 5.5 Pricing
- 5.6 Summary
- 5.7 Self Assessment Questions
- 5.8 References

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### 5.1 INTRODUCTION

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In practice the core of marketing is considered to be the marketing mix. Neil Borden<sup>1</sup>, while quoting from an article of James Culliton<sup>2</sup>, wrote that a marketer is viewed as a "decider", or an "artist" or a "mixer of ingredients" who plans various means of competition. "He may follow a recipe prepared by others, or prepare his own as he goes along, or adopt a recipe to the ingredients immediately available, or experiment with or invent ingredients no one else has tried." If a marketer was a "mixer of ingredients", what he designed was a marketing mix.

Borden further wrote that "it was logical to proceed from a realization of the existence of a variety of marketing mixes to the development of a concept that would comprehend not only this variety, but also the market forces that cause managements to produce a variety of mixes. It is the problems raised by these forces that lead marketing managers to exercise their wits in devising mixes or programmes to fight competition."

As discussed in Unit 1, the marketing mix in services includes 7 Ps. This unit covers two of the marketing mix elements i.e. Product and Price.

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### 5.2 THE SERVICE PRODUCT

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Product, in the marketing context is anything which is offered to the market for exchange or consumption. In goods marketing we always say that there is a tangible component to which some intangibles like style, aftersales service, credit, etc., are integrated. In the case of services, on the contrary, the tangible component is nil or minimal.

Conventionally, we describe a product as an object, which is developed, produced, delivered and consumed. However, in services there is no or a little tangible element. Therefore, the services are considered to be as benefits which are offered to the target market. There are two important things to note. First, a service is a bundle of features and benefits and secondly, these benefits and features have relevance for a specific target market. Therefore, while developing a service product it is important that the package of benefits in the service offer must have a customer's perspective.

Kotler<sup>3</sup> has identified five levels of a product, as listed in Table 5.1. The example given in the table is that of a hotel. It is the core and the basic which might be the same for most of the competing products and it is the other levels which make them different.

**Table 5.1**

FIVE PRODUCT LEVELS		
1	CORE BENEFIT	The fundamental benefit or service the customer is buying (Hotel : Rest / Sleep)
2	BASIC PRODUCT	Basic, Functional Attributes (Room; Bed; Bath...)
3	EXPECTED PRODUCT	Set of attributes / Conditions the buyer normally expects (clean room, large towel, quietness)
4	AUGMENTED PRODUCT	That meets the customers' desires beyond expectations (Prompt Room Services, and Check in / out, Music, Aroma)
5	POTENTIAL PRODUCT	The possible evolution to distinguish the offer (all-suite hotel)

**Activity 1**

For any 3 brands of a particular service (say Hospitals), prepare a comparative table of all the 5 product levels.

		Brand 1	Brand 2	Brand 3
1	CORE BENEFIT			
2	BASIC PRODUCT			
3	EXPECTED PRODUCT			
4	AUGMENTED PRODUCT			
5	POTENTIAL PRODUCT			

Gronroos<sup>4</sup> construed that the services a product offers consist of three levels. As shown in Figure 5.1, the first level is that of the basic service package which includes core service, facilitating services and supporting services. The second level is that of an augmented service offering where accessibility, interaction and customer participations is given equal importance in delivering the service product. The third level is that of the market communication of the service offering as in its absence the augmentation service package does not have any relevance to the customer.

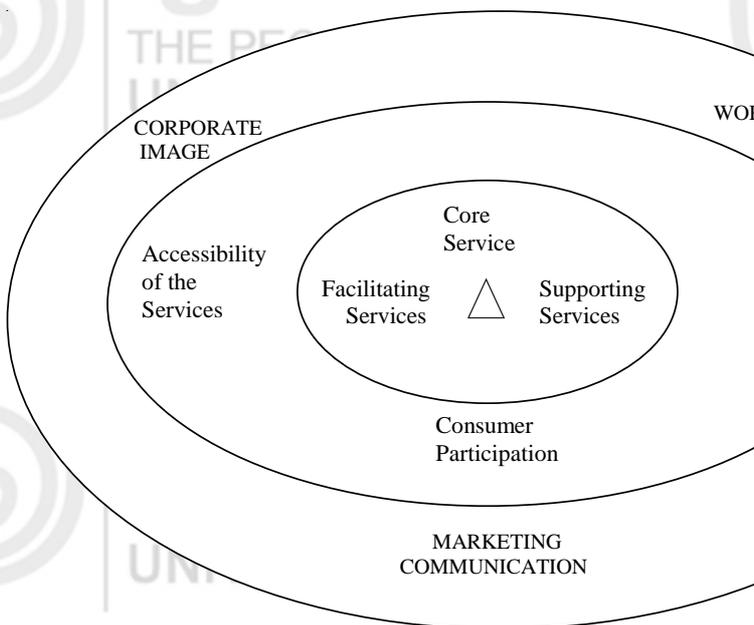
**1. The Service Package**

The 'package' concept of service product suggests that what you offer to the market is a bundle of different services, tangible and intangible but there is a

main or substantive or 'core' service and around it are built the auxiliary or peripheral or facilitator services. It is important to note that facilitating services are mandatory, and if they are left out, the entire service would collapse. In the service package there are yet other types of services called supporting services. The basic difference between these services from facilitating services is that these services do not facilitate the consumption of core service, but are used to increase the value, and, thus, differentiate it from competition.

For example, in a 500-room hotel the core service is lodging and room service, bell boy service is facilitating service, and health club, car rental are supporting services. However, it may not be always possible to draw a line of distinction between facilitating and supporting services. For example, in a typical city hotel, business center might be the supporting service, but in a business and convention hotel, the same service would be facilitating service.

**Figure 5.1: The Service Product**



**Source:** Christian Gronroos, *Service Management and Marketing*, Lexington Books, 1990

Nevertheless, it is important while developing the service product package to consider all the three levels of service: core, facilitating and supporting.

## 2. The Augmented Service Offering

It has been said that the basic service package is not equivalent to the service product the customer perceives, which is, in fact based on customer's experience and evaluation. Therefore, there is a need to involve the customer in the production of service offering and thereby reinforcing that the basic service package has to be expanded to a more holistic model of augmented service offering.

Here the suggestion is that issues related to the accessibility of the service, interaction with the service organization and consumer participation are also integral elements of the service product. Gronross identified the relevance of these issues in relation to the augmented services offering. The details are summarized in the Table 5.2. Some of these aspects are covered in the Unit on extended marketing mix.

**Table 5.2: Elements of Augmented Service Offer**

<p>Accessibility of the Service</p>	<ul style="list-style-type: none"> <li>- Number and skills of personnel</li> <li>- Working hours and time used in performing various tasks</li> <li>- Location of service outlet</li> <li>- Exterior and interior of service outlet</li> <li>- Infrastructure, hardware, documentation</li> <li>- The number and knowledge of consumers simultaneously involved in the process.</li> </ul>
<p>Interaction with service organization</p>	<ul style="list-style-type: none"> <li>- Interactive communication between employees and customers</li> <li>- Interactions with the physical and technical resources of the organization needed in the service production process</li> <li>- Interaction with other customers involved in the process</li> </ul>
<p>Customer participation</p>	<ul style="list-style-type: none"> <li>- How well the customer is aware about the process of service delivery and his or her role</li> <li>- How well the customer is prepared to share information</li> <li>- How well the customer is willing to share information or use service equipment</li> </ul>

**Source:** Christian Gronross, Services Management and Marketing, Lexington Books, 1990, pp 76-80.

**3. Market Communication of the Service Offering**

It is true that a favorable image enhances the service experience, and a bad image may even destroy it. Therefore, the issue of management of image through communication becomes an integral part of developing the service product. But the important point to note here is that apart from the conventional methods of promotion, corporate image and word of mouth are, if not more, equally important. A negative comment from a fellow customer is more than adequate to neutralize the effect of your efforts of mass media advertising, media blitz and direct promotions. You will study more about communication in the next unit.

**Activity 2**

For any service organization, identify all the levels of service offer, as suggested in the Gronroos model and also study the marketing implications.

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**5.3 DEVELOPING NEW SERVICE OFFERINGS**

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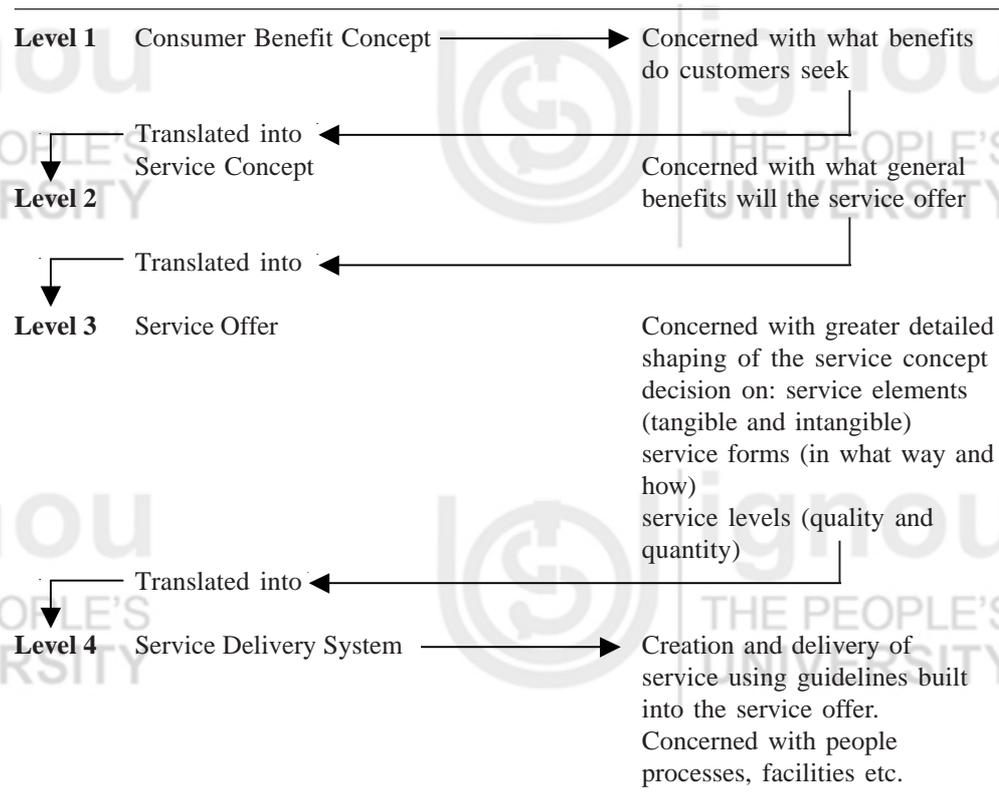
In order to develop a service product, as a manager you will have to follow the following stages:

- i) the customer benefit concept;
- ii) the service concept;

- iii) the service offer;
  - iv) service forms, and
  - v) the service delivery system
- i) **Customer Benefit Concept:** The service product which you offer in the market place must have its origin in the benefits which the customers are seeking. But the problem is that customers themselves may not have a clear idea of what they are seeking or they may find it difficult to express or it may be a combination of several benefits and not a single one. Over a period of time, the benefits sought may also change. This change in customers may come about by a satisfactory or unhappy experience in utilising the service, through increased sophistication in service use and consumption, and changing expectations. All these make the issue of marketing a service product very complex.
- ii) **Service Concept:** Using the customer benefits as the starting point, the service concept defines the specific benefits which the service offers. At the generic level the service concept refers to the basic service which is being offered. A centre for the performing arts may offer entertainment and recreation. But within this broad framework, there can be specific choice paths for satisfying the entertainment objective, such as, drama, musical concerts, mime, poetry recitation, dance etc. Defining the service concept helps answer the fundamental question, 'What business are we in?'
- iii) **Service Offer:** Having defined the business in which you are operating, the next step is to give a specific shape and form to the basic service concept. To refer to the example of the centre for the performing arts, the service concept is to provide entertainment. The service offer is concerned with the specific elements that will be used to provide entertainment: drama, music, mime, poetry recitation, and dance. In the category of musical concerts the choice may be vocal or instrumental, with vocal whether light or classical, Hindustani or Western. While these represent the intangible items of the service offer, the physical infrastructure of the centre, in terms of its seating capacity, comfortable seats, quality and acoustics, provision of air-conditioning, snack bar and toilets are the tangible items. The tangible aspects can be controlled by offering the best possible benefit, but the quality and performance of the actors, singers, musicians cannot be controlled. Theoretically, a manager must control both the tangible and intangible components. But in practice, he can control only the tangible components and lay down norms for the intangible components (e.g. maximum duration of recital, brief introduction before each dance item, etc.)
- iv) **Service Forms:** In what form should the services be made available to the customers is another area of decision-making. Should all the shows of the centre be available in a package deal against a yearly membership fee or seasonal ticket? Should there be daily tickets with the consumer having the freedom to watch any one or more performances being staged on that particular day? Or should each performance have a separate entrance ticket, with a higher priced ticket for a well-known performance? Service form refers to the various options relating to each service element. The manner in which they are combined gives shape to the service form.
- v) **Service Delivery System:** When you go to your bank to withdraw money from your account, you either use a cheque or a withdrawal slip in which you fill all the particulars and hand it over to the clerk, who after verifying the details, gives you money. The cheque or withdrawal slip and the clerk constitute the delivery system. In a restaurant, the

waiters are the elements of the delivery system. The two main elements in a delivery system are the people and the physical evidence. The competence and public relations ability of a lawyer represents the 'people' component, while his office building, office door, letterhead, etc. are all elements of the 'physical evidence'. The physical evidence components have also been called 'facilitating goods' and 'supporting goods'. These are the tangible elements of the service and they exert an important influence on the quality of the service as perceived by the consumers. Figure 5.2 presents a graphical conceptualisation of the service product.

**Figure 5.2: Conceptualisation of the Service Product**



As a manager marketing services, you would like to market not just one service but a range of services. You would need to take decisions on the length and width of the range of services, the manner in which they complement and support each other, and how well they face up to the competitor's offerings. Table 5.3 illustrates the concept of a range of services, using the example of a club.

**Table 5.3: Examples of Range of Service**

Customer Groups			
Children	Mixed Adults	Only women or men	Business groups
Swimming lessons	Swimming lessons	Beauty parlor/Massage facility	Conference rooms
Badminton lessons	Badminton, Tennis lessons	Yoga/Judo Lessons	Secretarial assistance
Indoor games	Card rooms	Tournaments	Video coverage
Library	Billiards	Kitty parties	
Film shows	Facilities for parties & receptions		

The service or services which you offer must be targeted at specific market segment. The target market segment must have a definite need for the service. In the illustration of the club in Table 5.3 the recreation facilities for children would succeed only if the parents of the children perceive a definite advantage in the trade-off of money versus time. The parents must perceive it worthwhile to spend money on the children to keep them busy rather than spending their own time.

**Activity 3**

You have studied that a service product can be analysed at the level of the customer benefit concept, the service concept, the service offer and the service delivery system. Try to recapitulate the services that you have enjoyed, while at a restaurant or a hotel. Analyse the services offered by the hotel or restaurant at the five levels studied by you.

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**5.4 SERVICE BRANDING AND POSITIONING**

Choosing a brand name for a consumer product or service is one of the most important decisions. A well chosen brand name can provide a number of specific advantages to the organisation. These include suggesting product benefits, evoking feeling of trust, confidence, security and simplifying shopping. The American Marketing Association defines a brand as follows: 'A brand is a name, term, sign, symbol, or design, or a combination of these, intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors.' Though branding has received considerable attention from marketers and academicians, the main focus has been on physical goods rather than services. However, services branding has started to receive considerable attention lately. The intangibility factor associated with services has led to the suggestion that branding and image creation may be even more critical for services. For a service brand to be effective it should possess distinctiveness, relevance and memorability.

Keeping in view the transition of Indian economy to one which is dominated by services, The Economic Times in its survey of India's most trusted brands has started including a separate category of service brands. According to its survey

**Table 5.4: Top Service Brands of India 2003**

Category Rank	Telecom	Airlines	Food Services	Hotels	Pvt. Sector Banks	Life Insurance
1	Reliance India Mobile	Indian Airlines	Pizza Hut	Taj Hotels	ICICI Bank	LIC
2	BSNL	Air Sahara	McDonalds	Oberoi Hotels	UTI Bank	ICICI Prudential
3	Airtel	Jet Airways	Café Coffee Day	ITC Hotels	HDFC Bank	HDFC Standard Life

Source: Brand Equity, The Economic Times, 17 Dec 2003

of most trusted brands - 2003, the top services in different service categories were as given in Table 5.4 below. It is important to learn that brand can be a major determining element in the purchase of services and a means of adding differentiation. Service managers should keep their focus on branding and differentiation in order to avoid the shift to commodity status where competition is primarily on price and terms. On the other hand competition in speciality branded services is based on the other elements of the marketing mix including customer service, advertising, brand name etc.

**Service Positioning**

Positioning is the act of designing the company's offering and image to occupy a distinctive place in the target market's mind. This requires the companies to examine their markets, determine the structure and nature of markets segments. The various steps in determining a positioning plan include:

- i) Define a market's segments
- ii) Decide which segment to target
- iii) Understand what the target consumers expect and value
- iv) Develop a service which caters to these needs
- v) Evaluate consumer perceptions of competing services
- vi) Select an image for the product matching the aspiration of the targeted consumers
- vii) Communicate with the determined customers and make the product suitable available.

You will appreciate that service positioning involves three basic steps i.e. Segmentation, Targeting and Positioning . The market segmentation can be done on the basis of a number of variables like Geographic ( region, climate etc.), Demographic (age, family size, gender, income, occupation, education, social class etc.), Psychographic (lifestyle, personality) and Behavioural (benefits, occasions of use, usage rate etc.).

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**5.5 PRICING**

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In the case of products, the term 'price' is used for all kinds of goods- fruits, clothes, computers, building etc. but in the case of services, different terms are used for different services. Table 5.5 represents the term used for some selected services.

**Table 5.5: Price Terminology for Selected Services**

<b>Terminology</b>	<b>Service</b>
Admission	Theatre entry
Commission	Brokerage service
Fare	Transport
Fee	Legal service
Interest	Use of money
Premium	Insurance
Rent	Property usage
Salary	Employee services
Tariff	Utilities
Tuition	Education

**Source:** Donald Cowell, "The Marketing of Services" Heinemann, London

### A) Pricing and Service Characteristics

In determining the prices of services, the one characteristic which has great impact is their perishability and the fact that fluctuations in demand cannot be met through inventory. Hotels and airlines offering low rates in off-season are examples of how pricing strategy can be used to offset the perishable characteristics of services.

Another characteristic of services that creates a problem in price determination is the high content of the intangible component. The higher the intangibility, the more difficult it is to calculate cost and greater the tendency towards non-uniform services, such as fees of doctors, management consultants, lawyers. In such cases, the price may sometimes be settled through negotiation between the buyer and seller. On the other hand, in services such as dry cleaning, the tangible component is higher, and the service provided is homogeneous. It is easier to calculate the cost on a unit basis and have a uniform pricing policy. In general, the more unique a service the greater the freedom to fix the price at any level. Often the price may be fixed according to the customer's ability to pay. In such cases price may be used as an indicator of quality.

The third characteristic to be kept in mind while determining prices is that in many services, the prices are subject to regulations, either by the government or by trade associations. Bank charges, electricity and water rates, fare for rail and air transport in India are controlled by the government. In many other cases, the trade or industry association may regulate prices in order to avoid undercutting and to maintain quality standards. International air fares are regulated by international agreement of airlines, sea freight fares may be regulated by shipping conferences. In all such cases, the producer has no freedom to determine his own price.

The two methods which a service organisation may use to determine prices are cost-based pricing and market-oriented pricing. In the former, the price may be regulated by the government or industry association on the basis of the cost incurred by the most efficient unit. Such a pricing strategy is effective in restricting entry and aiming at minimum profit targets. The market-oriented pricing may either be a result of the competition or customer-oriented. In case of competition-oriented pricing, the price may be fixed at the level which the competitor is charging, or fixed lower to increase market share. Customer-oriented pricing varies according to the customer's ability to pay.

### B) Role of Non-monetary Costs

Non-monetary costs refer to the sacrifices perceived by the consumers, other than monetary costs, when buying and using a service. Many a times the non-monetary costs may become even more important than monetary costs. The nonmonetary costs can be broadly divided into the following categories.

- i) **Time Costs:** Because services are inseparable, most of them would require direct participation of the consumer i.e. they involve time. The time required by a consumer would include actual time of interaction with the service provider as well as the waiting time. Therefore, the consumer is not only spending his money but also sacrificing his time. At times the consumer may be required to travel to a service which may involve time as well as additional monetary cost.
- ii) **Search Costs:** These involve the efforts put in by the consumer in searching information, finding out alternatives and evaluating them. Typically search costs are far greater in case of services as compared to goods. There are a number of reasons for this. Services being rich in experience and credence qualities are rarely displayed on shelves in service outlets for

customers to evaluate them. Also in many services it is difficult to know the price in advance.

- iii) **Psychic Costs:** These include fear of not understanding or fear of rejection or fear of uncertainty. For example, while applying for a bank loan the customer has a fear of the loan application being rejected. At times, customer may find the service product difficult to understand like various options in life insurance or difficult to use like ATMs, on line trading etc.

As marketers you should not concentrate just on monetary costs alone as consumer make decisions based on monetary as well as non-monetary costs. In fact by reducing non-monetary costs, it may be possible for you to increase monetary price.

### C) Pricing Strategies

The pricing strategies that may be used to sell services are:

- a) Differential or flexible pricing;
- b) Discount pricing;
- c) Diversionary pricing;
- d) Guaranteed pricing;
- e) High price maintenance pricing;
- f) Loss leader pricing;
- g) Offset pricing; and
- h) Price bundling.

- a) **Differential or Flexible Pricing** is used to reduce the 'perishability' characteristic of services and iron out the fluctuations in demand.

Differential price implies charging different prices according to:

- 1) customer's ability to pay differentials (as in professional services of management consultant, lawyers);
  - 2) price time differentials (used in hotels, airlines, telephones where there is the concept of season and off season and peak hours); and
  - 3) place differential used in rent of property-theatre seat pricing (balcony tickets are more expensive than front row seats) and houses in better located colonies command high rent.
- b) **Discount Pricing** refers to the practice of offering a commission or discount to intermediates such as advertising agencies, stock brokers, property dealers for rendering a service. It may also be used as a promotional device to encourage use during low-demand time slots or to encourage customers to try a new service (such as an introductory discount).
  - c) **Diversionary Pricing** refers to a low price which is quoted for a basic service to attract customers. A restaurant may offer a basic meal at a low price but one which includes no soft drink or sweet dish. Once the customer is attracted because of the initial low price he may be tempted to buy a drink or an ice-cream or an additional dish. Thus he may end up buying more than just the basic meal.
  - d) **Guaranteed Pricing** refers to pricing strategy in which payment is to be made only after the results are achieved. Employment agencies charge their fee only when a person actually gets a job, a property dealer charges his commission only after the deal is actually transacted.
  - e) **High Price Maintenance Pricing** strategy is used when the high price is associated with the quality of the service. Many doctors, lawyers and other

professionals follow this pricing strategy.

- f) **Loss Leader Pricing** is one in which an initial low price is charged in the hope of getting more business at subsequently better prices. The danger is that the initial low price may become the price for all times to come.
- g) **Offset Pricing** is quite similar to diversionary pricing in which a basic low price is quoted but the extra services are rather highly priced. A gynecologist may charge a low fee for the nine months of pregnancy through which she regularly checks her patient, but many charge extra for performing the actual delivery and post-delivery visits.
- h) **Price Bundling:** Some services are consumed more effectively in combination with other services. When customer perceive value in package of services that are interrelated, price bundling is an appropriate strategy. It basically means pricing and selling services as a group rather than individually.

In addition to deciding on what to charge, the pricing strategy of a service firm should also address the following issues:

- Who should collect payment? (Organisation or a specialist intermediary)
- Where should payment be made? (Location of service delivery or a convenient outlet or customer's home)
- When should payment be made? (Before or after delivery, timings)
- How should payment be made? (Cash, credit card, third party payment etc.)
- How should prices be communicated to the target market? (Communication medium, message content etc.)

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## 5.6 SUMMARY

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This unit covered two elements of the seven marketing mix elements for service - Product and Price. Service Product was explained to you with the help of Kotler's five product level concept and Gronroos's three level concept. The steps in developing a new service were identified and discussed. These include developing a consumer benefit concept which should be translated into service concept. Service concept then helps the organisation in detailed designing of the service offer which is to be translated into the service delivery system. The unit also explained the issues related to service branding and positioning

While determining the prices of services it is important to consider the perishability and intangibility aspects. Also, a number of services are subject to price regulations by the government. A number of pricing strategies can be used by services marketers. These include differential pricing, discount pricing, loss leader pricing etc. In addition a number of other decisions related to pricing have to be undertaken like who should collect the payment, where, when and how.

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## 5.7 SELF ASSESSMENT QUESTIONS

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1. Differentiate between core, facilitating and supporting services, giving suitable examples.
2. Discuss the various stages in the development of a new service offering.
3. What are the basic differences between pricing of goods and pricing of services? Does characteristics of services influence their pricing? Discuss, taking each service characteristic, one by one.

4. Think about some of the services that you use frequently, for example restaurant or out-door catering. From the lowest end eating out joint to a most exclusive restaurant you visited, identify how the price of these services are expressed? How does the price reflect the other elements of the total service offer?
5. Enlist those services, in which there is a price competition. Also enlist some of those services in which there is non-price competition. Identify reasons, thereafter, for such pricing strategies in these two categories of services.
6. Read the case on "Dosa King" given in the last unit (Unit 19) of this course and answer the questions asked in the case.

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## 5.8 REFERENCES

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