INTRODUCTION AND BACKGROUND OF THE STUDY

1.1 Introduction

At the time of independence Indian economy was predominantly agricultural economy and the contribution of agricultural sector was highest in the GDP. Slowly the agricultural contribution started decreasing and the contribution of Industrial sector started increasing. The contribution of service sector was almost insignificant. That time it was an assumption that service is just an augmentation of the physical product. In the 1980s, as the quality concern gained drive throughout the world; researchers like Berry and Christian Gronross began to realize that quality was a critical factor in the success of service marketing. As a result of this, the eminence in thinking shifted to the service quality.

A successful marketer is one who observes the change, recognizes and exploits the opportunities that it has to offer in changing marketing environment. Services are the growing sector of the Indian economy showing a subtle shift towards service dominance.

Banking, Insurance, Treasury and Telephone facility, public conveyance, dry cleaning, radio transmission, hair cutting, tailoring, retailing etc are all service. We take these services. So we are consumers. A group of service together may form a service organisation, like an educational institution, where service of libraries, cafeterias, counselling, placement, bookstore, photocopying, telephone and internet connection, and even a bank are all available. Such multiple service providers are called complex service organisations.
Unlike we individuals, business and other organisations also depend on a wide array of service, usually purchasing on a much larger scale than us, we individual households.

Unfortunately, customers are not always happy with the quality and value of the service they receive. People complain about late deliveries, inconvenient service hours, needlessly complicated procedures, long queues, and a host of other problems.

Service providers face stiff competition. Many owners and managers complain about how difficult it is to make a profit, to find skilled and motivate employees, or to place customers.

The service sector is going through a revolutionary change, which is dramatically affecting the way in which we live and work. New service are continually being launched to satisfy consumers’ / customers’ existing needs and to meet needs that we did not even know they had. Not even 10 years ago, people anticipated a personal need for e-mail, online banking, web hosting, and many other such service. Today, we feel we can’t do without them. Similar transformation is occurring in business markets as well.

Service organization is very wide in size. At one end of the scale are huge international corporations operating in such industries as airlines, banking, insurance, telecommunication, and hotels. At the other end of the scale is a vast array of locally owned and operated small businesses, including restaurant, laundries, optometrists, beauty parlours, and such numerous business to business service.

Internal service are also spun out as separate service, which are outsourced and they become a part of the marketplace and are therefore more easily identifiable as a contributing component of the economy.
The forces that shape service markets are government policies, social changes, business, advance in information technology, and internationalization.

The implications of opening up of the service economy are growing demand for many such service, there will be greater competition, will stimulate innovation through the application of new and improved technologies. Customer needs and behaviour also evolves in response to changing demographics and values, as well as new options. Singularly as well as in combination these developmental aspects will require managers of service organizations to focus more sharply on marketing strategy.

1.2 Technology Is a Key Driver of Service Innovation

The term technology, as commonly used, refers to the practical application of cutting edge tools, and innovative service providers are interested in how they can use new technological development to automate and speed up processes, reduce costs (and perhaps prices), facilitate service delivery, relate more closely to their customer and offer them greater convenience, add appeal to existing products, make it possible to develop new types of service, etc. etc.

For these advantages the technologies that are eyed upon are the technologies of power and energy materials, physical design, methods of working, and Information Technology (IT). The application of one type of technology in any service industry often involves others in a supporting role.

Manufacturers usually required physical distribution channel to move goods from factory to customers. Service businesses may choose to combine the service factory, retail outlet, and point of consumption at a single location, or use electronic means to distribute their service as in broadcasting or electronic fund transfers. Sometimes, banking firms offer customers a choice of distribution channel, ranging from visiting the bank in person to conducting home banking on the Internet.
As a result of advances in computers and telecommunications, especially the growth of the Internet, electronic delivery of service is expanding rapidly. Any information based component of a service can be delivered instantaneously to anywhere in the world. Thanks to e-mail and Web site, even small businesses can offer their service inexpensively across vast geographic distances.

1.3 Designing the Service Factory

The nature of customer involvement often varies sharply among the four categories of service process. Nothing can alter the fact that people – processing service require the customer to be physically present within the service factory. If a person is in Chennai and needs to be in Paris the next day, he simply cannot avoid boarding an international flight and spending time in a jet high above the oceans. If one wants his hair cut, he cannot delegate this activity to somebody else’s head. He has to sit in the hairdresser’s chair himself.

The forces that shape service market are government policies, social changes, business trends, advances in information technology, and internationalization.

The implications of the changes outlined earlier are several. On the positive side, growing demand for many services is quite likely. The opening up of the service economy means that there will be greater competition. In turn, more competition will stimulate innovation, not least though the application of new and improved technologies. Customers’ needs and behaviour also evolve in response to changing demographics, values and availability of new options. Both individually and in combination, developments will require managers of service organizations to focus more sharply on marketing strategy.

Service innovation is driven by technology, which is in fact the application of cutting edge tools and procedures.
How the new technical developments can be applied to automate and speed up processes, reduce costs and prices, facilitate fast service delivery, relate more closely to the customers and offer them more convenience, make the products more attractive and develop new range of service etc. are the chief areas of interest of the service providers.

The technologies of power and energy, materials, physical design, methods of working, and information technology (IT) are the crux of today’s concern in all the service industries. The application of one type of technology in any service industry often involves other in a supporting role. Today the physical services are to the minimal extent.

1.4 Distribution Channels Task Different Forms

Manufacturing organizations usually require physical distribution channels to move goods from factory to customers. Service businesses may choose the service factory, retail outlet, and point of consumption at a single location or use electronic means to distribute their service, as one can find in broadcasting or electronic funds transfers. Sometimes, as in banking, firms offer customers a choice of distribution channels, ranging from visiting the bank in person to conducting home banking on the Internet.

As a result of advances in computers and telecommunications, especially in the growth of internet, electronic delivery of service is expanding rapidly. Any information based component of a service can be delivered instantaneously to anywhere in the world. Thanks to e-mail and Web sites. Even small businesses can offer their service inexpensively across vast geographic distances.

The Indian banking has come a long way from being a sleepy business institution to a highly proactive and dynamic entity.
This transformation has been largely brought about by the large dose of competition and liberalization and economic reforms that allowed banks to explore new business opportunities rather than generating revenues from conventional streams i.e. borrowing and lending. Banking in India is highly fragmented with 30 banking units contributing to almost 50 percent of deposits and 60 per cent of advances. Nationalised banks in India continue to be the major lenders in the economy due to their sheer size and penetrative networks which assure them high deposit mobilization. Indian banking can be broadly categorized into nationalized banks, private banks, and specialised banking institutions.

The Reserve Bank of India (RBI) acts as a centralized body monitoring any discrepancies and shortcoming in the system. It is the foremost body in the Indian financial sector. The nationalized banks continue to dominate the Indian banking arena. Industry estimates indicate that out of 274 commercial banks operating in India, 223 banks are in the public sector and 51 are in the private sector. The private sector bank grid also includes 24 foreign banks that have started their operations in India. Under the ambit of the nationalized banks come the specialized banking institutions. These cooperative rural banks focus on areas of agriculture and rural development. Unlike commercial banks, these cooperative banks do not lend on the basis of a prime lending rate. They also have various tax sops because of their holding pattern and lending structure, and hence have lower overheads. This enables them to give a marginally higher percentage on savings deposits. Many of these cooperative banks are diversified into specialized areas, catering to the vast retail customers, such as car finance housing loans and truck finance. In order to keep pace with their public and private sector counterparts, the cooperative banks too have invested heavily in technology to offer high-end computerized banking service to their clients.
For the past three decades, India’s banking system has several outstanding achievements to its credit. The most striking is its extensive reach. It is no longer confined to only metropolitan or cosmopolitan cities. In fact, it has reached even the remotest corners of the country. This is one of the main reasons for India’s growth process. The government’s regular policy for Indian bank has paid rich dividends since the nationalization of 14 major private banks of India in 1969. Not long ago, an account holder had to wait for hours at the bank counters for getting a draft or for withdrawing his own money. Today, he has alternatives. Gone are the days when the most efficient bank transferred a pizza. Money has become the order of the day.

1.5.1 Journey of Indian Banking Industry:

The first bank of India, thought conservative, was established in 1786. From then till today, the journey of Indian banking system can be classified into three distinct phases.

Phase 1: Early phase from 1786 to 1969 of Indian banks.

Phase 2: Nationalisation of Indian banks up to 1991 prior to the Indian banking sector reforms.

Phase 3: New phase of Indian banking system with the advent of Indian Financial and Banking Sector Reform after 1991.

Brief discussions of these phases are here under.

1.5.1.i Phase I

The General Bank of India was set up in 1786. Next came the Bank of Hindustan and Bengal Bank. The East India Company established Bank of Bengal (1809), Bank of Bombay (1840) and Bank of Madras (1843) as
independent units and called them President’s Banks. These three banks were amalgamated in 1920 and named the Imperial Bank of India, which started as private shareholder bank, and was established with mostly European shareholders.

In 1865, the Allahabad Bank was established, and for the first time exclusively by Indians. Punjab National Bank Ltd was set up in 1894 with headquarters at Lahore. Between 1906 and 1913 Bank of India, Central Bank of India, Bank of Baroda, Canara Bank, Indian Bank, and Bank of Mysore were set up. The Reserve Bank of India (RBI) was established in 1935.

During the first phase, the growth was very slow and banks also experienced periodic failures between 1913 and 1948. There were approximately 1100 banks, mostly small. To streamline the functioning and activities of the banks, the Government of India came up with the Banking Companies Act, 1949 which was later changed to Banking Regulation Act, 1949. As per the Banking Regulation (Amendment) Act of 1965 (Act No. 23 of 1965), RBI was vested with extensive power for the supervision of banking in India and is the central Banking Authority. During those days, the public confidence in banks was somewhat low and, so, deposit mobilization was slow. Abreast of it the savings bank facility provided by the postal department was comparatively safer. Moreover, funds were largely given to traders.

1.5.1.ii Phase II

The government took major steps in the Indian banking sector reforms after independence. In 1955, it nationalized the Imperial Bank of India by the State Bank of India Act with extensive banking facilities on a large scale, especially in rural and semi-urban areas as the first phase of nationalization. It formed the State Bank of India (SBI) to act as the principal agent of RBI and to handle banking transaction of the Union and the State Government of the country.
In 1969, seven subsidiary banks of the State Banks of India were nationalised as a major process of nationalisation due to the effort of the then Prime Minister Mrs. India Gandhi. Later in 1969, 14 major private commercial banks in the country were nationalized. The list of 14 banks nationalized in 1969 was

1. Central Bank of India
2. Bank of Maharashtra
3. Dena Bank
4. Punjab National Bank
5. Syndicate Bank
6. Canara Bank
7. Indian Bank
8. Indian Overseas Bank
9. Bank of Baroda
10. Union Bank
11. Allahabad Bank
12. United Bank
13. UCO Bank
14. Bank of India

The second phase of nationalisation of Indian banks was carried out in 1980, with seven more banks. This step brought 80 per cent of the banking segment in India under government ownership.

The Government of India has taken the following steps to regulate banking institutions in the country:

1949: Enactment of the Banking Regulation Act.

1955: Nationalisation of State Bank of India.
1959: Nationalisation of SBI subsidiaries.

1961: Insurance cover extended to deposits.

1969: Nationalisation of 14 major banks.

1971: Creation of Credit Guarantee Corporation.

1975: Creation of regional rural banks.

1980: Nationalisation of seven more banks with deposits over Rs200 crore.

After the nationalisation of banks, the branches of the public sector banks in India rose to approximately 800 per cent in deposits, and advance took a huge jump by 11,000 per cent.

Government ownership gave the public implicit faith and immense confidence in the sustainability of public sector banks.

1.5.1.iii Phase III

The third phase of development of Indian banking introduced many products and facilities in the banking sector as its reform measures. In 1991, under the chairmanship of M. Narasimhan, a committee was set up under his name, which worked for the liberalization of banking practices.

Post the implementation of this committee’s recommendations the country is flooded with foreign banks and their ATM stations. Efforts are being put in to give a satisfactory service to customers. Phone banking and net banking have been introduced. The entire system has become more convenient and swift. Today, time is given more importance than money. The financial system of India has shown a great deal of resilience. It is shielded from any crisis triggered by any external macroeconomic shocks as other East Asian countries suffered.
This is all due to a flexible exchange rate regime, high foreign reserve, the not yet fully convertible capital account, and limited foreign exchange exposure to banks and their customers.

State Bank of Indore, popularly Known as Indore Banks in Malwa Region, originally known as Bank of Indore Ltd. was incorporated under a special charter of His Highness Maharaja Tukojirao Holker-III, the then ruler of this region.

In terms of State Bank of India (Subsidiary Banks) Act, 1959 the Bank of Indore Ltd. become a subsidiary of State Bank of India w. e. f. I\textsuperscript{st} of January 1960 and was renamed as State Bank of Indore. The Bank acquired business of the Bank of Dewas Ltd. in 1962 and the Dewas Senior Bank Ltd. in 1965 and was upgraded to class ‘A’ category bank in 1971. Ever since then the bank has been making steady progress and during the year 2006-2007 the business turnover crossed Rs. 35000 crore.

Banking in India is not the same which was about two decades ago. As a matter of fact, history of banking in this country has gone through many modes of changes and phase of developments. When India got freedom there were private as well as public sector banks. Private sector banks were mainly interested in their own profit and wealth maximization.

India was in need of huge finances for industrialization and big projects. In 1969 the banks were nationalized. New set of responsibilities and roles were given to banks. Their role shifted from commercial to developmental. IDBI was established with the sole purpose of promoting agricultural sector. The banking from 1969-1992 was the dawn of globalization, liberalization and privatisation in India. But, the nationalized banks have missed in one thing that is - caring for the customers.
The economy was captive and nationalized banks almost enjoyed the monopoly.

The Govt. of India supported creation of private banks. IDBI that was a govt. of India enterprise, for a specific purpose became a private bank. Many other private banks appeared on the scene of Indian economy such as ICICI, HDFC etc.

There is reversal in the trend also which is marginal. IDBI which was a public sector bank was privatized and later on it again become a public sector bank, today they take pride in advertising that they are a public sector bank but the service are like those of private, that means dominating role of private banks in realm of service is well established and recognized. No doubt banks are becoming more customer friendly day by day. It is a good sign for them as well as customers.

1.6.1 Service Marketing: An overview

Today service industry plays a significant role on both domestic and global economies. With intense competition companies realize that they should not merely concentrate to physical products but offer a range of services to the customers because the key differentiation comes from service rather than physical product.

“A service is any activity or benefit that one party can offer to another that is essentially intangible and does not result in the ownership of anything The product may or may not be tied to a physical product.”

The term ‘service’ is rather general in concept and it includes a wide variety of services. Some of them are advertising, marketing research, banking, insurance, and computer programme, legal and medical advice.
To produce a service may or may not require the use of tangible goods. However, when such use is required, there is no transfer of title (permanent ownership) to these tangible goods, services etc.

1.6.2. Holistic Marketing for Services

Service encounters are complex interactions affected by multiple elements. Adopting a holistic marketing perspective is especially important. The service outcomes, and whether or not people will remain loyal to a service provider, are influenced by a host of variables. Holistic marketing for services requires external, internal, and interactive marketing (Diagram 1.1) External marketing describes the normal work of preparing, pricing, distributing, and promoting the service to customers. Internal marketing describes training and motivating employees to serve customers well.

1.6.3 The Service Marketing Triangle

![Service Marketing Triangle Diagram](Diagram-1.1)

1.6.4.1. Characteristics of Services

Services have unique characteristics that make the different from products. It is observed that there are certain peculiar characteristics of the service component in any offering. Broadly, the main characteristics of service are:

(I) **Intangibility**

(II) **Inseparability**

(III) **Heterogeneity**

(IV) **Perishability**.

(I) **Intangibility**

Intangibility refers to the aspect not associated with any physical form or characteristics. It is very much pronounced in the pure service element like the lecture given by a professor. In various service, like in a hotel or a fast food outlet, the hotel bed and the hamburger, are very tangible. The quality of intangibility makes it difficult to communicate and display exactly what the product is. It is often not possible to taste, feel, see, hear or sample service before they are purchased. Opinions and attitudes may be sought beforehand, a repeat purchase may rely upon previous experience, the customers may be giving something tangible to represent the service, but ultimately the purchase of a service is the purchase of something intangible.

(II) **Inseparability**

This refers to the fact that production and consumption of the service are inextricably intertwined. The implications of this are that the consumer’s presence is in most cases necessary at the time of production. Further, in several cases other consumers are also involved at the same time, as in most retailing situations. In certain situations, it may be a positive aspect of the benefits delivered (as in a theatre or club), while in others, it may be a potential negative aspect (as waiting in queues at the post office).
Whether the buyer is physically present or not, the product comes into existence only when it is bought; it cannot be mass-produced in advance (although the physical components may be, to some extent). Goods are usually purchased, sold and consumed; whereas service are usually sold and then produced and consumed.

(III) Heterogeneity

Heterogeneity or variability is a result of the fact that service are usually delivered by human beings, whose performance is necessarily variable; quality control is extremely difficult. It makes it difficult to standardize the output of certain service. The quality of a service in terms of its conformity to the seller’s prescriptions depends on the person, who provides the service, or the time, when it is provided. Even though standard system may be used to handle a flight reservation, book a car for service, each ‘unit’ of service differs from other ‘units’. From the customer’s point of viewpoint too, it is often difficult to judge quality before actual purchase.

(IV) Perishability

This means that the service ‘units’ cannot be stocked. If a seat is unfilled when the plane leaves off, the play starts. It cannot be stored and sold the next day or the next week. That revenue is lost forever. In some cases, such as in insurance or in banking, it could be argued that potential stocks remain, in the sense that the service is there to be sold every day as long as the underwriting of loan capacity exists. Most service, however, are clearly time dependent, in a manner that physical product are not. Important marketing decision in service organizations relates to excessive usage e.g. through difference pricing or special promotions.
The above-mentioned characteristics do not apply in equal measure to all service. Some service are highly intangible (e.g. education); other are highly tangible (e.g. fast food restaurant); some may be highly variable (e.g. dental treatment); some highly standardized (e.g. automatic car wash). The notion of a continuum of tangibility, inseparability, heterogeneity and perishability is helpful in understanding the effects of these characteristics on the marketing strategies.

The original idea of a single continuum of tangibility for understanding the differences between goods and service has been extended recently to suggest that all four characteristics of service (Figure 1.2) can be described and related in this way.

Thus while legal service is less tangible, varied and can be performed away from the customers, a fast food service is highly tangible, generally standardized and usually performed near the customers.

**1.6.4.2. A Continuum of the Characteristics of Services**

![Diagram of Continuum of the Characteristics of Services]

Figure: 1.2
### Difference between Physical Goods and Service

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Physical Goods</th>
<th>Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Tangible.</td>
<td>Intangible.</td>
</tr>
<tr>
<td>3.</td>
<td>Production and distribution.</td>
<td>Production, distribution, and consumption are simultaneous.</td>
</tr>
<tr>
<td>4.</td>
<td>Separated from consumption.</td>
<td>Processes</td>
</tr>
<tr>
<td>5.</td>
<td>A thing.</td>
<td>An activity or process.</td>
</tr>
<tr>
<td>6.</td>
<td>Core value produced in factory.</td>
<td>Core value produced in buyer-seller introductions.</td>
</tr>
<tr>
<td>7.</td>
<td>Customers do not participate in the production process.</td>
<td>Customers participate in the production.</td>
</tr>
<tr>
<td>8.</td>
<td>Can be kept in stock.</td>
<td>Cannot be kept in stock.</td>
</tr>
<tr>
<td>9.</td>
<td>Transfer of ownership.</td>
<td>No transfer of ownership.</td>
</tr>
</tbody>
</table>

(Source: Christian Gronroos (1990) (Table-1.1))

A Parsuraman, Leonard L. Berry and Valerie Zeithaml have done substantial pioneering work in this field. Their research has supported the point that quality is the foundation of service marketing.

Gronroos had proposed that service firm, in order to compete successfully, must develop quality to their service and they must first define how service quality is perceived by the consumers and second, state the important dimension to determine in what way service quality is influenced. Gronroos suggested that functional quality is more a perceived service than the technical quality. Therefore, essence of effectiveness in meaning of service lies in improving the
functional quality of a firm’s service by managing the buyer seller interaction (interactive marketing) than the traditional marketing activities.

Managing perceived quality of a service means one has to match expected service and perceived service to each other so that consumer satisfaction is achieved. To keep the gap between expected and perceived service minimal two things are critical. First, promise about how the service will perform given by traditional marketing activities and communicated by word of mouth, must be realistic when compared to the service the customers eventually will perceive. Second, managers have to understand how the technical and the functional quality of service are influenced and how these quality dimensions are perceived by the customers. Gronroos, in his concluding part emphasized the need for more research, especially research on the consumer’s view of quality.

In order to develop greater understanding of the nature of service quality and how it is achieved in an organisation, a service quality model was developed by Parasuraman et al. in 1985. Their model clearly indicated that consumer’s quality perceptions are influenced by a series of five distinct gaps occurring in organizations. These gaps, which can impede delivery of service that consumers perceive to be of high quality, are:

Gap 1: Difference between consumers’ expectations and management’s perception of consumer expectations.

Gap 2: Difference between management’s perception of consumer expectations and service quality specifications.

Gap 3: Difference between service quality specifications and the service actually delivered.

Gap 4: Difference between service delivery and what is communicated about the service to consumers.
Gap 5: Difference between perceived service and expected service. This gap depends on the size.

Direction of the first four gaps is associated with the delivery of service quality.

Another work of the same team of researchers identified an exhaustive set of constructs that could affect the magnitude and direction of Gap 4. Most of these construct involved communication and control processes used to manage employees, as well as consequences of these processes.

They summarized by stating that the service quality is a subjective assessment that arrive at by comparing the service level they believe an organisation ought to deliver to the service level they perceive is being delivered. Extensive qualitative research conducted in the recent past by Parasuraman et al, suggests that service quality deficiencies perceived by customers, i.e. the gap between their expectations and perceptions, are caused by a series of organizational gaps.

- Marketing information Gap: Inadequate or inaccurate management understanding of customers service expectations.
- Standards Gap: Management’s failure to develop performance specifications reflecting customers’ expectations.
- Service Performance Gap: Discrepancy between service performance specifications and service actually delivered.
- Communication Gap: Discrepancy between communications to customers describing the service and the service actually delivered.
1.6.4.3 Developing Better Service

To qualify effectively as marketing strategists, marketing managers should play a pivotal role in the programmer’s design and implementation. When Jan Carlzon embarked on the service quality programme for Scandinavian Airlines in the mid-1980s, he defined these types of concepts as ‘moments of truth’ during which the success or failure of his airline would ultimately be determined. These ‘moments of truth’ will be positive, natural or negative for the customer depending on how he perceives to have been attended to by the person with whom he interacted.

A quality programme can be effectively started at counters where most transactions are relatively straightforward and routine, and where basic standard distinguishing high quality from low quality service can be easily identified. Furthermore, the initial training required can be completed in a matter of days or weeks, and measurement can be achieved directly and accurately. The programmes should be rapidly extended to reception and telephone service, lending, trusts and private banking.

Counter personnel with little service can pose a special challenge because their perception of what constitutes a superior level of service can be radically different from what the customer has in mind. Thus, when senior managers talk among themselves about high quality service, they may all have a common concept in mind, but their ideas of quality will probably be different from those of lower level staff in the bank. Teller may, for example, not be totally confident when dealing with the public. So, they may speak softly, keep eyes averted from the customers, forget to smile and almost never thank the customer by name. These are all actions, which could lead the customer to feel unwelcome.
1.6.4.4 Delivering Customer Value and Satisfaction:

‘Moments of Truth’

The metaphor of the ‘moment of truth’ is a very powerful idea for helping people in service business shift their points of view and think about the customer’s experience.

Donalds Porter as Director of Customer Service Quality Assurance for British Airways, points out:

‘If you are a service person, and you get it wrong at your point in the customer’s chain of experience, you are very likely erasing from the customer’s mind all the memories of the good treatment he or she may have had up until you. But if you get it right, you have a chance to undo all the wrongs that may have happened before the customer got to you. You really are the moment of truth.

‘All customers establish in their minds the organisation’s image in terms of service quality.

‘Managing service means having as many of the moments of truth as possible come out well. As a customer, or the receiver of a service, one experiences the moment of truth as intensely personal. Most will forgive ‘system’ screw-ups, even to a preposterous degree, if there is someone there who acknowledges the personal needs and makes an effort to make things right. The concept of managing the moments of truth is the very essence of service management.

‘When the moments of truth go unmanaged, the quality of service regresses to mediocrity.’

Karl Albrecht and Ron Zemke, in their book ‘Service America’, identify three important characteristics that differentiate outstanding service organizations from mediocre ones and three features outstanding service organizations have in common.
1.6.4.5 Well-conceived strategy for service.

This service concept directs the attention of the people in the organization toward the real priorities of the customer.

1.6.4.6 Customer-oriented front-line people

The effective front-line person is able to maintain an ‘otherworldly’ focus of attention by tuning in to the customer’s current situation, frame of mind, and need. This leads to a level of responsiveness, attentiveness, and willingness to help that makes the service as superior in the customer’s mind and makes him or her want to tell others about it and come back for more.

1.6.4.7 Customer-friendly systems

The delivery system that backs up the service people is truly designed for the convenience of the customers rather than the convenience of the organization. The physical facilities, policies, procedures, methods, and communication, processes all say to the customer, ‘This apparatus is here to meet your needs.’

1.6.4.8 Customer Value and Satisfaction

One can outperform competitors in winning customers, only by doing a better job of meeting and satisfying customer needs. Successful teaming up of all the departments and employees to design and implement a competitively superior customer value delivery system is a prerequisite for achieving effectiveness.

Today’s customers face a vast array of product and brand choices, prices, and supplies. When making choice, customers form an expectation of value and act on it. Then they learn on experience whether the offer lived up to their value’s expectation. Customers’ satisfaction and their repurchase probability are directly dependent on this experience. Customer delivered value is the difference
between total customer value and the customer cost. (Kotler). Total customer value is the bundle of benefit customer expects from a given product of service. The customer adds value from sources like product, service, personnel and image and may perceive an offer to be of more total customer value. Total customer cost consists of more than the monetary cost. ‘The real price of anything is the toil of trouble of acquiring it’, said Adam Smith. It includes the buyers anticipated time, energy and psychic costs. Buyer evaluates these costs along with the monetary cost to form a picture of total customer cost.

A rational buyer’s action word may be to buy from whoever offered the highest delivered value.

‘Satisfaction is the level of person’s felt state resulting from comparing a product’s perceived performance (or outcome) in relation to the person’s expectations.’

Therefore, the satisfaction level is a function of the difference between perceived performance and expectations.

Factors decide or influence ‘expectations’

Expectations form on the basis of the buyer’s past buying experience, statements made by friends and associates, and competitor information and promises. Most successful companies raise expectations and deliver matching performance. Companies aim at Total Customer Satisfaction (TCS). Another observation in the market place is that those who are not just satisfied find it easy to switch suppliers when a better offer comes along. Those highly satisfied are not ready to switch.
1.6.4.9 The Extended Marketing Mix for services:

In the context of service marketing, the traditional 4Ps of marketing are found to be inadequate for successful marketing performance. Some marketers suggest that three additional P’s are required in marketing of services. These are people, physical evidence and process. Service product are bought and used for the benefits they offer, for the needs they fulfil, and not for themselves. They also require consideration of the range of service, the quantity and the level of service provided. Product planning and development is equally important in service industry. Certain characteristics such as high perishability, fluctuating demand, and inability to store service make product planning vital for service marketing. Strategies are needed for changing existing products, adding new ones and taking other actions that affect the assortment of products carried. Decisions are made regarding branding, packaging and various other features. Shoptalk (1984) suggests that management must select appropriate strategies regarding (1) What service will be offered; (2) what will be the length and breadth of service mix; and (3) what, if anything, needs to be done on the way of service attributes such as branding or providing guarantee.

<table>
<thead>
<tr>
<th>PRODUCT</th>
<th>Range, Quality, Level, Brand Name, Service line, Warranty, After sales service.</th>
</tr>
</thead>
<tbody>
<tr>
<td>PRICE</td>
<td>Level, Discount, Allowances, Commission, Payment terms, Customer’s perceived value, Quality / Price differentiation.</td>
</tr>
<tr>
<td>PLACE</td>
<td>Location, Accessibility, Distribution channels Distribution coverage.</td>
</tr>
<tr>
<td>PROMOTION</td>
<td>Advertising, Personal selling, Sales promotion Publicity, Public Relations.</td>
</tr>
</tbody>
</table>

‘The Marketing Mix for Service’
Table1.2
‘The Marketing Mix for Service’
Table 1.2 (contd.)

<table>
<thead>
<tr>
<th>PEOPLE</th>
<th>Personnel Training, Discretion, Commitment, Incentive, Appearance, Interpersonal behavior, Attitudes, Other Customers’ Behavior, Degree of involvement, Customer contact.</th>
</tr>
</thead>
<tbody>
<tr>
<td>PHYSICAL VIDEENCES</td>
<td>Environment, Furnishing, Color, Layout, Noise level, Facilitating goods, Tangible clues.</td>
</tr>
<tr>
<td>PROCESS</td>
<td>Policies, Procedures, Mechanization, Employee discretion, Customer involvement, Customer direction, Flow of activities.</td>
</tr>
</tbody>
</table>

**Product:** In some respects, ‘Product Planning’ is easier for service than for product. Packaging, colour, labelling, and style are virtually non-existent in service marketing. However, in other respects (for instance branding and standardization of quality) service industries have greater problems. Branding is difficult because consistency of quality is hard to maintain and because the brand cannot be physically attached to a service. Standardization of quality in service is an extremely important goal so as to satisfy customers (Stanton, 1987). Effective product planning and development i.e. design and management of service offer remains a crucial task for all service industries.

**Pricing:** In service organizations, pricing is considered to be one of the key activities. Price of a service is a major determinant of the market demand, firm’s competitive position and market share, and, revenue and net profit. Appropriately pricing a service is a challenge for service marketers. The intangible, perishable, heterogeneous and inseparable nature of service has significant pricing implications. Pricing of service is further complicated by high degree of labour intensity and customer interaction. However, traditional
economic forces such as price, cost, demand, supply and competition also influence pricing decision. Service is also subject to public regulation, formal self regulation of the market place which again calls for diverse pricing strategies (Rathmell, 1947). So there is great diversity of pricing practices in the service sector.

Most of the pricing principles and practices used in service are generally the same as those for goods. Two most popular methods of pricing used in service marketing are ‘cost plus’ and ‘market oriented’ pricing method. ‘Cost plus’ method is generally used for public regulated service such as educational, health care, communications, transport etc. whereas ‘market oriented’ pricing methods are commonly pricing strategies such as geographical, promotional, differentiated product mix pricing, which are widely used by service firms as well. Cash and quality discounts are also equally popular pricing tactics.

**Place:** Place of distribution for service: In view of increasing competition, and growing awareness in the service industry, place of distribution decisions have become focal point for most of the service organizations. However, distribution decisions have been complicated by the unique aspects of service. Inseparability (i.e. simultaneous production and consumption) and perishability characteristics of the service put major constraints in the development of distribution strategies. Service organizations have the options of marketing their service either directly to the customers, or through intermediaries of their service to use a combination of these methods for distribution. There have also been considerable innovations in recent years, in method of distributing service.

‘Location’ of service has remained the most crucial element in distribution strategy for service. Service locations should not only attract and satisfy maximum number of customers but also be conveniently accessible to
customers. Other important areas of decisions in service distribution are related with intermediaries and the delivery of service.

**Promotion:** As in promotion of products, all the four elements of promotion mix viz advertising, personal selling, publicity, and promotion are widely used in promotion of service. Any promotional programme in service marketing has four major goals, which influence the scale of the service offer.

They are to create awareness and hold interest in the service offer and the service organization, portray the service benefits in as appealing a manner as possible, to differentiate the service offer from those of competitors and build the overall image and reputation of the service firm.

Development of promotional strategy for service is subject to certain constraints. In service marketing, the customers rely more on subjective impression rather than concrete evidence because of intangible nature of the service. It is also difficult for him to evaluate the quality of service before actually buying it because service is high in experience qualities. Moreover, the quality of service is generally determined on the basis of perception rather than reality.

Personal selling and word of publicity are still considered to be the most effective ways of promoting service. Advertising has been used extensively in many service fields. Professional service firms, which previously were prohibited advertising on the ground that it is unethical, are also increasingly advertising their service in all major conventional and non conventional media. Indirect promotional methods such as use of referrals, participation in community activities, membership of trade associations and clubs, industry grapevine etc. are very popular in service industry.

**People:** Service industry is usually represented by high intensity of labour and high degree of customer interaction. Human element is crucial in all operations
of service management, both as performers of service and as customers. Involvement of customers in the production of service and service customisation makes service manager’s job more challenging.

Service personnel are more important in service organizations where in the absence of clues from tangible product, the customer will form an impression of the organization from the behaviour and attitude of its staff.

Service personnel include those members of the organization who are in contact with customer, contact personnel and those members who are not in contact with customers, since a customer’s perception of the quality of a service may be formed and influenced by other customers as well as by service organisation personnel, it is therefore important that the quality and performance of the service personnel should be properly maintained and improved.

**Physical Evidence:** A service product is considered to be made up of (a) the physical item or facilitating goods; (b) the sensual benefits or explicit service; and (c) the psychological benefits or implicit service. Customers of service organization are highly influenced by the tangibles or ‘physical evidence’ which assist in creating the environment and atmosphere where a service is bought or performed and can help shapes customer perceptions of a service. Customers form impressions of service organization partly through physical evidence like buildings, furnishings, layout, colour and badge, tickets, brochure, labels and so on. Operationally it is usually easier to manage the physical elements of a service offer.

**Physical Elements:** Physical elements are of two types

(a) Peripheral evidence; and
(b) Essential evidence.
Peripheral evidence is actually possessed by customer as part of the purchase of a service, but by itself has no value. A bank check book, an Airlines ticket, or a railway tickets are examples of peripheral service. These peripheral evidences add to the value of essential evidence. Such evidences must be designed and developed keeping organization’s image and customers needs in mind. Essential evidences, on the contrary, cannot be possessed by the customers. For example, the appearance and layout of a five star hotel, the vehicle rented by a car rental, other logo and mnemonic device of the service organizations are constituents of essential elements. Ultimately peripheral evidence and essential evidence, of the service, Shostack (1977), suggests that when a customer attempts to judge a service, particularly before using or buying it, that service is “known” by the tangible clues, the tangible evidence that surround it. Therefore management of tangible evidences demands equal priority and attention of service marketers.

**Process:** Seventh ‘P’ of Marketing mix for service refers to service delivery. In the production of service, the process not only creates the service product but also simultaneously delivers it to the customers because of their high degree of involvement. For example, the entertainment of a movie of play occurs simultaneously with consumption, and the customer is intimately involved in the production of a haircut, a physical examination etc. This participation by the consumers in the production process of a service requires that the service delivery system be defined in terms of, and as an element of, the total service concept. A service delivery system is designed by focusing on the needs of the consumer, as well as the service offer and the work force.

**The survival of the banking business** is dependent on customer services. Various researches regarding customer satisfaction in various service industries has taken place in India and in various countries. Many researchers have taken place on service quality of Public and Private sector banks have analyzed
various factors causing customers satisfaction and dissatisfaction. Researcher thinks that there is a scope for further research in the field of customer satisfaction in Banking Industry.

“Perceived service quality is a rational perception where a satisfaction is an emotional of feeling reaction.”(Rust, Zahorik and Keiningham 1999). ‘The word satisfaction comes from the Latin words Satis (Enough) and Facre (to do or make).

These words suggest the full meaning of satisfaction is fulfilment. To produce high level of customer loyalty business needs to move beyond mere satisfaction, to customer delight. Delight is the highest level of satisfaction. Satisfaction and delight both are strongly influenced by customer expectations. “Expectation disconfirmation “the gap between perceived quality and expected quality” is a very powerful full forecast of satisfaction. If perceived quality is higher than expected, the result will be satisfaction otherwise dissatisfaction. This study focuses on measuring the level of customer satisfaction and quality of service provided. Also it is a study that identifies the Gap between Expectations and Perceptions of customers of Public sector and Private sector banks with special reference to State Bank of India and HDFC Bank.
CHAPTER-II

STATE BANK OF INDIA – AN OVERVIEW

- Overview
  - 2.1 Introduction
  - 2.2 Business focus
  - 2.3 Capital Structure
  - 2.4 Management
  - 2.5.1 Services, facilities and schemes
  - 2.6 Personal banking
  - 2.7 Transformation journey of State Bank of India