

Service Marketing: A practical approach
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Lecture-06
Understanding the Macro-Environment-II

Hello everybody. Welcome to this session on services marketing with a practical approach. My name is Dr. Biplab Datta and my contacts details are given here, so that you can send macro environment any feedback and I can respond to them.

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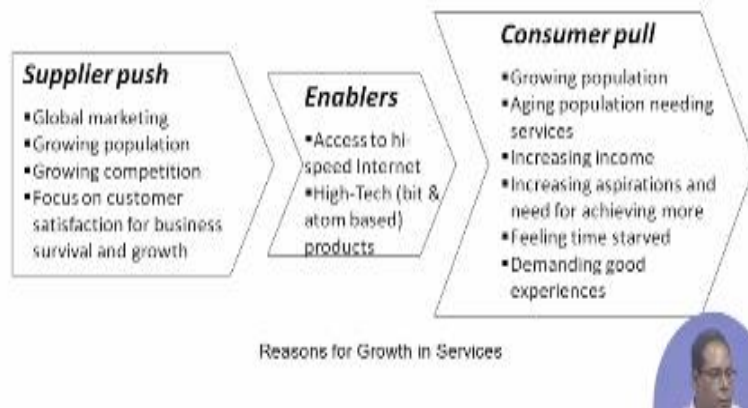
[The Economic Environment](#)

[The Technological Environment](#)

Today we will go through the sixth lesson in this course which is called understanding the macro-environment part 2. So in this we will see the concepts of the social environment, the economic environment, and the technological environment.

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The Social Environment



So coming to the social environment. Now here you see that what is happening in the social environment in the world. And what are the reasons for growth in services globally. So the first thing is that there is a consumer pull. Under consumer pull you see there is growing population, so the population is actually going on a daily basis and they are pulling a whole lot of services.

They are demanding a whole lot of services. The aging population is needing services. Now the life expectancy of the population globally has increased and many old age people are living to a right is and therefore they are needing the services to help in their life. The income of people is also increasing and because of that they can afford services which they could not afford earlier.

So they have to do certain things themselves whereas now they take the help of other people in helping them to engaging, other people or other professional or professional service companies to help them in their life. Increasing aspirations and need for achieving more. So people's aspirations are increasing day by day and they find that they can achieve much more in their life than what their parents have achieved.

And therefore they are aspiring higher and they are demanding a whole lot of services. For example in case of the double income families were husband and wife both work somewhere. The wife use to earlier work outside and also make dinner and other things at home. So she basically had a dual job. But now she is employee or in the cooks or the cleaning people who

do all the work in the house and both the wife and the husband can go out to do some work and earn money.

Feeling time starved. So people are feeling time starved and they do not have much time in their hands, so they always want that they should achieve more and more within the small given time. And therefore, they are demanding a whole lot of services. Then demanding good experiences. Now because the income of people have increased therefore they are demanding good experiences and these good experiences are part of various professional services.

So they go to the movie, they go to enjoy theater, they enjoy music parties, so all these they are able to purchase and enjoy. So all these 4 6 points for consumer pull are basically pulling services in their direction. Then we have the supplier push. So on the one hand consumers of pulling services, on the other hand suppliers and pushing services. Now global marketing is taking place.

So the services are being produced anywhere in the world and they are being delivered anywhere in the world. So that is a global marketing is taking place. The population is growing and therefore and everybody did growing population, the young generation they want some jobs and that is why they are pushing ahead in engaging themselves in provided professional services to consumers.

There is growing competition because of the growing population and because the competition is now trying to focus on customers satisfaction for business survival and growth. So, people are all professional services are competing against eachother in order to provide better and better services to the consumers. So that the consumers can be demand their services and consumers can enjoy the same.

Now so we understand that there is a consumer pull and there is a supplier push. So suppliers are pushing services to the consumers. Then in-between there are enablers. How can suppliers push services to consumers. So some enablers are access to high speed internet. We find that lot of services are being provided by high speed internet. So banking services, telecommunication services, payment services, bill payment services.

The services which help the payment of money to different concerns. So these kind of services are being enable by the high speed internet. Moreover the high tech services which are bit and atom based products. So there are big based product and many companies are providing bit based services like banking services or ticketing services or tourism services. So these are the bit based services.

In case of atom based services or in case of atom based product they are not able to directly pass on the product to the customer like food or clothing etc. But all information exchange and monetary exchange is done over the internet or online. So we see that enablers for these services being pushed and pulled. The enablers are the access to high speed internet, and high tech bit based products.

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The Global Society

Around 7 billion people inhabit the world today. If the world were a village of 1,000 people, it would consist of 329 males and 325 females who are 15 to 65 years old, 270 children and 76 people who are 65 years and older. There would be 180 illiterates who are 15 years and older. There would be 333 Christians, 210 Muslims, 132 Hindus, 118 non-religious people, 59 Buddhists, 35 Sikhs, 23 Jews and 12 Baha'is among others. 127 people would speak Chinese as their first language, 49 Spanish, 49 English, 33 Arabic, 27 Hindi, 27 Bengali, 27 Portuguese, 22 Russian, 18 Japanese, 14 Standard German and 13 Javanese among others.

What services do they require and how can we deliver those?



Then we come to the global society. What is the scenario, what is the scenario of the global society today?. We see that around 7 billion people inhabit the world today. If the world were a village of 1000 people it would consist of 329 males and 325 females who are 15 to 65 years old, 270 children and 76 people who are 65 years or older. There would be 180 illiterates out of those 1000 people who are 15 years and older.

There would be 333 Christians, 210 Muslims, 132 Hindus, 118 non-religious people, 59 Buddhists, 35 Sikhs, 23 Jews and 12 Bahais among other. 127 people would speak Chinese as their first language, 49 Spanish, 49, English, 33 Arabic, 27 Hindi, 27 Bengali, 27 Portuguese, 22 Russian, 18 Japanese, 14 Standard German and 13 Javanese among other. So, what services do they require and how can we deliver those?.

So obviously different religious people would require religious services as we know of. So churches, Muslims, temples etc. would provide lot of religious services and that would be demanded by the people today. Then different people have different language and the language is some kind of a hind towards the culture of such people. So English people have a different culture than Bengali people or Portuguese people. So one can set up shop in each of these cultures and sell services to each of these people. You can also think of what other ways you can deliver services to the global society.

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The Social Environment

The culture of the population also affects the acceptability of the services that we wish to offer. Culture consists of values, beliefs and attitudes of the people as individuals and in groups.

For instance, McDonald's had to offer vegetarian foods cooked in vegetarian oils when it faced resistance from the Indian population over the usage of non-vegetarian oils for cooking vegetarian meals.

We must also understand the fashion, fads, trends and the prevailing tastes of people. Prevailing trends can be understood from websites such as trendreports.com and trendwatching.com and journals such as Trends journal.



Then we come to understanding the social environment. The culture of the population also affects the acceptability of the services that we wish to offer. Culture consists of values, beliefs and attitudes of the people as individuals and in groups. For instance, McDonald's had to offer vegetarian foods cooked in vegetarian oils when it faced resistance from the Indian population over the usage of non-vegetarian oils for cooking vegetarian meals. So the McDonald had to change because of the pressure from the culture of India.

We must also understand that fashion, fads, trends and the prevailing tastes of people. So, prevailing trends can be understood from websites such as trendreports.com and trendwatching.com and journals such as Trends journal. So from this we can understand what are the different trends which are happening in the global society today and accordingly the companies can provide services to the people.

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The Social Environment

The tastes and preferences, purpose, method, occasion, quantity of consumption and the values associated with consumption of a service can differ from culture to culture.

It is almost impossible to change various aspects of the social environment, hence a business has to adapt to the culture of the region in which it is operating.

One must also understand people's prevailing beliefs about their connection with the natural environment, its exploitation and its conservation for the future. Consumers are getting more and more interested in purchasing services that do not harm the environment and conserve it for future generations to come.

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Consumers are getting more and more interested in purchasing services that do not harm the environment and conserve it for future generations to come. So that is the social environment in the world today.

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The Economic Environment

The economic environment can be analysed in terms of:

1. the state of the economy,
2. patterns of real income distribution,
3. patterns of saving and debt,
4. expenditure patterns, and,
5. inflationary and deflationary pressures.

Then we come to the economic environment. The economic environment can be analysed in terms of the state of the economy, the patters of real income distributions, the patterns of saving an debt, expenditure patterns and inflationary and deflationary pressures. So we will discuss all these in the subsequent slides.

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The Economic Environment

The state of the economy include an awareness of whether the general economy is in prosperity, recession, depression or recovery as these states would determine the extent to which our business is likely to prosper under specific situations.

We should also be aware of the business cycle, as every business appears to have cycles of ups and downs over the years.

One should know the growth of the economy in terms of the growth in the gross domestic product (GDP).

For instance, the world GDP growth was estimated to be around 3.1% while the growth rate for China was 7.8% and India was 6.5% in 2012 (Central Intelligence Agency, 2013).



The economic environment and the state of economy include an awareness of whether the general economy is in prosperity, recession, depression or recovery as these states would determine the extent to which our business and our business is likely to prosper under specific situations. So at the time of prosperity lot of goods and services would be sold at the time of recession it would not be and case of depression may people would not avail of because they would not be able to buy goods and services.

But at the time of recovery it would be quickly understand that they have to work and produce a lot of products which is again consume by the people themselves in the around the world and therefore the state of the economy can be in these 4 different states at according to state of the economy the people would like to produce and consume services. We should also be aware of the business cycle as every business appears to have cycles of ups and downs over the years.

One should know the growth of the economy in terms of the growth in the gross domestic product that is the GDP. For instance, the world GDP growth was estimated to be around 3.1% while the growth rate for China was 7.8% and India was 6.5% in 2012. So everybody wants that there should be a growth in the GDP there should be real growth in the society, so that more and more technology is used to set up more and more services and people can purchase the services and they can enjoy the services and the society in the world is always in a **in a** prosperous situation and people feel happy while living in this world.

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The Economic Environment

Knowledge of other microeconomic factors like income distribution and purchasing power of the people is also important.

According to the McKinsey Global Institute, the average annual disposable income of households in India will grow from Rs. 113,744 in 2005 to Rs. 318,896 in 2025. Over half of this income will be spent on services like transportation and tourism to domestic and international places.

India's consumption will quadruple in the next 20 years. 80% of the consumption growth will be led by increase in income, 16% will be due to growth in the number of households and 4% will be due to increased rate of saving by Indians.

We can guess that increasing consumption will increase business opportunities and will lead to increasing incomes. By 2025, India will become the fifth-largest consumer market in the world behind USA, Japan, China and the UK.

Continuing with the economic environment we see knowledge and other microeconomic factors like income distribution and purchasing power of the people is also important. According to the McKinsey global institute, the average annual disposable income of households in India will grow from Rs. 113,744 in 2005 to Rs. 318,896 in 2025. Over half of this income will be spent on services like transportation and tourism to domestic and international places.

India's consumption will quadruple in the next 20 years. 80% of the consumption growth will be led by increase in income, 16% will be due to growth in the number of households and 4% will be due to increased rate of saving by Indians. We can guess that increasing consumption will increase business opportunities and will lead to increasing incomes. By 2025, India will become the first largest consumer market in the world behind USA, Japan, China and the UK.

So it is the very good time for India and people like you have lot of opportunity in setting up great services to serve the country, serve the people of the country and also earn some profits for yourself through which you can again purchase other services and product and enjoy your life.

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Contribution of services to GDP of various countries

Country	GDP* in 2011	Services as %age of Country's GDP	Contribution of Services to Country's GDP*
World	52668	68	35551
USA	13226	78	10369
Japan	4604	71	3246
Germany	3049	70	2134
UK	2381	76	1810
France	2241	79	1774
China	4237	42	1767
Italy	1773	73	1296
Canada	1234	70	860
Spain	1184	70	829
India	1323	58	770
Brazil	1126	67	749
Australia	895	69	619
Mexico	957	64	614
South Korea	1056	57	598
Russia	947	62	588

* US\$ billion at constant prices . Source: Government of India (2013)

Now we see the contribution of services to the GDP of various countries. So the contribution of services to confess **GDP** the world GDP is 68%, so services has a percentage of GDP is 68% in the world and US has a GDP of 13266 billion dollars, and the services are 78% of the GDP. In case of the world total GDP is 52668 billion dollars, and 68% of the world GDP is made up of services.

In case of Japan the GDP is 4604 billion US dollars and 71% of the GDP is contributed by a services in Japan. In Germany 78%, UK 76%, France 79% of the GDP, these contributed by services. 42% of the GDP is contributed by services in China. 73% in Italy, 70% in Canada and 70% in Spain. In India 58% of the GDP of 1323 billion US dollars is made of services, services contributed by services. So out of 1323 billion dollars 770 billion dollars is contributed by services.

Then we have Brazil where 67%, Australia 69%, Mexico 64%, South Korea 57% and Russia 62% of the GDP is contributed by services. So we see that the service landscape is throws a very pretty picture and we know that services are going to increase day by day and people are going to enjoy those services in the world and they can also get employment and they can open service businesses where these services can be provided for everybody to consume and enjoy.

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Contribution of services to India's GDP in 2011-12

Service	Share of GDP 2011-12 (%)	Growth YoY
Trade, hotels and restaurants	18	6.2
Trade	16.5	6.5
Hotels & restaurants	1.5	2.8
Transport, Storage & communication	7.1	8.4
Railways	0.7	7.5
Transport by other means	5.4	8.6
Storage	0.1	9.4
Communication	0.9	8.3
Financing, insurance, real estate, & business services	16.6	11.7
Banking & insurance	5.7	13.2
Real estate, ownership of dwellings & business services	10.8	10.3
Community, social & personal services	14	6
Public administration & defence	6.1	5.4
Other services	7.9	6.5
Construction	8.2	5.6
Total services	55.7	8.2
Total services (incl. Construction)	63.9	7.9
Total GDP	100	6.2

Source: Government of India (2013) The growth of the services sector is closely linked to the FDI inflows into this sector and the role of transnational firms.

What is the contribution of services to India's GDP in 2011 and 12. So here we see that trade hotels and restaurants share 18% of GDP in 2011-12 and the year on year growth was 6.2% . The transportation, storage and communication that the share of GDP was 7.1% and year on year growth was 8.4%. Financing, insurance, real estate and business services were contributed 16.6% of the GDP.

And the year on year growth are 11.7%. The community, social and personal services contributed 14% to GDP in 11-12 and the year on year growth was 6%. Construction was 8.2% share of GDP and 5.6% year on year growth. So total services we see that 55.7% of the GDP was contributed in 2011 and 12 and 8.2% year on year.

Including construction services provided 63.9% of the share of GDP and the year on year growth was 7.9%. So we see that the growth of the services sector is pretty attractive and it is closely link to the FDI inflows into the sector and the role of transnational firms.

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	2004-05	2005-06	2006-07	2007-08	2008-09
Education & Recreation 5.3	3.4	3.2	3.6	3.4	3.4
Health services 5	4.0	4.7	4.4	4.4	4.4
Rent, Fuel & Power 12	12.4	11.9	11.4	11	11
Transportation & Communication 16.6	19	16.9	16.7	16.7	16.7
Miscellaneous Goods & Services 9.4	10	11.2	12.0	14.4	14.4
Furniture etc. 3.4	3.6	3.5	4	3.9	3.9
Clothing & Footwear 6.6	7.6	6.6	6.5	7.9	7.9
Food, Beverages & Tobacco 29.0	28.2	27.6	28.8	25.3	25.3

Private expenditure on Goods and Services in India

Next we see the private expenditure on goods and services in India. So here we see that goods including food beverages and tobacco, clothing and footwear and furniture. They are on a decline from 2008 to 2008-09. On the other hand services like education and recreation, health services, rent, fuel and power, transportation and communication, miscellaneous goods and services, so these services are slightly increasing in 2008-09.

So there is a healthy trend of growth of services in the country in the near future.

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Return on Capital Employed (ROCE %) of various Service Industries in India from 2005 to 2008				
Year	2005	2006	2007	2008
Growth Rate (%)	6.2	8.4	9.2	9.0
Computer-SW Large	40.2	39.2	40.4	35.0
Hotels-Medium	14.5	23.5	29.9	25.8
Ship Breaking / Repair	35.4	18.4	26.7	24.6
Gas Distribution	25.8	28.5	20.1	23.9
Hotels-Large	9.3	14.9	22.3	20.5
Couriers	24.3	25.0	28.0	19.3
Hotels-Resorts	9.4	16.1	17.3	19.2
ITES / BPO services	22.6	19.8	22.7	19.1
Securities / Commodity Trading	29.3	12.9	24.2	18.6
LNG storage & distribution	18.1	14.9	18.0	17.2
Travel Agencies	20.9	17.5	20.1	17.1
Transport logistics services	22.7	20.2	17.8	15.4
Computer-Education	8.8	10.4	13.5	15.0
Banks-Pvt Sector RONW (%)	12.6	13.6	14.6	14.2
Trading-Large	18.1	10.1	5.5	14.0
Financial Services - Medium	11.5	11.8	11.3	13.8
Shipping-Large	21.6	15.9	12.0	13.6
Hotels-Small	-	11.1	11.7	13.6
Tourism	16.5	16.0	16.4	13.5
Computer-Swf M/S	10.9	14.4	14.8	12.8

Now is look at return on capital employed of various service industries in India from 2005 to 2008. So here we see that the growth rate of the economy was 9% in 2008 and the computer, software, large computer software concerns grew at 35% and medium hotels are 25%, ship baking or repair at 24%, gas distribution 23%, large hotels 20% and financial services 12%,

telecommunication services 10.6%, retailing was 10%. So we see that these services provided quite a good year on year growth and return on employment capital employed and therefore you can give us some hints as to which services should you provide in order to earn substantially in India. So medium hotels have 26%, approximately 26% of return of capital employed, and large computer software forms at 35% of return on capital employee in 2008 and this gives us an indications.

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Year	2005	2006	2007	2008
Financial Services - Investment/Others	11.2	12.9	13.4	12.7
Financial Services - Lease/Divers	15.6	15.1	10.9	12.6
Telecommunication Service	8.3	9.4	11.0	10.6
Housing Finance - Large	9.0	8.4	9.4	10.4
Financial Services - Institutional Term Lending	8.0	7.5	8.9	10.1
Retailing	17.1	14.9	10.3	10.0
Business consultancy	5.7	9.4	13.9	9.7
Financial services - Equipment Leasing & Maintenance	8.0	8.0	61.3	8.6
Housing finance - Medium/Small	6.9	7.9	8.1	8.6
Hospital / Medical Service	7.7	9.0	7.5	8.4
Trading - Medium / Small	6.3	7.7	8.6	7.6
Shipping - Medium / Small	8.7	10.8	5.8	7.3
Road Transport	5.4	6.1	7.3	7.1
Exhibition of films	4.9	7.2	9.6	6.2
Auto finance services	3.8	2.7	3.1	3.0
Animation content provider	0.6	-0.2	-2.7	2.8
Asset financing services	-7.2	4.3	4.8	2.6
InfoTech / Database services	-	1.5	4.6	2.3
Media-content	7.4	8.7	5.7	1.2
Media-broadcasting	4.3	4.9	3.1	-1.1
Production & distribution of films	3.1	3.5	2.9	-2.5
Recreational services	8.2	8.2	8.4	-11.0
Air transport services	1.5	-8.8	-8.1	-23.2

All these services gives us an indication of the kind of returns on the capital employee and how and how we should select a particular service for starting a (()) (20:19) and providing services to the people at large. Now some services are disappointingly poor like media content, production and distribution of films, recreational services, and air transport services where the return on capital employed is actually in the negative and may it gives as an indication to very careful when we choose these kinds of services.

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Percentage of affluent Indians purchasing various services

Activities undertaken at least once in 2-3 months	Percentage of affluent people
Fine dining in speciality restaurant (not 5 star)	84
Shopping malls	81
Fine dining in 5 star hotels	74
Beauty salons (women)	59
Socialite parties	56
Health and fitness centre	47
Live theatre, drama or play	42
Health and grooming spas (men)	33
Kitty parties (women)	33
Museum or art gallery	23
Auctions	22

Then we come to the percentage of affluent Indians who are purchasing various services. So the activities undertaken at least once in 2 or 3 months and the percentage of affluent people who are purchasing those services. So fine dining in speciality restaurant which is not 5 star, 84% of affluent people buy the service, 81% buy services of shopping malls, 74% go for fine dining in 5 star hotels.

59% of the population they go for beauty salons. This mind you the percentage of affluent people, so socialite parties 56% enjoy socialite parties, 47% purchase health and fitness center services, 42% enjoy live theater, drama, or play, 33% enjoy health and grooming saps for men, 33% in go for kitty parties, that is basically womens activity.

23% go to museum or art gallery and 22% are involved in auctions services. So these tell us that some of the services like fine dining in speciality restaurants, or shopping malls, or 5 star hotels, or beauty salons, socialite parties, etc. They are contributing quit a lot to the affluent people and affluent people are interested in purchasing the services. So as an (()) (24:47) you would like to provide services in some of these arena so that the affluent people can buy these services.

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The Technological Environment

This is the fourth and final strand of the environment that has to be analysed and understood in order to be in tune with the latest developments in the world.

Technology has enabled quick transfer of information across the world through the Internet.

High tech products have enabled suppliers to satisfy customer needs with lightning fast speed and accuracy. Now, fast food restaurants are actually high-tech factories churning out high-quality food in the least possible time.

Services are taking increasing help of high technology, be it time and labour saving accurate automatic teller machines, vacuum cleaners or the room card with which the guest can access his room and other services throughout the hotel.

We will look at the technological environment in the next session. Thank you.