UNIT III

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Strategies for managing capacity to match demand

When an organization has a clear grasp of its capacity constraints and an understanding of demand patterns. It is in a good position to develop strategies for matching supply and demand.There are two general approaches for accomplishing demand and capacity.The first is to smooth the demand fluctuations themselves by shifting demand to match existing supply.The second general strategy is to adjust capacity to match fluctuations in demand.

1.Shifting demand and capacity

By shifting demand and capacity an organization seeks to shift customers away from periods in which demand exceeds capacity. Perhaps by convincing them to use the service during periods of slow demand. This may be possible for some customers but not for others. For example, many business travelers are not able to shift their needs for airline, car rental, and hotel services. Pleasure travelers on the other hand can often shift the timing of their trips. Those who can't shift and can't be accommodated will represent lost business for the firm.

2.Vary the service offering

One approach is to change the nature of the service offering, depending on the season of the year, day of the week, or time of day. For example, Whistler Mountain, a ski resort in Vancouver, Canada, offers its facilities for executive development and training programs during the summer when snow skiing is not possible.

Air lines even change the configuration of their plane seating to match the demand from different market segments. In some planes there may be no first-class section at all. On routes with a large demand for first-class seating, a significant proportion of seats may be placed in first class..

Care should be exercised in implementing strategies to change the service offering. Because such changes may easily imply and require alterations. Other marketing mix variables are promotion, pricing and staffing to match the new offering. Unless these additional mix variables are altered effectively to support the offering, the strategy may not work. Even when done well, the downside of such changes can be a confusion in the organization's image from the customers' perspective or a loss of strategic focus for the organization and its employees.

3.Communicate with customers

Another approach for shifting demand and capacity is to communicate with the customers. It helps them know the times of peak demand so that they can choose to use the service at alternative times and avoid crowding or delays. Eg signs in banks and post offices let customers know their busiest hours and busiest days of the week can serve as a warning. This allows customers to shift their demand to another time if possible**.**

In addition to signage communicating peak demand times to customers, advertising and other forms of promotion can emphasize different service benefits during peak and slow periods. Advertising and sales messages can also remind customers about peak demand times.

4.Modify timing and location of service delivery

Some firms adjust their hours and days of service delivery to more directly reflect customer demand.

Theaters also accommodate customer schedules by offering matinees on weekends and holidays when people are free during the day for entertainment. Movie theaters are sometimes rented during weekdays by business groups. It is an example of varying the service offering during a period of low demand.

5.Differentiate on price

A common response during slow demand is to discount the price of the service. This strategy relies on basic economics of supply and demand. To be effective, however a price differentiation strategy depends on solid understanding of customer price sensitivity and demand curves. For example, business travelers are far less price sensitive than are families traveling for pleasure.

For any hotel, airline, restaurant or other service establishment all of the capacity could be filled with customers if the price were low enough. But the goal is always to ensure the highest level of capacity utilization without sacrificing profits.

Heavy use of price differentiation to smooth demand can be a risky strategy. If communications with customers are unclear, customers may not understand the reasons for the discounts. And they will expect to pay the same during peak demand periods. Overuse or exclusive use of price as a strategy for smoothing demand is also risky due to potential impact on the organization’s image and the possibility of attracting undesired market segments.

6.Flexing capacity to meet demand

A second strategic approach to matching demand and capacity focuses on adjusting or flexing capacity. The fundamental idea here is to adjust, stretch and align capacity to match customer demand. During periods of peak demand the organization seeks to stretch or expand its capacity as much as possible. During periods of slow demand it tries to shrink capacity so as not to waste resources.

7.Stretch existing capacity

The existing capacity of service resources can often be expanded temporarily to match demand. In such cases no new resources are added. Rather people, facilities, and equipment are asked to work harder and longer to meet demand.

Stretch time: It may be possible to extend the hours of service temporarily to accommodate demand. A health clinic might stay open longer during flu season. Retailers are open longer hours during the Christmas shopping season. And accountants have extended appointment hours (evenings and Saturdays) before tax deadlines.

Stretch labor: In many service organizations, employees are asked to work longer and harder during periods of peak demand. For example, consulting organizations face extensive peaks and valleys with respect to demand for their services. During peak demand, associates are asked to take on additional projects and work longer hours. And front-line service personnel in banks, tourist attractions, restaurants and telecommunications companies are asked to serve more customers per hour during busy times.

Stretch facilities: Theaters, restaurants, meeting facilities and classrooms can sometimes be expanded temporarily by the addition of tables, chairs, or other equipment needed by customers. Or as in the case of a commuter train, a car can hold a number of people seated comfortably or can "expand" by accommodating standing passengers.

Stretch equipment: Computers, telephone lines and maintenance equipment can often be stretched beyond what would be considered the maximum capacity for short periods to accommodate peak demand. In using these types of "stretch" strategies, the organization needs to recognize the wear and tear on resources.

8.Align capacity with demand fluctuations

This basic strategy is sometimes known as a "chase demand" strategy. By adjusting service resources creatively, organizations can in effect chase the demand curves to match capacity with customer demand patterns. Time, labor, facilities, and equipment are again the focus, this time with an eye toward adjusting the basic mix and use of these resources.

Specific actions might include the following:

Use part-time employees: In this case the organization's labor resource is being aligned with demand. Retailers hire part-time employees during the holiday rush, tax accountants engage temporary help during tax season, tourist resorts bring in extra workers during peak season. Restaurants often ask employees to work split shifts (work the lunch shift, leave for a few hours, and come back for the dinner rush) during peak mealtime hours**.**

Outsourcing: Firms that find they have a temporary peak in demand for a service that they cannot perform themselves may choose to outsource the entire service. For example, in recent years, many firms have found they don't have the capacity to fulfill their own needs for technology support, Web design, and software-related services. Rather than try to hire and train additional employees, these companies look to firms that specialize in outsourcing these types of functions as a temporary (or sometimes long-term) solution**.**

9.Rent or share facilities or equipment

For some organizations it is best to rent additional equipment or facilities during periods of peak demand. For example, ex press mail delivery services rent or lease trucks during the peak holiday delivery sea son. It would not make sense to buy trucks that would sit idle during the rest of the year. Sometimes organizations with complementary demand patterns can share facilities.

An example is a church that shares its facilities during the week with a Montes son preschool. The school needs the facilities Monday through Friday during the day; the church needs the facilities evenings and on the weekend.

10.Schedule downtime during periods of low demand

If people, equipment, and facilities are being used at maximum capacity during peak periods, then it is imperative to schedule repair, maintenance, and renovations during off-peak periods. This ensures that the resources are in top condition when they are most needed. With regard to employees, this means that vacations and training are also scheduled during slow demand periods.

11.Cross-train employees

If employees are cross-trained, they can shift among tasks, filling in where they are most needed. This increases the efficiency of the whole system and avoids underutilizing employees in some areas while others are being over taxed. Many airlines cross-train their employees to move from ticketing to working the gate counters to assisting with baggage if needed. In some fast-food restaurants, employees specialize in one task (like making french fries) during busy hours, and the team of specialists may number 10 people. During slow hours the team may shrink to three, with each person performing a variety of functions.

12.Modify or move facilities and equipment

Sometimes it is possible to adjust, move, or creatively modify existing capacity to meet demand fluctuations. Hotels accomplish this by reconfiguring rooms—two rooms with a locked door between can be rented to two different parties in high demand times or turned into a suite during slow demand. The airline industry offers dramatic examples of this type of strategy. Using an approach known as "demand-driven dispatch," airlines have begun to experiment with methods that assign airplanes to flight schedules on the basis of fluctuating market needs.'

Services marketing Mix – elements – 7P's-

Product

The 7Ps begins with 'product'. This could refer to a physical product, a service or an experience. Basically... anything that's being sold. So no matter what product or service is, it's important that it meets the demands of the market and satisfies, or exceeds, the expectations of the customer.

Place

'Place' signifies where to choose to distribute or allow access to product or service. It could refer to anything from a warehouse or a high-street store to an e-commerce shop or cloud-based platform. Consider where customers will look for product (magazines, price-comparison sites), where they spend most of their time (supermarkets, online stores, regular brick-and-mortar stores), and your sales capacity. It is necessary to take into consideration how and where competitors are selling.

Price

How much does product or service cost? The price set should reflect customer's perceived value of product and should correlate with the budget. If the customer thinks price is too high, there are chances of losing a market, if your price is too low then there is the risk of losing that all-important profit.

Promotion

Promotion refers to your advertising, marketing, and sales techniques. This could mean traditional advertising, via TV, radio, billboards, etc., or more modern methods, like ads within web content, ads on a podcast, email marketing or push notifications.

Physical Evidence

It is important for consumers to know that the brand they're purchasing from or interacting with, are legitimate and, well, actually exist in real life. That's where physical evidence comes in.

Physical evidence often takes two forms: evidence that a service or purchase took place and proof or confirmation of the existence of the brand. For example, any services or products received count as physical evidence. As do the likes of your receipts, packaging, tracking information, invoices, brochures or PDFs, and so on.

People

Employees. Those people who are involved in selling a product or service, designing it, managing teams, representing customers... the list goes on. The 'people' element of the 7Ps involves anyone directly, or indirectly, involved in the business-side of the enterprise. Employing and retaining the right people is imperative in both the long and short term success of the business.

Processes

Process. The 7th ingredient in our marketing mix - 'process' describes a series of actions that are taken in delivering the product or service to the customer. Examining the process means assessing aspects such as the sales funnel, payment systems, distribution procedures and managing customer relationships.

Service quality (SERVQUAL)

Managers in banking industry are under increasing pressure to demonstrate that their services are customer – focused and that continuous performance improvement is being delivered. Given the financial and resources constrains under which banks must manage it is essential that customer satisfaction are properly met and measured and that from the customer satisfactions, any gaps in services quality are identified. This information the assists a manager in identified cost – effective ways of closing services quality gaps and of prioritizing which gaps to focus on – a critical decision given scare resources. SERVQUAL Model which is a popular model of quality research of services and the most common application in the marketing research as well as other industries such as hospitality and economy.

It can be said that the origin of SERVQUAL Model is derived from the study of Parasuraman, ZeithamI, and Berry in 1985 based on expectation – perception gap model. In 1985 work, Parasuraman, ZeithamI, and Berry illustrated that consumers' quality perceptions are influenced by a series of four distinct gaps occurring in organizations. These gaps on the service provider's side, which can impede delivery of services that consumers perceive to be of high quality, are:

Gap1: Difference between consumer expectations and management perceptions of consumer expectations.

Gap2: Difference between management perceptions of consumer expectations and service quality specifications.

Gap3: Difference between service quality specifications and the service actually delivered.

Gap4: Difference between service delivery and what is communicated about the service to consumers.

Gap5: Difference between service expectation and perceived service quality

According to Parasuraman, ZeithamI, and Berry (1985), perceived service quality is defined in the model as the difference between consumer expectations and perceptions, which in turn depends on the size and direction of the four gaps associated with the delivery of service quality on the marketer's side.

In addition, Brown and Bond (1995) stated that the conceptual of service quality also called the expectation – perception gap model is one of the best received and most heuristically valuable contributions to the services literature. The model identifies the keys discrepancies or gaps relating to managerial perceptions of service quality, and tasks associated with service delivery to customers. The Gap 1, Gap 2, Gap 3 and Gap 4 are identified as functions of the way in which service is delivered, whereas Gap 5 pertains to the customer and as s such is considered to be the true measure of service quality (Shahin A., 2006).

SERVQUAL MODEL

Reliability

Responsiveness

Customer satisfaction

Services quality

Tangibles

Assurance

Sympathy

Reliability

Reliability shows the ability to provide services accurately, on time, and credibly (Parasuman, Zeithaml and Berry, 1985). This requires consistency in the implementation of services and respects commitments as well as keeps promises to customers.

Responsiveness

This criterion measures the ability to solve the problem fast, deal with customers' complaint effectively and the willing to help customers as well as meet the customers' requirements (Parasuman, 1988). In other words, responsiveness is the feedback from banks to what customers want.

Tangibles

Tangibles are the images of the facilities, equipment, machines, attitude of staffs, materials, manuals, and information systems of the bank (Parasuman, Zeithaml and Berry, 1985). In others words, the tangibles refer to the effect of physical facility, equipment, personnel and communication materials on customer (Sureshchandar, Rajendran and Kamalanabhan, 2001). The atmosphere also called servicescapes influences directly both employees and customers in physiological, psychological, sociological, cognitive and emotional ways (Sureshchandar, 2001).

Assurance

This element creates credibility and trust for customers, which is considered through professional services, excellent technical knowledge, attitude courtesy, and good communication skills, so that customers can believe in the quality of firm's services.

Sympathy

Sympathy is the caring, consideration, and the best preparation for customers, so that they can feel as 'guests' of the firm and are always welcome at any times, anywhere. Human factors are the core of this success and the more caring the bank gives to customers, the more customer understanding increases.