Chapter 1: Services Marketing - An Introduction

- Services
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Services are widely used by people in practically all aspects of life. Whether it is education or entertainment, hotels or fast food chains, travel or telephone, advertisement or amusement park, to name only a few, services are becoming more and more predominant.\(^1\)

### 1.1 Defining Services

Services cover a vast array of different and often very complex activities, making them difficult to define.\(^2\) The word service originally was associated with the work servants did for their master. In time, a broader association emerged, captured in the dictionary definition of “the action of serving, helping or benefiting; conduct tending to the welfare or advantage of another”.\(^3\)

Early marketing definition of service contrasted them against goods and described services as “acts, deeds, performances or efforts” & argued that they had different characteristics from goods defined as “articles, devices, materials, objects or things”.\(^4\)

“A service is any act or performance that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product.”\(^5\)

The American Marketing Association defines services as - “Activities, benefits and satisfactions which are offered for sale or are provided in connection with the sale of goods.”\(^6\)

In these early definitions intangibility and perishability were the two most cited characteristics that distinguished services from goods.

Following is the comprehensive definition of services:-

“Services are economic activities offered by one party to another. Often time based, performances bring about desired result to recipients, objects or other assets for which purchasers have responsibilities. In exchange for money, time and efforts service customers expect value from access to goods, labour, professional skills, facilities, networks and systems; but they do not normally take ownership of any of the physical elements involved.”\(^7\)

Services are defined as economic activities between two parties, implying an exchange of values between seller and buyer in the market place. Services are the performances that are most commonly time based and purchasers buy services because they are looking for the desired results and finally customers expect value
from their service purchases in exchange for money, time and effort. This value comes from access to a variety of value creating elements rather than transfer of ownership.¹⁸

1.2 Characteristics of Services

The four service characteristics as suggested by Kotler et al. (2004) are presented in the figure 1.1 below:

![Figure 1.1: The four service characteristics](image)

**Intangibility**
Services cannot be seen, tasted, felt, heard, or smelled before purchase

**Inseparability**
Services cannot be separated from their providers

**Variability**
Quality of services depends on who provides them and when, where

**Perishability**
Services cannot be stored for later sale or use

**Figure 1.1: The four service characteristics**

1.2.1 Intangibility

The most basic distinguishing characteristic of services is intangibility. Because services are performances or actions rather than objects, they cannot be seen, felt, tasted or touched in the same manner as tangible goods can be.⁹ The intangibility creates a feeling of uncertainty about the outcome of a service. For example, a tourist does not know what the exact outcome of experience would be before consuming the service; a woman who purchases a service in a beauty parlour for a facial cannot foresee the exact result. This characteristic of service makes the buyer look for evidence of quality in the service. Buyers try to draw quality inferences from the service environment such as the place, people, equipment, communication material, symbols and the technical design of the service package.¹⁰

1.2.2 Inseparability

Inseparability is the simultaneous production and consumption of services.¹¹ Whereas most goods are produced first, then sold and consumed, most services are sold first and then produced and consumed simultaneously. For example, an automobile can be
manufactured in Detroit, shipped to San Francisco, sold two months later, and consumed over a period of years. But restaurant services cannot be provided until they have been sold, and the dining experience is essentially produced and consumed at the same time. Frequently this situation also means that the customer is present while the service is being produced and thus views and may even take part in the production process. Simultaneity also means that customer will frequently interact with each other during the service production process and thus may affect each other’s experience. For example, strangers seated next to each other in an airplane may well affect the nature of the service experience for each other. Another outcome of simultaneous production and consumption is that service producers find themselves playing a role as part of the product itself and as an essential ingredient in the service experience for the consumer.\textsuperscript{12}

1.2.3 Variability
The another characteristic of service is variability, which refers to sporadic or random levels of service quality customers receive when they patronize a service.\textsuperscript{13} Because service are performances, frequently produced by humans, no two services will be precisely alike. The employees delivering the service frequently are the service in the customers’ eye, and people may differ in their performance from their day to day or even hour to hour. Heterogeneity/variability also results because no two customers are precisely alike; each will have unique demands or experience the service in a unique way. Thus the heterogeneity connected with services is largely the result of human interaction (between and among employees and customer and all of the vagaries that accompany it).\textsuperscript{14} For example, some doctors have excellent bedside manners; others are less patient with their patients. Some surgeons are very successful in performing a certain operation; others are less successful.\textsuperscript{15}

1.2.4 Perishability
The another characteristic of services is perishability, meaning the service cannot be inventoried or stored. For example, if a pair of jeans sells today, a retailer can store it and sell it at a later time. For services, this is not possible.\textsuperscript{16} Perishability refers to the fact that services cannot be saved, stored, resold or returned. For example, a seat on an airplane or in a restaurant, an hour of a lawyer’s time, or telephone line capacity not
used cannot be reclaimed and used or resold at a later time. Perishability is in contrast to goods that can be stored in inventory or resold another day, or even returned if the consumer is unhappy.\textsuperscript{17}

1.3 Defining Marketing:
Marketing deals with identifying and meeting human and social needs.
Marketing has been defined in various ways:

- One of the shortest definitions of marketing is “meeting needs profitably”.
- A social definition of marketing is:
  “Marketing is a societal process by which individuals and groups obtain what they need and want through creating, offering, and freely exchange products and services of value with others”.\textsuperscript{18}

For a managerial definition, marketing has been described as:
“The art of selling products”.\textsuperscript{19}

But the most important part of marketing is not selling! Selling is only the tip of the marketing iceberg. Peter Drucker, a leading management theorist, puts it in this way:

“There will always, one can assume, be needed for selling. But the aim of marketing is to make selling superfluous. The aim of marketing is to know and understand the customer so well that the product or service fits him and sells itself. Ideally, marketing should result in a customer who is ready to buy. All that should be needed then is to make the product or service available.”\textsuperscript{20}

- The American Marketing Association offers the following definition:
  “Marketing (management) is the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods, services to create exchanges that satisfy individual and organisational goals”.\textsuperscript{21}

Thus marketing management can be defined as the art and science of choosing target markets and getting, keeping and growing customers through creating, delivering and communicating superior customer value.\textsuperscript{22}

1.4 The Elements of Core Marketing Concept
The definition of marketing rests on several of its core concepts. The marketing concept holds that the key to achieving organisational goals consists of determining the needs and wants of target markets and delivering the desired satisfactions more
effectively than competitors. It starts with a well-defined market, focuses on customer needs, coordinates all the activities that will affect customers and produces profits by satisfying customers. The elements of core marketing concept are shown in the following figure 1.2:

![Diagram of core marketing concepts](image)

**Figure 1.2: Core marketing concepts**

### 1.4.1 Needs Wants and Demands

Need is a felt state of deprivation of some basic satisfaction. People require food, clothing, shelter, safety, belonging, esteem, etc. for survival. These needs are not created by their society or by the marketers but they exist in the very texture of human biology and the human condition.

Needs becomes wants when they are directed to specific objects that might satisfy the need. Thus, wants are desires for specific satisfiers of these needs. Wants are shaped by one’s society.

Demands are wants for specific products that are backed up by ability to pay and willingness to buy them. Wants become demands when backed up by purchasing power.
Marketers measure not only how many people want their product/service but also how many would actually be willing and able to buy it. Marketers do not create needs; needs pre-exist, they along with other societal influences, influence wants.\textsuperscript{23}

1.4.2 Products

People satisfy their needs and want with products. A product is anything that can be offered to satisfy a need or want. The concept of product is not limited to physical objects. Anything capable of satisfying a need can be called as a product. More broadly defined, products also include such other entities as experiences, persons, places, organisations, information and ideas. The term product includes much more than just physical goods or services. Consumers decide which events to experience, which tourist destinations to visit, which hotels to stay in and which restaurant to patronise. To the consumer these all are products.

1.4.3 Value, Satisfaction and Quality

Consumers usually face a broad array of products and services that might satisfy a given need. How do they choose among these many products and services? Consumers make buying choices based on their perceptions of value that various products and services deliver.

**Customer value:** Customer Value is the difference between the benefits that a customer gains from owning and/ or using a product and the cost of obtaining the product. Cost can be both monetary and non monetary.

**Customer Satisfaction:** Customer Satisfaction depends on a product’s perceived performance in delivering value related to buyer expectation. If a product’s performance falls short of the customer expectation, the buyer is dissatisfied. If performance matches expectations, the buyer is satisfied. If performance exceeds expectation, the buyer is delighted. Smart companies aim to delight customers by promising only what they can deliver, then delivering more than they promise.

**Quality:** Quality has a direct impact on product or service performance. Thus, it is closely linked to customer value and satisfaction. In the narrowest sense, quality can be defined as “freedom from defects”; however, most customer-centred companies go beyond this narrow definition of quality. Instead, quality is defined in terms of customer satisfaction. The American society for quality control defines quality as the
totality of features and characteristics of a product or service that bear on its ability to satisfy a customer needs. These customer-focused definition suggest that quality begins with customer needs and ends with customer satisfaction. The fundamental aim of today’s total quality movement (TQM) has become total customer satisfaction.

1.4.4 Exchange, Transaction and Relationship

Exchange marketing occurs when people decide to satisfy needs and wants through exchange. Exchange is an act of obtaining a desired object from someone by offering something in return. Exchange is only one of the several ways people can obtain a desired object. For example, hungry people can find food by hunting, fishing or gathering fruit. They can also beg for food or take it from someone else, or they can resort to exchange. They can possibly offer money, another good, or a service in return for food.

Transaction marketing is a part of the larger idea of relationship marketing. Smart marketers work at building relationship with valued customers, distributors, dealers and suppliers. They build strong economic relationships with social ties by promising and constantly delivering high quality products, good service, and fair prices.

1.4.5 Markets

The concept of transaction leads to the concept of a market. A market is a set of actual and potential buyers who might transact with a seller. The size of a market depends on the number of persons who exhibit a common need, have the money or other resources that interest others, and are willing to offer these resources in exchange for what they want.

1.4.6 Marketing

The concept of markets finally brings us full circle to the concept of marketing. Marketing means working with markets to bring about exchanges for satisfying human needs and wants. Thus we return to the definition of marketing as human activity directed at satisfying needs and wants through exchange processes. Exchange processes involve work. Sellers have to search for buyers, identify their needs, design attractive products, promote them, deliver them, and set prices. Such
activities as product development, research, communication, distribution, pricing and service are core marketing activities. Thus, marketing management can be defined as the analysis, planning, implementation and control of programmes designed to create, build and maintain beneficial exchanges with target buyers for the purpose of achieving organisational objectives.

1.5 Evolution of Marketing
The essence of marketing is the exchange process; in which two or more parties give something of value to each other to satisfy felt needs. In many exchanges people trade goods, in other exchanges they trade services. In others people might donate time or funds to a non-profit organisation. Exchange is the origin of marketing activity. Marketing has been described as the process of creating and resolving exchange relationships. When people need to exchange goods, they naturally begin a marketing effort. The companies adopt either of the following concepts and carry out their marketing activities:

1.5.1 Manufacturing Concept
The manufacturing concept or production concept is one of the oldest philosophies guiding sellers. The manufacturing concept holds that consumers will favour products that are available and highly affordable, and therefore management should focus on production and distribution efficiency. The problem with the manufacturing concept is that management may become so focussed on manufacturing systems that they forget the customers.

1.5.2 Product Concept
The product concept, like the manufacturing concept, has an inward focus. The product concept holds that consumers prefer existing products and product forms, and the job of management is to develop good versions of these products. This misses the point that consumers are trying to satisfy needs and might turn to entirely different products to better satisfy those needs, such as motels instead of hotels or fast food outlets in student centres instead of cafeterias.
1.5.3 Selling Concept

The selling concept holds that consumers will not buy enough of the organisation’s products unless the organisation undertakes a large promotion effort. The aim of a selling focus is to get every possible sale, not to worry about satisfaction after the sale or the revenue contribution of the same.

The selling concept does not establish a long term relationship with the customer, because the focus is on getting rid of what one has rather than creating a product to meet the needs of the market. The selling concept is endemic within the hospitality industry.

1.5.4 Marketing Concept

The marketing concept is a more recent business philosophy and one that is being rapidly adopted in the hospitality industry. Many companies have adopted the marketing concept. The marketing concept holds that achieving organisational goals depends on the determining the needs and wants of target market and delivering the desired satisfaction more effectively and efficiently than competitors.

![Diagram of selling and marketing concepts contrasted]

**Figure 1.3: The selling and marketing concepts contrasted**


The marketing concept is frequently confused with the selling concept. Figure 1.3 compares the two. The selling concept takes an inside-out perspective. It starts with the company’s existing products and calls for heavy selling and promoting to achieve
profitable sales. The marketing concept has been summarised in the following statement: the company co-ordinates all the activities that will affect customer satisfaction and makes its profits by creating and maintaining customer satisfaction.

1.5.5 Societal Marketing Concept

The societal marketing concept is the newest marketing concept. The societal marketing concept holds that the organisation should determine the needs, wants, and interests of target markets and deliver the desired satisfaction more effectively and efficiently than competitors in a way that maintains or improves the consumer’s and society’s well-being. The societal marketing concept questions whether the marketing concept is adequate in an age of environmental problems, resource shortages, rapid population growth, worldwide inflation and neglected social services.\(^{25}\) It asks if the firm that senses, serves and satisfies individual wants is always doing best for consumers and society in the long run. The pure marketing concept ignores possible conflicts between short-run consumer wants and long run societal needs.

For example the hotel industry has been advised of many eco-friendly steps that can be taken. Among these are removing waste products such as plastics, glass and metal from the trash; reducing chemical use and extending the life of products and machinery- even linens, by using them as rags.\(^{26}\) Energy conservations, landscaping, preventive maintenance and water saving plumbing fiction and other popular recommendations. Being environmentally conscious can produce positive publicity and reduce cost, in addition to helping the environment.

A broader issue facing the hospitality and travel industries is expansion that has a positive impact on local residents. Poorly planned tourism developments have the potential of creating great damage to an area. This damage can be caused by the disposal of solid waste, lack of proper sewage facilities resulting in the contamination of ground water, congested roads as a result of poor infrastructure support, increased rents as a result of attracting employees to the area but not providing additional housing and damage to the area’s flora and fauna.

The hospitality and travel agencies cannot insulate themselves from the continuing need for societal approval. Few industries have a greater need to recognise and proactively adopt the societal marketing concept.\(^{27}\)
1.6 Services Marketing
The perception of services marketing focuses on selling the services in the best interest of users/customers. Although marketing is relatively new to the service industry, a common characteristic among many of the great industry is their successful application of basic marketing principles. These principles include focusing on customer to satisfy their wants (external marketing) and satisfying employees who serve the customers (internal marketing).

1.7 The Services Marketing Mix
One of the most basic concepts in marketing is the marketing mix, defined as the elements an organisation controls that can be used to satisfy or communicate with customers. The traditional marketing mix is composed of the four Ps: product, price, place (distribution) and promotion.\textsuperscript{28} These elements appear as core decision variables in any marketing text or marketing plan. The notion of a mix implies that all the variables are interrelated and depend on each other to some extent. Further, the marketing mix philosophy implies an optional mix of the four factors for a given market segment at a given point of time. Careful management of four Ps will clearly also be essential to the successful marketing of services. However, the services for the four Ps require some modification when applied to services. Because services are usually produced and consumed simultaneously, customers are often present in the firm’s factory, interact directly with the firm’s personnel, and are actually part of the service production process. Also, because services are intangible, customers will often be looking for any tangible cue to help them understand the nature of service experience. Acknowledgement of the importance of these additional variables has lead services marketers to adopt the concept of an expanded market mix for services that is people, physical evidence and process.\textsuperscript{29}

7 Ps of service marketing are shown in table 1.1 and are discussed below:

1.7.1 Product
“A product is anything that can be offered to a market for attention, acquisition, use or consumption that might satisfy a want or need. It includes physical objects, services, places, organisation and ideas”.\textsuperscript{30} In service performances are experience rather than
owned. Even when there is physical evidence to which the customer take title -- such as cooked meals (which is promptly consumed), a surgically implanted pacemaker or a replacement part for a car—a significant portion of the price paid is for the value added by the service elements, including expert labour and the use of specialized equipments. A service product comprises of all the elements of the service performance, both physical and intangible, that creates value for customers.

<table>
<thead>
<tr>
<th>Product</th>
<th>Place</th>
<th>Promotion</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physical good features</td>
<td>Channel type</td>
<td>Promotion blend</td>
<td></td>
</tr>
<tr>
<td>Flexibility</td>
<td>Exposure</td>
<td>Salespeople</td>
<td>Price</td>
</tr>
<tr>
<td>Quality level</td>
<td>Intermediaries</td>
<td>Selection</td>
<td></td>
</tr>
<tr>
<td>level</td>
<td>Transport</td>
<td>Training</td>
<td></td>
</tr>
<tr>
<td>level</td>
<td>Storage</td>
<td>Incentives</td>
<td></td>
</tr>
<tr>
<td>Accessories</td>
<td>Managing channels</td>
<td>Advertising</td>
<td></td>
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<tr>
<td>Terms</td>
<td></td>
<td>Media types</td>
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<tr>
<td>Packaging</td>
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<td>Types of ads</td>
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<tr>
<td>Differentiation</td>
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<td>Sales promotion</td>
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<tr>
<td>Warranties</td>
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<td>Publicity</td>
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<tr>
<td>Discounts</td>
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<td>Internet/Web strategy</td>
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<td>Product lines</td>
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<td>Allowances</td>
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<tr>
<td>Branding</td>
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<table>
<thead>
<tr>
<th>People</th>
<th>Physical Evidence</th>
<th>Process</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees</td>
<td>Facility design</td>
<td>Flow of activities</td>
</tr>
<tr>
<td>Recruiting</td>
<td>Equipment</td>
<td>Standardized</td>
</tr>
<tr>
<td>Training</td>
<td>Signage</td>
<td>Customized</td>
</tr>
<tr>
<td>Motivation</td>
<td>Employee dress</td>
<td>Number of steps</td>
</tr>
<tr>
<td>Rewards</td>
<td>Other tangibles</td>
<td>Simple</td>
</tr>
<tr>
<td>Teamwork</td>
<td>Reports</td>
<td>Complex</td>
</tr>
<tr>
<td>Customers</td>
<td>Business cards</td>
<td>Customer</td>
</tr>
<tr>
<td>Education</td>
<td>Statements</td>
<td>involvement</td>
</tr>
<tr>
<td>Training</td>
<td>Guarantees</td>
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**Table 1.1: Expanded Marketing Mix for Services**

While designing the service concept, marketers recognize the need to take the holistic view of the entire performance they want customers to experience. The value proposition must address and integrate three components: core product, supplementary services, and delivery processes.
**Core Product:** The core product is the central component that supplies the principal, problem-solving benefits customer seeks.

**Supplementary Services:** Delivery of the core product usually is accompanied by a variety of service related activities referred to collectively as supplementary services.

**Delivery Processes:** The third component in designing a service concept concern the processes used to deliver both the core product and each of the supplementary services.  

### 1.7.2 Price

Price is the only marketing mix element that produces revenue. All others represent cost. “Price is the amount of money charged for a good or service. More broadly, price is the sum of the values consumers exchange for the benefits of having or using the product or service”.  

It is important for the marketers and managers to have an understanding of price. Charging too much chases away the potential customers. Charging too little can leave a company without enough revenue to maintain the operation properly. Company’s pricing decisions are affected by the internal and external company factors. As shown in the following figure 1.4:

![Figure 1.4: Factors affecting Pricing Decisions.](image)


### 1.7.3 Place

A distribution channel is a set of independent organizations involved in the process of making a product or service available to the consumer or business user. Development of a distribution system starts with the selection of channel members.
Once members have been selected, the focus shifts to managing the channel. Distribution networks in the hospitality industry consist of contractual agreements and loosely organized alliances between independent organisations.\textsuperscript{34} Marketing distribution systems are traditionally used to move goods (tangible products) from the manufacturer to the consumer. In Service industries, distribution systems are used to move the customer to the product.

What? How? Where? When? Responses to these four questions form the part of any service distribution strategy. The customer’s service experience types of encounters (if any) with service employees are a function of how different elements are distributed and delivered through selective physical and electronic channel.\textsuperscript{35}

1.7.4 Promotion

Modern marketing calls for more than developing a good product, pricing it attractively, and making it available to target customers. Companies must also communicate continuously with their present and potential customers. Every company is inevitably cast into the role of communicator and promoter.

Today there is a new view of communications as an interactive dialogue between the company and its customers that takes place during the pre selling, consuming and post consuming stages. Companies must ask not only “How can we reach our customer?” but also “How can our customers reach us?” By decreasing communication costs, the new technologies have encouraged more companies to move from mass communication to more targeted communication and one-to-one dialogue. The whole marketing mix must be integrated to deliver a consistent message and strategic positioning.\textsuperscript{36}

Most service marketers have access to numerous forms of communication, referred to collectively as the marketing communication mix or promotional mix. Different communication elements have distinctive capabilities relative to the types of messages they can convey and the market segments most likely to be exposed to them. The mix includes personal communications, advertising, sales promotion, publicity and public relations, instructional materials and corporate design, as shown in the following table

1.2
Table 1.2: The Marketing Communication Mix for Services

Key- * Denotes communications originating from outside the organisation

1.7.5 People

“All human actors who play a part in service delivery and thus influence the buyer’s perceptions: namely, the firm’s personnel, the customer and other customers in the service environment.***37***

All the human actors participating in the delivery of a service provide clues to the customer regarding the nature of the service itself. How these people are dressed, their personal appearance and their attitudes and behaviours all influence the customer’s perceptions of service. The service provider or contact person can be very important. In many service situations, customers themselves can also influence service delivery, thus affecting service quality and their own satisfaction. Customers not only influence their own service outcomes, but they can influence other customers as well. In a theatre, at a ballgame or in a classroom, customers can influence the quality of service received by others—either enhancing or detracting from other customer’s experiences.
1.7.6 Physical Evidence

“The environment in which the service is delivered and where the firm and customer interact, and any tangible components that facilitate performance or communication of the service.”

The physical evidence of service includes all the tangible representations of the service such as brochures, letterhead, business cards, report formats, signage and equipment. Especially when consumers have little on which to judge the actual quality of service they will rely on the cues provided by the people and the service processes. Physical evidence cues provide excellent opportunities for the firm to send consistent and strong messages regarding the organisation’s purpose, the intended market segments and the nature of the service.

1.7.7 Process

“The actual procedures, mechanism and the flow of activities by which the service is delivered—the service delivery and operating systems.”

The actual delivery steps that the customer experiences or the operational flow of the service, also give customers evidence on which to judge the service. Some services are very complex, requiring the customer to follow a complicated and extensive series of actions to complete the process.

1.8 Service Sectors in Indian Perspective

Services or the "tertiary sector" of the economy covers a wide gamut of activities like trading, banking & finance, infotainment, real estate, transportation, security, management & technical consultancy among several others. Central Statistical Organisation’s (CSO) classification of the service sector falls under four broad categories, namely a) trade, hotels, and restaurants; b) transport, storage, and communication; c) financing, insurance, real estate, and business services; and d) community, social, and personal services.

India stands out for the size and dynamism of its service sector. As per the economic survey 2010-11 the contribution of the service sector to the Indian economy has been manifold: a 55.2 per cent share in gross domestic product (GDP), growing by 10 per cent annually, contributing to about a quarter of total employment, accounting for a
high share in foreign direct investment (FDI) inflows and over one-third of total exports, and recording very fast (27.4 per cent) export growth through the first half of 2010-11. The importance of the service sector can be gauged by looking at its contributions to different aspects of the economy, as mentioned in the economic survey.\(^{41}\)

### 1.8.1 Services GDP

The share of services in India’s GDP at factor cost (at current prices) increased rapidly, from 30.5 per cent in 1950-51 to 55.2 per cent in 2009-10. If construction is also included, then the share increases to 63.4 per cent in 2009-10.

The ratcheting up of the overall growth rate (compound annual growth rate [CAGR]) of the Indian economy from 5.7 per cent in the 1990s to 8.6 per cent during the period 2004-05 to 2009-10 was to a large measure due to the acceleration of the growth rate (CAGR) in the services sector from 7.5 per cent in the 1990s to 10.3 per cent in 2004-05 to 2009-10. India’s services GDP growth has been continuously above overall GDP growth, pulling up the latter since 1997-98. It has also been more stable (Figure 1.5).

![Figure 1.5: Growth rate of GDP and services sector GDP](image)

### 1.8.2 Services Employment in India

Although the primary sector (agriculture mainly) is the dominant employer followed by the services sector, the share of services has been increasing over the years while
that of primary sector has been decreasing. Between 1993-94 to 2004-05, there was a sharp fall in the share of the primary sector in employment. The consequent rise in share of employment of the other two sectors was almost equally divided between the secondary and tertiary sectors. In 2007-08 compared to 2004-05, though the trend was similar, the fall in employment in primary sector was less (at -1.1 per cent) with a small commensurate rise in employment in the other two sectors, which was again almost equally divided between the other two sectors (Table 1.3).

<table>
<thead>
<tr>
<th>Sectors</th>
<th>1993-94</th>
<th>2004-05</th>
<th>2007-08</th>
<th>Change in shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary</td>
<td>64.5</td>
<td>57.0</td>
<td>55.9</td>
<td>-7.5</td>
</tr>
<tr>
<td>Secondary</td>
<td>14.3</td>
<td>18.2</td>
<td>18.7</td>
<td>3.9</td>
</tr>
<tr>
<td>Tertiary</td>
<td>21.2</td>
<td>24.8</td>
<td>25.4</td>
<td>3.6</td>
</tr>
</tbody>
</table>

Table 1.3: Share of Broad Sectors in Employment (UPSS)

Note: For the years 2004-5 and 2007-8 projected population at mid-point of these two rounds was obtained by applying projected population figures from the Registrar General of India's (RGI) office. For the year 1993-94, the population at mid-point of the survey period was obtained by interpolation of census population of 1991 and 2001. Work participation rates of rural males, rural females, urban males, and urban females were obtained separately from unit-level data of the National sample Survey (NSS) and by multiplying them with the respective population, the total numbers of Usual Principal and Subsidiary Status (UPSS) workers for these four categories were obtained. Then the distribution of employment from unit-level data for broad sectors (primary, secondary, and tertiary) was obtained. From the number of workers in the four categories and sectoral distribution of employment, total employment for three sectors for each of these four categories was obtained. From this, overall employment distribution at broad sectoral level was calculated.

1.8.3 Important Services for India

Some services have been particularly important for this improving performance in India. Software is one sector in which India has achieved a remarkable global brand identity. Tourism- and travel-related services and transport services are also major items in India’s services. Besides these, the potential and growing services include many professional services, infrastructure-related services, and financial services. CSO’s classification of the services sector falls under four broad categories, namely a) trade, hotels, and restaurants; b) transport, storage, and communication; c) financing, insurance, real estate, and business services; and d) community, social, and personal services. Among these, financing, insurance, real estate, and business services; and trade, hotels and restaurants are the largest groups accounting for 16.7 per cent and 16.3 per cent respectively of the national GDP in 2009-10. The community, social, and personal services category accounts for a 14.4 per cent share, while transport,
storage, and communication accounts for a 7.8 per cent share. Construction, which is a borderline services inclusion, has a share of 8.2 per cent (Table 1.4).

<table>
<thead>
<tr>
<th></th>
<th>2004-05</th>
<th>2005-06</th>
<th>2006-07</th>
<th>2007-08</th>
<th>2008-09@</th>
<th>2009-10*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade, hotels &amp; restaurants</td>
<td>16.1</td>
<td>16.7</td>
<td>17.1</td>
<td>17.1</td>
<td>16.9</td>
<td>16.3</td>
</tr>
<tr>
<td>Trade</td>
<td>14.6</td>
<td>15.1</td>
<td>15.4</td>
<td>15.4</td>
<td>15.4</td>
<td>14.9</td>
</tr>
<tr>
<td>Hotels &amp; restaurants</td>
<td>1.5</td>
<td>1.6</td>
<td>1.7</td>
<td>1.7</td>
<td>1.5</td>
<td>1.4</td>
</tr>
<tr>
<td>Transport, storage &amp; communication</td>
<td>8.4</td>
<td>8.2</td>
<td>8.2</td>
<td>8.0</td>
<td>7.8</td>
<td>7.8</td>
</tr>
<tr>
<td>Railways</td>
<td>1.0</td>
<td>0.9</td>
<td>0.9</td>
<td>1.0</td>
<td>0.9</td>
<td>1.0</td>
</tr>
<tr>
<td>Transport by other means</td>
<td>5.7</td>
<td>5.7</td>
<td>5.7</td>
<td>5.5</td>
<td>5.5</td>
<td>5.2</td>
</tr>
<tr>
<td>Storage</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Communication</td>
<td>1.7</td>
<td>1.6</td>
<td>1.5</td>
<td>1.4</td>
<td>1.4</td>
<td>1.5</td>
</tr>
<tr>
<td>Financing, insurance, real estate &amp; business services</td>
<td>14.7</td>
<td>14.5</td>
<td>14.8</td>
<td>15.1</td>
<td>16.1</td>
<td>16.7</td>
</tr>
<tr>
<td>Banking &amp; insurance</td>
<td>5.8</td>
<td>5.4</td>
<td>5.5</td>
<td>5.5</td>
<td>5.7</td>
<td>5.4</td>
</tr>
<tr>
<td>Real estate, ownership of dwellings &amp; business services</td>
<td>9.0</td>
<td>9.1</td>
<td>9.3</td>
<td>9.6</td>
<td>10.4</td>
<td>11.4</td>
</tr>
<tr>
<td>Community, social &amp; personal services</td>
<td>13.8</td>
<td>13.5</td>
<td>12.8</td>
<td>12.5</td>
<td>13.3</td>
<td>14.4</td>
</tr>
<tr>
<td>Public administration &amp; defence</td>
<td>5.9</td>
<td>5.6</td>
<td>5.2</td>
<td>5.1</td>
<td>5.8</td>
<td>6.3</td>
</tr>
<tr>
<td>Other services</td>
<td>8.0</td>
<td>7.9</td>
<td>7.6</td>
<td>7.4</td>
<td>7.5</td>
<td>8.1</td>
</tr>
<tr>
<td>Construction</td>
<td>7.7</td>
<td>7.9</td>
<td>8.2</td>
<td>8.5</td>
<td>8.5</td>
<td>8.2</td>
</tr>
<tr>
<td>Total Services (excluding Construction)</td>
<td>53.0</td>
<td>52.9</td>
<td>52.9</td>
<td>52.7</td>
<td>54.1</td>
<td>55.2</td>
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<tr>
<td>Total Services (including Construction)</td>
<td>60.7</td>
<td>60.8</td>
<td>61.1</td>
<td>61.2</td>
<td>62.6</td>
<td>63.4</td>
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<tr>
<td>Total GDP</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: CSO
@ provisional estimates    * quick estimates

Table 1.4: Share of different services categories in GDP at factor cost (Current Prices)

1.8.4 Performance of Sub-Sectors

The two fast-growing broad services categories are:
a) financing, insurance, real estate and business services; and b) transport, storage, and communication. The latter overtook the former in 2009-10 with a high growth of 15 per cent (Table 1.5). A third category, growth of trade, hotels, and restaurants, slowed in 2008-09 and has recovered moderately in 2009-10. The fourth category, community, social, and personal services, saw a sudden jump in 2008-09 to overtake the growth of all other categories, reflecting the high growth in public administration and defence. This category has continued to grow rapidly in 2009-10, despite a slowdown in growth in public administration and defence (with the commitments for pay arrears under the new revised scale for Government employees coming down),
due to the offsetting rise in growth of other services reflecting the fiscal stimulus to social sector activities.

<table>
<thead>
<tr>
<th>Services</th>
<th>2005-06</th>
<th>2006-07</th>
<th>2007-08</th>
<th>2008-09</th>
<th>2009-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade, Hotels, &amp; Restaurants</td>
<td>12.2</td>
<td>11.0</td>
<td>10.0</td>
<td>6.5</td>
<td>6.7</td>
</tr>
<tr>
<td>Trade</td>
<td>11.7</td>
<td>10.7</td>
<td>9.7</td>
<td>6.5</td>
<td>7.2</td>
</tr>
<tr>
<td>Hotels &amp; Restaurants</td>
<td>17.5</td>
<td>14.4</td>
<td>13.1</td>
<td>-3.1</td>
<td>2.2</td>
</tr>
<tr>
<td>Transport, Storage, &amp; Communications</td>
<td>12.2</td>
<td>12.7</td>
<td>12.9</td>
<td>11.1</td>
<td>15.0</td>
</tr>
<tr>
<td>Railways</td>
<td>7.5</td>
<td>11.1</td>
<td>9.8</td>
<td>7.6</td>
<td>9.4</td>
</tr>
<tr>
<td>Transport by Other Means</td>
<td>9.3</td>
<td>9.0</td>
<td>8.7</td>
<td>5.2</td>
<td>7.0</td>
</tr>
<tr>
<td>Storage</td>
<td>4.7</td>
<td>10.9</td>
<td>3.4</td>
<td>10.5</td>
<td>10.7</td>
</tr>
<tr>
<td>Communications</td>
<td>25.5</td>
<td>24.9</td>
<td>25.4</td>
<td>25.8</td>
<td>32.1</td>
</tr>
<tr>
<td>Financing, Insurance, Real Estate, &amp; Business Services</td>
<td>12.7</td>
<td>14.0</td>
<td>11.9</td>
<td>12.5</td>
<td>9.2</td>
</tr>
<tr>
<td>Banking &amp; Insurance</td>
<td>15.9</td>
<td>20.6</td>
<td>16.7</td>
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</tr>
<tr>
<td>Real Estate, Ownership of Dwellings, &amp; Business Services</td>
<td>10.6</td>
<td>9.5</td>
<td>8.4</td>
<td>11.2</td>
<td>7.5</td>
</tr>
<tr>
<td>Community, Social, &amp; Personal Services</td>
<td>7.0</td>
<td>2.9</td>
<td>6.9</td>
<td>12.7</td>
<td>11.8</td>
</tr>
<tr>
<td>Public Administration &amp; Defence</td>
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<td>7.6</td>
<td>20.2</td>
<td>13.0</td>
</tr>
<tr>
<td>Other Services</td>
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<td>3.5</td>
<td>6.3</td>
<td>7.4</td>
<td>10.9</td>
</tr>
<tr>
<td>Construction</td>
<td>12.8</td>
<td>10.3</td>
<td>10.7</td>
<td>5.4</td>
<td>7.0</td>
</tr>
<tr>
<td>Total Services (excluding Construction)</td>
<td>11.0</td>
<td>10.1</td>
<td>10.3</td>
<td>10.1</td>
<td>10.1</td>
</tr>
<tr>
<td>Total Services (including Construction)</td>
<td>11.2</td>
<td>10.1</td>
<td>10.4</td>
<td>9.5</td>
<td>9.7</td>
</tr>
<tr>
<td>Overall GDP</td>
<td>9.5</td>
<td>9.6</td>
<td>9.3</td>
<td>6.8</td>
<td>8.0</td>
</tr>
</tbody>
</table>

Source: CSO  
Notes: * provisional estimates. ** quick estimates.

Table 1.5: Growth in India’s Services GDP at Factor Cost (in constant prices)

The boom in the services sector has been relatively "jobless". The rise in services share in GDP has not been accompanied by proportionate increase in the sector's share of national employment. Some economists have also cautioned that service sector growth must be supported by proportionate growth of the industrial sector; otherwise the service sector grown will not be sustainable. In the current economic scenario it looks that the boom in the services sector is here to stay as India is fast emerging as global services hub.
References-


34. Corey, Cespedes, and Rangan, *Going to Market*.


