Strategic Services Marketing
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Lecture 08

Personalization and Customization in Services

Hello everyone. So, understanding on how to design memorable customer experiences, let's understand the role of personalization and customization in services in this session. So, does these things equal? Does personalization means customization? What is your thought on this? While often used interchangeably, personalization and customization have a distinct meanings in the context of services. Understanding the differences between these two concepts is crucial for businesses aiming to enhance customer experiences. So, let's define what is personalization and what is customization. Personalization means adapting services to meet the individual needs and preferences of customers by using data and insights to tailor experiences, content and even recommendations.

Whereas, customization means allowing your customers to choose or modify aspects of a service according to their unique requirements, enabling them to create a service that aligns precisely with their preferences. Let's have an example to understand these two terms in a better way. For personalization, we can think of a streaming service that recommends movies or maybe songs based on a user's viewing or listening history without the users actively making any choices. Whereas, in terms of customization, think of a restaurant that allows customers to build their own salads by choosing ingredients and dressings from a particular menu.

Now, what are the differences between personalization and customization? Let us discuss this in detail. The first difference is with respect to initiation. In personalization, typically this is initiated by the service provider based on data analysis, the behavior or historical interactions. The provider uses insights to anticipate and fulfill individual needs. Whereas, with respect to customization, it is usually initiated by the customer who actively selects specific features, options or configurations based on their preferences.

For example, Netflix analyzes user viewing habits and recommends personalized movie or TV shows suggestions based on the individual's watching history. So, this is a personalization. Whereas, for customization, think of a brand Nike. Nike allows customers to customize their sneakers on the Nike website, choosing colors, materials and even adding personal IDs. The next difference between personalization and customization is with respect to degree of control.

Personalization involves a certain level of control by the service provider, utilizing algorithms and data to deliver tailored experiences without direct input from the customer. Whereas, in customization, it gives the customer direct control, allowing them to make choices, decisions or adjustments to the service based on their preferences. Let's understand this difference with an example. For example, in personalization, Spotify curates personalized playlists for users based on their music preferences, providing recommendations without users actively choosing each song. When it comes to customization with respect to degree of control, Dell allows customers to configure their own laptops on their website by choosing specifications such as processor, memory and even storage.

Coming to the next factor of differentiation between personalization and customization is flexibility. Under personalization, providers offers flexibility, but within the parameters set by the service provider. Personalization offers flexibility, but within the parameters set by the service provider. The provider leverages data to dynamically adjust aspects of the service to suit individual preferences. Whereas, when it comes to customization, it provides a higher degree of flexibility as customers can choose from a range of options to define their own parameters.

With respect to examples on flexibility, Amazon. Amazon adjusts its homepage recommendations in real time based on a user's browsing and purchase history, dynamically adapting to changing preferences. So, this is a clear cut example of how Amazon delivers flexibility in terms of personalized options. When it comes to customization, Subway allows customers to build their own sandwiches by choosing bread, toppings, sauces and other ingredients from a selection. So, offering a flexibility in terms of designing my own kind of you know food.

Next factor that differentiate personalization and customization is involvement. Personalization involves level of passive involvement from the customer as the service provider takes the initiative to tailor experiences. But when it comes to customization, it requires active involvement from the customers who actively participates in the decision making process to create a personalized service. Take an example of YouTube. YouTube suggests personalized video recommendations based on a user's watch history and preferences without requiring active input for each suggestion.

Whereas, under customization, M&M's lets customers personalize their own mix of colored candies on the M&M's website, actively selecting colors and creating a custom blend. The final point of difference between personalization and customization is with respect to time of execution. Personalization often occurs in real time or near real time utilizing data in the moment to adjust the service experience dynamically. Whereas, customization can occur before or during the service delivery with customers making choices or adjustments in advance or in the midst of the service interaction. For example, Amazon's product recommendations are adjusted in real time, an example of personalization.

Here, as users browse providing immediate suggestions based on their current interest. For customization, we can have an example of Burger King. Burger King's Have It Your Way campaign allows customers to customize their burgers by selecting ingredients at the time of ordering. So, in conclusion, we can definitely say that personalization is not equal to or same as customization. Now let us understand each one of these, personalization and then customization and its role in services.

First, personalization. Just to repeat what personalization is, it is about adapting services to meet the individual needs and preferences of customers by using data and insights to tailor experiences, content or recommendations. Personalization in services refers to tailoring of experiences, products or interactions to meet the specific needs. It involves leveraging data, technology and customer insights to deliver a more individualized and relevant service experience. The goal is to create a unique and meaningful interaction for each customer, fostering a sense of value, connection and satisfaction.

Let's discuss some key aspects of personalization in services. Number one here is customer data utilization. Analyzing customer data such as purchase history, preferences, behavior and demographics to understand individual needs and preferences. Next, tailored recommendations. It involves offering personalized recommendations, suggestions or content based on a customer's past interactions or preferences.

This can include product recommendations, content suggestions or even service options. Next key aspect of personalization is customized communication. This involves adapting communication channels, content and even frequency based on the customer's communication preferences. This ensures that interactions are received in a manner that aligns with the customer's expectations. Next key aspect is with respect to individualized user interfaces.

This involves designing of user interfaces or say platforms that can be personalized by customers to suit their preferences. Making the interaction more user friendly as well as relevant. Next key aspect is with respect to dynamic pricing. This involves adjusting pricing or offers also based on individual customer behavior, history or loyalty. This can include personalized discounts, loyalty rewards and even special promotions.

Next key aspect is with respect to personalized services and features. This involves offering services with features or options that allow customers to tailor the service to their specific requirements. This can be seen in various industries from personalized meal options in restaurants to personalized workout plans in fitness services. Next key aspect is contextual interactions. Providing contextually relevant information or services falls under this aspect.

This is based on the customer's current situation, location or behavior. For example, offering location based promotions through mobile apps. Next key aspect is with respect to predictive personalization. This involves anticipating customer needs and preferences through predictive analytics, which involves using data and algorithms to forecast what a customer might be interested in or require in the future. The final aspect is with respect to feedback incorporation.

This involves incorporating customer feedback and preferences into the service design and delivery ensuring that the service continually evolves to meet changing customer expectations. The concept of Spotify DJ can be a best example to understand the role of personalization in services success. The concept of Spotify DJ aligns with the idea of personalization in the context of the music streaming platform. Spotify DJ or more formally known as Spotify Mixes is a feature that exemplifies how Spotify tailors music recommendations to the unique preferences of individual users. Let's have a look at this particular insight the making of the DJ's video that discusses how they have developed this particular DJ based on artificial intelligence and other technologies.

Hey Max, I'm X, your own personal AI DJ on Spotify. Let's go. Introducing DJ, the best of Spotify made just for you on tap away. Hey, I'm super excited to show you a little more behind the scenes on how we brought the DJ to life. First, I want to introduce you to someone very special to me.

I wouldn't be here without him. It's the real X. It's fun hearing your own voice introduce you. Hey, what's going on? I'm Xavier Jernigan. My friends call me X and I'm the first voice model for the DJ. The voice you just heard sounds like mine, but I never said those actual words.

It was made by AI based on my voice. Having your very own DJ takes personalization to a whole new level. It creates deeper, more meaningful connections to your favorite artists and it makes it much more likely that you will discover new ones. The only way this is made possible is with the powerful combination of three things. The perfect selection of music just for you, spoken to you by a stunningly realistic AI voice and enriched with relevant context about the songs and artists.

That context is created by bringing together state of the art generative AI with the passion and expertise of our human editors. Our editorial teams around the world are really music and culture experts. It's this human editorial expertise married with the very best of cutting

edge technology that is Spotify's superpower. I'm personally really excited about DJ. We're able to harness this power to tell an artist's story, to put context around their work and their songs in a much broader cultural arena like never before.

  All right, now you know a bit about how it all works. When you're ready to meet your own DJ, just head over to the Spotify app. I'll be waiting for you. Now let's understand how Spotify is using an artificial intelligence power DJ to change the way you listen to the music.

  Watch this video. The technology is taking your listening history, the data from your profile to another level. Explain how. So thank you for having me. We are very excited about this product because what we are doing with the AI DJ is really transforming the way people listen to music. What we have created is a personalized AI guide for you, for every single user that knows you and your music taste better than anything before and can therefore create this lineup that is really special with commentary that explains to you why you are listening to this particular song or track or artist and also tells you why you should care, right? So you're more open to discovery.

  By doing so with this stunning realistic voice and this form factor of an AI DJ just for you, it is able to also learn from you better than ever before. So it takes this metaphor we've always had with Spotify of creating, we've had this metaphor of what if you had your own personalized DJ, what would they do for discovery? They would create Discover Weekly. They would curate your homepage, your daily mix. But this metaphor is now a reality. So that's why we're so excited to have built this product and it actually recommends better and learns better than anything we've done before.

  Users of Spotify around the world will be used to seeing lyrics or even video now when you have your favorite tracks playing in playlist form. But at the technology level, this is a partnership with OpenAI that provides a lot more information about the artist or the song. Explain how it works. So this is taking generative AI on two levels. One is in the commentary itself, the facts about the track or the artist.

Why should you care about the song? What's important about it? So that is one aspect of generative AI we're using. And the other one is, of course, this incredibly realistic voice that brings a lot of passion and a lot of charisma and a lot of warmth to the recommendations of the DJ. So we are taking those two aspects of generative AI and we are putting them in the hands of music experts inside Spotify, which are our music editors. They are some of the most knowledgeable and passionate people about music in the world. So we take this generative technology, including in-house and some of the work we've done with external partners such as OpenAI.

And we're taking that technology and in the hands of our music experts, it actually brings something new to both listeners and to creators. For listeners, it expands their horizon and for creators, it introduces them to new audiences. You know, Ziad, when you announced last summer that you were acquiring Synantik, many were like, you know, what's going on here? How does this end up in the platform? That's the final part, right, of the AI DJ, a voice component. Why did you do that? Well, very much so. We did that because when you think about our mission, it is really to connect listeners and artists and very much what we do is audio, right? So when you are doing that, you are listening to this new song, the best possible way to introduce you to a new song is to give you the audio commentary, the reason why you are listening to that song, why you should care, and also it gives you a chance to try it out.

And we have found in the data, since we have started rolling out our beta, that users who hear commentary from that stunning realistic voice from Synantik technology that we acquired, when you hear that commentary, you are much more likely to try something new. And when you are more likely to try something new, your lives get better as a user, the artists benefits because they grow their audience. And this is happening in a way that has never happened before, because in great part of that voice technology that you mentioned. Spotify DJ exemplifies personalization by utilizing user data, machine learning, and algorithmic intelligence to craft playlists that cater specifically to individual preferences. This dynamic and adaptive approach enhances the overall music streaming experience for users, showcasing the power of personalization in the context of digital services.

Personalization is enabled by advancements in technology, data analytics, and artificial intelligence allowing businesses like Spotify to create more individualized and customer centric service experiences. Personalization is a key strategy for enhancing customer satisfaction, building loyalty, and staying competitive in today's dynamic service landscape. Now let's come to customization. Customization in services refers to the

adaptation and tailoring of products, experiences, and interactions to meet the unique and specific requirements of individual customers. Remember, this is or the customization is initiated from your customers.

Unlike one size fits all approach, customization allows customers to personalize aspects of the service according to their preferences, needs, and even characteristics. This approach recognizes and accommodates the diversity of customer preferences, ensuring a more personalized and relevant service experience. So just to revisit the definition of customization, customization means allowing customers to choose or modify aspects of a service according to their unique requirements, enabling them to create a service that aligns precisely with their own preferences. Let's now discuss what are the key features of customization in services.

First one here is flexible service offerings. This involves offering flexibility in service options to allow consumers to choose features, components, or specifications that best align with their preferences and requirements. Allowing customers to configure and personalize product or services by selecting specific features, colors, size, and even other customizable elements. The second key feature of customization is made-to-order production. In industries such as fashion, furniture, or even food, this is the best case. Customization in these industries may involve producing items on a made-to-order basis, ensuring that each product meets the specific requirements of the customer.

Let's take an example in detail. Let's say furniture. Customers can choose a package that aligns with their design preferences, budget, and the level of involvement in the design process. For example, the basic package suits those who want a cost-effective solution with minimal customization while the standard and premium packages cater to customers who desire more personalized and unique designs. Next key feature of customization is personalized interactions. This involves adapting customer interactions and communication based on individual preferences, ensuring that customers receive information, support, or even recommendations in a manner that suits their preferences.

The next key feature of customization is co-creation. This is about involving customers in the design of creation process, allowing them to contribute to the development of the service based on their preferences or ideas. Next feature is dynamic service packages. This involves offering dynamic and customizable service packages that customers can adjust based on changing needs, ensuring that the service remains relevant over time. For

example, a telecom player Airtel. Different prepaid plans catering to different needs or kind of adjustment that are required from customer's side.

Next key feature is about adaptive pricing. This involves implementing pricing models that can be adjusted based on the specific features or components selected by the customer. This may include pay-as-you-go models or even tiered pricing structures as well. Pay-as-you-go or some people also call it PAYG, a shortcut for pay-as-you-go model. This involves a pricing model where customers are charged based on their actual usage or consumption of a service. Instead of a flat fee or subscription, customers pay for the specific resources, features or units of service they use.

For example, cloud computing services. For example, companies like AWS or Azure. Here businesses pay for the computing resources they use such as storage, processing power and data transfer differently. Whereas, tier pricing is a pricing model that offers different levels or tiers of service at varying price points. Customers choose a tier based on their needs with each tier providing a different set of features, capabilities or even service levels. For example, again cellular data plans where mobile service providers often offer tier data plans with different levels of data usage and features.

With respect to customization, let's have an example from a brand called Nike. Here is the campaign which is called as Nike by You that shows how Nike implements customizations helping their customers to customize what kind of sneakers or footwear they want to wear. Have a look at this particular advertisement. It all starts with an idea to create something, new make it , real huh. So, to conclude, customization is often facilitated by advanced technologies, digital platform and efficient supply chain management that can accommodate the varying needs and preferences of customers. Customization is a strategy that not only enhances customer satisfaction but also allows businesses to differentiate themselves in the market by providing unique and personalized offerings.

Now, let's connect these two concepts, personalization and customization with memorable customer experiences. So, how personalization and customization can lead us to create memorable customer experiences? First here is through individual preferences and needs. Customers have unique preferences, needs and expectations. Personalization and customization allow businesses to address these individual variations providing services

that resonate specifically with each customer. The second element is with respect to heightened customer satisfaction that leads to customer experience.

   For example, when customers receive services that are personalized to their liking or can be customized based on their choices, they are more likely to be satisfied. Meeting or exceeding customer expectations contributes to a positive and memorable experience. Third element is through building emotional connections.   Personalization and customization create emotional connections between the customer and the service provider's brand. When customers feel that a service provider understand and values their uniqueness, it fosters a sense of loyalty and emotional attachment with the brand.

   Next route is through giving competitive differentiation. In a competitive market, services firm that offer personalized and customized services stand out.   This differentiation can be a key factor in attracting and retaining customers contributing to a memorable and distinctive brand image. Next element is word of mouth recommendations. Memorable experiences lead to positive word of mouth recommendations.   When customers receive services tailored to their liking, they are more likely to share their positive experiences with friends and family, contributing to brand advocacy.

   Final element is with through adaptive and dynamic experiences. The ability to adapt services in real time based on customer preferences or allow customers to actively customize their experiences adds a dynamic element. This adaptability makes the service more responsive and memorable. Finally, let us understand how personalization and customization plays a role with respect to services industry. Personalization and customization plays crucial role in the service industry, contributing significantly to customer satisfaction, loyalty, and overall business success.

   Here is an exploration of their role. First, enhance customer experience. With respect to personalization, tailoring services to individual customer preferences create a more enjoyable and relevant experience. For example, personalized recommendations based on past interactions or purchase history enhance the overall customer journey. From the point of view of customization, this involves allowing customers to customize their service experience, such as choosing specific features or configurations, ensure that the service aligns perfectly with their unique needs and preferences. The second role is with respect

to increase customer satisfaction based on personalization and customization. When customers feel that a service is designed just for them, it leads to higher satisfaction levels.

This can include personalized communication, targeted offers, or services that anticipate and fulfill individual needs. Whereas, customization involves allowing customers to customize their service experience gives them a sense of control. When customers can tailor services to their liking, it often results in higher satisfaction as they receive exactly what they desire. The third role played by personalization and customization is with respect to building customer loyalty. Personalized services contributes to building a strong emotional connection with customers.

When customers feel understood and valued, they are more likely to remain loyal to a particular brand. Under customization, this involves offering customizable options, fosters a sense of loyalty as customers appreciate the flexibility to adapt services according to their changing preferences. This can lead to long-term relationships and repeat businesses. Next role played by personalization and customization is with respect to increase customer engagement. With respect to personalization, tailored content, recommendations, and interactions drive higher engagement.

Customers are more likely to engage with their personalized communications and offers that resonate with their interests. With respect to customization, this means allowing customers to understand their service experience encourages active participation and engagement. This interaction enhances the overall customer experience and strengthens the relationship with the brand. Next role is with respect to effective marketing and communication. Targeted and personalized marketing messages are more effective in capturing customer attention.

Personalized communication builds relevance and increases the likelihood of customer response. With respect to customization, allowing customers to customize their preferences for communication channels, frequency, and even content ensures that marketing messages are aligned with individual preferences reducing the likelihood of being pursued as intrusive. And finally, the role played with respect to differentiation in the market. Under personalization, businesses that excel in personalization stand out in crowded market. Offering unique and personalized experiences can be a key differentiator at writing customers who value tailored services.

When it comes to customization, this involves providing customizable options, sets as a business apart by acknowledging and accommodating the diverse needs of customers. This differentiation can lead to a competitive advantage in the market. In conclusion, we can say that personalization and customization in services contribute to a more customer centric approach, fostering satisfaction, loyalty, and a competitive edge in the market. Successful implementation requires a deep understanding of customer preferences and the ability to adapt services accordingly. So, to conclude in this session, we understood the role played by personalization and customization with respect to services. Thank you.