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Services Marketing

Concepts,
Strategies,
& Cases

Sixth
Edition



**Hoffman
Bateson**



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Strategies,
& Cases

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***Services Marketing: Concepts,
Strategies, & Cases, Sixth Edition***
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To Brittain, Emmy, and Maddy

Doug Hoffman

To Dori, Lorna, Jonathan, Thomas, Arlan, Niamh, Harriet, and Eirlys

John Bateson

Preface

Reflecting the latest trends and issues, *Services Marketing: Concepts, Strategies, & Cases 6e* delivers comprehensive, cutting-edge coverage that equips readers with a solid understanding of today's dynamic service-related market sectors. Utilizing a reader-friendly, streamlined structure, the text explores services marketing not only as an essential focus for service firms, but also as a competitive advantage for companies that market tangible products. With its complete and timely treatment of services marketing, *Services Marketing: Concepts, Strategies, & Cases 6e* minimizes the overlap with other marketing courses. Cutting-edge examples and end-of-chapter cases address current global issues (such as environmental, social, and governance (ESG) issues), service-based technological advancements (such as robotics and artificial intelligence), and the future dominance of ageing consumer markets, thus providing students valuable insights for business success. Given the emphasis on technology, ESG issues, and international considerations, this is the perfect text for students and instructors who desire a global perspective and have a genuine interest in how service marketers can positively impact the well-being of society as a whole.

Approach

The primary objective of *Services Marketing: Concepts, Strategies, & Cases 6e* is to provide materials that not only differentiate the field of services marketing from traditional goods marketing, but also acquaint students and instructors with specific customer service issues that are not typically addressed in conventional marketing curriculums.

In addition, the sixth edition embraces the mantra of *Services for a Better World* by purposely supplementing essential services, marketing concepts, and practices with a healthy dose of global, technological, and environmental, social, and governance (ESG) applications that have the potential to positively impact the human condition. The business world now demands, in addition to traditional business knowledge, increasing employee and employer competence in developing effective service processes, effectively managing human resources, and developing and managing a compelling customer experience (CX). Accordingly, the text is written from the viewpoint that the provision of services is a tripartite relationship; consequently, the text content seamlessly integrates the provision of services from marketing, operations, and human resource perspectives.

We continue to live in interesting times! Due to the COVID-19 pandemic and its subsequent domino effects on most everything else, service firms and customers have adapted to changes in the marketplace by modifying their strategies and behavior. Many of these adaptations are likely

to continue long after the pandemic. As such, service marketers should not expect a “return to normal” and must adapt their approach to “the new normal” and adjust their service marketing strategies accordingly. The sixth edition specifically addresses many of these issues.

Structure of the Book

Services Marketing: Concepts, Strategies, & Cases 6e is divided into the following three main sections.

Part I: An Overview of Services Marketing

Part I concentrates on defining services marketing and discusses in detail the fundamental concepts and strategies that differentiate the marketing of services from the marketing of tangible goods. The primary objective of Part I is to establish a core knowledge base that will be built upon throughout the remainder of the text.

Chapter 1, *An Introduction to Social*, provides an introduction to the field of services marketing. The chapter defines service, explores the major components of the service experience, establishes the importance of the service sector in the world economy, and discusses the need for services marketing education.

Chapter 2, *Fundamental Differences between Goods and Services*, focuses more deeply on the differences between goods and services, namely intangibility, inseparability, heterogeneity, and perishability, and their corresponding managerial implications. Challenges presented and possible solutions to minimize the negative consequences of these unique service characteristics are also discussed.

Chapter 3, *Environmental, Social, and Governance (ESG) and Ethical Issues in Services Marketing*, focuses on select ESG factors and ethical issues that impact service marketer decision making. Ultimately, the primary purpose of this chapter is to encourage service marketers to look beyond their traditional functional marketing duties and responsibilities and consider their impact and potential social contributions on a much broader scale.

At the heart of services marketing must be the consumer and Chapter 4, *Consumer Behavior in Service Marketing*, focuses on building your understanding of the behavior of service consumers as they select service providers and then evaluate their satisfaction with the service that they have received. Chapter 4 provides concepts and frameworks that permeate the rest of this book as service firms adapt their marketing mixes to reflect the changing needs of their customers.

Part II: The Tactical Services Marketing Mix

One of the most basic ideas in marketing is the marketing mix. The marketing mix represents the levers that the

organization controls. These levers can be used to adapt to macroenvironmental forces and to influence consumers' choice processes as well as their evaluation of service satisfaction. The traditional marketing mix is often expressed as the four Ps—product, place, price, and promotion. Due to the fundamental differences between goods and services, the services marketing mix can be redefined and expanded, offering the three additional marketing mix variables of *process*, the *physical environment*, and *people*.

Given the importance of the services marketing mix, Part II of this text focuses upon *The Tactical Services Marketing Mix* and focuses on the marketing mix variables that must be the most modified when competing in service marketing environments. More specifically, Chapter 5 focuses on *The Service Delivery Process*, Chapter 6 examines *The Pricing of Services*, Chapter 7 investigates *Developing the Service Communication Strategy*, Chapter 8 addresses *Managing the Firm's Physical Evidence*, and Chapters 9 and 10 explore the people issues surrounding services marketing, including *Managing Service Employees* and *Managing Service Customers*, respectively.

Part III: Assessing and Implementing Successful Service Strategies

Marketing's role with the rest of the organization is the theme for Part III of the book, which focuses on *Assessing and Implementing Successful Service Strategies*. Marketing is at the heart of each of these strategies, but their execution is dependent on harnessing all of the functions: operations, human resources and marketing. As such, Chapter 11, *Defining and Measuring Customer Satisfaction*, expands the consumer behavior chapter to explore how it is possible to satisfy a customer in a particular service experience and how to measure and manage satisfaction. Chapter 12, *Defining and Measuring Service Quality*, builds upon Chapter 11 and increases our understanding of how customers evaluate services and the longer-term concept of service quality. Due to the complexity of the various relationships that comprise a typical service encounter, service failures are inevitable, but because of inseparability it is often possible to recover from failure situations during the service encounter. Chapter 13 discusses how to successfully master *The Art of Service Failure and Recovery Management*.

Given the current competitive situation among many service firms, Chapter 14 explores the concepts of *Customer Loyalty and Retention* as critical components to long-term success. Concluding the text, Chapter 15, *Pulling the Pieces Together: Creating a World-Class Service Culture*, examines the role of marketing within the service organization. It juxtaposes the industrial management model and the market-focused model and shows how important the latter is for a service business. This final chapter also discusses the key components of creating a world-class service culture and strategies utilized to effectively change the culture of established service organizations.

Key Components in the Sixth Edition

- **Now a 15-Chapter Version:** The sixth edition of Hoffman and Bateson has been streamlined to fit perfectly with semester or quarter university schedules. As a result of this revision, Hoffman and Bateson provide an effectively integrated service marketing textbook that incorporates technological, global, ESG, and ethical considerations within one text while providing the latest in service marketing concepts and practices. The table of contents for *Services Marketing: Concepts, Strategies, & Cases 6e* is provided below:

Table of Contents:

Ch 1:	An Introduction to Services
Ch 2:	Fundamental Differences Between Goods and Services
Ch 3:	Environmental, Social, and Governance (ESG) and Ethical Issues in Services Marketing
Ch 4:	Consumer Behavior in Services Marketing
Ch 5:	The Service Delivery Process
Ch 6:	The Pricing of Services
Ch 7:	Developing the Service Communication Strategy
Ch 8:	Managing the Firm's Physical Evidence
Ch 9:	People as Strategy: Managing Service Employees
Ch 10:	People as Strategy: Managing Service Customers
Ch 11:	Defining and Measuring Customer Satisfaction
Ch 12:	Defining and Measuring Service Quality
Ch 13:	The Art of Service Failure and Recovery Management
Ch 14:	Customer Loyalty and Retention
Ch 15:	Pulling the Pieces Together: Creating a World-Class Service Culture

- **Learning Objectives:** Learning objectives establish the framework for every chapter, and chapter content is organized and presented within each objective. Learning objectives enable instructors to more effectively organize their class lectures and assist students in organizing and integrating class materials as they study for assessments.
- **Revised Chapters:** Every chapter has been updated and/or significantly revised to deliver the latest in service marketing concepts and practices. As mentioned previously, in addition to updating essential services marketing content, the sixth edition embraces the mantra of *Services for a Better World* by purposely supplementing essential services marketing concepts and practices with a healthy dose of global, technological, and environmental, social, and governance (ESG) applications that have the potential to positively impact the human condition. Moreover, the challenges faced by the service sector and the strategic adjustments made to offset the effects of the pandemic are considered throughout.

- **Opening Vignettes:** Every chapter opens with a vignette that spotlights service issues in real companies. These real-life situations draw readers in and set the stage for the chapter topics. These vignettes represent a variety of global service providers as well as relevant customer service issues including:

Chapter Opening Vignettes:

- Ch 1: Semester at Sea: The World is Your Classroom
- Ch 2: Ski Dubai
- Ch 3: The Origins and Growth of “Green”
- Ch 4: The 2020s: Post-Pandemic Changes in Consumer Behavior
- Ch 5: Chippy, the AI Robotic Arm, Finds a Job at Chipotle
- Ch 6: Service Pricing and the Minimum Wage
- Ch 7: Multidirectional Promotions: McDonald’s “Thank you Crew” Initiative
- Ch 8: An Extraordinary Servicescape in the Caribbean: The Katitche Point Greathouse
- Ch 9: The Great Resignation: Employees on the Move
- Ch 10: Feeling the Pressure: The Self-Checkout Brigade
- Ch 11: The American/International Customer Satisfaction Index (ACSI)
- Ch 12: Establishing Service Expectations: What Viking Cruise Line is Not
- Ch 13: Cancellations and Delays: Troubles in the Skies Above
- Ch 14: Customer Loyalty Programs: The Best of the Best
- Ch 15: Healthy Corporate Cultures

- **Services for a Better World in Action Box Features:** Perhaps the first services marketing textbook to incorporate environmental, social, and governance (ESG) considerations throughout the text, Hoffman and Bateson specifically address ESG practices across a variety of industries throughout the globe. Industries and topics include:

Services for a Better World in Action Box Features:

- Ch 1: Doing Well by Doing Good: Nine Business Models for Social Enterprise
- Ch 2: Marriott International Inc. Serve 360: Doing Good in Every Direction
- Ch 3: Pimalai Resort and Spa
- Ch 4: Socially Responsible Financial Institutions
- Ch 5: Microsoft: AI for Earth
- Ch 6: Pay What You Want (PWYW) Restaurants
- Ch 7: The Use of Cause-related Marketing (C-RM) as a Promotional Strategy: A Note of Caution
- Ch 8: Design Considerations for Ageing Consumers
- Ch 9: Is Teleworking the Answer to Improve Work-Life Balance?
- Ch 10: The Psychology of Waiting Lines: Managing the Hurry Up and Wait!

- Ch 11: Balancing Customer Satisfaction with Employee Safety Concerns
- Ch 12: Black-owned Businesses and Critical Success Factors
- Ch 13: Matching Recovery Options with Customer Preferences
- Ch 14: Mission-Driven Loyalty Programs
- Ch 15: Cultivating a Caring Corporate Culture

- **Global Services in Action Box Features:** In response to the growth of service economies throughout the world, Hoffman and Bateson provide box features of global services marketing practices throughout the text. These features demonstrate the often subtle adjustments to international services marketing strategy that are necessary to become a world-class service organization. Companies and concepts featured include:

Global Service Box Features:

- Ch 1: The Burj Al Arab Hotel: Dubai’s Iconic Hotel
- Ch 2: The World’s Top 10 Airlines: International Air Carriers Dominate Rankings
- Ch 3: Ethical Dilemmas in Global Business
- Ch 4: How Cultural Differences Impact the Customer Experience (CX)
- Ch 5: Global Franchising Considerations
- Ch 6: Global Tipping Practices
- Ch 7: Adapting Global Promotional Messages
- Ch 8: Dinner in the Sky: Astonishing Views the Worldwide
- Ch 9: With Regards to ESG Concerns, Global Workers are Demanding More!
- Ch 10: U.S. Customs Adopts Facial Recognition Biometrics
- Ch 11: Cultural Difference and Net Promoter Scores (NPS)
- Ch 12: In Pursuit of Excellence: Global National Quality Awards
- Ch 13: Service Failures and Recovery Strategies: A Chinese Perspective
- Ch 14: Global Trends in Customer Loyalty Programs
- Ch 15: Corporate Culture Differences Around the Globe

- **E-Services in Action Box Features:** Technology-based content and box features in every chapter pertaining to trends such as the growth of artificial intelligence and the present and future use of robotics in the provision of services. The E-Service box features provided below demonstrate the purposeful integration of technology’s impact on service marketers throughout the course. In addition to informing students of the latest technological trends in services marketing, this coverage along with global and ESG materials typically aligns with and advances the strategic mission of the instructor’s college and/or university.

E-Services Box Features:

- Ch 1: Coming Soon (If Not Already There) to a Store Near You: Customer Service Robots
 - Ch 2: Telesurgery: Surgery from a Distance
 - Ch 3: Artificial Intelligence (AI) and Societal Impacts
 - Ch 4: Touchscreens, Haptic Feedback, and Consumer Choice Decisions
 - Ch 5: E-Procurement Options Streamline Operations
 - Ch 6: Contactless Payment: Changing the Way We Pay
 - Ch 7: Content Marketing: What, How and Why?
 - Ch 8: Passenger Information Holograms
 - Ch 9: Technology Trends for the Workplace
 - Ch 10: Just Walk Out: Customers Rule at Amazon Go Stores
 - Ch 11: Using AI to Track What Customers Really Think and Feel
 - Ch 12: AI Chatbots and Service Quality
 - Ch 13: United Smartphone App: Pushing Recovery Options to Passengers
 - Ch 14: Gamification: Incentivizing Your Customer Loyalty Program
 - Ch 15: Developing a Remote Workforce Culture
- **End-of-Chapter Review Questions:** Every chapter concludes with ten review questions that are intentionally written to further reinforce students' understanding and application of chapter content. Answers for review questions are provided in the Instructor's Manual for adopters.
 - **Marginal and End-of-Chapter Glossaries:** Key terms, provided in every chapter, are highlighted within the text and defined in the adjacent margin. For student study purposes, key terms are again presented collectively at the end of each chapter in order of appearance and defined in the end-of-text glossary.
 - **End-of-Chapter Cases:** The sixth edition of Hoffman and Bateson contains a set of end-of-chapter cases that further illustrate, deepen, and extend the concepts developed in each chapter. Seven of the fifteen cases are new for the sixth edition and all cases have been updated and/or revised. These cases, purposely brief in nature but long on application, representing a variety of service industries, provide students with an opportunity to further engage with and internalize services marketing concepts. Answers for end-of-chapter cases are provided in the Instructor's Manual for adopters. End-of-Chapter Case include:

End-of-Chapter Cases:

- Ch 1: The Twins' First Service Encounter
- Ch 2: Quaker Steak & Lube: Making the Transition from Manufacturers to Service Providers
- Ch 3: Starbucks Commitment—People, Planet, Coffee
- Ch 4: United, Southwest, or Frontier: Which Airline to Fly Out of DIA?
- Ch 5: Build-A-Bear Workshops: Calculating the Service Cost per Bear
- Ch 6: MDVIP: Become a Priority, Not Just a Patient

- Ch 7: Marketing to Older Consumers: Creating a Content Marketing Campaign
- Ch 8: Developing an Orthodontic Servicescape: Dr. Crane's Dilemma
- Ch 9: That's It, I'm Done
- Ch 10: Managing Uncooperative Customers
- Ch 11: The Bluegrass Inn
- Ch 12: Service Quality at Secrets Rivera Resort
- Ch 13: Part I: Is This Any Way to Run an Airline?
Part II: World Airline's Response
- Ch 14: Loyalty Considerations for Woodhouse Spa
- Ch 15: Assessing Culture: Go for a Culture Walk

Instructor Resources

Additional instructor resources for this product are available online. Instructor assets include:

- An Instructor's Manual
- PowerPoint® slides
- A test bank powered by Cognero®
- End-of chapter cases

Sign up or sign in at www.cengage.com to search for and access this product and its online resources.

Acknowledgments

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Finally, we would also like to thank the Cengage sales force for supporting this project. We truly appreciate your efforts in bringing this package to the marketplace and offer our assistance in support of your efforts.

In closing, we hope that you enjoy the text and your services marketing class. It will likely be one of the most practical courses you will take during your college career. Education is itself a service experience. As a participant in this service experience, you are expected to engage and co-produce the educational customer experience (CX). Take advantage of the opportunities provided to you during this course and become an integral component of a compelling educational experience. Regardless of your major area of study, the services marketing course has much to offer.

We would sincerely appreciate any comments or suggestions you would care to share with us. We believe that this text will heighten your sensitivity to services, and because of that belief, we leave you with this promise: We guarantee that after completing your services marketing course, you will never look at a service experience in the same way again. This new view will become increasingly

frustrating for many of you, as you will encounter many experiences that are less than satisfactory. Learn from these negative experiences, relish the positive encounters, and use these experiences to make a difference when it is your turn to set the standards for others to follow. As apostles of services marketing, we could ask for no greater reward.

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Dr. Bateson was actively involved with the formation of the services division of the American Marketing Association. He served on the Services Council for four years and has chaired sessions of the AMA Services Marketing Conference.

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Part 1

An Overview of Services Marketing



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Service experiences are ubiquitous throughout our everyday lives. This text is dedicated to the effective management of service encounters for the betterment of employee livelihoods, the customer experience, organizational success, and the human condition.

Chapter 1

An Introduction to Services

Chapter 2

The Fundamental Differences Between Goods and Services

Chapter 3

Environmental, Social, and Governance (ESG) and Ethical Issues in Services Marketing

Chapter 4

Consumer Behavior in Services Marketing

Services Marketing: Concepts, Strategies and Cases is divided into three main sections:

- Part I: An Overview of Services Marketing (Chapters 1–4);
- Part II: The Tactical Services Marketing Mix (Chapters 5–10); and
- Part III: Implementing Successful Service Strategies (Chapters 11–15)

Part I, An Overview of Services Marketing, concentrates on defining services marketing and discusses in detail the fundamental concepts and strategies that differentiate the marketing of services from the marketing of tangible goods. Part I also examines social and ethical issues as they relate to the field of services marketing. Finally, Part I concludes with a discussion pertaining to how consumers of services make purchase decisions, focusing once again on the primary differences between goods and services. The primary objective for Part I is to establish a core knowledge base that will be built upon throughout the remainder of this text.

Chapter 1

An Introduction to Services



Chapter Objectives

After reading this chapter, you should be able to:

1. Contrast the fundamental difference between goods and services
2. Explain the growing dominance of services
3. Outline the anatomy of a service experience
4. Recognize the driving forces behind the importance of the study of services marketing

This chapter introduces the basic differences between goods and services and highlights the importance of managing the service experience. In addition, this chapter establishes the significance of the study of services marketing.

Semester at Sea: The World Is Your Classroom¹

Students have a wide variety of service delivery formats available to them as they pursue their education including online options, hybrid classes, flipped classrooms, face-to-face instruction, and semester abroad programs. Perhaps the most experiential service delivery format of them all is Semester at Sea (SAS). Founded in 1963 and managed by the nonprofit Institute for Shipboard Education in conjunction with rotating host universities, SAS is open to all students of all majors while emphasizing global comparative study across a broad curriculum of classes.

Imagine spending a semester (four months long) voyage on the World Odyssey (seven decks, 590-foot ship) with 600+ classmates from all over the United States plus

international students embarking in San Diego, the United States and then sailing to Mexico, Honolulu, Hawaii, Kobe, Japan, Shanghai, China, Hong Kong, Ho Chi Minh City, Vietnam, Rangoon, Myanmar (former Burma), Cochin, India, Mauritius, Cape Town, South Africa, Accra, Ghana, Casablanca, Morocco, and disembarking in Lisbon, Portugal. This is just one of Semester at Sea's typical itineraries. Classroom instruction takes place while the ship is at sea. Organized field classes and free time to explore are available at every 3–5-day port stay. Climb the steps of the Great Wall of China, touch the marble walls of the Taj Mahal, experience an African safari or homestay, and/or travel by camel through the Moroccan desert all the while interacting with locals and fellow SASers. It is a semester beyond compare.

SAS programs are best known for building a community of global-minded students who learn from each other as well as from global-based classroom and field study instruction. Voyagers become global citizens while developing a deep appreciation for the interconnectivity of all nations and the challenges facing the world's various populations. Quite simply, Semester at Sea offers students a transformative experienced-based educational opportunity where lessons-learned and friendships-made last a lifetime.

1-1 Introduction

Effective service marketers engage in strategic decision making much like a game of chess would be played in a thunderstorm. Analogous to moving chess pieces into position on the chess board itself, the service marketer strategically maneuvers a set of controllable variables (i.e., target market selection, positioning strategy, and marketing mix components) in a coordinated attempt to conquer the opposition and rule the marketplace. However, unlike a traditional game of chess, the service marketer must consider a very complex and constantly changing set of forces that complicate this particular chess match—the raging thunderstorm that surrounds the marketplace!

Consisting of a dynamic array of macroenvironmental forces (i.e., natural forces, competitive forces, political/legal forces, economic forces, technological forces, and socio-cultural forces), the storm introduces changes (sometimes chaos) in the marketplace to which the service marketer must alter their current strategic direction to survive and thrive. Recent events regarding the impact of macroenvironmental forces (e.g., pandemics, climate change, deteriorating trade relations, economic disparity, evolving social consciousness, and continued technological developments) have further demonstrated the differences and challenges involved in the provision of services in comparison to the provision of goods. Our purpose is to highlight the challenges involved in the marketing of services and provide strategic solutions for the betterment of employee livelihoods, the customer experience, organizational success, and the human condition.

1-2 The Growing Dominance of Services

Services are everywhere we turn, whether it be travel to an exotic tourism destination, establishing a business relationship with a financial institution, acquiring medical care, enjoying a meal at a favorite restaurant, or receiving a college education. Indeed, services are prevalent everywhere including the business-to-business (B2B), business-to-consumer (B2C), and government (G2B and G2C) sectors. The provision of services involves large multinational corporations as well as local small independent businesses and are provided by and to nonprofit and for-profit firms.

More and more countries, ironically the so-called “industrialized countries” of the world, are finding the majority of their gross domestic products are generated by their service sectors. However, the growth of the service sector does not just lie within traditional service industries such as leisure and hospitality services, education and health services, financial and insurance services, and professional and business services. Traditional goods producers such as automotive, electronics, and numerous other manufacturers are now turning to the service aspects of their operations

to establish a differential advantage in the marketplace as well as to generate additional sources of revenue for their firms. In essence, these companies, which used to compete by marketing “boxes” (tangible-dominant goods), have now switched their competitive focus to the provision of unmatched, unparalleled customer services.

Ample evidence exists that documents this transition from selling “boxes” to service competition. Rolls-Royce Holdings, the second largest aero engine maker in the world, does not make its money from selling engines but from repair and maintenance services. The company is paid based on engine utilization which is based on the number of hours the engines are used in the air.² Toyota, one of the largest automobile manufacturers in the world, is now charging subscription fees for services such as remote engine start/stop, door lock/unlock, and concierge travel assistance.³ Charging reoccurring fees for services provided as opposed to charging a onetime fee for goods purchased, creates a revenue stream that is difficult for manufacturers to ignore.

Overall, this new “global services era” is characterized by:

- economies and labor force figures that are dominated by the service sector;
- more customer involvement in strategic business decisions;
- products that are increasingly market-focused and much more responsive to the changing needs of the marketplace;
- the development of technologies that assist customers and employees in the provision of services;
- employees who have been provided with more discretionary freedom to develop customized solutions to special customer requests and solve customer complaints on the spot with minimal inconvenience; and
- the emergence of new service industries and the “**service imperative**,” where the intangible aspects of the product are becoming more and more the key features that differentiate products in the marketplace.

It is clear that the service sectors in many countries are no longer manufacturing’s poor cousin. In the past, goods manufacturing was viewed as king, and services were viewed as subservient to goods. In fact, the term **materialismo snobbery** was coined to reflect the superiority of manufactured goods. In more recent times, this viewpoint has shifted nearly 180° in the form of an idea referred to as

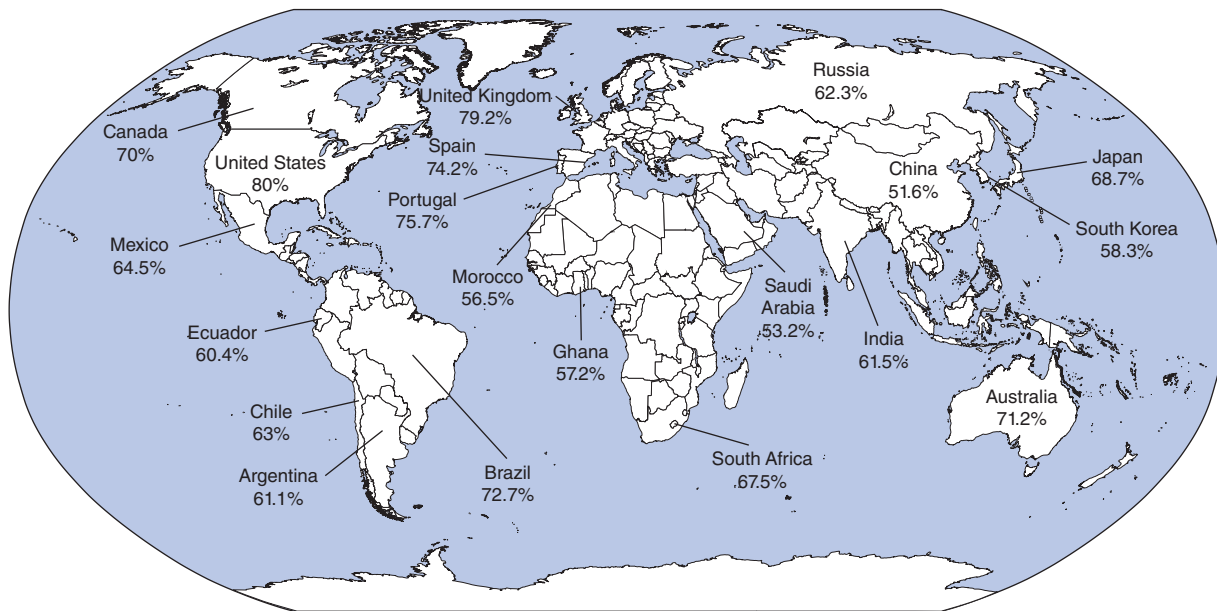
service imperative

Reflects the view that the intangible aspects of products are becoming the key features that differentiate products in the marketplace.

materialism snobbery

A viewpoint where manufacturing is king, and services are viewed as subservient to goods.

Figure 1-1 Service Economies Around the World



Source: Image obtained https://en.wikipedia.org/wiki/File:World_Map_Blank_with_blue_sea.svg; Data: <https://www.cia.gov/the-world-factbook/countries/>

service-dominant (S-D) logic. S-D logic is based on a number of principles, two of which are: (1) “Service is the fundamental basis of exchange; and (2) Goods are a distribution mechanism for service provision.”⁴ In other words, (1) services in the form of knowledge and skill are the fundamental components of all manufactured goods; and (2) manufactured goods are simply physical manifestations that facilitate the provision of services. For example, a Tesla Model S simply facilitates transportation, an Apple iPhone provides a means of communication, and Viking kitchen appliances assist in the service of meal preparation. Hence, S-D logic proposes that the entire business world is either directly or indirectly involved in the provision of services.

Services provide the bulk of the wealth and are an important source of employment and exports for many countries (see Figure 1-1). In addition, there are countless examples of firms using the service imperative to drive their businesses forward to profit and growth. For example, Tesla not only builds electric vehicles but is also involved in clean energy generation and information storage products.⁵ Peleton Interactive manufactures stationary exercise bicycles that are internet-connected enabling customers to subscribe to exercise classes remotely via streaming media.⁶ Hewlett-Packard (HP), best known for their laptops and printers, also markets HP Instant Ink—a monthly subscription service where customers receive ink and toner, free delivery,

and cartridge recycling.⁷ As world economies continue to transform from the primary sector to the secondary sector to the tertiary sector (see Figure 1-2), the service sector boom looks set to continue throughout the world.

1-3 The Anatomy of a Service

To begin, throughout this text, the term **product** is used as an umbrella descriptor for *goods* (e.g., automobiles, smart-phones), *services* (e.g., financial, health care), *people* (e.g., politicians, celebrities), *places* (e.g., tourist destinations), and *ideas* (energy conservation, sustainability). Furthermore, all products consist of a **bundle of benefits** that are communicated, delivered, and consumed by the customer. For example, hiring a private service for airport transportation is a purchase that provides benefits much more than just the core benefit of transportation. The private transportation service provides conveniences of home pick-up and home delivery, assistance with baggage, stress free driving, curbside drop-off/pick-up at the airport, elimination of the need to purchase

product

The term product is used as an umbrella descriptor for *goods*, *services*, *people*, *places*, and *ideas*.

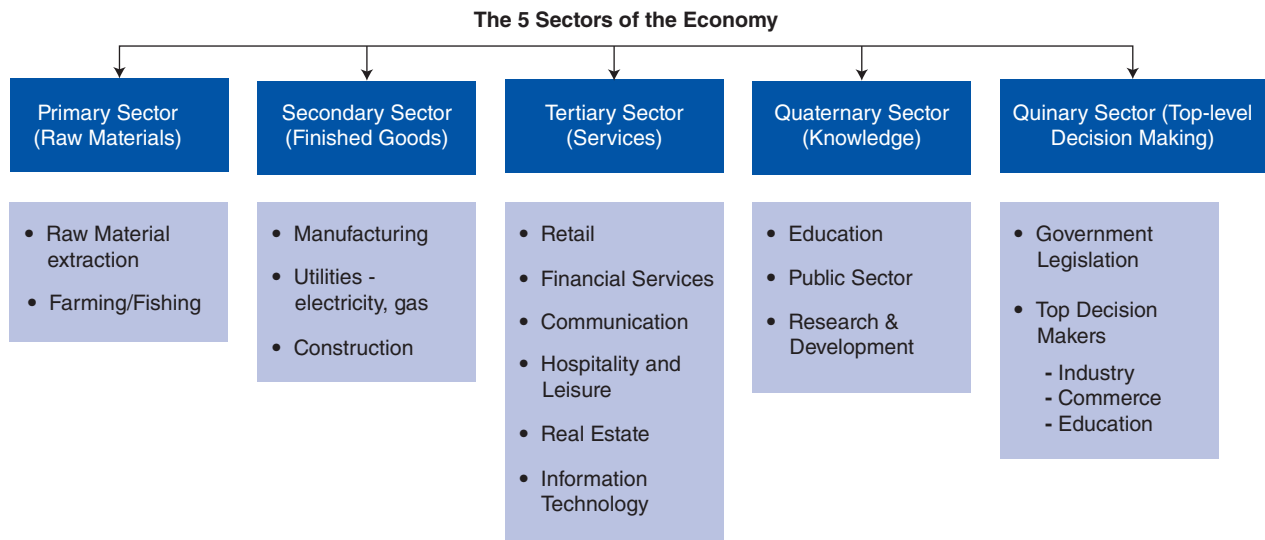
bundle of benefits

All products are comprised of a bundle of benefits that include the core benefit plus secondary benefits such as convenience, cost savings, energy savings, reduced risk, etc.

service-dominant (S-D) logic

A viewpoint that the entire business world is either directly or indirectly involved in the provision of services.

Figure 1-2 The Five Sectors of the Economy Traditionally, economic sectors typically consist of the Primary, Secondary, and Tertiary sectors (where the Tertiary sector is inclusive of the Quaternary and Quinary sectors).



Source: Adapted from <https://www.economicshelp.org/blog/12436/concepts/sectoreconomy/>

airport parking, and perhaps the added-value benefit of establishing a long term, trusting relationship between the client, the private transportation firm, and their employees.

So, what is a service? Admittedly, the distinction between goods and services is not always perfectly clear. In fact, providing an example of a pure good or a pure service is very difficult, if not impossible. A pure good would imply that the benefits received by the customer contained no elements supplied by service. Similarly, a pure service would contain no tangible elements.

In reality, the majority of services contain tangible elements such as the campus of a university, the terminal at an airport, the architectural design and layout of an upscale hotel, or the amenities on a cruise ship. Similarly, most goods contain intangible service elements. For example, simple



Although a service such as education is intangible dominant, tangible aspects of campuses such as buildings and open spaces are frequently used to differentiate one education setting from another.

table salt is delivered to the grocery store, and the company that sells the salt may offer innovative online invoicing services that further differentiate it from its competitors.

The distinction between goods and services is further obscured by firms that conduct business on both sides of the fence. For example, General Motors, the “goods” manufacturing giant, generates 10 percent of its revenue which equates to \$14 billion from its financial businesses, and the car maker’s biggest supplier is Blue Cross-Blue Shield, not a parts supplier for steel, tires, or glass as most people would have thought.⁸ Other examples include General Electric and IBM, generally thought of as major goods producers, who now generate more than half of their revenues from services.⁹ The transition from goods producer to service provider can be found to varying degrees throughout much of the industrial sector.

Despite the confusion, the following definitions should provide a sound starting point in developing an understanding of the differences between goods and services. In general, **goods** can be defined as *objects, devices, or things*, whereas **services** can be defined as *deeds, efforts, or performances*. Ultimately, the primary difference between goods and services is the property of **intangibility**. By definition, intangible products lack physical substance. As a

goods

Objects, devices, or things.

services

Deeds, efforts, or performances.

intangibility

A product that lacks physical substance.

result, intangible products face a host of services marketing problems that are not always adequately solved by traditionally recommended goods-related marketing solutions.

1-3a The Scale of Market Entities¹⁰

An interesting visual perspective regarding the differences between goods and services is provided by The Scale of Market Entities depicted in Figure 1-3. The **Scale of Market Entities** displays a continuum of products based on their tangibility, where goods are labeled as **tangible dominant** and services as **intangible dominant**. The core benefit of a tangible dominant product typically involves a physical possession that contains service elements to a lesser degree. For example, an automobile is a tangible dominant product that provides transportation. As the product becomes more and more tangible dominant, fewer service aspects are apparent. In contrast, intangible dominant products do not involve the physical possession of a product and can only be experienced. Like the automobile, an airline provides transportation, but the customer does not physically possess the plane itself. The airline customer experiences the flight;

consequently, service aspects dominate the product's core benefit, and tangible elements are present to a lesser degree. In comparison, fast food businesses, which contain both a goods (e.g., the food) and service component (e.g., service providers takes the customer's orders, cooks the food, and the food is then personally presented to the customer) fall in the middle of the continuum.

Lessons Learned The Scale of Market Entities reveals two important lessons. First, there is no such thing as a pure good or pure service! Ultimately, products are a bundle of tangible and intangible elements that combine to varying degrees. Second, the tangible aspects of an intangible dominant product and the intangible aspects of a tangible dominant product are an important source of product differentiation and new revenue streams. For example, businesses that produce tangible dominant products and ignore, or at least forget about, the service (intangible) aspects of their product offering are overlooking a vital component of their businesses. By defining their businesses too narrowly, these firms have developed classic cases of **marketing myopia**. For example, the typical family pizza parlor may myopically view itself as being in the pizza business and primarily focus on the pizza product itself. However, a broader view of the business recognizes that it is providing the consumer with a reasonably priced food product in a convenient format surrounded by an experience that has been deliberately created for the targeted consumer. Interestingly, adding service aspects to a product often elevates the product from a

Scale of Market Entities

The scale that displays a range of products along a continuum based on their tangibility, ranging from tangible dominant to intangible dominant.

tangible dominant

Goods that possess physical properties that can be felt, tasted, and seen prior to the consumer's purchase decision.

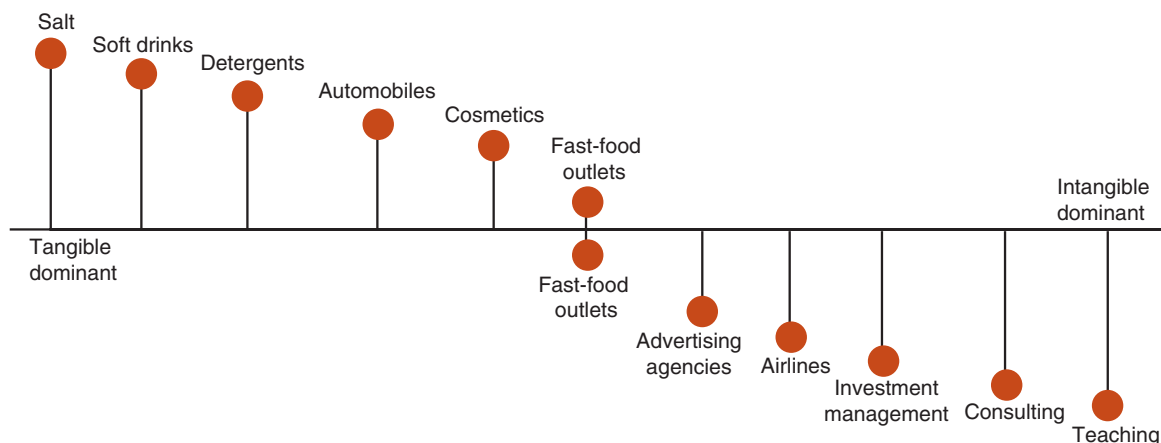
intangible dominant

Services that lack the physical properties that can be sensed by consumers prior to the purchase decision.

marketing myopia

Condition of firms that define their businesses too narrowly such as firms that produce tangible products and overlook the service aspects of their products.

Figure 1-3 The Scale of Market Entities



Source: Adapted from G. Lynn Shostack, "Breaking Free from Product Marketing," *The Journal of Marketing* (April 1977), p. 77.

commodity into an experience, and, by doing so, increases the revenue-producing opportunities of the product dramatically. For example, consider the enhanced value of a Starbucks coffee shop as it markets the experiential aspects of their product as well as the product itself.

1-3b The Economic Value of Transforming Goods into Services¹¹

When priced as a raw *commodity*, coffee beans are worth little more than \$1 per pound. When processed, packaged, and sold in the grocery store as a *good*, the price of coffee jumps to approximately 25 cents a cup. When that same cup is sold in a local restaurant, the coffee takes on more *service* aspects and sells for roughly \$2 per cup. However, in the ultimate act of added value, when that same cup of coffee is sold within the compelling *experience* of a five-star restaurant or within the unique environment of a Starbucks, the customer willingly often waits in long queues and pays \$4 to \$5 per cup. In this instance, the ordering process, the creation of the cup of coffee, and the actual consumption of the coffee become “a pleasurable, even theatrical” experience. Hence, the valuable lesson to learn is that the economic value of products, like the coffee bean, progresses from *commodities* to *goods* to *services* to *compelling experiences* (see Figure 1-4). In the preceding example, coffee is transformed from a raw commodity valued at approximately \$1 per pound to \$4 to \$5 per cup—a markup as much as 5,000 percent! Clearly, adding services aspects to tangible products can greatly enhance the value of the product provided to customers!

1-3c The Molecular Model¹²

As previously discussed, the Scale of Market Entities demonstrates that products fall along a continuum ranging from tangible-dominant to intangible-dominant. The molecular

model assists service marketers by further breaking down (dissecting) products into their specific tangible and intangible components. Ultimately, a **molecular model** is a pictorial representation of the relationship between the tangible and intangible elements of a firm’s operation as experienced by the consumer.

For example, Figure 1-5 depicts a molecular model that provides an overview of some of the customer touchpoints associated with air travel. As previously discussed, airlines differ from automobiles in that customers typically do not physically possess the airline. Customers in this case purchase the core benefit of transportation and experience all the corresponding tangible (shown as solid-lined circles) and intangible benefits (denoted by dashed-lined circles) that are associated with flying.

Admittedly, the illustration provided in Figure 1-5 is an oversimplification of the bundle of benefits that ultimately comprise the air travel experience; however, from a managerial perspective, molecular models identify the tangible and intangible product contact points between the customer and the service organization that need to be effectively managed. For example, a successful airline experience is not just determined by the *outcome* of the flight—the safe arrival of passengers to their selected destinations. The airline molecular model expands our understanding of the customer experience by also documenting the *process* the customer must navigate during preflight, in-flight, and postflight stages of the experience.

molecular model

A conceptual model of the relationship between the tangible and intangible components of a firm’s operations as experienced by the consumer.

Figure 1-4 The Progression of Value

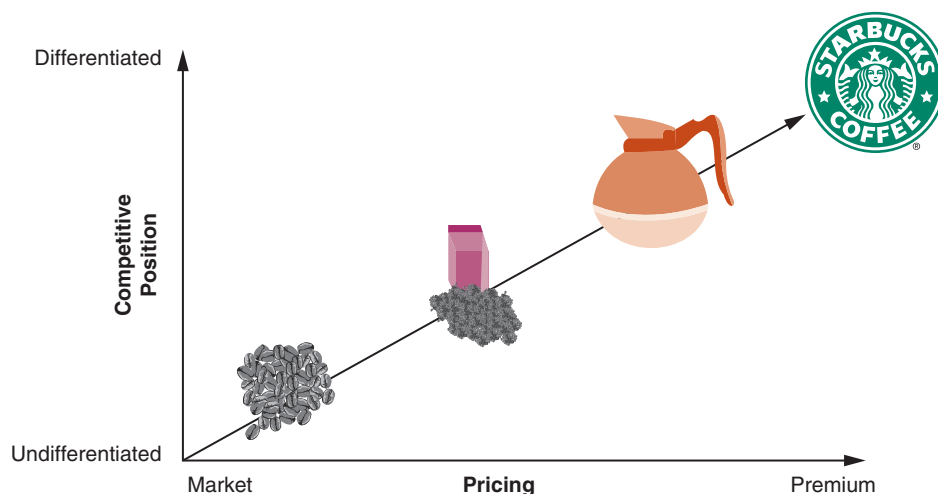
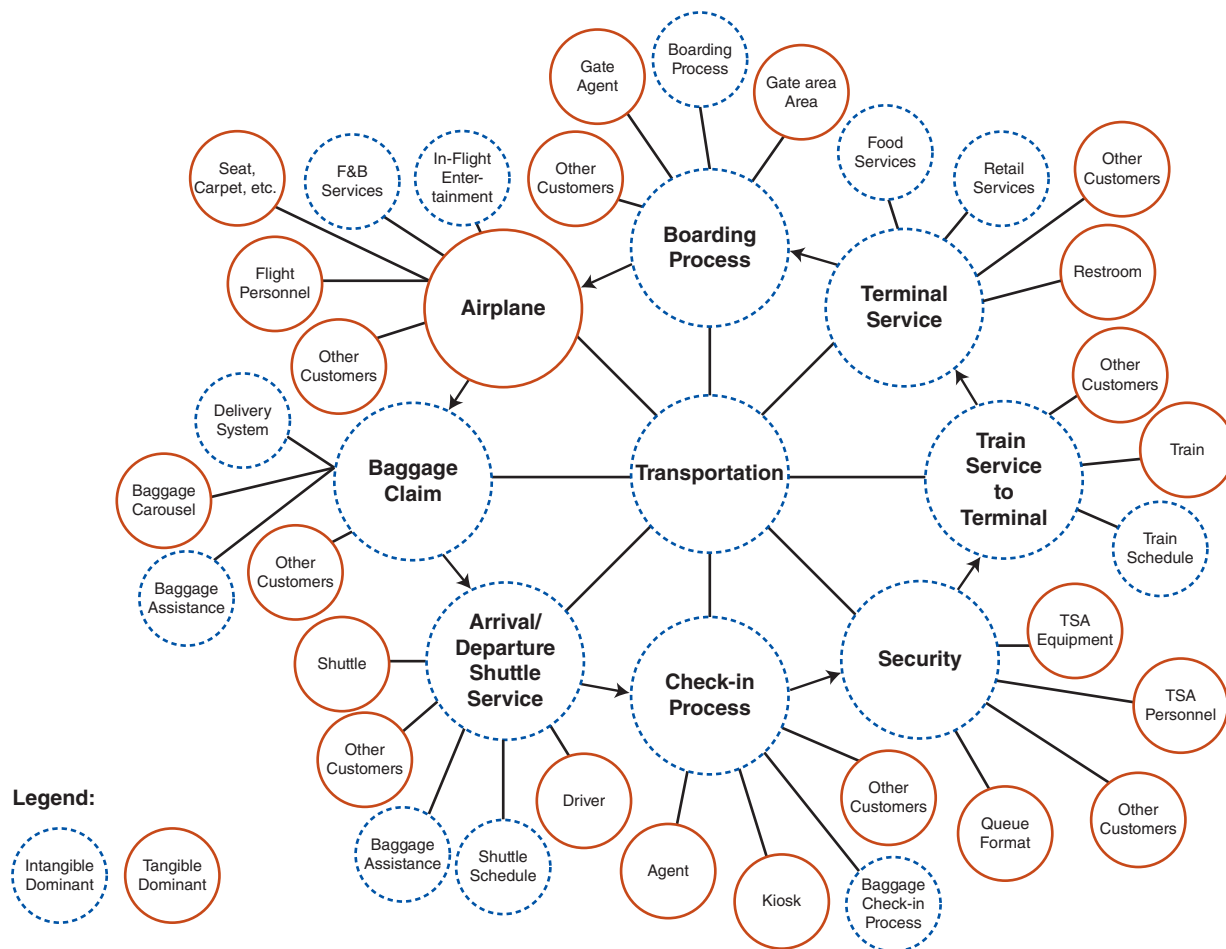


Figure 1-5 Example of a Molecular Model: Air Travel



Source: Original Artwork

Lessons Learned The overriding benefits obtained by developing and examining molecular models are threefold. First, molecular models provide managers with an appreciation for the intangible and tangible customer touchpoints that comprise how the customer directly and indirectly interacts with the service organization. Once managers understand this broadened view of their products, they can do a much better job of understanding customer needs and servicing those needs more effectively.

The second benefit derived from developing and examining a molecular model is that this exercise may identify new product development opportunities. These new ventures may enable a service provider to differentiate their product offerings from those of competitors as well as create new revenue-producing opportunities for the firm. For example, recognizing the customer need for seamless and hassle-free pre- and postflight transportation and baggage handling, United Airlines now offers an airline/landline bundled product offering that includes air transportation, motorcoach bus service, and baggage handling from the customer's point of departure to their Colorado ski resort final destination.¹³

Finally, a molecular model effectively demonstrates that customers evaluate goods and services differently. For example, customer evaluations of goods are primarily based on the *outcomes* associated with the physical (tangible) aspects of the product itself. In other words, did the good perform as it was manufactured to do so? In contrast, customer service evaluations are based both on the *outcomes* associated with the purchase as well as the *process* (experiential aspects) that is involved as the service is being produced and consumed. As a result, service marketers who develop a keen understanding of creating and effectively managing compelling service experiences have a clear competitive advantage.

1-4 Creating and Managing Compelling Service Experiences

All products, whether they are goods or services, etc., deliver a bundle of benefits to the consumer. In fact, it is the bundle of benefits that will ultimately define a company's

success. Firms that fail to provide benefits to their consumers really have no reason to exist! Referred to as the **benefit concept**, a product's bundle of benefits is the encapsulation of the tangible and intangible components of a product in the consumer's mind. Astute service marketers understand how the benefit concept associated with the purchase of goods is evaluated differently by consumers compared to how the benefit concept is evaluated by consumers of services.

Consider purchasing a simple piece of fruit, such as an orange from a typical grocery store. If placed on The Scale of Market Entities, an orange would certainly be described as tangible dominant. Customers can see the orange, they can touch the orange, smell its fragrance, taste the orange, etc. Hence, when consumed in isolation (at home for breakfast), there are few experiential aspects associated with the consumption of an orange. For example, a typical consumer of an orange will never see the orange grove where the fruit was grown, nor will they see the inside of the processing plant where the fruit was prepared for shipping. Additionally, consumers of the orange will most likely never interact with the grove workers who plucked the fruit from the tree or with the management staff that directs the workers. Furthermore, the consumer will generally not consume the orange at the grocery store in the presence of other customers. Consequently, given the orange's tangible dominant nature, the bundle of benefits consumers receive from the orange are mostly encapsulated within the orange itself.

In contrast to goods, services are intangible dominant and lack physical components that are easily evaluated. Consequently, consumer evaluation of services is much more complex as services deliver their bundle of benefits through the experience that is created for the consumer. In comparison to our orange example, college students who pay tuition to purchase educational services are physically present in the "factory" where "knowledge" is produced. As such, college students do interact with a variety of contact personnel (e.g., instructors, administrators, advisers) who deliver a wide array of information and knowledge. Moreover, students consume knowledge in the presence of other students, where they (other customers) may influence (for better or worse) one another's service experience. Furthermore, since students typically consume education within the walls of educational institutions (the service factory), the ambiance of the classroom setting, including the lighting, temperature, and overall decor, will influence the student's learning experience. Hence the benefit concept for educational services is delivered via the educational experience that is created for students and the subsequent evaluation of the quality of education will be based primarily on the experience as well.

benefit concept

The encapsulation of the benefits of a product in the consumer's mind.

Lessons Learned In summary, the delivery system associated with the benefit concept for goods is encapsulated within the good itself. As such, customers of goods typically evaluate the benefit concept based on the *outcome* associated with consuming (using) the good. In comparison, the benefit concept associated with services is delivered through the experience that is created for the customer. Consequently, service customers evaluate the bundle of benefits associated with services based on both the *outcome* and the *process* involved while consuming (using) the service. Astute service marketers understand that customer evaluations of services involve far more characteristics as compared to the evaluation of goods. As a result, effectively managing all the components of the service experience is of paramount importance.

1-4a The Servuction Model: The Four Components of the Service Experience¹⁴

Given the importance of the experiential nature of services, service marketers benefit from understanding and purposely managing the main factors that influence the customer's overall service experience. The **servuction model**, depicted in Figure 1-6, provides a simple but powerful illustration of the

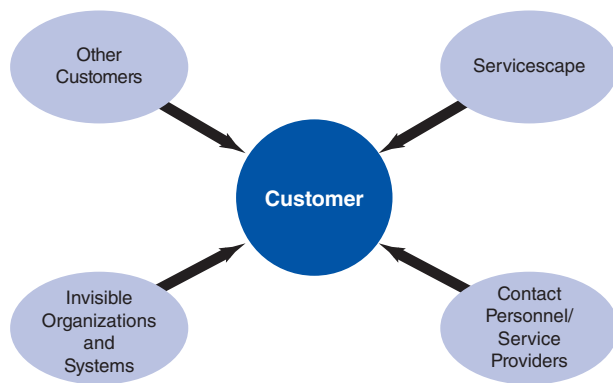


"As you can see from the flow chart, the problem stems from a lack of direction."

Managing service experiences effectively requires operations, human resources, and marketing to all be on the same page. The Servuction Model provides the direction necessary to create compelling service experiences.

servuction model

A model used to illustrate the four factors that influence the service experience, including the servicescape, contact personnel/service providers, other customers, and the invisible parts of the organization and systems.

Figure 1-6 The Servuction Model

Source: Adapted from E. Langeard, J. Bateson, C. Lovelock, and P. Eiglier, *Marketing of Services: New Insights from Consumers and Managers*, Report No 81-104 (Cambridge, MA: Marketing Sciences Institute, 1981).

components that influence a customer's service experience. The four components of the servuction model include:

1. The servicescape
2. Contact personnel/service providers
3. Other customers
4. Invisible organizations and systems

The Servicescape The term **servicescape** refers to the use of physical evidence to design service environments. Due to the intangibility of services, customers often have trouble evaluating the quality of service objectively. This is particularly true when the service is highly specialized and technical such as health care and financial services where the typical customer does not have the expertise to objectively evaluate the service provider. As a result, customers often rely on the physical evidence that surrounds the service to help form their evaluations.

The servicescape consists of ambient conditions such as room temperature and music; inanimate objects that assist the firm in completing its tasks, such as furnishings and business equipment; and other physical evidence such as signs, symbols, and personal artifacts such as family pictures and personal collections. Although the initial reaction to creating and maintaining servicescapes is to make them as nice as possible, the servicescape needs to be consistent with customer expectations. If the servicescape is too plush, the customer may perceive that the firm charges higher prices compared to competitors. On the other hand, if the servicescape is in disarray compared to what is typical, customer perceptions of poor quality and lack of professionalism may emerge.

servicescape

The use of physical evidence to design service environments.

The use of physical evidence (also referred to as tangible clues) varies by the type of service firm. Service firms that require the customer's physical presence for the service to occur, use physical evidence extensively as they design facilities and other tangibles associated with the service. In contrast, service operations that do not require the customer's physical presence throughout the entire encounter, such as FedEx drop-box locations, Nordic Bank's ATMs (automated teller machines), and Air Asia's self-service kiosks, use limited physical evidence. Regardless of the variation in usage, all service firms need to recognize the importance of creating and effectively managing the servicescape due to its' multifaceted roles pertaining to:

- Packaging the service—the exterior architectural design and interior décor of a P. F. Chang's China Bistro serve as this popular restaurant's package.
- Facilitating the service delivery process—the physical structures that contain the queues (e.g., ropes, walls) as well as informational signage at Disney World facilitate the process of customers loading and offloading the theme park's many attractions.
- Socializing customers and employees—the uniforms worn by Ritz-Carlton Hotel employees allow for easy identification of hotel staff and create an atmosphere of unity among its employees.
- Differentiating the firm from its competitors—The exterior architectural design of the Burj Al Arab Hotel clearly differentiates it from its competitors (see Global Services in Action).

Contact Personnel/Service Providers Another important aspect of the customer's experience involves the contact personnel and service providers who interact directly with customers. Technically speaking, **contact personnel** are employees—other than the primary service provider—who briefly interact with the customer. Typical examples of contact personnel are parking attendants, receptionists, and hosts and hostesses. In contrast, **service providers** are the primary providers of the core service, such as a business consultant, waiter or waitress, dentist, physician, or college instructor.

Unlike the consumption of goods, the consumption of services often takes place where the service is produced (e.g., dentist's office, restaurant, and hairstylist) or where the service is provided at the consumer's residence or workplace (e.g., lawn care, house painter, janitorial service). Regardless of the service delivery location, interactions between consumers and contact

contact personnel

Employees other than the primary service provider who briefly interact with the customer.

service providers

The primary providers of a core service, such as a waiter or waitress, dentist, physician, or college instructor.

Global Services in Action

The Burj Al Arab Hotel: Dubai's Iconic Hotel¹⁵

Every now and then an iconic structure is built that captures the cultural spirit of its surroundings. Paris has the Eiffel Tower, Sydney has its Opera House, Moscow has Saint Basil's Cathedral, and now Dubai has the Burj al Arab Hotel. Towering over 1,000 feet and overlooking the warm blue waters of the Arabian Gulf, the Burj al Arab is the fourth tallest hotel in the world. The exterior architectural design of the hotel is striking as it has been purposely built to resemble the billowing sail of a dhow—a type of Arabian trading vessel. At night, the hotel is illuminated by a choreographed light show. Not surprisingly, the Burj Al Arab is one of the most photographed structures in the world.

Upon entering the hotel, guests are dazzled by its opulence. The views start in the hotel lobby, where a 590-foot-tall atrium greets guests as they are escorted to one of 202 two-story suites. The smallest suite in the hotel offers over 1,800 square feet of living space, while the largest suite is 8,400 square feet. As one guest remarked, “The room is so large that coming to the door is a chore—so they have remote controls that allow you to see who is at the door from every

television (there are several) and unlock the door for [them].” Rain showers and Jacuzzis are standard in every suite. Flowers and exotic fruits are provided to the suites daily by a brigade of personnel that offer the finest in personal service.

Each floor has its own reception desk, allowing guests to acquaint themselves with the hotel's personnel. Personalized and private, check-in services are performed within each guest suite. All suites offer a two-story panoramic view of the hotel's surroundings and are immaculately maintained by a butler service that is available 24 hours a day. If needed, the Burj al Arab maintains a fleet of chauffeur-driven Rolls-Royce automobiles that deliver guests to their destination in style. Given that the hotel is built on an island, the Burj al Arab is connected to the mainland by the hotel's private bridge.

The Burj Al Arab truly offers guests a remarkable service experience. It is a must stop for the world's rich and famous and for those who like to splurge for special occasions. Prices range from approximately \$2,000 per night to over \$18,000 per night for the hotel's Royal Suite.

personnel/service providers are commonplace. As a result, service providers have an important impact on the service experience. For example, when asked what irritated them most about service providers, customers have noted seven categories of complaints:

- **Apathy:** What comedian George Carlin refers to as DILLIGAD—Do I look like I give a damn?
- **Brush-off:** Attempts to get rid of the customer by dismissing the customer completely ... the “I want you to go away” syndrome
- **Coldness:** Indifferent service providers who could not care less what the customer really wants
- **Condescension:** The “you are the client/patient, so you must be stupid” approach
- **Robotism:** When the customers are treated simply as inputs into a system that must be processed
- **Rulebook:** Providers who live by the rules of the organization even when those rules do not make good sense
- **Runaround:** Passing the customer off to another provider, who will simply pass them off to yet another provider.¹⁶

Service personnel perform the dual functions of (1) interacting with customers and serving as the *public face* of the organization; and (2) engaging in *information transfer* by reporting back to the internal organization and then communicating back again to customers. Strategically, service personnel are an important source of product differentiation. Competitors can copy another organization's prices, service offerings, location, promotions, processes and even servicescapes; however, competitors cannot duplicate personnel. Customers remember service organizations with great personnel and tend to return to these organizations due to the superior customer service they have received.

It is often challenging for a service organization to differentiate itself from other similar organizations in terms of the benefit bundle it offers or its delivery system. For example, many airlines offer similar bundles of benefits and fly the same types of aircraft from the same airports to the same destinations. Therefore, their only hope of a competitive advantage is from the service level—the way things are done. Hence, the factor that often distinguishes one airline from another is the poise and attitude of its service providers. Singapore Airlines, for example, enjoys an excellent reputation due in large part to the grace of its flight attendants. Similarly, Southwest Airline flight attendants have become famous for their creative flight announcements such as David Holmes, a.k.a. the rapping flight attendant.¹⁷ Other firms that hold a differential advantage over competitors based on personnel include the Ritz Carlton, Disney Enterprises, and Chick-fil-A—just try to leave a Chick-fil-A without an employee saying “my pleasure” simply cannot be done.¹⁸

Other Customers Ultimately, the success of many service encounters depends on how effectively the service firm manages its clientele. A wide range of service establishments such as restaurants, hotels, airlines, and sporting venues serve multiple customers simultaneously. Due to their close proximity, other customers can have a profound impact on an individual's service experience. Research has shown that the presence of **other customers** can enhance

other customers

Customers who share the primary customer's service experience.

or detract from one's service experience.¹⁹ For example, how many different ways have classmates either positively or negatively influenced your overall educational experience? The influence of other customers can be *active* or *passive*. Examples of *other customers* actively detracting from one's service experience include unruly customers in a restaurant or a nightclub, children crying during a church service, or theatergoers talking and texting during a movie.²⁰

It seems in recent times, the impact of negative actions of other customers on the service experience has grown exponentially. For example, Golden Corral, a U.S.-based family buffet-style restaurant, recently experienced a near riot in one of their stores as 40 customers tangled with one another over an apparent shortage of steak.²¹ In addition, airline passenger refusal to follow behavioral guidelines provided by flight attendants have led to planes being rerouted to alternative destinations or never departing at all which impacts everyone's experience. In 2021, 5,981 unruly passenger incidents were reported to the U. S. Federal Aviation Administration.²²

Similarly, passive examples of other customer influence on the service experience include customers who show up late for appointments, thereby delaying each subsequent appointment; an exceptionally tall person who sits directly in front of another customer at a movie theater; or the simple impact of being part of a crowd, which increases the waiting time for everyone.

The use of other customers to enhance the service experience seems to be an underutilized resource for service firms. Other customers can enhance the service experience by sharing their expertise and past experiences with novice customers. The personalities of other customers may "click" with one another and result in a more enjoyable experience for everyone. Other customers may join one another in a game of trivia in a bar or interact with one another on a dating site. There seems to be a multitude of opportunities where the impact of other customers on the service experience can be proactively managed in a positive manner.



Peter Treanor/Alamy Stock Photo

The service experience is often described as a "shared experience" where "other customers" can dramatically affect the outcome of the one's overall experience. Thousands of unruly passenger incidents are reported to the Federal Aviation Administration every year.

Though many customer actions that enhance or detract from the service experience are difficult to predict, service organizations can try to manage the behavior of customers so that they coexist peacefully. For example, firms can manage waiting times so that customers who arrive earlier than others get first priority, clearly target specific age segments to minimize potential conflicts between younger and older customers and provide separate dining facilities for customers with small children.

Invisible Organization and Systems Thus far, the servuction model suggests that the major components of the customer experience are: (1) the servicescape; (2) contact personnel and/or service providers; and (3) other customers. All three of these components are clearly visible to the customer. Moreover, the benefits service consumers receive from these three components are derived from an interactive process that takes place throughout the service experience.

The visible components that comprise the servuction model cannot exist in isolation, and indeed, they have to be supported by invisible components that tie together the service organization and its systems. Ultimately, a service firm's **invisible organization and systems** reflect the rules, regulations, and processes upon which the organization is based. As a result, although rules, regulations, and processes are invisible to the customer, they can have a very profound influence on the consumer's overall service experience. The invisible organization and systems determine factors such as information forms to be completed by customers, the number of employees working in the firm at any given time, and the policies of the organization regarding countless decisions that may range from the substitution of menu items to whether the firm accepts AARP cards for senior citizens' discounts. The invisible organization and systems drive the service firm's processes and serve as the "glue" to help the service firm in providing a seamless service experience.

Lessons Learned Ultimately, the four components of the servuction model combine to create the experience for the consumer, and it is the experience that creates the bundle of benefits that the consumer receives. Creating experiences for consumers is not a new idea. Entertainment industry entities such as Disney have been doing it for years. Others, particularly in the hospitality sector, have recently picked up on the idea and have introduced "experience" product concepts such as Singapore's Marina Bay Sands Hotel and Casino, Las Vegas's Bellagio Fountains, and the Village of Baytowne Wharf located in Sandestin, Florida. The question facing many other types of service providers is how to transform their own operations into memorable experiences for the consumer.

invisible organization and systems

That part of a firm that reflects the rules, regulations, and processes upon which the organization is based.



Although a customer may never see what is going on in a restaurant's kitchen, this important aspect of the “invisible organization and system” will ultimately affect the customer's dining experience.

Finally, the most profound implication of the servuction model is that it demonstrates that consumers are an integral part of the service process. Their participation may be active or passive, but they are always involved in the service delivery production process. This has a significant influence on the nature of the services marketing tasks, some of which are positive, while other situations involving the presence of the customer present a number of challenges that are not typically faced by the manufacturers of goods.

1-5 Why Study Services?

There are a multiple reasons why the study of services marketing has become increasingly important including: (1) the growth of the global service economy in terms of contributions to gross domestic products (GDP); (2) the growth of the global service workforce; (3) the emergence of technologically based services that have transformed many service industries; and (4) the importance of developing sustainable services marketing business practices.

1-5a The Growth of the Global Service Economy

Traditionally, economies throughout the world tend to transition from an *agricultural economy* (primary sector) to an *industrial economy* (secondary sector) to a *service economy*

(including tertiary, quaternary, and quinary sectors). The United Kingdom was the first economy in the modern world to make this transition and many more so-called industrialized countries such as the United States, Germany, Belgium, and France soon followed. Ultimately, the service economy is comprised of nine supers sectors²³:

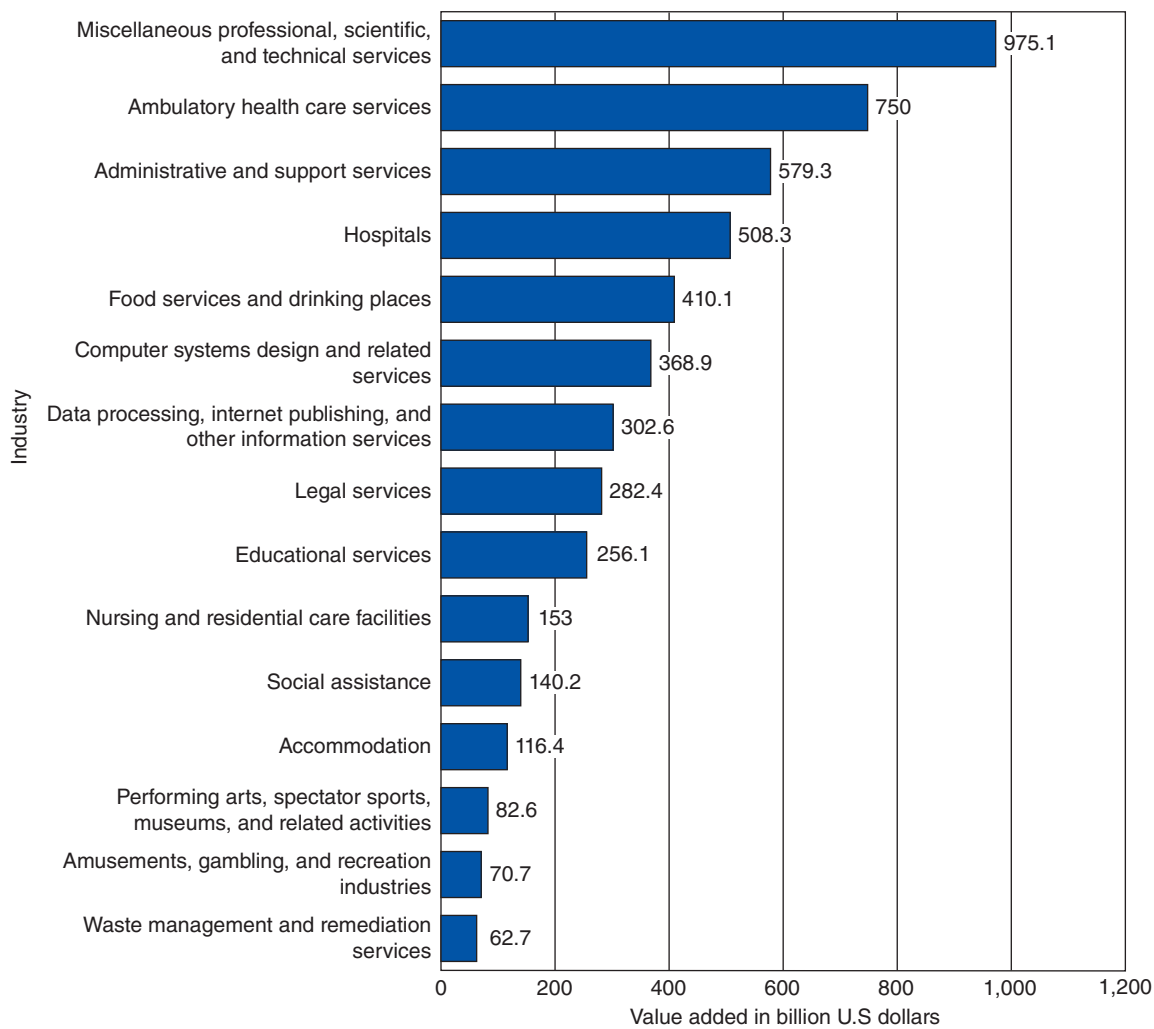
- Education and Health Services
- Financial Activities
- Government
- Information
- Leisure and Hospitality
- Professional and Business Services
- Transportation and Utilities
- Wholesale and Retail Trade
- Other Services

The increased rate of transformation from an agricultural to a manufacturing to a service-based economy has generally been caused by a highly competitive international marketplace. Simply stated, goods are more amenable to international trade than services, thereby making them more vulnerable to competitive actions. In other words, countries that industrialized their economies first eventually face pressure by other countries who are making their own transition from an agricultural to an industrial economy. These “newcomer” countries offer lower production costs (especially labor) and tend to have fewer political, legal, and environmental constraints which attracts foreign investment. Consequently, as industrial sectors flow from one country to the next, and the purchasing power of the middle-class continues to grow, the countries that lose industrial sector jobs begin to rely more heavily on the growth of their service sectors as the primary mainstay of their economies. This whole process repeats itself over and over again as other less developed countries enter the fray, consequently facilitating the transformation from agriculture to industrial to service-based economies—which in turn has created economic growth throughout the world.

Worldwide economic growth, in and of itself, has further fueled the growth of the service sector, as increasing prosperity means that companies, institutions, and individuals increasingly become willing to trade money for time and to buy services rather than spend time doing service-related activities for themselves. Higher disposable incomes have led to a proliferation of personal services, particularly in the entertainment sector. Growth has meant an increase not only in the overall volume of services, but in the variety and diversity of services offered. Figure 1-7 illustrates the dominance of service super sectors in terms of contribution to the United States Gross Domestic Product (GDP).

Most of the world has experienced phenomenal growth in service industries, shown clearly in worldwide GDP (see Table 1-1). All developed economies now have large service sectors, however, leading the pack with service economies that account for more than 90 percent of their country's GDP are Monaco, Hong Kong, the Bahamas, and Slovenia.

Figure 1-7 Service Sector Value Added to the U.S. Gross Domestic Product by Industry



Source: <https://www.statista.com/statistics/1233657/us-service-sector-value-added-gdp-industry/>

Table 1-1 Countries Most Reliant on the Service Industry

Rank	Country	Service Sector as Percentage of Nominal GDP	Rank	Country	Service Sector as Percentage of Nominal GDP
1.	Monaco	95.1	9.	Cypress	81.1
2.	Hong Kong	93.2	10.	Malta	80.9
3.	The Bahamas	91.3	11.	Grenada	80.5
4.	Slovenia	90.5	12.	Antigua and Barbuda	80.0
5.	Montenegro	87.9	13.	Djibouti	79.9
6.	Luxembourg	86.0	14.	United States	79.6
7.	Barbados	82.9	15.	Seychelles	79.5
8.	Palau	81.8			

Source: <https://www.worldatlas.com/articles/countries-most-reliant-on-the-service-industry.html>

Table 1-2 Top 20 Global Employment in Services (% of Total Employment)*

Rank	Country	%	Rank	Country	%
1	Macao	90	10	Sweden	80
2	Hong Kong	89	12	Canada	79
2	Luxembourg	89	12	Cyprus	79
4	Guam	84	12	Norway	79
4	Singapore	84	12	United States	79
6	The Bahamas	83	12	Virgin Islands (U.S.)	79
7	Israel	82	17	Argentina	78
8	Netherlands	82	17	Australia	78
9	United Kingdom	81	17	Barbados	78
10	Malta	80	17	Belgium & Iceland	78

*Average Worldwide Global Service Employment: 51 percent

Source: <https://data.worldbank.org/indicator/SL.SRV.EMPL.ZS>

1-5b The Growth of the Global Service Labor Force²⁴

As the service economy grew, so did the service labor force. Throughout the world, the growth and shifting of employment from agriculture to manufacturing to services is evident (see Table 1-2). The service industries not only have grown in size, but along the way they also have absorbed all the jobs shed by traditional industries, such as agriculture, mining, and manufacturing. The U.S. Bureau of Labor Statistics expects service occupations to account for more than 95 percent of all new job growth for the period 2020-2030. Moreover, for the period 2020-2030, total employment is expected to increase 7.8 percent (11.9 million people), the vast majority of which will be in the service sector. Today,

the top 20 U.S. industries with the largest employment are all in the service sector (see Table 1-3)

In 1900, 30 percent of the U.S. workforce was employed in the service sector; today, service industries employed approximately 80 percent of the U.S. workforce (see Table 1-4). At the same time, the proportion of the workforce engaged in agriculture declined from 42 percent to just 1.5 percent. In 1948, 20.9 million persons were employed in goods production of all kinds in America, and 27.2 million persons were employed in services. By the mid-2020s, employment in goods production is an estimated 20 million, whereas service employment had risen to more than 122 million—far more than the total number of persons employed in all sectors 70 years earlier.

Table 1-3 Top 20 U.S. Industries with the Largest Employment

Rank	Industry	Rank	Industry
1	Elementary and secondary schools; local	11	State Government, Excluding Education and Hospitals
2	Local Government, Excluding Education and Hospitals	12	Computer Systems Design and Rel Services
3	General medical and surgical hospitals; private	13	Credit intermediation and related activities (5221,3)
4	Full-Service Restaurants	14	Colleges, universities, and professional schools; state
5	General Merchandise Stores	15	Services for the Elderly and Disabled
6	Grocery and specialty food stores	16	Real Estate
7	Offices of Physicians	17	Colleges, universities, and professional schools; private
8	Temporary Help Services	18	Management & Technical Consulting Svc
9	Management of Companies and Enterprises	19	Nursing Care Facilities
10	Federal Government, Excluding Postal Service	20	Home Health Care Services

Table 1-4 U.S. Employment by Major Industry Sector

Industry Sector	Employment, 2010	Employment, 2020	Employment, 2030
Total	141,926.7 (100%)	153,533.8 (100%)	165,413.7 (100%)
Goods-producing, excluding agriculture	17,702.2 (12.5%)	20,021.6 (13%)	20,578.5 (12.4%)
Mining	654.8	573.1	671.3
Construction	5,518.3	7,269.4	7,584.4
Manufacturing	11,529.1	12,179.1	12,322.8
Services-providing, excluding special industries	113,261.8 (79.8%)	122,773.6 (80%)	134,114.6 (81.1%)
Utilities	552.8	541.9	502.9
Wholesale trade	5,386.6	5,639.8	5,780.8
Retail trade	14,446.3	14,853.1	14,266.3
Transportation and warehousing	4,179.2	5,555.1	6,189.2
Information	2,707.2	2,694.4	2,977.2
Financial activities	7,694.8	8,723.7	9,027.1
Professional and business services	16,782.9	20,245.7	22,265.6
Educational services	3,155.1	3,459.4	3,983.6
Health care and social assistance	16,820.0	19,776.2	23,092.6
Leisure and hospitality	13,048.7	13,326.7	16,566.3
Other services	5,997.7	6,048.8	6,804.9
Federal government	2,977.0	2,929.0	2,860.9
State and local government	19,513.5	18,979.8	19,797.1
Agriculture, forestry, fishing, and hunting	2,102.9 (1.5%)	2,241.3 (1.5%)	2,296.3 (1.4%)
Agriculture wage and salary	1,282.3	1,500.8	1,579.1
Agriculture self-employed	820.6	740.5	717.3
Nonagriculture self-employed	8,859.8 (6.2%)	8,497.3 (5.5%)	8,424.3 (5.1%)

Source: Adapted from <https://www.bls.gov/emp/tables/employment-by-major-industry-sector.htm>

Even the numbers recorded in Table 1-4 conceal the true contribution of services to economic growth, because service employees on the direct payroll of goods companies are counted as industrial employees. For example, the service division of IBM, one of the largest worldwide service organizations, is counted as being in the goods, not the service sector, because the government views IBM's core business as computers and electronics. In contrast, IBM views itself as a major service provider in the "business solutions" industry. A truer picture can be obtained by looking at the combination of persons employed formally in the services sector—such as independent architectural or accounting firms—and the persons employed in those same jobs but working for firms based in the goods sector.

One of the consequences of this change has been a change in the shape of the workforce itself. For example, the bulk of new jobs created in America over the last 50 years have been white-collar jobs in higher-level professional, technical, administrative, and sales positions. Experts monitoring the American economy note that as services have replaced goods as the most dominant force in the economy, "human capital" has replaced physical capital as the important source of investment. According to service sector analysts:

"Americans must unshackle themselves from the notion that goods alone constitute wealth, whereas services are nonproductive and ephemeral. At the same time, they should act on Adam Smith's understanding that the

wealth of a nation depends on the skill, dexterity, and knowledge of its people.”²⁵

Given the importance of the global service economy both in terms of contributions to GDP and the worldwide growth of the service labor force, this text provides “Global Services in Action” box features are provided throughout the book to highlight service marketing business practices throughout the world.

1-5c The Emergence of E-Service(s): Self-service Technologies, Robotics, and Artificial Intelligence

Technology represents the application of science to solve problems and to perform tasks. Phenomenal developments in technology in the form of e-services such as self-service technologies, robotics, and artificial intelligence are changing the fundamental nature of service marketing encounters.

What are e-services? An **e-service** is a technology-based service that completes tasks, solves problems, and/or conducts transactions. E-services can be used by people, businesses, and other e-services and can be accessed via a wide range of information appliances.” E-services that are available today include your local bank’s online account services, ATMs, UPS package tracking service, Schwab’s stock trading services, Travelocity’s online purchasing options, a grocery store’s self-checkout option, and the list could go on and on. Today, many e-services have become more commonly known as **self-service technologies**.

Self-service Technologies Proponents of self-service technologies (SSTs) frequently boast that “the best service is self-service!” Consequently, companies should operate under the philosophy “help thy customer, help thyself.” Ideally, SSTs are purposely created to automate routine interactions between customers and providers with the goal of providing convenience and efficiency to both parties.²⁶ When developed and implemented successfully, consumers love self-service technologies.²⁷ With respect to airlines, customers can easily compare prices of alternative providers, book their own tickets, select their own seats, and preprint boarding passes to bypass check-in procedures. Ultimately, consumers often enjoy the convenience, speed, and ease of using self-service technologies as compared to traditional employee-assisted services. The Top 10 self-service technologies in vogue today include: automated teller machines (ATM’s), self-service desks at the airport, self-service gas stations, self-service checkouts at the supermarket, automated technology in hotels, self-parking,

self-ordering food, post offices, museums and art galleries, and theatre ticketing kiosks.²⁸

SSTs are great when they work; however, when something goes wrong and consumers cannot successfully navigate SST menus, self-service technologies can become a major source of customer dissatisfaction. In some cases, customers view advances into SSTs as a purposeful strategy for the company to distance itself from its customers. Case in point: customers calling by phone who are placed on hold are often directed to the firm’s website for allegedly faster service. As a result, service firms employing SSTs must carefully consider the customer’s overall experience. Ultimately, a successful self-service must provide the customer some form of a benefit (e.g., convenience, an opportunity to customize, cost savings, time savings) in order to be implemented effectively. A self-service technology that is implemented purely to decrease the operating costs of the firm will most likely not be well received and will result in customer dissatisfaction.

Robotics In general, **robotics** refers to programmable machines designed to perform a series of repetitive tasks such as those that take place in an industrial setting. Service robots differ from industrial robots both in role and form.²⁹ Service robots are dedicated to performing tasks that are useful to humans. More specifically, service robots are particularly useful in the service industry to performing “tedious or boring tasks, murky, dirty jobs, dismal, time-consuming, remote, risky, and repetitive tasks.”³⁰ Service robots may operate independently (full autonomy) or require human assistance to complete the task (partial autonomy).

Service robots are currently operating in a wide variety of service sectors including retail and wholesale, hotel and hospitality, hospital and health care, space exploration, security operations such as police enforcement, and a variety of other particularly risky occupations. For example, retail and wholesale robots can verify store pricing labels and “pick” merchandise for shipment, front office service robots interface with customers to schedule appointments and connect customers to service providers, domestic service robots are utilized to clean homes, engage in yardwork, and clean swimming pools, and scientific service robots collect, analyze, and interpret data. Service robots are even used in the medical profession to perform complicated operations such as prostate cancer surgery.³¹

The primary benefits of employing service robots include worker safety, improved performance efficiency, improved performance effectiveness for risky tasks and/or tasks requiring precision and reduced operating costs. In addition, service robots work 24/7, are never sick, arrive on time, do not take vacations, or go on strike. Advocates of service robots also note that the use of robots creates jobs

e-service

A technology-based service that completes tasks, solves problems, and/or conducts transactions.

self-service technologies

Technologically based services that help customers help themselves.

robotics

Programmable machines designed to perform a series of repetitive tasks such as those that take place in an industrial setting.

in the programming industry, reduces the amount of human labor needed in repetitious and risky jobs allowing workers to engage in more intellectual tasks, and helps keep jobs locally. Will the average consumer accept the use of service robots? Social distancing associated with the pandemic and labor shortages caused by “The Great Resignation” seem to have accelerated the rate of acceptance in the marketplace.

Artificial Intelligence³² In contrast to robotics that focuses on programing machines to perform a series of repetitive tasks, **artificial intelligence (AI)** focuses on developing smart machines that learn from experience, adapt to new information, and perform tasks that would normally require human intelligence. Robotics combined with AI can produce smart robots. For example, the Roomba 980 iRobot, a fully automated household vacuum, equipped with a path-finding AI algorithm, can scan the size of the room, identify obstacles, and execute an efficient route to vacuum the room. Service industries impacted by AI include self-driving vehicles, smart assistants, health care management, disease mapping, automated financial investing, virtual travel

artificial intelligence (AI)
focuses on building smart machines that learn from experience, adapt to new information, and perform tasks that would require human intelligence.

booking agents, and social media monitoring among others. Examples of everyday uses for AI are presented in Table 1-5.

As the uses for AI continue to evolve, its development is set to follow along a four-stage continuum ranging from basic to complex. The four types of AI include:

- **Reactive Machines:** Reactive machines reacts to input by providing output. Reactive machines do not learn from past experiences and cannot form memories. IBM’s chess-playing supercomputer, Deep Blue, is a classic example of a reactive machine.
- **Limited Memory:** This type of AI analyzes previous recent experiences to make better predictions. For example, self-driving cars use limited memory AI to navigate city streets.
- **Theory of Mind:** Yet to be developed, *Theory of Mind* AI would recognize that humans have thoughts and feelings, and AI should respond accordingly. For example, a user can yell at Google Maps’ recommendations all day long; however, Google Maps is unaware that the user is frustrated. As a result, Google Maps does not reply with an empathetic response...the AI will continue to provide the same directional advice repeatedly.
- **Self-Awareness:** This type of artificial intelligence takes the development *Theory of Mind* AI one step further. In this case, the AI would not only recognize the feelings and behavior of users but also would have its own human-level consciousness including the capabilities to think, desire, and understand its own feelings.

Table 1-5 Examples of Everyday Uses for Artificial Intelligence

Face Detection and Recognition Technology • Snapchat • iPhones	Recommendation Algorithms • Netflix, YouTube, Spotify • Collects data on users’ interest and behavior to predict preferences
Text Editors • Identifies incorrect grammar • Suggests corrections • Predictive text	Search Algorithms • Responds to queries by providing top results on search engine result page • Google
Social Media • AI personalizes what users see on their feeds • Can identify hate keywords and remove posts • Generates smart replies • Facial Recognition to automatically tag friends in photos	Digital Assistants • Analyzes user preferences, habits, and schedules • Issue reminders and prompts • Apple’s Siri, Google Assistant
Chatbots • Impersonates conversational styles of customer representatives • Answers questions that require a detailed response	Smart Home Devices • Smart thermostats that adjust home temperatures • Smart refrigerators that can create shopping lists
Maps and Navigation • Provides directions and alternative routes based on traffic conditions • Waze, Google Maps, Apple Maps	E-Payments • Enables deposits and money transfers from anywhere • Improves security, identity management, and privacy controls • Detects potential fraud by observing credit card spending patterns.

Sources: Sumbo Bello, “8 Examples of Artificial Intelligence in our Everyday Lives,” *Edgy*, May 3, 2021 accessed on February 8, 2022 at <https://edgy.app/examples-of-artificial-intelligence>; Sasha Reeves, “8 Helpful Everyday Examples of Artificial Intelligence,” *iot for all*, August 10, 2020 accessed on February 8, 2022 at <https://www.iotforall.com/8-helpful-everyday-examples-of-artificial-intelligence>.

Although self-aware machines do not exist to date, the mere thought of their development along with the other technological advances discussed concerns many. According to a recent survey, more than 72 percent of Americans are worried about a future where human labor is replaced by machines.³³ In addition, billionaire Elon Musk, a passionate advocate for the regulation of artificial intelligence, recently called AI more dangerous than nukes.³⁴ Clearly, technological developments such as self-service technologies, robotics, and artificial intelligence will continue to play a critical role in the transformation of the customer's service experience. As new technologies are adopted in the marketplace, service marketers will need to understand and modify their marketing efforts to adapt to the changes involving five components of the service experience—the *customer* receiving the service, the *contact personnel/AI* providing the service, the role of *other customers*, the *servicescape* that surrounds the service exchange, and the changes within the *invisible organization and systems*. Given the importance of the role of technology in the provision of services, this text provides box features throughout the book that highlight the role of e-services in the service sector (see “E-Services in Action”).

1-5d Business for a Better World: Social Responsibility, Sustainability, and Transformative Service Initiatives

The importance of the study of services marketing also stems from the emerging mindset of “business for a better world.” Service marketers must broaden the view of service success beyond traditional measures that are typically biased toward the company's financial success. Successful service firms should also consider their impact on societal issues including customer and employee well-being, environmental impacts, as well as their impact on the local and global community. Service marketers enhance societal impacts by engaging in socially responsible behaviors, sustainable business practices, and transformative service initiatives.

Social Responsibility Service firms can greatly enhance relationships with stakeholders when they are able to combine business opportunities with positive societal impacts. **Social responsibility** refers to the practice of conducting business in a manner that while benefitting the company also is in the best interest of the environment and society as a whole.³⁶ Increasingly, the consuming public as well as employees are voicing their preference for firms that actively engage in socially responsible behavior. As many as 88 percent of customers indicated they would be more willing to support businesses that engage in activities that improve society.³⁷ In a survey of millennials, 60 percent prefer support for businesses that provide positive work environments for employees and engage in activities that have a positive social impact. Another 40 percent reported that they have started new business relationships with firms that have a positive effect on the environment. In contrast, 33 percent indicated that they have terminated relationships with brands that were considered doing more harm to than good to the environment.³⁸

In addition to positively impacting society, firms that engage in social responsibility may generate additional benefits such as: increasing employee engagement, loyalty and retention; obtaining the support of local and global communities; increasing customer retention and loyalty; improving brand equity, enhancing media relations, providing a differential advantage in the marketplace, and improving financial performance.³⁹ In contrast, firms that do not engage in socially redeeming behaviors harm not only their own reputations but can also negatively impact the reputation of their entire sector (e.g., airlines, rental cars, health care).

Social responsibility

refers to the practice of conducting business in a manner that while benefitting the company also is in the best interest of the environment and society as a whole.

E-Services in Action

Coming Soon (If Not Already There) to a Store Near You: Customer Service Robots³⁵

Societal changes over the last several years including the challenges associated with social distancing and an adequate supply of reliable labor have been met with technological-based solutions including self-service technologies, artificial intelligence, and robotics. Customer service robots (also referred to as public relations robots) are purposely designed to interact with customers and are available in both humanoid and non-humanoid forms. The humanoid robot market is estimated to be worth \$3.9 billion in 2023.

Currently, customer service robots are being utilized in the retail industry, the hospitality industry, banking, shopping malls, and family entertainment centers. Additional

applications include robotic use for inspections, maintenance and disaster response, policing, space travel, companionship for the sick and older adult populations, receptionist duties, and relieving (replacing) human workers from repetitive and/or dangerous tasks. The primary advantages of using customer service robots include labor savings, labor efficiency, uptime (available 24/7, no sick days, no vacation days, etc.) and their ability to collect data while interacting with customers. The data collected is then used to improve the design of facilities based on customer questions and allows marketers to adjust strategies to enhance the customer experience utilizing real time data.

As a result, sectors encourage their members to engage in pro-societal behaviors to enhance the reputation of the entire sector as well.

Sustainability People tend to think of many different things when they hear the word “sustainability.” Most people associate sustainability with being “green” and protecting the environment. However, in broadest terms, sustainability simply means the capacity to endure. More specifically, **sustainability** is defined as “the ability to meet current needs without hindering the ability to meet the needs of future generations in terms of economic, environmental, and social challenges.”⁴⁰ Hence, sustainability is closely related to the concepts of social responsibility and social consciousness.

Why would a service provider want to embrace sustainable practices? The up-front costs of a sustainability program can be extremely high in terms of both money and resources. A company may end up focusing too closely on the up-front costs to implement sustainability practices to see the long-term benefits. Doing so may result in the belief that going green is not worth it. This viewpoint tends to ebb and flow with the economy and company profitability. However, in the long run, making a commitment to being more sustainable can benefit a company in more ways than one including:⁴¹

- A reduction in energy use
- Increased efficiency and less waste
- Less pollution
- Overall reduction in operating costs
- Employees love working for sustainable companies
- Better relationships with suppliers
- Attract new markets
- Attract better quality investors
- Earn some local credibility
- Positive relationships with government agencies
- Competitive advantage as leader in industry sustainability
- Prepared for the future

Recognizing this emerging trend and adopting a similar mindset, United Airlines has taken proactive steps to meet the goal of becoming 100 percent green by reducing 100 percent of greenhouse gas emissions by 2050.⁴² In order to achieve this goal, United purchases carbon offsets, uses sustainable fuel made from renewable resources and waste byproducts, invests millions in carbon capture technology, constructs aircraft with lighter weight materials, and utilizes single-engine taxiing and/or tows aircraft as opposed

to taxiing at all. Other practices such as continuous descent approaches, engine washes, and utilizing auxiliary emission-reducing power methods to keep planes cool in the summer have assisted United in reducing its fuel consumption by nearly 50 percent.⁴³

Regardless of whether a company makes a good or provides a service, when making the argument for sustainability a company must be able to demonstrate the benefits in financial terms. Companies will be unable to financially fund sustainability efforts in the future without seeing some sort of return on their investment. Therefore, it is best to make a case for corporate sustainability when the social good can overlap with business opportunity. This overlap is known as the “sweet spot.” By being able to identify this area of overlap, executives will then be able to make the case to shareholders, thus gaining support for the strategy. Pursuing sustainable business practices allows companies to find not only areas of improvement, but also a source of competitive advantage. There are four areas in which a company can achieve such aims: *eco-efficiency*, *environmental cost leadership*, *beyond compliance leadership*, and *eco-branding*.⁴⁴

- *Eco-efficiency* focuses on the concept of the “double dividend.” Companies that try to reduce wastes and inefficiencies within the system see positive results both financially and environmentally.
- *Environmental cost leadership* involves developing a radical innovation that will allow the company to be more environmentally friendly while maintaining cost competitiveness.
- *Beyond compliance leadership* involves companies wanting to increase their sustainability efforts, but also wanting these efforts to be acknowledged by the public. These companies often spend money on environmental certifications, such as LEEDS building certifications. The first-movers in an industry in this case have the greatest advantage. Those who take the first initiative are seen as innovative and progressive, while the rest of the companies within the industry are forced to follow suit.
- *Eco-branding strategies* focus on the use of marketing differentiation based on the environmental attributes (e.g., organic, vegan, or fair-trade status) of products. There are three basic prerequisites that often exist for firms to successfully execute this approach: (1) consumers must be willing to pay for the costs of ecological differentiation; (2) reliable information about the product’s environmental performance must be readily available to the consumer; and (3) the differentiation must be difficult for competitors to imitate.

sustainability

The ability to meet current needs without hindering the ability to meet the needs of future generations in terms of economic, environmental, and social challenges.

Transformative Service Initiatives (TSI) Traditionally, service success is typically defined by such terms as customer loyalty, customer retention, customer referrals, revenue growth, and profitability. While these success measures capture what customers mean to the company, they

do not address is the role of services in affecting customer well-being outcomes such as access, decreasing disparity among populations, financial assistance, and health.⁴⁵

Transformative service initiatives (TSI) “represents a deliberate attempt to enhance the well-being of vulnerable consumers, who often enter service settings with marginalizing and stigmatizing conditions, such as race, ethnicity,

Transformative service initiatives (TSI)

Initiatives that enhance the well-being of vulnerable consumers, who often enter service settings with marginalizing and stigmatizing conditions that hamper their ability to fully co-create value with service providers.

income, sexual orientation, and so forth, that hamper their ability to fully co-create value with service providers.”⁴⁶

Examples of TSIs include nonprofits such as Doctors Without Borders whose focus is to provide health care to those devastated by natural disasters, epidemics, and conflict.⁴⁷ Kiva that provides 0 percent interest microloans up to \$15,000 to entrepreneurs around the world along with free marketing access to Kiva’s 1.6 million lenders;⁴⁸ and the Wounded Warrior Project that provides a variety of programs and services to severely wounded U.S. veterans.⁴⁹ For-profits also engage in transformative service initiatives. An example can be seen in Unilever’s Project Shakti in India.⁵⁰

Project Shakti provides sales training to thousands of women in rural India as a means of generating additional income as they sell the company’s personal hygiene products

Services for a Better World in Action

Doing Well by Doing Good: Nine Business Models for Social Enterprises⁵¹

Traditionally, the primary mission of for-profit companies is to generate profits. In comparison, the primary mission of nonprofits is to generate positive change in the world. By combining the missions of both, social enterprises pursue

the balanced mission of generating profits and positive change. Proven business models for social enterprises “that do well by doing good” are provided below:

Business Model	How it Works	Examples
Entrepreneur Support	Sells business support to its target population.	Microfinance organizations, consulting, or tech support
Market intermediary	Provide services to clients to help them access markets.	Supply cooperatives like fair trade, agriculture, and handicraft organizations
Employment	Provide employment opportunity and job training to clients and then sells its products or services on the open market.	Disabilities or youth organizations providing work opportunities in landscape, cafes, printing, or other business
Free-for-service	Selling social services directly to clients or a third-party payer.	Membership organizations, museums, and clinics
Low-income client	Similar to fee-for-service in terms of offering services to clients but focuses on providing access to those who couldn’t otherwise afford it.	Health care (prescriptions, eyeglasses), utility programs
Cooperative	Provides members with benefits through collective services.	Bulk purchasing, collective bargaining (union), agricultural coops, credit unions
Market linkage	Facilitates trade relationships between clients and the external market.	Import-export, market research, and broker services
Service subsidization	Sells products or services to an external market to help fund other social programs. This model is integrated with the nonprofit organization; the business activities and social programs overlap.	Consulting, counseling, employment training, leasing, printing services, and so forth
Organizational support	Similar to service subsidization, but applying the external model; business activities are separate from social programs.	Similar to service subsidization—implement any type of business that leverages its assets

to the country’s virtually untapped rural market. The project is transformative in that it hopes to understand how to do business with poor people and improve the living standards in India. The success of Project Shakti has led to Unilever building factories in less-developed regions of India and the provision of additional skill sets such as training farmers, animal husbandry, and infrastructure development. Project Shakti provides a win-win situation for both Unilever and its customers. The project develops a business opportunity in that it creates a market where previously there was none, and enhances the well-being of overlooked and neglected

rural populations. Case in point, India’s female workforce only accounts for 18.6 percent of the total workforce. This translates into a total female workforce of 149.8 million of which 121.8 million live in rural areas. Project Shakti enables women to earn \$10–\$14 a month which typically doubles their average household income.

Given the importance of practices associated with “business for a better world,” this text provides box features throughout that highlight business practices that result in positive societal impacts in the service sector (see “Services for a Better World in Action”).

Summary

Services permeate every aspect of our lives; consequently, the need for services marketing knowledge is greater today than ever before. When defining services, the distinction between goods and services is not perfectly clear. In general, goods are defined as objects, devices, or things, whereas services are defined as deeds, efforts, or performances. Very few, if any, products can be classified as pure services or pure goods. The scale of market entities and the molecular model illustrate how products vary according to their tangible and intangible components.

When a consumer purchases a service, they purchase an experience. The four components of the servuction model create the experience for the consumer—the servicescape, service providers/contact personnel, other customers, and the invisible organization and systems. In turn, the service experience that is created delivers a bundle of benefits to the consumer. In contrast to the production of goods, the

servuction model demonstrates that service consumers are an integral part of the service production process and that final evaluations of service are based on both process and outcomes.

There are a number of reasons why the study of services marketing is important: (1) consumers evaluate services differently than goods, and service marketers must effectively manage the experiential aspects of the service product; (2) services can be effectively used as a competitive advantage for both goods and service firms; (3) the growth of the global service economy in terms of contributions to gross domestic products (GDP) has increased dramatically; (4) the growth of the global service workforce has also increased accordingly; (5) the emergence of technologically based e-services have transformed many service industries; and (6) knowledge is needed in the area of developing socially responsible services marketing business practices.

Key Terms

service imperative	tangible dominant	other customers
materialismo snobbery	intangible dominant	invisible organization and systems
service-dominant (S-D) logic	marketing myopia	e-service
product	molecular model	self-service technologies
bundle of benefits	benefit concept	robotics
goods	servuction model	artificial intelligence
services	servicescape	social responsibility
intangibility	contact personnel	sustainability
scale of market entities	service providers	transformative service initiatives

Review Questions

1. Discuss the different viewpoints captured by the terms service imperative, materialismo snobbery, and service-dominant logic.
2. Explain why it is difficult to capture an exact figure to reflect the dominance of services as it related gross national product and labor force calculations.

3. Referring to the Scale of Market Entities and Molecular Model, what lessons can be learned by service marketing managers?
4. Why is it difficult to establish a clear distinction between goods and services? Use the Scale of Market Entities and the Molecular Model concepts to explain your answer.
5. Utilizing the servuction model, explain how the benefit concept is delivered differently for services compared to goods.
6. How does the organization and systems dimension of the servuction model differ from the other three dimensions? What is the purpose of the organization and systems dimension?
7. Discuss the transition of global economies as they progress through the primary, secondary, and tertiary sectors. What are the impacts of this transition on jobs and labor forces?
8. Compare and contrast the use of self-service technologies, robotics, and artificial intelligence for customer service-related functions.
9. Discuss the four approaches to using sustainability as an effective business positioning strategy.
10. Select three Social Enterprise Business Models from the chapter and provide examples using specific companies for each of the three approaches.

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Case 1

The Twins' First Service Encounter

Our day began at 5:20 a.m. Hurricane Felix was predicted to hit the Carolina coast by the end of the afternoon, and I, like most of the other folks in southeastern North Carolina, had spent much of the previous day preparing the house for the upcoming storm. However, my wife and I had one extra concern that the others did not. My wife was six months pregnant with twins, and the prospect of spending lots of time in the car in the attempt to remove ourselves from harm's way was not particularly attractive. We had decided to wait until after my wife's doctor appointment at 9:00 a.m. to make a decision on whether we should leave or stay at home and ride out the storm. We never made it to the doctor's appointment.

At 5:20 a.m., I was awakened by the fear in my wife's voice. Her water had broken, and the twins that were due on November 16 had apparently made up their collective minds that they were going to be born 13 weeks early. As first-time parents, we understood that our next move would be to go to the hospital; however, we were unsure as to the best mode of transportation given our particular situation. We had been informed by doctors that multiple-birth pregnancies were high-risk pregnancies, and every precaution should be taken. We quickly called the hospital and asked for advice. The hospital suggested that my wife take a shower, shave her legs, pack some essentials, and that it would be appropriate for us to drive ourselves to the hospital. Too stressed out to take any chances, we passed on the shower advice, quickly threw some things together, and drove to the hospital immediately.

The Emergency Department

Upon our arrival at the hospital, we drove to the emergency entrance, and I quickly exited the car to find a wheelchair. I was immediately confronted by a security guard who had been previously engaged in a casual conversation with another gentleman. I was informed that I could not leave my car in its current position. In response, I informed the security guard that I needed a wheelchair and would move the car after I was able to move my wife inside. The security guard pointed his finger in the direction of the wheelchairs. I grabbed the first wheelchair I could get my hands on and headed back out the sliding doors to assist my wife. At this point, the security guard informed me that I had grabbed a juvenile-sized wheelchair. I headed back inside and grabbed a much larger wheelchair. I returned to the car, assisted my wife into the wheelchair, and headed back inside. The security guard, while continuing with his other conversation,

instructed me to leave my wife with the triage nurse in the emergency department so that I could move my vehicle. I said goodbye to my wife and went to move the vehicle. When I returned, the security guard informed me that they had taken my wife to the maternity ward, located on the third floor.

My wife's encounter with the triage nurse was apparently short and sweet. The triage nurse had called for an orderly to move my wife to the maternity ward. On her way to the third floor, the orderly asked my wife whether she was excited about having the baby. She responded that she was scared to death because she was only six months pregnant. The orderly replied that there was "no way [she was] having a baby that early that [would] survive."

The Maternity Ward

As I exited the elevator on the third floor, I headed for the nurses' station to inquire about my wife's current location. I was greeted by several smiling nurses who escorted me to my wife's room. On my way to the room, I met another nurse who had just exited my wife's room. This nurse pulled me aside and informed me of the orderly's remarks. She continued to assure me that what he said was not only inappropriate, but more importantly, inaccurate. She also informed me that my wife was very upset and that we needed to work together to help keep her calm. This particular nurse also informed us that she herself had given birth to a premature child, who was approximately the same gestational age as ours, a couple of years earlier.

By this time, it was between 6:00 and 6:30 a.m. The resident on duty entered the room and introduced himself as Dr. Baker. My wife gave me this puzzled and bewildered look. The clinic where my wife is a patient consists of five physicians who rotate their various duty assignments. Dr. Baker is one of the five. However, Dr. Baker was 30 to 40 years older than the resident who had just introduced himself as Dr. Baker. What had happened was that the resident was nervous and had introduced himself as Dr. Baker rather than as Dr. Baker's assistant. Realizing and embarrassed by his mistake, he reintroduced himself and informed us that Dr. Baker was the physician on call, and that he was being contacted and kept informed of my wife's condition.

The resident left the room and soon reappeared with an ultrasound cart to check the positions of the babies. This time he was accompanied by a person I assumed to be the senior resident on duty. For the next 30 minutes or so, I watched

Source: Originally printed as: K. Douglas Hoffman, "Rude Awakening," *Journal of Health Care Marketing*, 16, 2 (Summer 1996), pp. 14–22.

the junior resident attempt to learn how to use the ultrasound equipment. He consistently reported his findings to us in sentences that began with, “I think ...” Several times during this period my wife voiced her concern over the babies’ condition, and the location of Dr. Baker. We were reassured by the residents that Dr. Baker was being kept informed and were told that being upset was not going to help the babies’ condition. After about 30 minutes, I informed both residents that despite their advice for us to stay calm, they were not exactly instilling a lot of confidence in either one of us. The senior resident took over the ultrasound exam at this time.

Dr. Baker arrived at the hospital somewhere between 7:00 and 7:30 a.m. He apologized for not being there earlier and mentioned that he was trying to help his wife prepare for the ensuing hurricane. Sometime during this same time period, it was shift change time for the nurses and also for Dr. Baker. New nurses were now entering the room, and now Dr. Johnson was taking over for Dr. Baker. By approximately 8:00 a.m., Dr. Baker had pulled me aside and informed me that after conferring with Dr. Johnson, they had decided that if my wife’s labor subsided, she would remain in the hospital for 7 to 10 days, flat on her back, before they would deliver the babies. It was explained that with each passing day, the babies would benefit from further development. The lungs were of particular concern.

Upon being admitted to the maternity floor, my wife had immediately been hooked up to an EKG to monitor contractions. Due to the small size of the babies, the contractions were not severe. However, as far as my wife and I could tell, the interval between contractions was definitely getting shorter. Being first-time parents, we were not overly alarmed by this since we figured we were in the hospital and surrounded by health care providers.

Between 8:00 and 8:30 a.m., two other nurses entered the room with lots of forms for us to complete. Since we were having twins, we needed duplicates of every form. The forms covered the basics: names, addresses, phone numbers, social security numbers, and insurance information. These were all the same questions that the hospital had sent to us weeks earlier, which we had completed and returned. The nurses asked us the questions, we supplied the information, and they wrote the responses.

By 8:30 a.m., Dr. Baker was informing me that due to one baby’s breech position, they would deliver the babies by Caesarean section. Wondering whether the schedule had been moved up from a week to 10 days, I asked when he thought this would be happening. He replied: “In the next hour or so.” He then commented that labor had not subsided and that Dr. Johnson would be delivering the babies.

As my wife was being prepared for the operating room, I stood in the hallway outside her room. I noticed another physician limping down the hall with one foot in a cast and a crutch underneath one arm. He stopped outside my wife’s room and began to examine her medical charts. He introduced himself as Dr. Arthur (he had broken his foot while

attempting to change a tire). Dr. Arthur was the neonatologist, which meant nothing to me at the time. I eventually figured out that my wife had her set of doctors and that my unborn children had their own set of health care providers. Dr. Arthur asked to speak to my wife and me together. This is when he told us that 90 percent of babies such as ours survive and that 90 percent of those survivors develop normally. He was a calm, pragmatic individual who encouraged us to ask questions. He continued to explain that the babies would spend their next few months in the hospital’s Neonatal Intensive Care Unit (NICU) and that, if all went well, we could expect to take them home within two weeks of their due date (November 16, 1995).

By 9:00 a.m., all hell had broken loose. My wife had dilated at a quicker pace than had been anticipated ... the contractions had indeed been occurring at more frequent intervals. Some orderlies and nurses grabbed my wife’s bed and quickly rolled her down the hall to the delivery room. I was thrown a pair of scrubs and told to put them on. I was further told that they would come back and get me if they were able. For 10 to 12 very long minutes, I sat on a stool in an empty hospital room by myself, watching *The Weather Channel* track Hurricane Felix. The volume on the television had been muted, and the only thing I could hear was a woman screaming from labor in the next room. Suddenly, a nurse popped her head in the door and said that a space had been prepared for me in the delivery room.

The Delivery Room

As I entered the delivery room, I was overwhelmed by the number of people involved in the process. Myself included, I counted 12 very busy people. I was seated next to my wife’s head. She had requested to stay awake during the procedure. My wife asked me whether the man assisting Dr. Johnson was the junior resident. Sure enough, I looked up to see the junior resident wearing a surgical gown and mask with a scalpel in his hand. I lied and told her, “No.”

Suddenly, we realized that we had not finalized our choices for names. Somehow, what we couldn’t decide despite months of discussion, we decided in 30 seconds. Our first baby girl, Emma Lewis (Emmy), was born at 9:15 a.m. Emmy weighed 2 pounds and was 14.5 inches long. Our second baby girl, Madeline Stuart (Maddy), was born at 9:16 a.m. and weighed 2 pounds, 2 ounces, and also measured 14.5 inches long. Both babies were very active at birth, and their faint cries reassured my wife and me that they had at least made it this far.

Upon being delivered from their mother, the babies were immediately handed to Dr. Arthur and his staff, who had set up examination stations in the delivery room. Each baby had her own team of medical personnel, and I was encouraged by Dr. Arthur, who hopped on one foot across the delivery room, as I watched him examine the girls. The neonatal staff examining the girls “ooohed and aaahed,” and almost in a

competitive manner compared measurements about which baby had better vitals in various areas. Dr. Arthur then suggested that I follow the girls to the NICU to watch further examinations. He also made sure that my wife got a good look at both babies before they were wheeled out of the delivery room in their respective incubators. My wife and I said our goodbyes, and I was told I could see her again in the recovery room in about 20 to 30 minutes.

The Recovery Room

The recovery room and the delivery room are contained within the maternity ward on the third floor of the hospital. The NICU is located on the fourth floor, which is designated as the gynecological floor. The staff on the third floor is geared for moms and babies. The staff on the fourth floor, outside the NICU, is geared for women with gynecological problems.

After receiving the “so far, so good” signals from both my wife’s and my babies’ doctors, I was permitted to rejoin my wife in the recovery room. It was a basic hospital room with the exception that a nurse was assigned to the room on a full-time basis. One of the hospital volunteers from the maternity floor had taken pictures of each of the babies and taped them to the rails of my wife’s hospital bed. The nurses of the third floor maternity ward asked my wife whether she would like a room on the fourth floor so that she could be closer to her babies when she was ready to start walking again. She agreed and spent the next four days in a room on the fourth floor.

Hurricane Felix stayed out to sea and moved up the coastline, missing us completely.

The Fourth Floor

My wife’s private room on the fourth floor was small, dingy, and dirty. From an emotional standpoint, the staff on the fourth floor were not prepared to deal with our situation. In fact, one nurse, after discussing the situation with my wife, asked whether we were going to have the babies transported to a major university medical center three hours away.

My wife’s quality of care on the fourth floor was sporadic. Some of the nurses were good and some were inattentive—slow to respond to the patient’s call button and blaming nurses on other shifts when medications and other scheduled or promised care (e.g., providing the patient with a breast pump) were not provided on a timely basis. Although it might seem trivial to many, the breast pump represented my wife’s primary contribution to the care of her babies. It was the only thing she could control. Everything else was out of her hands. My wife was instructed to begin pumping as soon as she felt able, yet due to her location away from the maternity ward, obtaining a breast pump was difficult and became a sore point for my wife.

After receiving a courtesy call by the hospital’s patient representative, my wife expressed her concerns. Shortly thereafter, personnel were changed, the quality of care

improved, and we were moved to a much larger room on the third afternoon.

The Neonatal Intensive Care Unit

The NICU (pronounced “nick-u”) is located in an isolated area of the fourth floor. The primary purpose of the NICU is to provide care for premature babies and for full-term babies requiring special care. The number of babies cared for each day throughout our stay typically averaged 12.

Emmy and Maddy spent approximately seven weeks in the NICU. The staff made every effort to explain the purpose of every piece of machinery and every tube that seemed to cover the babies’ bodies. I was repeatedly told that I could and should ask questions at any time and that the staff understood that it was an overwhelming amount of information. Hence, it was understandable and acceptable to ask the same questions day after day. The staff had made signs welcoming each of the babies in bright neon colors and taped them above each of their stations. For ease of access, the girls had not yet been placed in incubators. They lay in what looked like large in/out baskets with raised borders. We celebrated weeks later when they finally had enough tubes removed so that they could be moved into incubators—what we called “big-girl beds.”

During the first three days, I walked into the NICU to find baby quilts at each of the girls’ stations. A local group called Quilters by the Sea had sewn the quilts; apparently, they regularly provide the quilts for infants admitted to the NICU. For some reason that I still cannot explain today, the fact that someone outside the hospital who I did not know cared about my girls touched me deeply. The signs the staff had created and the babies’ patchwork quilts humanized all the machines and tubes. Somehow, I was no longer looking at two premature infants—I was looking at Emmy and Maddy.

Throughout the girls’ stay in the NICU, the quality of care delivered was primarily exceptional. The staff not only excelled at the technical aspects of their jobs but also were very good in dealing with parents. Some of the personal touches included numerous pictures of each of the girls for us to take home, homemade birthday cards with pictures from the girls for Mom and Dad on their birthdays, baby stickers on their incubators, and notes of encouragement from staff when a milestone, such as when weighing 3 pounds, was achieved. We arrived one day and found pink bows in the girls’ hair. The nurses even signed Emmy’s and Maddy’s names on the foot cast worn by the baby boy in the next incubator.

Parental involvement in the care of all the infants was encouraged, almost demanded. I had somehow managed never to change a diaper in my life (I was 35 years old). I was threatened, I think jokingly, that the girls would not be allowed to leave the NICU until I demonstrated some form of competency with diaper changes, feedings, and baths. The

primarily female staff made me feel at times that my manhood was at stake if I was not able to perform these duties. Personally, I think they all wished they'd had the same chance to train their husbands when they'd had their own babies. I am now an expert in the aforementioned activities.

As for the babies' progress, some days were better than others. We celebrated weight gains and endured a collapsed lung, blood transfusions, respirators, alarms caused by bouts with apnea and bradycardia, and minor operations. Throughout the seven weeks, many of the staff and three neonatologists became our friends. We knew where one another lived, we knew about husbands, wives, boyfriends, and kids. We also heard a lot about the staff's other primary concern—scheduling.

The Grower Room

Sometime after the seventh week, we “graduated” from the NICU and were sent to the Grower Room. The Grower Room acts as a staging area and provides the transition between the NICU and sending the babies home with their parents. Babies who are transferred to the Grower Room no longer require the intensive care provided by the NICU but still require full-time observation. As the name indicates, the Grower Room is for feeding and diaper changing, administering medications, and recording vital statistics—basic activities essential for the growth and development of infants. The Grower Room held a maximum of four infants at any one time.

The Grower Room was located in a converted patient room located in the back corner of the second floor, which is designated as the pediatric floor of the hospital. In general, the Grower Room was staffed by one pediatric nurse and visited by the neonatologists during rounds. As parents who were involved in the care of their babies, being transferred to the Grower Room meant that we had to establish new relationships with another set of health care providers all over again.

Compared with the “nurturing” culture we had experienced in the NICU, the Grower Room was a big letdown. One of the first nurses we were exposed to informed us that the nurses on the second floor referred to the Grower Room as “The Hole,” and that sooner or later they all had to take their turn in “The Hole.” We asked the reasons for such a name, and the nurse explained that because the room was stuck back in the corner, the rest of the staff seldom allowed the “grower nurse” to take a break, and because of the constant duties involved, the grower nurse could never leave the room unattended. It was also explained that some of the nurses simply did not feel comfortable caring “for such small little babies.” We quickly found that this attitude had manifested itself in a lack of supplies specifically needed for smaller babies, such as premature-sized diapers and sheepskin rugs inside the incubators.

Furthermore, it became quickly apparent that friction existed between the NICU and the Grower Room. The Grower Room was very hesitant to request supplies from the NICU, and on several occasions would delay informing the NICU that an occupancy existed in the Grower Room. The reason for delay was so that the Grower Room nurse could catch up on other duties and avoid having to undertake the additional duties involved in admitting new patients. The “successful delay” would pass on these activities to the nurse taking the next shift. Apparently, the friction was mutual, since one of the nurses in the NICU commented to us on the way out of the NICU, “Don’t let them push you around down there. If you don’t think they’re doing what they should, you tell them what you want them to do.”

When the Grower Room was in need of supplies for our babies and others, I (on more than one occasion) volunteered to ask for supplies from the NICU. Although my foraging attempts were successful, I definitely got the feeling that there was some reluctance on both sides for me to do this. I suspected that the Grower Room nurses did not want to ask for any favors, and the NICU staff felt that it was not their job to keep the Grower Room stocked with supplies. Moreover, I suspect that the NICU and the Grower Room operate from different budgets. Stocking the Grower Room is not one of the objectives of the NICU’s budget. However, from my side, my babies needed supplies, and I did not care about either department’s budget.

After a few dark days, we established new relationships with the Grower Room personnel and became very involved with the care of our babies. After spending seven weeks in the NICU, we felt more familiar with each baby’s personal needs than some of the Grower Room staff were. Recognizing our level of involvement, most of the staff looked forward to our visits since it meant less work for them. By now, we had learned to ask lots of questions, to double-check that medications had been provided, and to develop a working relationship with Grower Room personnel. Looking back, it was almost as if we and the Grower Room staff trained each other. At the conclusion of our Grower Room experience, my wife and I felt that we had met some good people, but also that the quality of the experience was far lower than what we had grown accustomed to in the NICU.

Nesting

Once the babies had “graduated” from the Grower Room, our last night in the hospital was spent “nesting.” Friends of ours joked that this must have involved searching for twigs, grass, and mud. The nesting rooms were located on the second floor of the hospital, in the same general location as the Grower Room. Nesting allows the parents and the babies to spend a night or two together in the hospital before they go home. During the nesting period, parents are solely responsible for all medications, feedings, and general care

of the infants. The nesting period allows the parents to ask any last-minute questions and to smooth the transition from, in our case, nine weeks of hospital care to multiple infant care at home.

The nesting room itself was a small patient room that consisted of one single bed and a fold-out lounge chair. By now, the babies had been moved from their incubators to open, plastic bassinets that were wheeled into the room with us. Each baby remained attached to a monitor that measured heart and breathing rates. To say the least, space was limited, but for the first time in nine weeks, the four of us were alone as a family.

Throughout the 22 hours we nested, we were frequently visited by neonatologists, nurses who continued to take the babies' vital signs, the babies' eye doctor, social workers who were assigned to all premature baby cases, hospital insurance personnel, and a wonderful discharge nurse who was in charge of putting everything together so that we

could get out the door. Nine weeks to the day after we had entered the hospital, we took our two 4-pound babies home.

Discussion Questions

1. Based on the scale of market entities, is health care tangible dominant or intangible dominant? Please explain.
2. Using the servuction model as a point of reference, categorize the factors that influenced this service encounter.
3. Develop a molecular model for this hospital.
4. Based on answers to the questions above, discuss corrective actions that need to be taken to ensure that a patient's subsequent service experience will run more smoothly.

Chapter 2

The Fundamental Differences Between Goods and Services



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Chapter Objectives

After reading this chapter, you should be able to:

1. Identify the four unique service characteristics that distinguish goods from services
2. Explain the marketing challenges associated with intangibility, inseparability, heterogeneity, and perishability, and their possible solutions
3. Examine the reasons behind the elevated levels of risk associated with service purchases and consumption
4. Recognize the potential usefulness of technology-based solutions as they relate to intangibility, inseparability, heterogeneity, and perishability

Not so long ago, the marketing of services was thought to be very similar to the marketing of goods with one exception...the product was intangible. However, service marketing managers began to experience other challenges that extended beyond the intangible nature of service products. This chapter discusses the basic differences between goods and services, the marketing challenges, and possible solutions to these challenges. In addition, this chapter examines explanations for elevated levels of perceived risk associated with the purchase and consumption of services. Moreover, the potential use and limitations of technology-based solutions to circumnavigate the challenges presented by intangibility, inseparability, heterogeneity, and perishability are also discussed.

Ski Dubai¹

Imagine what activities you would enjoy on vacation in Dubai. Perhaps you would sunbathe on one of the world-renowned beaches, take a safari, or tour the impressive surrounding sand dunes. Of anything you might do, going skiing (not the water kind) would probably be the furthest thing from your mind. But Ski Dubai has provided that very service in the desert country: an artificially made, indoor ski resort.

At Ski Dubai, visitors can ski, snowboard, and even toboggan all year round on the indoor slopes furnished with real snow. The resort boasts 22,500 square meters of snow-covered terrain, including five runs of varying difficulty and a “Freestyle Zone” created solely for snowboarders

to practice their stunts. The resort also contains several themed restaurants, an exclusive retail shop, expert Snow School instructors, and a quad-chairlift.

Visitors purchase Slope Passes upon arrival, which include a jacket, trousers, skis and ski boots or a snowboard and snowboard boots, ski poles, disposable socks, and helmets for children. Prices for ski time vary from \$60 for two hours pass, to \$90 for an entire day pass, with discounts for children, groups, or corporate events. Additional charges include group or private lessons, consults with ski experts, meals in the themed restaurants, or items from the retail shop. Or as an alternative, guests can visit with snow penguins for approximately \$60 for 40 minutes.

As the only resort with such amenities in the area, Ski Dubai provides an exclusive experience for its visitors. It is a prime example of a unique service that is created for guests through the delivery of an unforgettable experience. Nowhere else in the Middle East can customers ski down a black-level slope, make snow angels, or learn to snowboard. Ski Dubai was the first resort to offer these services, and it remains the only location where guests can partake in these wintery activities in the Middle East.

2-1 Introduction

While shopping in the popular night markets of Bangkok, Thailand, it is not uncommon to hear the phrase “Same, Same but Different.” Every night literally thousands of vendors display their offerings to locals and tourists ranging from T-shirts to flying squirrels to pearls and everything in between. When considering the purchase of an “authentic reproduction” of a Rolex watch from a night market vendor, a potential customer may ask, “Is this a real Rolex?” The vendor’s response, “Same, Same but Different!” In other words, it looks like a duck, walks like a duck, quacks like a duck, but it is not really a duck!

When marketers compare the marketing of goods to the marketing of services there are certainly similarities... “Same, Same.” In both cases, markets are segmented, target markets are selected, positioning strategies are developed, and marketing mixes are specifically tailored to each target market in a manner that effectively delivers the positioning strategy to the market. However, there are significant differences between the marketing of goods and services that must be taken into consideration.

Consider the disproportionate negative impacts of the Covid-19 pandemic and labor force shortages on the service sector compared to its manufacturing counterpart. In particular, services that typically require the physical presence of both the service provider and the customer such as airlines, health care, hotels, and restaurants were severely impacted. Clearly, there is certainly something “Same, Same but Different” about the service sector. Most of these

differences are primarily attributed to four unique service characteristics – *intangibility*, *inseparability*, *heterogeneity*, and *perishability*. This chapter focuses on exploring these four fundamental differences, identifying the challenges caused by these differences, and offering possible solutions to facilitate service marketers in their quest to enhance the service exchange process for customers, employees, organizations, and society.

2-2 Intangibility: The Mother of All Differences²

Of the four unique characteristics that tend to distinguish goods from services, intangibility is undoubtedly the primary source from which the other three unique characteristics emerge. This is why we refer to intangibility as the mother of all differences. Services are said to be **intangible** because they are performances rather than objects. They cannot be touched, seen, or evaluated in the same manner as goods. Rather, they are experienced, and customers’ judgments about them tend to be more subjective than objective. For example, compare the differences between purchasing a movie ticket and purchasing a pair of boots. The boots are tangible goods, so the boots can be objectively evaluated before the actual purchase. You can pick up the boots, feel the quality of materials from which they are made, view their specific style and color, and actually put them on your feet and sample the fit. After the purchase, you can take the boots home, and you now have ownership and the physical possession of a tangible object.

In comparison, consider the purchase of a service such as a movie to be enjoyed at a local cinema. In this instance, the customer buys a movie ticket, which entitles the customer to an experience. Because the movie experience is intangible, it is subjectively evaluated. For example, customer of services must rely on the judgments of others who have previously experienced the service for prepurchase information. Because the information provided by others is based on “other customers’” sets of expectations and perceptions, opinions will differ about the content value of the experience. For example, if you ask five moviegoers what they thought about a particular movie, they are likely to voice widely divergent opinions ranging from “I loved it!” to “I hated it!” After the movie, the customer returns home with a memory of the experience and retains the physical ownership of only a ticket stub.

intangibility

A distinguishing characteristic of services that makes them unable to be touched or sensed in the same manner as physical goods.

2-2a Marketing Challenges Created by Intangibility

Due to the intangibility of services, a number of marketing challenges arise that are not normally faced when marketing tangible goods. More specifically, these challenges include (1) the lack of service inventories, (2) the lack of patent protection, (3) the difficulties involved in displaying and communicating the attributes of the service to its intended target market, and (4) the special challenges involved in the pricing of services. The following discussion explores these challenges and offers possible solutions to minimize their effects. A summary of issues pertaining to intangibility is presented in Figure 2-1

Lack of Service Inventories Because of their intangibility, services cannot be inventoried. As a result, supplies of services cannot be stored as buffers against periods of high demand. For example, physicians cannot produce and store medical examinations to be used at a later date; movie seats that are not sold for the afternoon matinee cannot be added to the theater for the evening show; and an auto club cannot inventory roadside assistance to be distributed during peak periods of demand during hazardous driving conditions. As a result, customers are commonly forced to wait for desired services, and service providers are limited in how much they can sell by how much they can produce. The bottom line is that the inability to maintain an inventory translates into constant supply and demand problems for services. In fact, the lack of service inventories presents so many challenges to marketers that it has earned its own name – *perishability* – which will be discussed later in the chapter.

Services Lack Patent Protection Due to their intangible nature, services cannot be patented. There is no physical product to patent, and human labor and effort are not protected.

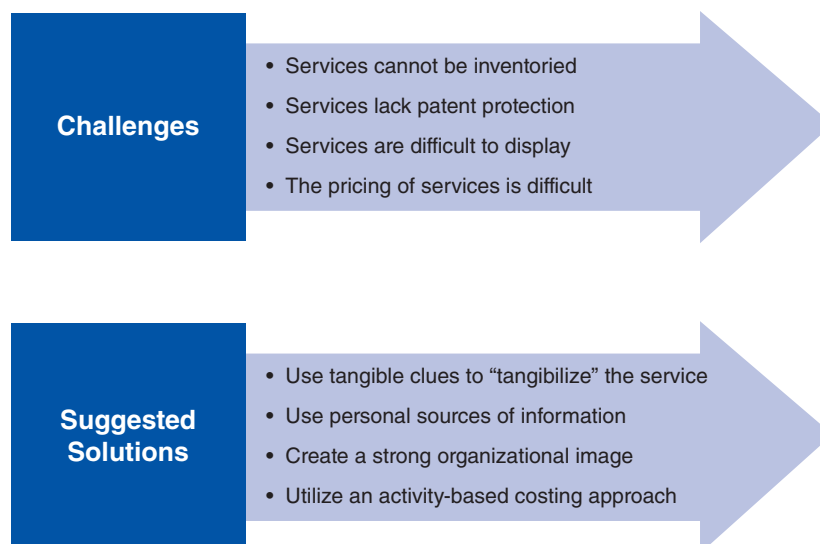
Firms occasionally promote that their processes are patented; however, the reality is that the tangible machinery and perhaps chemical formulas involved in the process are protected, not the process itself. Therefore, an important challenge faced by the lack of patent protection is that new or existing services may be easily copied. For example, innovations in service delivery such as drive-thru operations, take-out service, curbside pickup, and home delivery services are all easily copied without legal repercussions by competitors. Consequently, it is difficult to maintain a firm's differential service advantage over attentive competitors for very long.

Services Are Difficult to Display and/or Communicate

The promotion of services presents yet another set of special challenges to the service marketer that can be attributed to intangibility. The root of the challenge is this: How do you encourage customers to take notice of your product when they cannot see it? As an example, consider the challenges faced by Geico, Aflac, State Farm, and a host of other insurance providers. Insurance is a complicated product for many people. As customers, we cannot see it, we cannot sample it prior to purchase, and many of us do not understand it. Insurance seems to cost an awful lot of money, and the benefits of its purchase are not realized until some future time, if at all. In fact, if we do not use it, we consider ourselves lucky. Why should spending thousands of dollars a year on something customers never use make them feel lucky? To say the least, due to intangibility, the task of explaining your service product's merits to customers is often challenging.

Services Are Difficult to Price Intangibility also presents challenges to the pricing of services. Typically, for better or worse, a tangible product's price is often based on cost-plus pricing. In other words, the firm selling the

Figure 2-1 Unique Service Feature: Intangibility



product calculates the cost of producing the product (aka; cost of goods sold) and adds a predetermined profit markup to that figure. The challenge involved in the pricing of services is that, due to intangibility, there is no cost of goods sold! Ultimately, the primary cost of producing a service is labor including tasks such as preparation, service delivery, and postdelivery tasks (e.g., travel, report writing, follow-up communications).

As an example, let's say as a student you are very competent in the field of principles of marketing. Taking notice of your expertise in the field, a student who is struggling with their marketing assignments wants to hire you as a tutor. What would you charge per hour? What are your costs involved?

Based on feedback from other services marketing classes faced with this example, students usually begin laughing and indicate that they would engage in price-gouging and charge fellow students \$100 per hour. After reality sets in, students quickly realize how difficult it is to place a value on their time. Specific considerations usually emerge, such as how much money the tutor could make working elsewhere, and the opportunity costs associated with not being able to do something else while tutoring. Typically, the consensus is that the tutor should charge something comparable to the fees charged by other tutors. The problem with this response is that it still does not answer the original question, that is, how was this competitive-based price originally calculated? Someone had to set the original price. Given the absence of costs of goods (service) sold information, how was this original price calculated?



Insurance companies often use tangible symbols such as company mascots to “tangibilize” their service offerings to current and potential customers.

include (1) the use of tangible clues to help “tangibilize” the service, (2) the use of personal sources of information to help spread word-of-mouth communications about service alternatives, and (3) the creation of strong organizational images to increase customer awareness and simultaneously reduce the amount of perceived risk associated with service purchases. Although marketers may not be capable of totally eliminating the challenges posed by intangibility, strategies such as these have provided innovative solutions for many service industries to help minimize the challenges posed by intangibility.

Utilize Tangible Clues Given the absence of tangible properties, services are evaluated differently when compared to goods. In many cases, in the absence of a physical product, customers look to the **physical evidence** or *tangible clues* that surround the service to help them form service evaluations including the visible components of the servuction model – contact personnel, other customers, and the servicescape. For example, **tangible clues** may include such evidence as the quality of furniture in a lawyer’s office, the appearance of the personnel in a bank, and the architectural design for a College of Business, place of worship, or hospitality property.

As evidence, tangible clues are also often used in services advertising. Returning to the insurance example, the major challenge of an insurance firm is to communicate to customers in a 30-second television commercial what the firm has to offer and how it differs from every other insurance firm under the customer’s consideration. One strategy embraced by many service firms is to use some form of tangible clue in advertising. Prudential uses “The Rock” and promises “rock-solid protection.” Allstate shows us “helping hands” or the character named “Mayhem” and promises that “You’re in good hands with Allstate.” The list goes on and on – Merrill Lynch has “the bull,” Nationwide promotes “blanket-wide protection,” Kemper has “the cavalry,” Travelers Insurance utilizes “the umbrella,” Geico has the “gecko,” Aflac has the “duck,” *Liberty Mutual* has *LiMu* the Emu, and Transamerica promotes the shape of its office building as “the power of the pyramid.” The lesson that all these companies have learned over time is that the services they market are abstract and therefore difficult for the average customer to understand or differentiate from one another. The answer to this challenge is to provide tangible clues that are easily understood by the public and directly related to the bundle of benefits of the services provided. For example, State Farm’s credo of “Like a good neighbor, State Farm is there” and “Jake from State Farm” reinforces the firm’s practice of assigning a specific agent to each of its

2-2b Possible Solutions to Challenges Caused by Intangibility

Over the years, marketing practitioners have implemented a number of strategies in the attempt to offset or minimize the marketing challenges posed by intangibility. These strategies

physical evidence/tangible clues

The physical characteristics that surround a service to assist customers in making service evaluations, such as the quality of furnishings, the appearance of personnel, or the architectural design of facilities.

clients, which in turn effectively differentiates State Farm from its online competitors.³

Utilize Personal Sources of Information Because customers of services lack objective means of evaluating services, they often rely on the subjective evaluations relayed by friends, family, and a variety of other opinion leaders. For example, when moving to a new town and seeking a family physician, customers will often ask coworkers and neighbors for referrals. Hence, when purchasing services, *personal sources* of information become more important to customers than *nonpersonal sources* such as mass media (e.g., television, radio, Internet).

Personal sources of information such as friends, family, and other opinion leaders, are sources of word-of-mouth communications (*aka viral marketing*) that customers use to gather information about services. One strategy often used to *stimulate* word-of-mouth advertising is to offer incentives to existing customers to tell their friends about a firm’s offerings. Apartment complexes often use the incentive of a free month’s rent to encourage current tenants to have their friends rent vacant units. Service firms sometimes simulate personal communication while using mass media.

personal sources of information

Sources such as friends, family, and other opinion leaders that customers use to gather information about a service.

Mass media advertising that features customer testimonials *simulates* word-of-mouth advertising and can be very effective. Examples include hospital advertisements featuring former patients who have successfully recovered from major surgery and are now living normal and happy lives. Other examples include insurance companies that feature victims of hurricanes, fires, and earthquakes who are grateful for their insurance protection when they needed it most. Web-based surveys have emerged that allow customers to share their service experiences with others. The results of these surveys which are tabulated and released to the public serve as additional sources of personal referrals (See Global Services in Action).

Create a Strong Organizational Image Another strategy used to minimize the effects of intangibility is to create a strong organizational image. Because of intangibility and the lack of objective sources of information to evaluate services, the amount of perceived risk associated with service purchases is generally greater than that of their goods counterparts. In an attempt to combat the higher levels of perceived risk, some service firms have spent a great deal of effort, time, and money in developing a nationally recognized organizational image. A well-known and respected corporate image lowers the level of perceived risk experienced by potential customers and, in some cases, lowers the reliance on personal sources of information when making service provider choices. As an example, the customers who is moving to a new town in California may bypass personal referrals to banks and automatically seek out the nearest

Global Services in Action

The World’s Top 10 Airlines: International Air Carriers Dominate Rankings⁴

Qatar Airways has once again been selected as the world’s best airline based on more than 13 million survey responses that evaluated 356 airlines. The survey, conducted by Skytrax, asked passengers to rate airlines based on online booking and check-in processes, inflight meals and entertainment, seat comfort, and friendliness of staff. Qatar ranks

particularly high with business travelers who ranked the airline as best for seat comfort, best airline lounge, best onboard catering, and third best for inflight entertainment. The remainder of the Top 10 illustrates the dominance of international air carriers as passengers’ preferred vendors for air travel.

The World’s Top 10 Airlines	North America’s Top 10 Airlines
1. Qatar Airways	1. Delta Airlines
2. Singapore Airlines	2. JetBlue Airways
3. ANA All Nippon Airways	3. Air Canada
4. Emirates	4. Southwest Airlines
5. Japan Airlines	5. WestJet
6. Cathay Pacific Airways	6. Air Transat
7. EVA Air	7. United Airlines
8. Qantas Airways	8. Alaska Airlines
9. Hainan Airlines	9. Hawaiian Airlines
10. Air France	10. American Airlines

Services for a Better World in Action

Marriott International, Inc.

Serve 360: Doing Good in Every Direction⁵

Marriott International, Inc., best known for its hotels and vacation ownership resorts, manages a portfolio of 7,800 properties representing 30 brands located in 138 countries and territories. Given Marriott's worldwide operations, the company is uniquely positioned to make a positive societal impact beyond its primary hospitality mission throughout the world. In doing so, Marriott engages in a variety of environmental, social, and governance (ESG) efforts including:

- Marriott properties around the world have supported local communities during the COVID-19 pandemic via donations that provided food to shelters, personal protective equipment (PPE) to hospitals and frontline workers, and event space for nonprofits, who in turn were assisting other members of the community. In addition, Marriott International, Inc. has served as the corporate sponsor for over 500 blood drives which contributed 14,000 units of blood to local hospitals and blood banks.
- Marriott also provides a positive societal impact by donating its human trafficking awareness training to the

entire hospitality industry. The company estimates that approximately 825,000 of its own employees as well as hundreds of thousands of other hotels' employees have been trained in recognizing and responding to potential human trafficking indicators.

- The company is also actively involved in diversity, equity, and inclusion (DEI) efforts by working with community partners, providing internal talent development programs, engaging current employees, and using Marriott's brand as a voice for underserved populations.
- By 2025, Marriott has committed to achieving global gender parity in executive positions of which 25 percent of executive positions will be held by people of color. In addition, the company is actively recruiting and developing diverse and woman-owned hotel operators to reach its goal of 3000 such properties. The company also created and provided initial funding for the Marriott-Sorenson Center for Hospitality Leadership at Howard University for the primary purpose of providing career development training.

Chase Bank based on the firm's worldwide organizational image. In this case, Chase Bank, through image development and subsequent brand awareness, has developed a differential advantage over small, local firms of which the customer may be unaware.⁶ Similarly, Marriott International, Inc., creates awareness of its organizational image and differentiates itself from competitors by engaging in social enterprise activities (see Services for a Better World in Action).

Utilize Activity-Based Costing Traditional cost accounting practices, which were designed to monitor raw material consumption, depreciation, and labor, offer little in helping service managers understand their own cost structures. A more useful approach for the pricing of services, **activity-based costing (ABC)**, focuses on the resources consumed in developing the final product.⁷ Traditionally, overhead in most service firms has been allocated to projects based on the amount of direct labor charged to complete the customer's requirements. However, this method of charging overhead has frustrated managers of specific projects for years.

Activity-based costing focuses on the cost of activities by breaking down the organization into a set of activities and activities into tasks, which convert materials, labor, and technology into outputs. These tasks are thought of as

"users" of overhead and are identified as *cost drivers*. The firm's past records are used to arrive at cost-per-task figures that are then allocated to each project based on the activities required to complete the project. In addition, by breaking the overall overhead figure into a set of activities that are driven by cost drivers, the firm can now concentrate its efforts on reducing costs and increasing profitability.

2-3 Inseparability: The Entanglements of the Service Experience

One of the most intriguing characteristics of the service experience involves the concept of inseparability. **Inseparability** reflects the interconnection among the *service provider*, the *customer* involved in receiving the service, and *other customers* sharing the same service experience. Unlike the goods manufacturer, who may seldom see an actual customer while producing the good in a secluded factory, service providers are often in constant contact with their customers and must construct their service operations with the customer's physical presence in mind. This

activity-based costing (ABC)

Costing method that breaks down the organization into a set of activities, and activities into tasks, which convert materials, labor, and technology into outputs.

inseparability

A distinguishing characteristic of services that reflects the interconnections among the service provider, the customer involved in receiving the service, and other customers sharing the service experience.

interaction between customer and service provider defines a **critical incident** and represents the greatest opportunity for both gains and losses in regard to customer satisfaction and retention.

2-3a Marketing Challenges Created by Inseparability

The inseparable nature of services poses a number of unique challenges for marketing practitioners. First, in many instances, the execution of the service often requires the physical presence of the service provider. As a result, service providers need different skill sets, such as interpersonal skills, while a manufacturing worker may never actually interact with a customer. Second, the customer's involvement in the service delivery process presents other challenges. Customers often dictate the type of service to be delivered, the length of the service delivery process, and the cycle of service demand. As a result, customer involvement often jeopardizes the overall efficiency of the service operation. Third, services are often a shared experience among a number of customers. Problems arise as customers adversely influence one another's service experience. Finally, inseparability presents challenges relating to the mass production of services. A single service provider can only produce a finite amount of service. In addition, only so many customers can travel to one physical location to consume a specific service provided by a specific provider.

critical incident

A specific interaction between a customer and a service provider.



Unlike the goods manufacturer who may seldom see an actual customer, service providers often produce their services in close physical proximity to their customers. As a result, services are often characterized by inseparability.

A summary of challenges and potential solutions pertaining to inseparability is provided in Figure 2-2.

The Service Provider Is Physically Connected to the Service

For the production of many services to occur, the service provider must be physically present to produce and deliver the service. For example, dental services require the physical presence of a dentist or hygienist, medical surgery traditionally requires a surgeon, and in-home services such as carpet cleaning require a service provider to complete the work.

Because of the intangibility of services, the service provider becomes a tangible clue on which at least part of the customer's evaluation of the service experience becomes based.

Figure 2-2 Unique Service Feature: Inseparability



As tangible clues, service providers are evaluated based on their use of language, clothing, personal hygiene, and interpersonal communication skills. Many service firms have long appreciated the impact that public contact personnel have on the firm's overall evaluation. For example, wearing uniforms or conforming to dress codes is often required of service employees to reflect professionalism. Other service firms such as restaurants often place their most articulate and friendly staff members in public contact positions such as waitstaff, host/hostess, and bartender. Personnel who do not have these skills and traits are often employed in areas that are invisible to the customer, such as the kitchen and dish room areas.

Further complicating the service encounter, face-to-face interactions with customers means employee satisfaction is of critical importance. Without a doubt, employee satisfaction and customer satisfaction are directly related. Dissatisfied employees who are visible to customers will translate into lower customer perceptions of the firm's performance. The importance of employee satisfaction within service firms cannot be overemphasized. Customers will never be the number one priority in a company where employees are treated poorly. Employees should be viewed and treated as internal customers of the firm.⁸

Customers Are Involved in the Production Process

The second defining characteristic of inseparability is that the customer is involved in the production process. The customer's involvement in the production process may vary from: (1) a requirement that the customer be physically present to receive the service, such as in dental services, a haircut, or surgery; (2) a need for the customer to be present only to start and stop the service, such as in dry cleaning, automated teller machines (ATMs), and auto repair; and (3) a need for the customer to be only mentally present, such as experiencing a concert or movie via online streaming services such as Netflix or Hulu. Each scenario reflects a different level of customer contact, and as a result, each service delivery system should be designed differently.

Why the big fuss over customer involvement? Overall, as customer contact increases, the efficiency of the operation decreases. More specifically, the customer has a direct impact on the type of service desired, the length of the service delivery process, and the cycle of service demand. Trying to balance customer needs with efficient operating procedures is a delicate art.

With regards to the cycle of demand, restaurants would be more efficient if customers would smooth their demands for food throughout the day as opposed to eating primarily during time periods corresponding to breakfast, lunch, and dinner hours. As one frustrated McDonald's employee told one of the authors of this text, "These people [the customers] would get better service if they all didn't show up at the same time!" Further complications arise as customers also dictate the nature or type of service needed. This is particularly frustrating for health care workers who provide services to waiting emergency room patients. Every patient has a different need, some needs are more immediate than others, and you never know what the

next patient will need. Obviously, this scenario is frustrating for waiting patients as the care for "less needy" patients is further delayed. Finally, even when customer needs are the same, some customers ask more questions and/or need more attention than others, thereby affecting the length of demand. As a result, fixed schedules are difficult to adhere to without delays. This scenario explains why doctor appointments seldom begin at their appointed time.⁹

Throughout the customer's interaction with the service provider, the customer often provides inputs into the service production process. As such, the customer plays a key role in the successful completion of the service encounter. For example, a patient who feels ill must be able to accurately describe their symptoms to a physician to receive proper treatment. Not only must the symptoms be described accurately, but the patient must also take the recommended dosage of medicines prescribed. In this case, the customer (the patient) becomes a key player in the service production process and can directly influence the outcome of the process itself. Failure of the patient to follow recommended instructions will likely lead to an unsatisfactory service experience.

One final issue directly related to the customer's presence in the service factory concerns the appearance of the service factory itself. Service factories, be they restaurants, hospitals, museums, or universities, must be built with customers' presence in mind. Consequently, the service factory not only provides the service, but in and of itself becomes a key tangible clue in the formation of customer perceptions about service quality.

Other Customers Are Involved in the Production Process

The presence of **other customers** during the service encounter is the third challenging characteristic of inseparability. Because the production and consumption of services occur simultaneously, several customers often share a common service experience. This "shared experience" can be negative or positive. The marketing challenges presented by having other customers involved in the production process generally reflect the negative aspects of their involvement. Restaurants once again provide an ideal setting for examples of negative events, including families with young children sharing the same space with adult couples seeking a quiet dining experience, drunken customers interacting with sober patrons, and the occasional lovers' quarrel that spills over into the aisles. Overall, the primary challenge concerns effectively managing different market segments with different needs within a single service environment. Such will be the case if inflight cellphone use is eventually approved by airlines. Some passengers will see the addition of this service as overwhelmingly positive, while others will view it as noise pollution and extremely irritating.¹⁰

other customers

The term used to describe customers who share a service experience with the primary customer who is receiving the service.

The impact of other customers is not always negative. On the positive side, audience reaction in the form of laughter or screams of terror often enhances the viewing experience at a movie theater. Similarly, a crowded pub may facilitate the opportunity for social interaction as customers form teams and compete against each other in trivia contests. As social creatures, humans tend to frequent places of business and feel more comfortable in places that have other customers in them. In fact, the lack of “other customers” may act as a tangible clue that the impending experience may be less than satisfactory. For example, if given the choice of dining at one of two new restaurants, would you select a restaurant that had no cars in the parking lot, or would you choose a restaurant down the street with a full parking lot?

The Mass Production of Services Presents Special Challenges One final obstacle presented by inseparability is how to mass-produce services successfully. The problems pertaining to mass production are twofold. First, because the service provider is directly linked to the service being produced, an individual service provider can produce only a limited supply. The question arises: How does one provider produce enough service product to meet the demand of the mass market? The second problem directly relates to the customer’s involvement in the production process. Customers interested in a particular provider’s services would have to travel to the provider’s location. Technology-based solutions are being developed to tackle this challenge (see E-services in Action).

2-3b Possible Solutions to Challenges Created by Inseparability

Similar to the solutions proposed for intangibility, marketing practitioners have developed a number of strategies in

an attempt to offset or minimize the marketing challenges posed by inseparability. These strategies include: (1) an increased emphasis placed on the selection and training of public contact personnel to ensure that the right types of employees are in the right jobs; (2) the implementation of customer management strategies that facilitate a positive service encounter for all customers sharing the same service experience; and (3) the use of multisite locations to offset the mass production challenges posed by inseparability.

Strategic Selection and Training of Public Contact Personnel

Contact personnel, unlike goods, are not inanimate objects, and being human, they exhibit variations in behavior that cannot be controlled by the service process. Moreover, the attitudes and emotions of contact personnel are visible to the customer and can affect the service experience for better or worse. Surly or unhappy employees can influence both customers with whom they come into direct contact and other employees as well. On the other hand, a friendly, highly motivated employee can create a more pleasant service experience for everyone who comes into contact with that person.

As a result of the frequency and depth of interactions between service providers and customers, a thoughtful *selection* of service personnel with superior communication and interpersonal skills is a must. In addition, *training* personnel once they are on the job is also necessary. For example, consider the training needs of UPS, which delivers more than 15 million packages a day to 6.1 million customers located in more than 220 countries. The behind-the-scenes activities of hiring, training, and rewarding employees are directly related to how well customers are served. UPS believes in building trust and teamwork and making employees loyal to the company’s mission. The company spends hundreds of millions of dollars per year on training, paying full-time

E-Services in Action

Telesurgery: Surgery from a Distance¹¹

Providing service from a distance with technology has typically involved the provision of low-touch services that can be digitized such as music, movies, video and voice communications, and printed materials (e.g., magazines, newspapers, concert tickets). Low-touch services involve service transactions where it is not imperative that the service provider and service recipient need to be in the same physical space to complete the transaction. On the other hand, few remote technologies have been developed that can replace the human contact necessary to deliver high-touch services such as haircare, spa treatments, dentistry, and a multitude of medical procedures where the service rendered requires the physical presence of both the service provider and the service recipient.

In response, telesurgery options now exist to deliver surgery from a distance. Telesurgery provides access to medical care to those that are geographically isolated (e.g., rural areas, battlefields, sea travelers) and serves as a

possible solution to surgeon shortages, increasing medical costs, and long-distance travel. Remote surgery benefits the surgeon but also provides the patient with technical accuracy that is often superior to what can be delivered by a human provider. The technical accuracy of telesurgery limits collateral damage to nearby tissues and organs which enhances the safety of remote medical procedures.

Leading the way in telesurgery is the Da Vinci surgical system, developed by Intuitive Surgical. The company has developed more than 210 devices that allow surgeons to operate while seated at a command center at a remote distance while viewing a 3D image of the surgical field. The Da Vinci system enables the surgeon to control several robotic arms including one endoscope arm and several instrument arms that respond to commands of the surgeon. Cyber gloves equipped with haptic feedback technology allow the surgeon to feel the strength, texture, and depth of the patient’s tissue from a distance throughout the surgical procedure.

drivers (on average) more than \$74,000 a year, and surveying its employees for service-improving suggestions.¹²

Too often, newly hired employees are left to fend for themselves and are placed in front of customers with little or no training. It should come as no surprise to learn that a large percentage of customer complaints about service focus on the action or inaction of ill-prepared employees. Even when training has been received, the content of training often misses the mark. Critics of service quality have focused on “robotic” responses by staff and on staff who have been trained in using the technology associated with the business, but not in dealing with different types of customers. Experts in service quality believe that employees must also be trained in “soft” management skills such as reliability, responsiveness, empathy, assurance, and managing the tangibles that surround the service.¹³

Effectively Manage Customers The problems created by inseparability can also be minimized through effective **customer management**. The goal of effectively managing customers who share a service experience is to minimize the negative aspects and maximize the positive aspects of “other customers.” Separating smokers from nonsmokers is an example of one way to minimize the impact of other customers. Sending a patient insurance forms and information about office procedures before the patient arrives may help control the length of the service encounter. In addition, restaurant reservation systems may help smooth out demand created by an overabundance of customers. Finally, providing delivery services and/or adding drive-thru service may eliminate the need for many customers to be physically present within a service factory, thereby increasing the firm’s operating efficiencies and improving delivery speed.

Encouraging the positive aspects of the presence of other customers is also possible. Encouraging classroom participation makes classes more enjoyable for everyone. In addition, encouraging group waits where customers talk to one another and occupy each other’s time can make group waits much more enjoyable than solo waits.

Develop Multisite Locations To offset the effects of inseparability pertaining to challenges associated with centralized mass production, service firms that mass-produce do so by establishing multiple locations. Typical examples include H & R Block accounting services, Hyatt Legal Plans, Marriott Hotels, and a myriad of restaurant, banking, and insurance institutions. **Multisite locations** serve at least two purposes. First, because the customer is involved in the production process, multisite locations limit the distance the

customer management

A strategy service personnel can implement that minimizes the impact of other customers on each individual customer’s service experience (e.g., separating teens from older adults in a restaurant).



ACCORDING TO THE SURVEY, RETENTION IS HELPED BY TRAINING AND MONEY...THERE'S NO MENTION OF CHAINING STAFF TO THEIR DESKS

Fran/CartoonStock.com

Employee retention is directly related to customer satisfaction; however, there are right ways and wrong ways to retain good employees.

customer must travel to purchase the service. Second, each multisite location is staffed by different service providers, each of whom can produce their own supply of services to serve their local markets. Ultimately, multisite locations act as **factories in the field**. Without them, every customer who desired legal services would have to travel to a single location that housed all the lawyers in the country plus all



iStock.com/M. Suhail

Opening multisite locations enables a service provider to overcome the mass production challenges posed by the service characteristic of inseparability.

multisite locations

A way for service firms that mass-produce to combat inseparability, involving multiple locations to limit the distance customers must travel and staffing each location differently to serve a local market.

factories in the field

Another name for multisite locations.

their clients for that day. Obviously, this is not practical, or realistic, nor a place anyone would really want to visit!

The use of multisite locations is not without its own set of special challenges. Each site is staffed by different service providers who have their own personalities and their own sets of skills. For example, not every H & R Block tax representative has the same personality and the same set of skills as the founder, Henry Block.¹⁴ The differences in personnel are particularly troublesome for service firms that try to establish a consistent image by providing a standardized product. The variability in performance from one multisite location to another and even from one provider to another within a single location leads us to the next special unique characteristic of services – heterogeneity.

2-4 Heterogeneity: The Variability of Service Delivery

One of the most frequently stressed differences between goods and services is **heterogeneity** – the variation in consistency from one service transaction to the next. Service encounters occur in real time, and customers are often physically present in the service factory, so if something goes wrong during the service process, it is too late to institute quality-control measures before the service reaches the customer. If, in a hotel, something goes wrong during the night's stay, that lodging experience for a customer is bound to be impacted; the manager cannot logically ask the customer to leave the hotel, reenter, and start the experience from the beginning. Moreover, the customer (or other customers who share the service experience with the primary customer) may be part of the quality problem. As evidence, there have been a flurry of reported incidents on planes pertaining to passengers behaving poorly. In one incident, a flight attendant was forced to hit a passenger over the head with a coffee pot while trying to enter the cockpit during flight.¹⁵

Heterogeneity, almost by definition, makes it impossible for a service operation to achieve 100 percent perfect quality on an ongoing basis. Manufacturing operations may also have problems achieving this sort of target, but they can isolate mistakes and correct them over time, since mistakes tend to reoccur at the same points in the process. In contrast, many errors in service operations are onetime events; the waiter who drops a plate of food in a customer's lap creates a service failure that can be neither foreseen nor corrected ahead of time.

Another challenge that heterogeneity presents is that not only does the consistency of service vary from firm to firm and among personnel within a single firm, but it also varies when interacting with the same service provider

daily. For example, McDonald's, the world's leading global foodservice retailer, operates over 38,000 locations in over 100 countries. On average, a new McDonald's opens every 14.5 hours, McDonald's has more customers each day than the entire population of the United Kingdom, the King of England owns a McDonald's, and the company generates approximately \$75 million in sales daily. Ironically, McDonald's first menu item was a hot dog!¹⁶

As most of us have experienced, due to heterogeneity, some McDonald's locations have helpful and friendly employees, whereas other McDonald's locations employ people who are...shall we say...less helpful. Not only can this be said for different locations, but the same is also true within a single location because of the mood swings of individuals.

2-4a Marketing Challenges Created by Heterogeneity

The major challenges presented by heterogeneity translate into the fact that service standardization and quality control are difficult to achieve. Why is this so? Because of the inseparability characteristic previously discussed, we now know that in many cases the service provider must be present to provide the service. Firms such as financial institutions employ a multitude of frontline service providers. Each employee has a different personality and interacts with customers differently. In addition, each employee may act differently from one day to the next. As an example, many students who work as waitstaff in restaurants often acknowledge that the quality of interaction between themselves and customers will vary even from table to table based on the customer's receptiveness of the interaction. Hotel desk clerks, airline reservationists, and business-to-business service personnel would respond similarly.

The marketing problems created by heterogeneity are particularly frustrating. A firm could produce the best service in the world, but if an employee is having a "bad day," a customer's perceptions may be adversely affected. The firm may never have another opportunity to serve that customer. Returning to our McDonald's example, the franchisee may pay up to \$1,000,000 for the franchise and the right to sell a "proven product." However, the real secret to each individual franchise's success is the employee behind the counter who is interacting with customers while taking orders and operating the point-of-sale terminal.

2-4b Possible Solutions to Challenges Caused by Heterogeneity

Solutions proposed to offset the challenges posed by heterogeneity could be considered complete opposites of one another. On the one hand, some service firms embrace the heterogeneous nature of services to provide customized services. In this case, the service offering is tailored to the individual needs of the customer. The second possible solution is to develop a service delivery system that standardizes the service offering—every customer receives essentially the

heterogeneity

A distinguishing characteristic of services that reflects the variation in consistency from one service transaction to the next.

Figure 2-3 Unique Service Feature: Heterogeneity



same type and level of service. Each of these opposing strategies encompasses a different set of advantages and disadvantages. A summary of issues pertaining to heterogeneity is provided in Figure 2-3.

Pursue a Customization Strategy One possible solution to the problems created by heterogeneity is to embrace the variation inherent in each service encounter and customize the service. **Customization** develops services that meet each customer's individual needs. Producers of goods typically manufacture the good in an environment that is isolated from the customer. Mass-produced goods do not meet individual customer needs. However, because both the customer and the service provider are involved in the service delivery process, it is easier to customize the service based on the customer's specific real-time instructions.

Note that there are trade-offs associated with a customized service. On the one hand, if everything is provided exactly to the customer's specifications, the customer experiences a service that meets their specific needs; however, the service will take longer to produce and will be more costly to provide. Consequently, pursuing a customization strategy enables the provider to charge higher retail prices, which can potentially lead to higher profit margins for the provider. Providers pursuing a customization strategy typically focus on profit margins on a per-customer basis as opposed to achieving profits through a mass volume or turnover strategy.

customization

Taking advantage of the variation inherent in each service encounter by developing services that meet each customer's exact specifications.

The downside of providing customized services is three-fold. First, customers may not be willing to pay the higher prices associated with customized services. Second, the speed of service delivery may be an issue. Customized services take extra time to produce and deliver, and the customer may not have the luxury of waiting for the final service product. Finally, customers may not be willing to face the uncertainty associated with customized services. Each customized service is different, so the customer is never sure exactly what the final product will be until it is delivered. So, do customers prefer customized services over standardized services? Intuitively, most believe that customers would prefer customized products; however, the answer is, "It depends." If price, speed of delivery, and consistency of performance are issues, the customer will favor a standardized service.

Pursue a Standardization Strategy Standardizing the service is a second possible solution to the marketing challenges created by heterogeneity. The goal of **standardization** is to produce a consistent service product from one transaction to the next. Service firms can try to standardize their services through intensive training of their service providers. Training certainly helps reduce extreme variations in performance. However, even with all the training in the world, employees will ultimately continue to vary somewhat from one transaction to the next. One way to eliminate this variance is to assist and/or replace human labor with technology-based solutions.

standardization

The goal of standardization is to produce a consistent service product from one transaction to the next.

A financial institution's automatic teller machine (ATM), an automated car wash, and web-based services such as procuring airline tickets, hotel reservations, or digital music files are prime examples of standardized services that appeal to customers' standardized needs. When using an ATM for banking services, customers key in their service request by answering a series of predetermined automated prompts, and the service is then provided accordingly. This type of system minimizes the amount of customer contact and drastically reduces variations in quality during the order and delivery processes.

On the positive side, standardization leads to lower prices, consistency of performance, and faster service delivery. However, some customers believe that standardization sends the message that the firm lacks empathy about individual customer needs and is trying to distance itself from the customer. Perceived distancing is particularly an issue as organizations are increasingly replacing human labor with technology, such as automated phone services that are programmed to respond with, "your call is very important to us"—does anyone really believe this anymore? Often customers become increasingly frustrated when forced to select from a menu of phone prompts and to interact with voice recognition software that is far from perfect.¹⁷ Of course, standardization and customization do not have to be mutually exclusive and presented as all-or-nothing propositions. Many companies, particularly in the travel and tourism arena, provide a standardized core product and allow customers to select options to semi-customize their final outcome — this is referred to as **mass customization**. For example, customers booking an airline flight on Travelocity select their destination, day of travel, time of travel, seat location, and can arrange hotel and rental car accommodations that suit their individual needs.

2-5 Perishability: Balancing Supply and Demand

The fourth and final unique characteristic that distinguishes goods from services is perishability. **Perishability** reflects the challenge that services cannot be saved, their unused capacity cannot be reserved, and they cannot be inventoried. Unlike goods, which can be stored and sold at a later date, services that are not sold when they become available cease to exist. For example, Marriott hotel rooms that go

mass customization

A production strategy where customers are provided a standardized core product but are then permitted to add a limited amount of customization.

perishability

A distinguishing characteristic of services in that they cannot be saved, their unused capacity cannot be reserved, and they cannot be inventoried.

unoccupied for the evening cannot be stored and used at a later date; Singapore Airlines' seats that are not sold cannot be inventoried and added on to aircraft during the holiday season when airline seats are scarce; and service providers such as dentists, lawyers, and hairstylists cannot regain the time lost from an empty client appointment book.

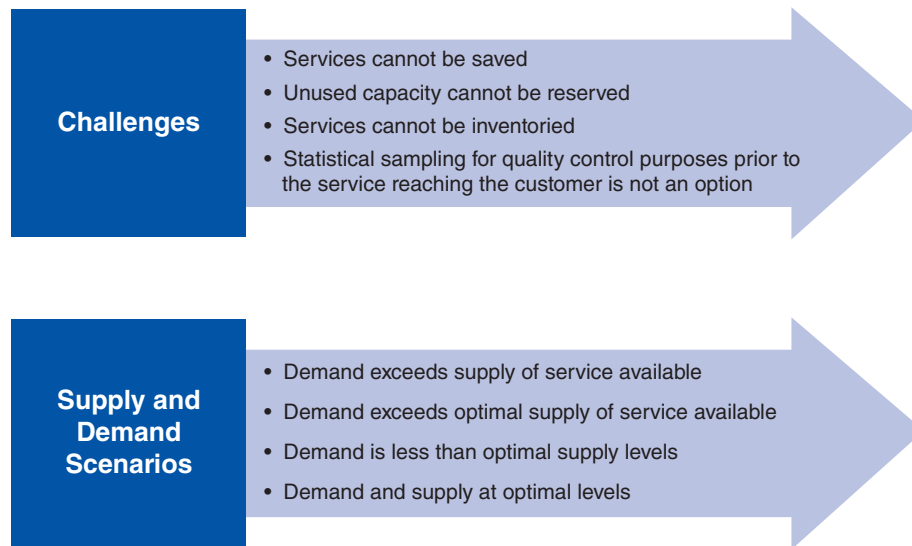
The inability to create an inventory presents profound difficulties for marketing services. When dealing with tangible goods, the ability to create an inventory means that production and consumption of the goods can be separated in time and space. In other words, a good can be produced in one place in Asia and transported for sale in another country around the globe. Similarly, a good can be produced in January and not released into the channels of distribution until June. In contrast, most services are consumed at the point of production. For example, education is consumed as it is produced; the same is also true for health services, religious services, business consulting, and a host of other service products.

The existence of inventory greatly facilitates quality control in goods-producing organizations. Statistical sampling techniques can be used on warehouse stock to select individual items for testing, to the point of destruction if necessary (e.g., automobile crash tests). The sampling process can be set up to ensure minimum variability in the quality of the product prior to its release for distribution. Once again, the same cannot be said for services as statistical sampling for quality-control purposes prior to the service reaching the customer is not an option. Quality-control systems also provide numerical targets against which managers can work. It is thus possible for Procter & Gamble (P&G) to produce tens of millions of packages of Tide laundry detergent that are essentially identical. In contrast, when you purchase a room at a hotel, you are likely to experience a wide range of factors that may influence your good night's sleep. Issues such as air conditioning, plumbing, and noisy neighbors factor into the hotel guest's overall experience.

Finally, in goods-producing businesses, inventory performs the function of separating the marketing and the production departments. In many organizations, tangible products are actually sold at a transfer price from one department to another within the same company. The two parts of the firm have what amounts to a contract for quality and volume. Once this contract has been negotiated, each department can work rather independently of the other. In service firms, however, marketing and operations must constantly interact with each other — because of the inability to inventory the service product.¹⁸

2-5a Marketing Challenges Caused by Perishability

Without the benefit of carrying an inventory, matching demand and supply within most services firms is a major challenge. In fact, because of the unpredictable nature of customer demand for services, the only likely way that supply perfectly matches demand is by accident! For example, as a manager, try to imagine scheduling cashiers at a grocery store. Although we can estimate the times of the day that the store will experience

Figure 2-4 Unique Service Feature: Perishability

increased demand, demand may fluctuate widely within any 15-minute interval. Now try to imagine forecasting demand for a hospital's emergency ward, an entertainment theme park, or a ski resort. Demand can be "guesstimated" but will rarely be exact. Clearly, customer demand for many services at any given time is unpredictable. The lack of inventories and the need for the service provider to provide the service result in several possible demand and supply scenarios. In contrast to their service-producing counterparts, manufacturers of goods could more easily adapt to these scenarios by selling or creating inventories. A summary of issues pertaining to perishability challenges and resulting supply and demand scenarios is provided in Figure 2-4.

Demand Exceeds Supply of Service Available In this scenario, customer demand simply outpaces what the firm can supply, which results in long waiting periods and, in many cases, unhappy customers. Business may be lost to competitors as waiting times become too excessive for customers to endure. Ironically, in cases of consistent excess customer demand, customers may continue to try to patronize a firm out of curiosity and/or the social status obtained by telling others of their experience: "We finally got in to see the show!"

Demand Exceeds Optimal Supply of Service Available In many cases, the consequences associated with demand exceeding optimal supply may be worse than when demand exceeds maximum available capacity. By accepting the customer's business by beginning the service (e.g., being seated in a busy restaurant), the firm implicitly promises to provide the same level of service that it always provides, regardless of the number of customers being served. For example, it seems that airlines typically staff flights with the same number of flight attendants regardless of the number of tickets

actually sold. However, when demand exceeds optimal levels, the service provided is generally delivered at inferior levels. As a result, customer expectations are not met, and customer dissatisfaction and negative word-of-mouth publicity result.

When demand exceeds optimal supply levels, the temptation is to accept the additional business. However, in many cases the firm's personnel and operations are not up to the task of delivering service effectively beyond optimal demand levels. For example, suppose that a landscaper becomes very successful in a short time by providing high-quality services to upscale customers. As the word spreads to other potential clients, demand for the landscaper's time dramatically increases. As the landscaper's firm expands to serve new clients by the purchasing of new equipment and hiring new personnel, the landscaper quickly discovers that they are losing control over the quality of service delivered by their own business. New employees simply do not provide the same level of service that original customers had grown accustomed to receiving. Over time, the landscaper may lose their new clients as well as their old clients as a result of the decline of their reputation. In this scenario, the service traits of perishability, inseparability, and heterogeneity can all be seen to present their challenges to the service provider.

Demand is Lower than Optimal Supply Levels As we discussed earlier, providing the exact number of grocery store cashiers needed at any given time is a challenge for most store managers. One solution would be to staff each line with a full-time cashier; however, this strategy would result in an inefficient deployment of the firm's human resources. During times when demand is below optimal capacity, resources are underutilized, (e.g., cashiers are standing around) and operating costs are needlessly wasted.

Demand and Supply at Optimal Levels The optimal scenario is to have demand match supply. This scenario describes the situation in which customers do not wait in long lines and employees are used to their optimal capacity. Because services cannot be stored, a buffer to facilitate the balance between supply and demand cannot be developed. Moreover, service providers are not machines and cannot produce a limitless supply. In reality, service demand and supply rarely balance. As a result, customers do at times experience lengthy waits, and service providers are sometimes faced with no one to serve.

2-5b Possible Solutions to Challenges Created by Perishability¹⁹

Because service demand and supply balance only by accident, service firms have developed strategies for trying to adjust supply and demand to achieve a balance. The following strategies are possible solutions to overcome the difficulties associated with the perishability of services. The first group of strategies concerns the management of the firm's demand. This discussion is followed by a second group of strategies that focus on managing supply. Both groups of strategies are summarized in Figure 2-5.

creative pricing

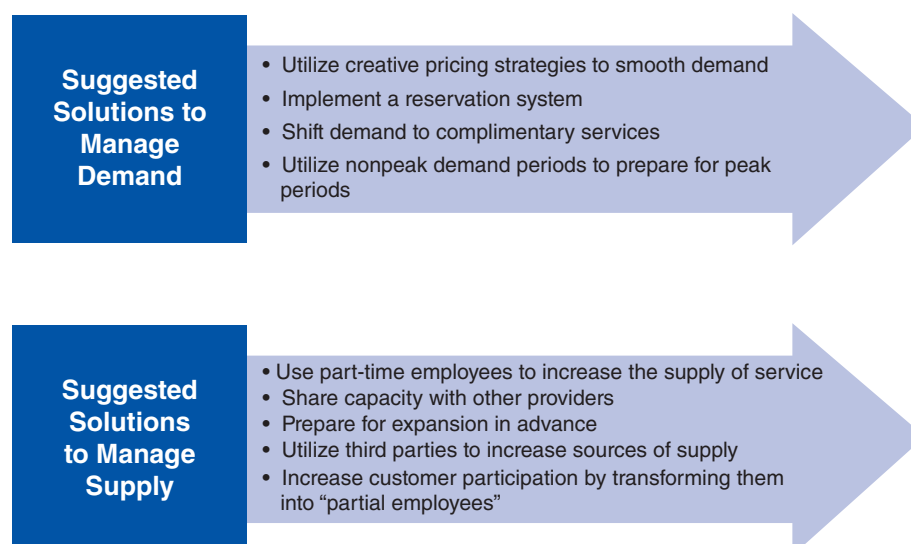
Pricing strategies often used by service firms to help smooth demand fluctuations, such as offering "matinee" prices or "early bird specials" to shift demand from peak to nonpeak periods.

Demand Strategy: Utilizing Creative Pricing Strategies to Smooth Demand

Service firms often use **creative pricing** to help smooth demand fluctuations. For example, offering price reductions in the form of "early bird specials" and "matinees" have worked well for restaurants and movie theaters, respectively. Price-conscious target markets, such as families with children, retirees on fixed incomes, and college students are willing to alter their demand patterns for the cost savings. At the same time, service firms are willing to offer price reductions to attract customers during nonpeak hours, thereby making their operations more efficient. By shifting demand to other periods, the firm can accommodate more customers and provide better service during periods in which demand previously has been (1) turned away because of limited supply, and (2) not served as well as usual because demand surpassed optimal supply levels.

This type of pricing strategy has not only helped smooth fluctuating demand but has also aided in separating diverse target markets from sharing the same consumption experience at the same time. For example, by providing family specials such as "Kids Eat Free" promotions during late afternoon and early evening hours, a restaurant significantly reduces the amount of potential conflict between its "family customers" and its "adult-only customers," who generally dine later in the evening. Price incentives have also been recently used to persuade customers to use a company's website. Customers who are willing to place their orders online may do so 24 hours a day, 7 days a week. In turn, increasing customer online usage reduces demand for personal service during regular business hours.

Figure 2-5 Suggested Solutions to Manage Supply and Demand



Demand Strategy: Implement a Reservation System

Another common strategy used to reduce fluctuations in demand is to implement a **reservation system** by which customers reserve a portion of the firm's services for a particular time slot. Typical service firms that use reservation systems include restaurants, hotels, airlines, rental car agencies, hair care salons, doctors of all varieties, golf courses (tee times), and day spas. On the plus side, reservations reduce the customer's risk of not receiving the service and minimize the time spent waiting in line for the service to be available. Reservation systems also allow service firms to prepare in advance for a known quantity of demand, so the customer and the firm benefit from improved service.

Despite the advantages of a reservation system, a host of disadvantages accompanies this strategy. First, someone must maintain the reservation system, which adds cost to the operation. Next, customers do not always show up on time or sometimes fail to show up at all. As a result, the service firm ends up with unused capacity and lost revenues. For example, a common strategy for some golfers is to reserve multiple tee times at different golf courses. Depending on their whims and which golf course they decide to play that particular day, the golfers choose which tee time to use, leaving the other two golf courses holding the tee for a foursome that is never going to appear. Given that the greens fee for an 18-hole round with riding cart averages at least \$50, the golf course has just lost \$200 that it could have otherwise been collected by filling the spot with another foursome.

Another drawback of reservation systems is that they offer the customer an implied guarantee that the service will be available at a specified time, thereby increasing the customer's expectations. All too often, this implied guarantee is not met. For example, customers with early appointments may show up late, causing a chain reaction of delayed appointments for the rest of the day. Similarly, the rate at which restaurant tables turnover is difficult to determine and is further compounded by the size of the party sitting at a table compared with the size of the party waiting for a table. In addition, medical doctors schedule as many as four patients at the same appointment time in an attempt to serve patient demand. Despite the use of reservation systems, customers may still end up waiting and may become even more unhappy (compared with a "first come, first serve" system) because of the implied promise made by the reservation system.

Demand Strategy: Shift Demand to Complimentary Services

reservation system

A strategy to help smooth demand fluctuations in which customers ultimately request a portion of the firm's services for a particular time slot.

associated with perishability by developing **complimentary services** that directly relate to the core service offering. A bar/lounge in a restaurant is a typical example of a complimentary service that not only provides the space to stage customers while they wait, but also provides the restaurant with an additional source of revenue (profit center). Similarly, golf courses often provide putting greens for their customers as a form of complimentary service. Although free of charge to customers, the putting green occupies the customer's time, minimizing their perceived waiting time. The end result is more satisfied customers. Other complimentary services that have been developed to help manage demand include driving ranges at golf courses, arcades at movie theaters, reading materials in doctors' offices, and televisions in the waiting areas of hospital emergency rooms.

Demand Strategy: The Effective Use of Nonpeak Demand Periods

Developing nonpeak demand can also minimize the effects of perishability. **Nonpeak demand development** can (1) utilize service downtime to prepare in advance for peak periods, and/or (2) market to different market segments that exhibit different demand patterns. Consequently, nonpeak demand development can reduce the effects of perishability in two ways. First, employees can be cross trained during nonpeak demand periods to perform a variety of other duties to assist fellow personnel (e.g., dishwashers may be trained to set up and clear tables) during peak demand periods. In addition, although services cannot be stored, the tangibles associated with the service (such as salads at a restaurant and wrapping silverware) can be prepared ahead of time and made ready prior to the actual service encounter. Advance preparation activities such as these free personnel to perform other types of service when needed.

Second, nonpeak demand can also be developed to generate additional revenues by attracting a different market segment that has a different demand pattern than the firm's traditional segment. For example, golf courses have filled nonpeak demand by marketing to stay-at-home-parents, retired citizens, and shift workers (e.g., factory workers, nurses, students, and teachers) who use the golf course during the morning and afternoon hours – traditionally slow periods during weekdays. These groups exhibit different demand patterns than traditional golfers, who work from

complimentary services

Services provided for customers to minimize their perceived waiting time, such as driving ranges at golf courses, arcades at movie theaters, or reading materials in doctors' offices.

nonpeak demand development

A strategy in which service providers use their downtime to prepare in advance for peak periods or to market to different target markets that follow different demand patterns than the firm's traditional market segment.

8:00 a.m. to 5:00 p.m. and demand golf course services in the late afternoons, early evenings, and on weekends.

Supply Strategy: Utilize Part-Time Employees In addition to managing customer demand, the effects of perishability can also be minimized through strategies that make additional supply available in times of need. One such supply strategy is the use of part-time employees to assist during peak demand periods. Retailers have successfully used part-time employees to increase their supply of service during the holidays for years.

The advantages of employing part-time workers as opposed to adding full-time staff include lower labor costs and a flexible labor force that can be employed when needed and released during nonpeak periods. On the negative side, using part-time employees sometimes causes customers to associate the firm with employees who exhibit lower job skills and lack of motivation and organizational commitment. Such traits subsequently lead to dissatisfied customers. However, these disadvantages appear most commonly in organizations that staff their operations with part-time workers on a full-time basis, as opposed to those employing part-time employees only during peak demand periods.

Supply Strategy: Capacity Sharing Another method of increasing the supply of service is **capacity sharing**, forming a type of service cooperative with other service providers, which permits the co-op to expand its supply of service as a whole. For example, many professional medical service providers are combining their efforts by sharing the cost and storage of expensive diagnostic equipment. By sharing the cost, each service firm can supply forms of service it may not otherwise be able to provide because of the prohibitive costs associated with purchasing such equipment. In addition, the funds saved through cost sharing are freed to spend on additional resources such as equipment, supplies, and additional personnel, expanding the supply of service to customers even further. Surgery centers and other medical group practices offer typical examples of capacity sharing in application.

Supply Strategy: Prepare in Advance for Expansion Although the strategy of **expansion preparation** does not provide a quick fix to the supply problems associated with perishability, it may save months in reacting to demand pressures, not to mention thousands of dollars in expansion

costs. In the effort to prepare in advance for expansion, many service firms are taking a long-term orientation with regard to constructing their physical facilities.

For example, one local airport terminal was built with future expansion in mind. This terminal was built on an isolated portion of the airport property, where no adjoining structure would interfere with future growth. All plumbing and electrical lines were extended to the ends on both sides of the building and capped, making hook-ups easier when expansion became a reality. Even the road leading to the terminal was curved in the expectation that new terminal additions would follow along this predetermined pattern.

Supply Strategy: Utilization of Third Parties A service firm can also expand its supply of a service through the utilization of third parties. Service organizations often use **third parties** to service customers and thereby save on costs, personnel, etc. Travel agencies are a typical example. Travel agents provide the same information to customers as an airline's own representatives. This third-party arrangement, however, enables the airline to reduce the number of personnel it employs to make flight reservations and lets it redirect the efforts of existing personnel to other service areas.

Note that although the use of third parties increases the supply of service, this type of arrangement may expose customers to competitive offerings as well. As a result, a tradeoff does exist. Many third parties, such as travel agents, mortgage brokers, and insurance vendors represent a variety of suppliers. A customer who intended to book a flight on British Airways may end up taking a Lufthansa flight because of a more compatible flight schedule and/or a less expensive fare. This type of competitive information would not have been available if the customer had called British Airways directly to make the flight reservation.

Supply Strategy: Transform Customers into Partial Employees Another method for increasing the supply of service available is to have customers perform part of the service themselves. For example, in many quick-serve restaurants, transforming customers into **partial employees** means giving customers a cup and expecting them to fill their own soft drink orders. In other restaurants, customers make their own salads at a "salad bar," dress their own sandwiches at the "fixings bar," prepare plates of food at the "food bar," and make their own chocolate sundaes at the "dessert bar."

capacity sharing

Strategy to increase the supply of service by forming a type of co-op among service providers that permits co-op members to expand their supply or service as a whole.

expansion preparation

Planning for future expansion in advance and taking a long-term orientation to physical facilities and growth.

third parties

A supply strategy in which a service firm uses an outside party to service customers and thereby save on costs, personnel, etc.

partial employee

A supply strategy that increases the supply of service by having the customer perform part of the service, such as providing a salad bar or dessert bar in a restaurant.

Without a doubt, customers are performing more and more of their own services every day. Customers pump their own gas, complete their own bank transactions at automatic teller machines, and bag their own groceries at local supermarkets. In fact, one of the major advantages of a website is that it enables customers to help themselves, or at least be more prepared when they request help from service personnel. However, although self-service does free employees to provide other services, a number of advantages and disadvantages are associated with customer participation.

The willingness of customers to provide their own service is generally a function of convenience, price, and customization. For example, automatic teller machines offer the customer the convenience of 24-hour banking, bagging groceries is generally accompanied by faster check-out processes, and Nike provides customers the opportunity to configure their own athletic shoe orders to their own individual style specifications.

In contrast, transforming customers into partial employees may also be associated with a number of disadvantages that predominantly concern the loss of control. In many instances, the more the customer becomes a major player in the production of the service, the less control the service firm can maintain over the quality of the service provided. For example, the physician who instructs a patient to administer their own medicine relinquishes control over the outcome of the prescribed care. Quality control may also suffer as a result of confused customers who decrease the efficiency of the operating system. Customer confusion in a self-service environment is likely to affect not only the outcome of the confused customer's service, but also the delivery process of other customers who are sharing that customer's experience. For example, customers who are standing in line behind a customer who is using an ATM for the first time experience the effects of the new customer's learning curve.

The loss of quality control may also be accompanied by the loss of control over operating costs. Self-service, particularly in the food industry, is associated with waste as a result of abuse of the system. Customers may take more food than they would normally order and then share food with nonpaying friends. Operating costs have also increased with the use of self-service checkouts at grocery stores as customers inadvertently or purposely forget to scan all items before leaving the store.²⁰ Finally, increasing customer participation may be interpreted by some as the service firm's attempt to physically distance itself from the customer. As a result, the image of an uncaring, unresponsive, and out-of-touch firm may develop, driving many customers away to full-service competitors. Hence, the trade-off is apparent. While increasing customer participation frees service providers to offer additional services and may provide the customer with increased convenience, opportunities for customization, and reduced prices, this strategy may also create unhappy customers who are forced to fend for themselves.

2-6 The Relationship between Risk and Service Characteristics²¹

The four unique service characteristics comprised of intangibility, inseparability, heterogeneity, and perishability contribute significantly to customer perceptions of risk associated with the purchase of services. Astute service marketers must understand the sources of perceived risks and develop strategies to offset and/or minimize its negative impact.

Customer behavior involves risk in the sense that any action taken by a customer will produce consequences that he or she cannot anticipate with any certainty, and some of which are likely to be unpleasant. Consequently, perceived risk is proposed to consist of two dimensions:

- **Consequence** – the degree of importance and/or danger of the outcomes derived from any customer decision.
- **Uncertainty** – the subjective possibility of the occurrence of these outcomes.

2-6a Risk and Standardization

Much of the heightened level of perceived risk can be attributed to heterogeneity and the difficulty in producing a standardized service product. Since a service is an experience involving highly complex interactions, it is, not surprisingly, very difficult to replicate the experience from customer to customer or from day to day. As a result, the customer may find it difficult to predict precisely the quality of a service. The fact that the local electrician works well with a neighbor does not guarantee that this same electrician will have exactly the same relationship with you. Perceived risk, therefore, tends to be higher for purchasing services in contrast to the purchase of goods.

2-6b Coproducer Risk

The involvement of the customer in the “production process of services” is another source of increased perceived risk. Coproducer risk is directly related to the concept of inseparability. Dental services provide a great example of the customer's involvement in the production process. If mistakes are made, the patient directly suffers as a consequence. Even if mistakes are not made, the patient still deals directly with the effects of the production process. Receiving over 110 million views, the YouTube Video titled “David After the Dentist” provides a classic example of co-producer risk.²²

2-6c Risk and Information

Others have argued that the higher levels of risk associated with service purchases are due to intangibility and the limited information that is readily available before the customer makes the purchase decision. For example, the economics

literature suggests that goods and services possess three different types of attributes:²³

- **Search attributes** – attributes that can be determined prior to purchase.
- **Experience attributes** – attributes that can be evaluated only during and after the production process.
- **Credence attributes** – attributes that cannot be evaluated confidently, even immediately after receipt of the good or service.

Search attributes typically consist of tangibles that can be evaluated prior to purchases. For example, when purchasing an automobile, the buyer can see the automobile, sit in it and fiddle with all of the gadgets new automobiles frequently offer, and take the vehicle for a test drive. The same cannot be said for most services. Because of the intangible nature of services, it is often extremely difficult for customers to objectively evaluate a service prior to its purchase. Services thus have very few search attributes.

A large proportion of the properties inherent in services (e.g., the friendliness of the flight attendants, the hospitality offered by the hotel staff, or the skill level of a hairstylist) can be discovered by customers only *during* and *after* the consumption of the service; these are referred to as experience attributes. Moreover, some of the properties of many services cannot be assessed even after the service is completed; these are called credence attributes. For example, how do you know whether your psychologist or tax accountant is really any good? In cases such as these, the customer often lacks the specialized or technical knowledge to make an informed evaluation. Due to the properties of intangibility (which limit search attributes), inseparability (which increases credence attributes), and heterogeneity (the variation in quality provided by service personnel), services tend to be characterized by experience and credence attributes, which in turn reduces the amount of prepurchase information available to customers, increasing their perceived risk.

2-7 Technology-based Solutions Relationship with Unique Service Characteristics²⁴

As we close this discussion about the impact of the four unique service characteristics on service marketing strategy, it is certainly worth noting how technological advancements are being used to circumnavigate the challenges posed by intangibility, inseparability, heterogeneity, and perishability.

2-7a Technology-based Solutions and Intangibility

In reference to intangibility, placing services online increases the number of search attributes that can be evaluated prior to purchase. Information is power, and service providers who have established an online presence via websites and social

media have enabled customers access to information much more extensively than what has been available to customers in the past. Images of employees, employees interacting with customers, customer reviews, provider generated content, and other tangible evidence (e.g., images of service vehicles, facilities, and the firm's involvement in the community) provide access to prepurchase information that assists in “tangibilizing” the intangible.

2-7b Technology-based Solutions and Inseparability

Technology is also being used to minimize the challenges that stem from inseparability. Self-service technologies such as airport kiosks and ATMs, web-based purchasing apps such as ticket sales for concerts and airlines, and drive-thru technologies that are particularly common throughout the United States, facilitate the physical separation of the customer from the service provider. Consequently, technology-based solutions can help to overcome the challenges associated with the production and consumption of services not being separated by time or space and involving the service provider, the customer, and other customers simultaneously. In addition, due to the scalability of technologies that are available 24/7 and capable of serving a global market, technology-based solutions also provide options for overcoming the mass production challenges posed by the inseparable nature of services.

2-7c Technology-based Solutions and Heterogeneity

Similarly, technology-based solutions can also be used to offset the challenges posed by heterogeneity. Traditionally, services are provided via human labor, and the outcomes produced by human labor vary from one performance to the next. Technologies such as self-service applications, automation, robotics, and artificial intelligence which replace or assist human providers can facilitate the provision of standardized outcomes and minimize the negative impacts associated with heterogeneity. For example, ATMs do not have good days and bad days, nor are they judgmental or temperamental, ATMs simply perform their job in a consistent manner 24/7, 365 days a year, throughout the world.

2-7d Technology-based Solutions and Perishability

Due to the perishable nature of services, balancing supply and demand is often an operations nightmare. Once again, technology-based solutions can assist service providers by both influencing demand and supplementing the supply of service available. Examples of technology-based demand solutions may include traffic lights that control the flow of traffic, smart appliances that moderate the demand for energy, and streaming services that facilitate customer demand for entertainment services. On the supply side, self-service technologies, web-based services, mobile

applications, robotics, and artificial intelligence provide the means to supplement the supply of human labor available.

In closing, as technology-based solutions continue to evolve, novel solutions will arise that offset the negative impacts associated with intangibility, inseparability, heterogeneity, and perishability. This is particularly true for

services that can be digitized and delivered remotely. In contrast, services that cannot be delivered remotely and require direct human involvement (e.g., a haircut, a white-water rafting trip, a spa day) will need to continue to explore alternative solutions to respond to the uniqueness of the service encounter.

Summary

The major differences between the marketing of goods and the marketing of services are most commonly attributed to the four distinguishing characteristics of services – intangibility, inseparability, heterogeneity, and perishability. This chapter has discussed the marketing challenges presented by these four characteristics and described possible solutions that minimize their impact on service firms.

Due to intangibility, services lack physical substance and therefore cannot be touched or evaluated like goods. The marketing challenges associated with intangibility include difficulties in communicating services to customers, pricing decisions, patent protection, and storage of services for future use. Strategies developed to offset the challenges posed by intangibility include the use of tangible clues, organizational image development, the development of personal sources of information that customers access when selecting service providers, and the use of activity-based costing.

Inseparability reflects the interconnection between service providers and their customers. Unlike the producers of goods, service providers engage in face-to-face interactions with their customers, who are directly involved in the service production process. Strategies developed to minimize the challenges of inseparability include the selective screening and thorough training of customer contact personnel, the implementation of strategies intended to manage customers throughout the service experience, and the use of multisite facilities to overcome the difficulties associated with centralized mass production.

Heterogeneity, the third unique characteristic that distinguishes goods from services, pertains to the variability inherent in the service delivery process. The primary marketing problem associated with heterogeneity is that standardization and quality control are difficult for a service firm to achieve. Service firms typically respond to the challenges

presented by heterogeneity in two diverse directions. Some firms try to standardize performance through intensive training or by replacing human labor with machines. In contrast, other firms take advantage of the variability by offering customized services that meet individual customer needs. Neither strategy is universally superior because customer preference for customization versus standardization is dependent on price, speed of delivery, and consistency of performance.

Perishability, the fourth and final unique service characteristic, refers to the service provider's inability to inventory services. Simply stated, services that are not used at their appointed time cease to exist! Moreover, because services cannot be inventoried, the few times that supply matches demand often occur by accident. A variety of strategies have been developed to try to offset the potential problems created by perishability. Some strategies attack the problems by attempting to manage demand, while others attempt to manage supply.

Due to the four unique service characteristics, the perceived risk associated with service purchases tends to be higher than when compared to the purchase of goods. Perceived risk is a function of consequence and uncertainty. Higher levels of perceived risk are attributed to lack of standardization, lack of information, and customer involvement in the production process.

In closing, technology-based solutions are providing options to minimize the negative impacts of intangibility, inseparability, and heterogeneity. This is particularly true for services that can be digitized and delivered remotely. In contrast, services that cannot be delivered remotely and require direct human involvement will need to continue to explore alternative solutions to respond to the uniqueness of the service encounter.

Key Terms

intangibility
physical evidence/tangible clues
personal sources of information
activity-based costing (ABC)
inseparability

critical incident
other customers
customer management
multisite locations
factories in the field

heterogeneity
customization
standardization
mass customization
perishability

creative pricing
reservation system
complimentary services

nonpeak demand development
capacity sharing
expansion preparation

third parties
partial employee

Review Questions

1. Briefly describe how the unique service characteristics of intangibility, inseparability, heterogeneity, and perishability apply to your educational experience in your services marketing class.
2. Discuss why the pricing of services is particularly difficult in comparison with the pricing of goods.
3. Discuss the pros and cons of having the customer involved in the production process.
4. Discuss the reasons why the centralized mass production of services is challenging.
5. What is meant by the term *other customers*, and why is their influence so much greater for services than for goods?
6. Which is better for customers: (1) a customized service or (2) a standardized service or (3) mass customization? Please explain.
7. What are the limitations associated with a service firm's inability to maintain inventories?
8. How does "increasing customer participation" solve potential problems caused by the perishability of services?
9. Do customers perceive higher levels of risk when purchasing services or when purchasing goods? Please explain.
10. How are technology-based solutions used to offset some of the challenges posed by inseparability?

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Case 2

Quaker Steak & Lube: Making the Transition from Manufacturers to Service Providers

Pat and Terry Freeman are car and truck enthusiasts who have been very successful in the automotive manufacturing business. Looking to expand their love for all things automotive, Pat and Terry have recently purchased a Quaker Steak & Lube restaurant franchise. Quaker Steak & Lube restaurants (aka “The Lube”) originally started as “cook-your-own-steak” establishments; however, today the restaurant’s signature dish is chicken wings accompanied with a wide array of sauces and side dishes along with a variety of other traditional “bar food” selections. The restaurants are highly popular, serving over 30 million wings annually, and operate over 50 restaurants throughout the United States.

The restaurant’s name is a play on words derived from the Quaker State Motor Oil Company. Consistent with the restaurant’s name and Pat’s and Terry’s love for everything automotive, Quaker Steak and Lube restaurants are also known for preserving the culture of old gas stations and muscle cars. The restaurant’s servicescape is designed around automotive décor which includes the display of

vintage muscle cars and trucks along with antique motorcycles which are often hung on the restaurant’s walls or from the ceiling. Items one would typically find in old gas stations are also used for decorations.

Soon after Pat and Terry open their restaurant, they realize that operating a restaurant requires a different mindset than what they have experienced in the world of automotive manufacturing. Based on the information provided in this chapter, please help Pat and Terry with some advice on how managing a service operation is different from operating a manufacturing facility. When appropriate, provide advice by relating responses to the four service characteristics of intangibility, inseparability, heterogeneity, and perishability.

The statements on the left-hand side describe typical traits that are common in the world of manufacturing. Could the same thing be said about services or does it need to be restated? Your task is to complete the statements under the “Services” column.

Manufactured Goods	Services
1. When a customer purchases a good, they own an object.	1. Is this also true for services? Please explain
2. The goal in goods manufacturing is uniformity and consistency.	2. Is this also true for services? Please explain.
3. A good can be placed into inventory, and a sample can be sent in advance for a customer to review.	3. Is this also true for services? Please explain.
4. When purchasing a good, the customer is an end user who is not involved in the production process.	4. Is this also true for services? Please explain.
5. With regards to goods, quality is measured by comparing outputs to specifications.	5. Is this also true for services? Please explain.
6. If improperly produced, goods can be pulled off the manufacturing line or “recalled.”	6. Is this also true for services? Please explain.
7. The morale of manufacturing employees is important.	7. Is this also true for services? Less important, similar importance, more importance...Please explain.

Source: <https://thelube.com/history/>, accessed March 1, 2022.

Chapter 3

Environmental, Social, and Governance (ESG) and Ethical Issues in Services Marketing



Chapter Objectives

After reading this chapter, you should be able to:

1. Explain the relevance of environmental factors as they pertain to service marketers
2. Identify social factors as they pertain to service marketers
3. Recognize governance factors as they pertain to service marketers
4. Identify the different types of social enterprise business models that service firms may use to pursue environmental, social, and governance (ESG) initiatives
5. Outline ethical considerations for service marketers

Given the evolving dominance of the service sector in terms of both contributions to the global economy and employment, it is clear that much of the responsibility for improving the future of the planet resides in the hands of service sector providers, customers, investors, and public policy decision-makers. This chapter addresses selected environmental, social, and governance (ESG) concerns faced by service marketers as well as ethical issues as they pertain to service providers and consumers of services.

The Origins and Growth of “Green”

When considering the “green” movement, many associate it with current trends surrounding sustainability. The

origins of the movement, however, have been around since the Industrial Revolution, between the seventeenth and nineteenth centuries.¹ The time was defined by unprecedented technological, industrial, and scientific progress that led to a population explosion among the most industrialized nations. Such booms in the industry and the demand for products resulted in the overuse of natural resources, increased waste, and poor working conditions.

The green movement reignited in the 1950s and 1960s, when consumers became increasingly aware of the impact of global consumption on the environment. Concurrently, the U.S. Interstate Highway System had been recently completed and motorists were literally throwing their trash out their car windows from the Atlantic coast to the Pacific

Coast and from the Canadian border to the Mexican border including all points in between.

The original Keep America Beautiful (KAB) campaign came about in 1953, composed of a conglomerate of American businesses, nonprofit organizations, government agencies, and concerned consumers. Still in operation, and now the largest community improvement organization in the United States, KAB focuses on litter prevention, the waste hierarchy (reduction, reuse, and recycling of waste), and community beautification. KAB's most recognizable symbol is the "Crying Indian" commercial that ran in the 1970s and is available on YouTube for viewing to this day, depicting a Native American as he observed a polluted American society where once were untouched native lands.²

In the 1970s, companies went on the defensive in response to stricter environmental policies. The barrage of new laws led to the creation of Earth Day in 1970 and contributed to the formation of the first United Nations' Environmental Conference held in Stockholm in 1972. The movement changed hands in the 1980s and 1990s, transferring from governmental reign to industry and consumer control. Social change began to occur, supporting the advancement of the movement. Though it suffered a setback after the September 11, 2001, attacks, when social concern shifted to national security, the public has again claimed sustainability as its own and have expanded that idea to now include environmental, social, and governance (ESG) initiatives.

Despite KAB's success, there are those that accuse the organization of greenwashing on behalf of large industries that manufacture the very same products customers were being asked to properly dispose and recycle. Greenwashing is defined as "a form of marketing spin in which green public relations and green marketing are deceptively used to persuade the public that an organization's products, aims, and policies are environmentally friendly."³ Critics of KAB claimed that the organization focused specifically on what customers could do to "Keep America Beautiful," but did little to convince its corporate partners to clean up their own act on the industrial side of the issue.

3-1 Introduction

Along with mainstream marketing, service marketers have expanded their philosophical view of marketing from a **functional orientation** to a societal orientation. From a functional perspective, marketing's role is embedded within the marketing department itself, and its primary goal is to facilitate the exchange process by making it easier for buyer and sellers to conduct transactions. Facilitating the exchange process

functional orientation

From a functional perspective, marketing's role is embedded within the marketing department itself, and its primary goal is to facilitate the exchange process by making it easier for buyer and sellers to conduct transactions.

is accomplished by the traditional practice of identifying markets with unmet needs and wants, segmenting those markets, and then targeting specific market segments with tailor-made marketing mix solutions (product, price, place, and promotion) that reinforce the firm's positioning strategy (differential advantage) in the marketplace. If implemented effectively, the net result of functional marketing is satisfied customers, economic prosperity, and happy investors.

From a **societal orientation**, marketers have expanded the functional role of marketing and its impact to include a broader audience. From a societal perspective, marketing has broadened its role beyond the confines of the marketing department and is now integrated throughout the whole of the organization. The primary goal of the societal perspective of marketing is to create value and sustain mutually satisfying long-term relationships, not only benefiting customers, the organization, and investors, but also benefitting other key stakeholders such as employees, suppliers, distributors, retailers, the surrounding community, and society.

Marketers engaged in a societal orientation pursue what is termed the **triple bottom line**. This approach involves conducting daily operations in a manner that considers not only the firm's economic prosperity, but also its goals and objectives on environmental issues, social justice, and equality movements. As marketers have developed a fuller understanding of the complexities involved in achieving the triple bottom line, the triple bottom line nomenclature has evolved into what is now referred to as **environmental, social, and governance (ESG) factors**. These non-financial factors such as the firm's stance on carbon emissions, deforestation, and green energy emissions (environmental issues), employee gender and diversity initiatives, data security, human rights, and fair labor practices (social issues) as

societal orientation

The primary goal of the societal perspective of marketing is to create value and sustain mutually satisfying long-term relationships, not only benefiting customers, the organization, and investors, but also benefitting other key stakeholders such as employees, suppliers, distributors, retailers, the surrounding community, and society.

triple bottom line

Firms that pursue the triple bottom line conduct daily business operations in a manner that considers not only the firm's economic prosperity, but also its goals and objectives on environmental issues, social justice, and equality movements.

environmental, social, and governance (ESG) factors

Nonfinancial factors such as the firm's stance on environmental issues (e.g., carbon emissions, deforestation), social issues (e.g., employee gender and diversity initiatives, fair labor practices), and governance issues (e.g., diversity of board members, political contributions, and executive pay)

well as diversity of board members, political contributions, and executive pay (governance issues) are often scrutinized by employees, customers, and investors alike when making choices among competing firms.⁴

The discussion that follows focuses on select ESG factors and ethical issues that impact service marketer decision making. Ultimately, the primary purpose of this chapter is to encourage service marketers to look beyond their traditional functional marketing duties and responsibilities and consider their impact and potential societal contributions on a much broader scale.

3-2 Environmental Considerations: Climate Change and Environmental Impacts of Service Firms

Based on information provided by the United States Environmental Protection Agency (EPA), human activities since the Industrial Revolution have released large amounts of greenhouse gases into the earth's atmosphere which is now changing earth's climate.⁵ Although natural processes such as volcanic eruptions and fluctuations in the sun's energy can also affect the earth's climate, these specific natural processes fail to explain the earth's warming over the last 100 years. The EPA now believes that it is "extremely likely" (greater than 95 percent certainty) that human activity is the source of today's changing climate.

As much as 97 percent of greenhouse gas emissions consist of carbon dioxide, methane, and nitrous oxide.⁶ It is estimated

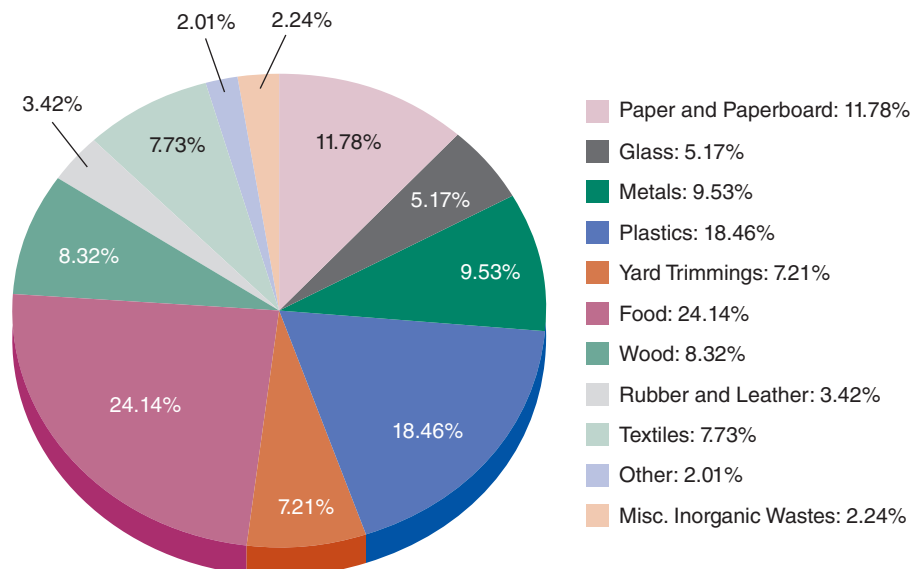
that these three types of emissions are more prevalent in the earth's atmosphere today than any time in the last 800,000 years! Comprising 80 percent of greenhouse gasses, it is estimated that carbon dioxide emissions have increased by more than 40 percent since industrial times. During this same time period methane gas emissions have increased 250 percent and nitrous oxide emissions have risen 20 percent.

The predicted long-term consequences of climate change should be of concern to all. Global warming is likely to lead to droughts which decrease food production and negatively impact human health. In other parts of the world, climate change is predicted to cause flooding which in turn damages natural ecosystems and human infrastructure. Flooding is also associated with the spread of disease, and increases mortality, decreases food availability, and limits worker availability and productivity.⁷ As a result, all business firms, customers, employees, investors, and governments are experiencing a heightened sense of responsibility for creating and supporting business enterprises that proactively engage in practices that minimize their environmental footprint.

3-2a Environmental Considerations: Environmental Impacts of Service Firms

By definition, services are intangible dominant. As such, one might think that the service firms' negative impact on the environment pales in comparison to their manufacturing counterparts. The results are surprising. For example, restaurants account for approximately 20 percent of the total pollution in the United States.⁸ In fact, food waste, paper and paperboard, and plastics contribute to approximately 55 percent of all landfill materials (See Figure 3-1).

Figure 3-1 Total Landfill by Material



Source: "National Overview: Facts and Figures on Materials, Wastes and Recycling," United States Environmental Protection Agency, accessed March 13, 2022; <https://www.epa.gov/facts-and-figures-about-materials-waste-and-recycling/national-overview-facts-and-figures-materials>.

In addition to reducing food waste, restaurants are encouraged to use energy efficient lighting, motion-sensitive lights, to install mercury-free thermostats, and to replace outdated kitchen equipment with updated energy-efficient models.⁹

Travel and tourism, despite its positive impact on local economies, is also pointed out for its negative environmental impacts including the overuse of nonrenewable resources such as energy and water, environmental degradation, damage to biodiversity, the generation of waste, and a source of water pollution, noise pollution, littering, and soil contamination.¹⁰ Hotels and resorts are attempting to curtail their negative impacts by installing energy saving technologies, engaging in recycling programs, educating and encouraging guests to be green, embracing composting programs, saving water, planting local gardens to produce organically grown fruits and vegetables, purchasing environmentally friendly products, purchasing alternative energy sources, extending the life of linens, and involving employees in conservation efforts.¹¹

Given healthcare protocols and the constant attention to maintaining a sterile environment to prevent the spread of infection, the healthcare community engages in a multitude of single-use practices—single-use plastics make up 20 percent of medical waste generated in U.S. hospitals. As a result, the healthcare industry produces a tremendous amount of waste—much of it hazardous waste. The average U.S. hospital generates 29 pounds of waste

per bed everyday.¹² In comparison, the average person contributes 4.4 pounds of waste per day. Environmental impacts include waste generation, chemical use, water consumption, energy use, and building construction. Shockingly, if the healthcare industry was a country, it would be the fifth-largest producer of greenhouse gases on earth and produces a carbon footprint that is equivalent to 514 coal-fired power plants!¹³

As customers, employees, investors, and communities become more informed and supportive of firms that proactively reduce their negative environmental impacts, astute service marketers prioritize their consideration of environmental impacts when developing and implementing services marketing strategies.

3-3 Social Considerations

In addition to environmental considerations, ESG factors also encourage firms to consider social issues when developing and implementing business plans. Social considerations include a wide array of possible issues including data privacy, technology's impact on society (see E-Services in Action box), employee gender and diversity initiatives, and fair labor practices just to name a few. In this section, our discussion will pertain to a selected group of social considerations that heavily impact service marketers.

E-Services in Action

Artificial Intelligence (AI) and Societal Impacts

In its most basic form, artificial intelligence (AI) refers to systems or machines that are designed to mimic human intelligence to perform a variety of tasks that are typically repetitive or dangerous for humans to perform on their own. Perhaps the most intriguing thing about AI is that AI learns over time to improve its own performance based on the data it collects and the actions it performs.¹⁴ Examples of common uses of AI today include chatbots that serve as customer service tools, recommendation agents for online shopping and streaming services, AI-equipped robots with cameras and audio to be used in dangerous occupations such as law enforcement and mining.

Despite AI's potential benefits to society, critics of AI have their concerns. On the extreme end, some critics fear the Hollywood stereotyping of high-functioning AI robots taking over the world and replacing life as we know may become a reality. Others fear that AI will replace human labor and cause mass unemployment, which will cascade into a host of other negative impacts on society. For example, it is estimated that AI will replace 7 million jobs in the United Kingdom alone between 2017–2037.

On the other hand, proponents of AI see a much brighter future for humans where AI assists humans as opposed to replacing them. Forecasted positive societal impacts include:¹⁵

- The creation of new jobs caused by AI that outnumber the jobs replaced by AI.
- By performing repetitive and dangerous jobs, AI allows human labor to pursue more worthwhile occupations that involve creativity and human empathy.
- It is estimated that AI has the potential to reduce health-care costs by \$100 billion annually and provide health-care workers easier access to treatment plans, drug protocols, and lifesaving and life-enhancing information that will benefit patients.
- AI will impact society via autonomous transportation, traffic management, and improve job productivity. The net result of these AI actions will reduce human stress and provide people more time to pursue other worthwhile interests of choice.
- In theory, the use of AI combined with facial recognition technology should assist law enforcement in solving crimes and minimize criminal activity.

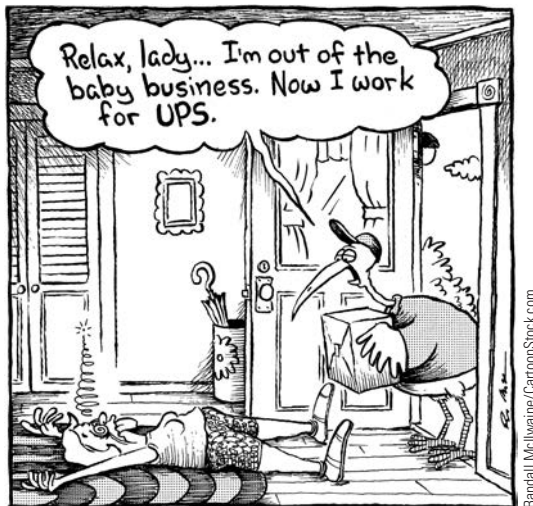
Undoubtedly, AI will have a variety of societal impacts, many of which have yet to be considered. For example, how will the legal system deal with an automobile accident when an autonomous vehicle is at fault? In addition, how will society balance the benefits of AI with privacy rights?

3-3a Social Consideration: The Loss of Manufacturing Jobs

It is generally accepted that the service sector includes the “soft parts” of the economy, consisting of nine industry supersectors:

- Education and health services
- Financial activities
- Government
- Information
- Leisure and hospitality
- Professional and business services
- Transportation and utilities
- Wholesale and retail trade
- Other services

Although the service sector continues to grow by leaps and bounds, not everyone is rejoicing.¹⁶ Critics continue to believe that only manufacturing can create real wealth, and that all other sectors of the economy are parasitic and/or inconsequential. These same critics believe that without manufacturing, there will be little for people to service. As a result, more people will be available to do less work, driving wages down and subsequently decrease the standard of living for those countries continuing to shift to service economies.



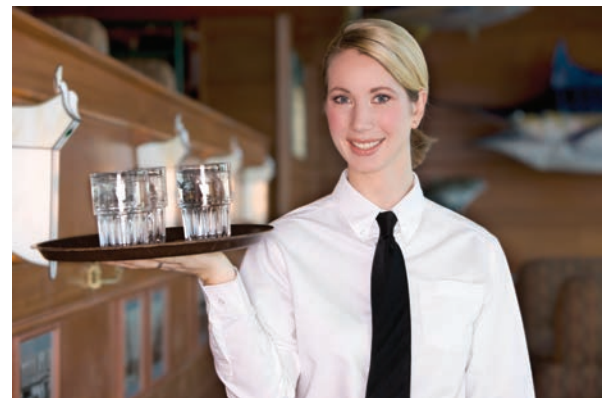
The service sector is booming! As a result, many employees are reinventing themselves and beginning new careers in one of the nine service supersectors.

Similar concerns were voiced in the United States more than 170 years ago, when the economy was shifting from agriculture to manufacturing. In 1850, 50 years after industrialization, 65 percent of the population was connected to farming. During this period, many experts voiced great concern over workers leaving the farms to work in the factories. The concerns centered on the same type of logic: If the vast majority of the population left the farms, what would the people eat? Today, 1 percent of the U.S. labor force is involved in farming operations.¹⁷ This small but mighty

workforce provides such a surplus of food that the federal government provides price supports and subsidies to keep the farms in business. Apparently, the concerns about the shift to manufacturing were unwarranted. In fact, the shift led to economic growth. Similarly, with advances in technology and new management practices, the need no longer exists to have as many people in manufacturing as were employed in the mid-1900s. Manufacturing is not superior to services—the two are interdependent. In fact, half of all manufacturing workers perform service-type jobs.¹⁸

3-3b Social Consideration: Paying Employees a Living Wage

Another social concern involving the service economy pertains to the **dichotomization of wealth** among service workers. In the United States, 80 percent of the population has experienced a decrease in real income over the past 20 years. In contrast, the wealthiest 5 percent has seen an increase of 50 percent, and the top 1 percent has seen a doubling in income.¹⁹ The middle class now holds less wealth than the top 1 percent. Although experts disagree, some believe that the poor wages paid by some service industries, along with the shift of the economy away from manufacturing, will lead to a further dichotomization of wealth—the rich will get richer and the poor will get poorer. Without a doubt, the service sector has a lot of low-paying jobs.²⁰ For people under age 30, service jobs pay 25 percent less than manufacturing jobs. Some experts believe that as the manufacturing sector continues to decline, the supply of labor available for service jobs will increase, driving service wages even lower.



Food services and drinking places provide many young people with their first jobs. More than one in five employees within the food service and drinking establishments are between the ages of 16 and 19.

dichotomization of wealth

Reflects the disparity of wealth among populations—the rich get richer and the poor get poorer.

However, not everyone in the service industry is poorly paid. For example, in the finance and wholesale trade sub-sectors, salaries are much closer to manufacturing wages. Moreover, an increasing number of service personnel are highly skilled and employed in knowledge-based industries. In fact, more than half the U.S. labor force is currently employed in either the production, storage, retrieval, or dissemination of knowledge. Furthermore, the fastest-growing service sector employment opportunities are in finance, insurance, property, and business services—occupations that require educated personnel.²¹ Overall, service wages seem to be catching up with wages in manufacturing, and clearly service occupations exist that earn much more money than their manufacturing counterparts.²²

This final concern over wages associated with service employment is a real concern, and it illustrates the continuation of traditional industrial management practices. “Most service enterprises consist of a well-paid brain trust and poorly paid support staff—\$500-an-hour lawyers and \$10-an-hour secretaries.”²³ This is an important point to consider. Throughout the world, some of the most important people in a service organization, in terms of customer first impressions and key sources of information for customers, are the least respected and lowest paid people in their organizations—secretaries, receptionists, host/hostesses, classroom teachers, nurses. This makes absolutely no sense! Why should a poorly paid and disrespected employee tout the excellence of a company that treats its own employees so shabbily? Successful service firms must recognize the importance of front-line personnel and treat them accordingly.

3-3c Social Consideration: The Ageing of the World's Markets

As the average age of the world's population increases, service marketers seeking growth opportunities will need to shift their focus to ageing segments. For example, the population of the United States grew more slowly in 2021 than in any year on record, the U.S. Census Bureau has reported, pointing to the coronavirus pandemic, economic shutdowns, and reductions in migration and births as key factors. The U.S. population only grew by about 393,000 individuals in 2021, out of a population of 330 million.²⁴ Since populations reflect markets, service firms all over the United States will be working harder to grow.

The year 2021 was not an aberration for the United States, and many of the rest of the world's populations are following a similar trend. Even after considering the effects of COVID-19 which accentuated the death rate and reduced immigration, the long run trend is still there. The United States is following the rest of the world as its population changes. The first thing that happens in any country is that fertility falls.

The **replacement rate** for the human population to remain stable is approximately 2.1 children per female—at that rate a couple will replace themselves. The United States fell below the replacement rate for the first time in 1972/73 and has been slowly decreasing its birthrate below the replacement rate over the last 20 years.²⁵ Logically, the underlying U.S. population should have started to decline in 1973; however, this was mitigated by a slowdown in deaths. People are living longer. Since 1972/3 life expectancy has grown continuously by nearly nine years. Eventually fertility rate effects dominate life expectancy effects and the number of people dying exceeds the number being born. The result is that the natural population of people born in the United States is declining. Consequently, the U.S. natural population growth rate is falling and has recently declined from 1.5 percent to only 0.2 percent annually. It will soon go negative. The 2021 Census Bureau estimates show births outnumbered deaths by only 148,000, the smallest spread in more than 80 years. As the U.S. natural population continues its decline, the only source of population growth will be immigration.²⁶

Other countries are already experiencing negative growth rates. We have all heard of the ageing of Japan. Japan's population is declining by one citizen per minute. The natural population of most European countries is already in decline. Even the Chinese population plateaued this year, and some forecasters predict it will decline by 50 percent by the turn of the next century. Shockingly, over two thirds of the world population lives in countries with a fertility rate that is less than the replacement rate.²⁷ These same countries generate 80 percent of the world's gross domestic product (GDP).

The process is accelerating. It took the United Kingdom 95 years for the birth rate per female to fall from six to three. Iran achieved the same in ten years. The reduction in children dying young and the global availability of modern contraception means that couples are choosing to have children later. The older a woman is when she has her first child, the fewer children she is likely to have (see Figure 3-2).

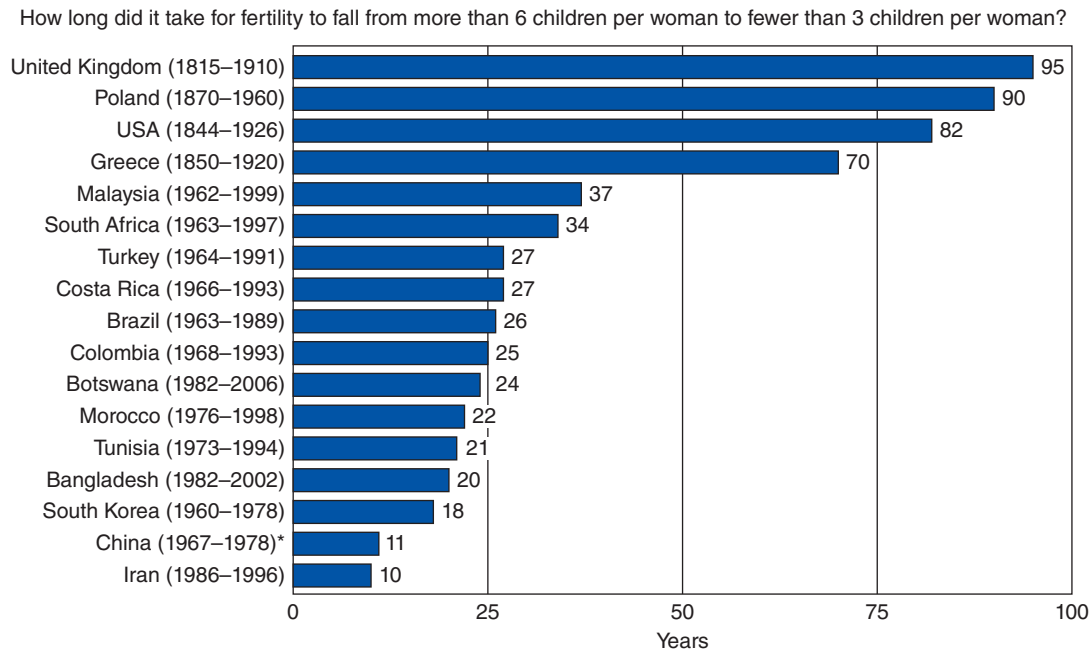
Yet another stunning observation about the world's ageing population, involves a transition period referred to as the **cross over point**—the point in time where the percentage of people over the age of 65 in a population outnumber the percentage of people under the age of 15. In other words, the cross over point reflects the point in time when there are more grandparents than grandchildren in a country's population. Europe, as a continent, made the transition 15 years ago. Russia, the United States, and China will all pass the cross over point by the end of this decade! Forecasts predict that by 2100, the world's population will consist of 2.37 billion individuals over 65 and only 1.7 billion under the age of 20.²⁸

replacement rate

The number of children per female that need to be born to replace a couple—approximately 2.1.

cross over point

The point in time where the percentage of people over the age of 65 in a population outnumber the percentage of people under the age of 15.

Figure 3-2 How Long Did It Take for the Fertility Rate to Fall

*The one-child-policy in China was introduced after the decline of the total fertility rate below 3. It was introduced between 1978 and 1980.

Source: Max Roser

What are the implications of the world's ageing population for service marketers? Where once service firms could count on a rapidly growing population to drive their growth, this is no longer going to happen. Service marketers will be dependent on the growth in income per household or capturing market share from their competitors. There is however one growth market left—The Baby Boomers.

The same forces that drove the reduction in fertility and increased life expectancy have shifted the age profile of the world's population. Figure 3-3 (1950) depicts a population pyramid by age and sex. For each age band it shows the percentage of the population split by male and female. In 1950, the U.S. population looked like a pyramid—wide at the bottom (due to a surge in birth rates) and narrow on top (due to factors contributing to a shorter life expectancy). The strange indentation depicted above the base of the pyramid is due to the reduced birth rate during wartime. The base of the pyramid widens with the arrival of the baby boomers. As the years pass in Figure 3-3 (2000) and Figure 3-3 (2050), the pyramid has lost its shape and now resembles a column albeit with a “bulge” reflecting the ageing of baby boomers. By 2100, The population pyramid has become the population obelisk!

This long run trend will take over the United States as it has in all major countries in Europe and Asia. Markets are not growing except the 65 and over market. McKinsey estimates that just under half of all growth in consumer spending in the United States in the current decade will come from the over 65s. In Europe that figure is 60 percent.²⁹

Astute service marketers must take note of the shift in favour of the 65+ group in consumer market dynamics and

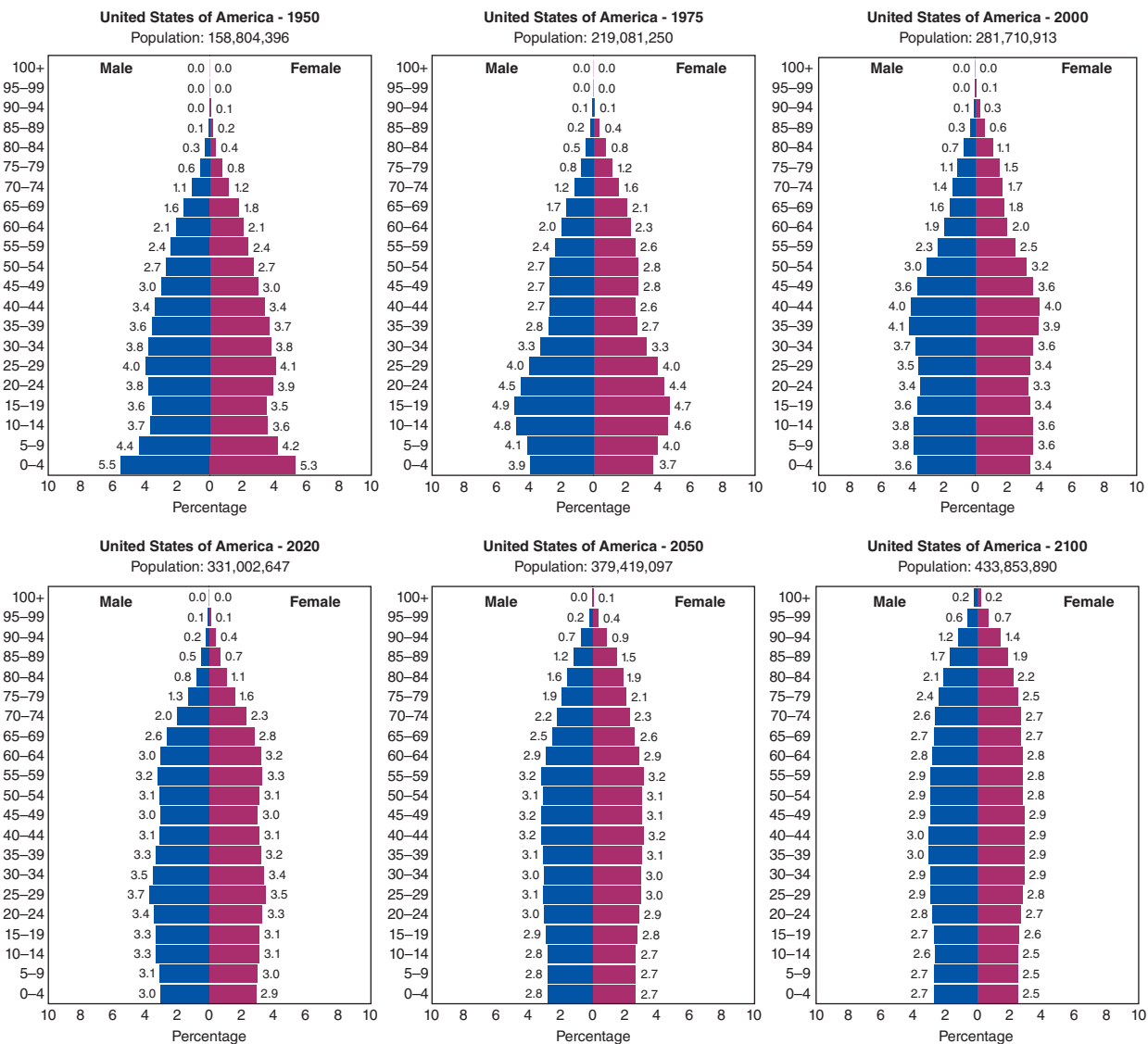
adjust their marketing strategies accordingly. In addition, service marketers will have to change their mindset about ageing stereotypes. Experts on ageing point out that in terms of health, a woman who is sixty today is equivalent to a woman of forty in 1960. That is a twenty-year improvement in a single generation. For men, the improvement is almost as large. Today's 80-year-old American man is the same as a 60-year-old as recently as 1975. Not only are people living longer, but they are also healthier and more active than their similar-age predecessors. Service super sectors such as education and healthcare, leisure and tourism, financial activities, professional and businesses services, as well as a host of personal services should particularly take notice.

Service marketers should adopt a societal perspective when dealing with the ageing population. Governments all over the world are working to maintain the independence of their ageing population. Designing services to fit with that population is good for business. It is also good for society since it allows older people to carry on going out for coffee, lunch, or dinner. It allows them to take holidays and to maintain their lives as consumers. It maintains their independence.

3-4 Governance Considerations

In addition to environmental and social considerations, ESG factors also seek to strengthen corporate governance—the system of rules, practices, and processes by which a firm is directed and controlled.³⁰ Directed by the company's board of directors, corporate governance provides guidance

Figure 3-3 The Population Pyramid



in the areas of environmental awareness, ethical behavior, corporate strategy, compensation, and risk management. The members of the board of directors are typically elected by shareholders or appointed by other board members. Ultimately, the board of directors represent the shareholders of the company as it provides direction regarding the principles of corporate governance such as:³¹

Accountability: ensuring that the management of the company is being held accountable to board members who in turn are accountable to shareholders

Fairness: treating minority stakeholders—shareholders, foreign investors, and employees in a fair manner

Transparency: providing accurate and timely information including current events, financial statements, annual reports, etc.

Independence: management decision-making should be kept independent of other matters to avoid conflict-of-interest situations

Sustainability: balancing the present needs of stakeholders with the ability to meet the needs of future stakeholders

Reputation: protecting the reputation of the firm which is directly tied to a firm's stock price

Control Environment: developing and implementing internal control systems such as risk management, disaster management, media management, and independent internal audits.

3-4a Governance Considerations: Diversity

Ideally, boards of directors should be comprised of individuals with diverse backgrounds to avoid the limitations associated with group think—where all board members from similar backgrounds and have similar views on issues. In addition to the gender of board members other aspects such as age, ethnicity, disability, cultural, or social background

should also be taken into consideration. Enhancing the diversity of board members reflects the firm's ethical values in terms of fairness and respect. Progress is being made in increasing the diversity of board members, albeit at a slower pace than preferred. Many firms have now mandated specific guidelines for the composition of their boards (primarily regarding gender). For example, France mandated that 20 percent of board members by 2011 and 40 percent of board members by 2017 to be female. The Netherlands has passed laws regarding gender quotas where boards are required to "comply or explain." As diversity membership in boards expands, there is a call from all sides of the issue to consider diversity characteristics other than gender to maximize the performance of the board.³²

3-4b Governance Considerations: Executive Pay

Concerns regarding executive remuneration should also be addressed via corporate governance rules and procedures. The concerns pertaining to executive pay as being "unfair" are typically focused around three issues: (1) executives receiving large severance packages as the executive is being dismissed for poor performance and/or other troublesome reasons; (2) the increasing gap in pay between the highest paid member of the organization and the lowest paid employees; and (3) high executive pay which continues to increase versus low dividends that are paid to shareholders during the same time period.³³

Components of executive compensation may include salary, short- and long-term incentives, guaranteed severance packages, perquisites such as club memberships and private planes, and health insurance.³⁴ It is reported that CEO compensation has grown 940 percent over the last 40 years; meanwhile, typical worker compensation has increased 12 percent. Average CEO compensation for the largest 350 U.S. firms is approximately \$17 million annually. Average CEO salary for firms in general is reported at \$786,300. CEO-to-worker compensation was 20-to-1 in 1965 which increased to 386-to-1 in 2000. Since 2000, CEO-to-worker compensation has decreased but remains at a staggering rate of approximately 351-to-1 ratio.³⁵

3-4c Governance Considerations: Conflicts of Interest

Perhaps one of the most common issues that continues to challenge corporate governance is conflicts of interest. Corporate executives and board members should not have private financial or other interests that compete and/or are contrary to the interests of the corporation. When controlling members of the corporation have conflicts of interest, trust between the corporation and its employees, customers, shareholders and the public deteriorates. In addition, controlling members who are involved in corporate decision-making while maintaining conflicting financial and other relationships expose the corporation to possible

Table 3-1 Types of Conflicts of Interest

Types of Conflicts of Interest	Examples
Nepotism	A supervisor hires a relative with no experience in preference to other candidates that are more qualified.
Self-dealing	- An employee using company supplies and/or technology to support their private business. - A financial advisor encourages clients to purchase stocks that pay the advisor higher commissions. - An employee who uses corporate accounts to obtain favorable rates for their personal business.
Gift Issuance	A manager accepts a vacation package from a supplier and then purchases more from that supplier in appreciation for the gift.
Insider Trading	- An executive within the company sells company stock when it is learned that the company will take actions that will lower the price of stock. - An executive purchases stock based on information received from corporate sources.

Source: Indeed Editorial Team, "20 Examples of Conflict of Interest in the Workplace, Indeed, April 1, 2021; <https://www.indeed.com/career-advice/career-development/examples-of-conflict-of-interest>.

litigation. Sources and examples of conflicts of interest are provided in Table 3-1³⁶

3-5 Service Marketers as Social Enterprises

As service marketing firms embrace the ideals of ESG initiatives, the challenge becomes how to balance the needs of ESG factors with the needs of the firm's financial objectives. Traditionally, the primary mission of for-profit companies is to generate profits. In comparison, the primary mission of nonprofits is to generate positive change in the world. By combining the missions of both, **social enterprises** pursue the balanced mission of generating profits and positive change (see Services for a Better World in Action). Proven

social enterprises

A business model that balances the objectives of both for-profit and nonprofits by generating both profits and positive change.

Services for a Better World in Action

Pimalai Resort and Spa³⁷

Located on the island of Koh Lanta in the Andaman Sea off the coast of southern Thailand, Pimalai Resort and Spa epitomizes the services for a better world mantra. As the recipient of many ecological awards, Pimalai has been recognized for its environmental protection, providing an authentic local experience, giving back to the community, and cultural commitment.

With regard to environmental protection, 90 percent of the flora and fauna found on the 100-acre resort are indigenous to the area. In addition, indigenous wildlife including flying dragon lizards, monkeys, and monitor lizards live in harmony within the resort. At the resort's nursery, homemade fertilizer consisting of shredded leaves, small branches, and organic kitchen waste fuels the growth of young plants. As part of the resort's water conservation efforts, Pimalai maintains several reservoirs to capture and retain natural rainwater and the run-off from nearby mountain slopes. The water is then used for irrigation to sustain local plant life. Guests are encouraged to reuse towels and bed sheets to further conserve water.

The resort was also the first in Thailand to use a floating jetty instead of a permanent pier which can negatively impact aquatic life. Moreover, the resort promotes engine-free aquatic sports such as sailing, wind-surfing, canoeing,

and snorkeling. Finally, the resort has reduced its consumption of large plastic bags by 2500 kg/year and has reduced the garbage it sends to local landfills by 80 percent.

Beyond its environmental commitment, Pimalai Resort is involved in a number of cultural and community projects. The resort is an active member and supporter of the *Laanta Lanta* and *Loy Krathong* festivals that occur annually in March and November respectively. The resort also supports local hospitals with dialysis machines and funds to construct expanded operations. Island schools are provided with furniture, sports equipment, PCs, and books. Admirably, the resort supports employment within the local community. Of the resort's 330 employees, 50 percent come from the island of Koh Lanta itself. In turn, the employees are able to support themselves and close family members which ultimately affects the lives of an estimated 2000 people on the island. This is especially remarkable given that most islanders stop going to school around 12–14 years of age to work in rubber plants, palm oil plantations, and fishing boats. Truly, Pimalai Resort and Spa embraces the spirit of services for a better world and engages in practices that make the world a better place for its guests, employees, and community every day.

business models for social enterprises “*that do well by doing good*” are provided in Table 3-2.

3-6 Ethical Considerations for Services Marketers

ESG initiatives and ethical considerations often overlap. Although unethical business practices may result in short-term profits, the long-term consequences of such behaviors can be catastrophic. Unique circumstances occur in the service sector, creating an ethical environment worth examination. The discussion that follows presents a variety of ethics-related topics as they pertain to the service sector. More specifically, these topics include:

- Customer vulnerability in services marketing
- Issues that create ethical conflict
- Factors influencing ethical decision making
- The effects of ethical misconduct
- Strategies for controlling ethical behavior

Note that in this chapter, we do not intend to “preach” what we think is right or wrong. Such a decision is left to individual discretion. Our primary objective is to provide food for thought, to encourage **ethical vigilance**—paying close

ethical vigilance

Paying close attention to whether one's actions are right or wrong, and if ethically wrong, asking why you are behaving in that manner.

attention to whether one's actions (individual or organizational) are right or wrong—and to facilitate class discussions about an important subject that is often overlooked.

3-6a What Are Ethics?

In general, **ethics** are commonly defined as: (1) “a branch of philosophy dealing with what is good and bad and with moral duty and obligation” and (2) “the principles of moral conduct governing an individual or group.”³⁸ **Business ethics** comprises moral principles and standards that guide behavior in the world of business.³⁹ When conducting business in other countries, marketers often face moral dilemmas and must choose whether to honor the business practice norms of the host country or honor the business practices of their own home countries (see Global Services in Action).

Over the last several decades, the public's view of business ethics has not been overwhelmingly positive.⁴⁰ According to a BusinessWeek/Harris poll, 46 percent of

ethics

A branch of philosophy dealing with what is good and bad and with moral duty and obligations; the principles of moral conduct governing an individual or group.

business ethics

The principles of moral conduct that guide behavior in the business world.

Table 3-2 Social Enterprise Business Models that Work!

Business Model	How it Works	Examples
Entrepreneur Support	Sells business support to its target population.	Consulting, training, and/or tech support. Includes organizations such as economic development, business development, and microfinancing
Market intermediary	Provide services to clients to help them access markets.	Cooperatives like fair trade, farmers markets, and handicraft organizations
Employment	Provide employment opportunity and job training to clients and then sells its products or services on the open market.	Organizations such as Goodwill Industries and others that provide work opportunities in retailing, landscape, cafes, printing, or other business
Fee-for-service	Selling social services directly to clients or a third-party payer.	Fee-for-service organizations such as a health-care clinic are paid based on the quantity of care produced. So it is to the organization's benefit to increase the supply of services available.
Low-income client	Similar to fee-for-service in terms of offering services to clients but focuses on providing access to those who couldn't otherwise afford it.	Healthcare (prescriptions, eyeglasses), utility programs
Cooperative	Provides members with benefits through collective services.	Organizations such as credit unions and employee-owned businesses that both run the business and received the benefits of the firm's success. Other examples include bulk purchasing, collective bargaining (union), and agricultural cooperatives.
Market linkage	Facilitates trade relationships between clients and the external market.	A brokerage model for the purpose of bringing buyers and producer (sellers) together. This model differs from the intermediary model in that that brokerage firm does not market or sell the producer's product.
Service subsidization	Sells for-profit services to an external market to help fund other social programs. This model is integrated within the organization where the for-profit part of the organization and the nonprofit part of the organization exist together; the business activities and social programs overlap.	For example, a for-profit legal firm that subsidizes the part of their business that focuses on nonprofit objectives such as serving low-income and other at-risk clients
Organizational support	Similar to service subsidization, but applying the external model; business activities are separate from social programs.	For example, the for-profit firm operates its business independently from the nonprofit social programs it supports.

Source: Adam G. Force, "9 Business Model Examples for Social Enterprises," *Change Creator*, (no date), <https://changecreator.com/9-business-model-examples-social-enterprises/> and adapted from "How to Choose a Proper Business Model for Social Enterprise," *The Social Business Model*, Version 1.0, July, 2015, <https://efaidnbmnnnibpcajpcgiclfndmkaj/viewer.html?pdfurl=http%3A%2F%2Fsocialinnovation.lv%2Fwp-content%2Fuploads%2F2015%2F07%2FBusiness-model-webam-small.pdf&clen=2898846&chunk=true>.

respondents believed that the ethical standards of businesspeople were only average. In addition, 90 percent of respondents believed that white-collar crime was somewhat or very common. Another survey reported that most Americans believe that many businesspeople regularly engage in ethical misconduct. In fact, 76 percent of respondents in yet another study believed that the decline in moral standards in the United States was a direct result of the lack of business ethics practiced daily. Perhaps even more damaging are the results of a survey of business practitioners themselves: 66 percent of executives surveyed believe that

businesspeople will occasionally act unethically during business dealings, while another 15 percent believe that ethical misconduct occurs often in the business sector.

3-6b The Opportunity for Ethical Misconduct in Services Marketing

Opportunities for ethical misconduct in the service sector can be attributed predominantly to the intangibility, heterogeneity, and inseparability dimensions inherent in the provision of services. Intangibility complicates the customer's ability

Global Services in Action

Ethical Dilemmas in Global Business⁴¹

When conducting business globally, marketers often face moral dilemmas and must choose whether to honor the business practice norms of the host country or honor the business practices of their own home countries. For

example, moral dilemmas pertaining to labor standards, environmental standards, human rights, cultural diversity, and corruption are provided below.

Ethical Dilemma	One Side of the Dilemma	The Other Side of the Dilemma
Labor Standards: What should a company do when the labor standards of the host country are lower than the labor standards of the home country?	Sweat Shops: Provides jobs that were once unavailable and a necessary first step for economic development in emerging countries. Child Labor: Common and essential for subsistence living in some cultures. Stops children from living off the streets and/or being exploited in the sex trade. Worker Safety Standards: Provides jobs that were once unavailable and a necessary first step for economic development in emerging countries	Sweat Shops: Workers receive lower pay and poor working conditions Child Labor: Illegal and offensive in western cultures Worker Safety Standards: Conducting hazardous work in host countries with lower safety standards to save money and lower risk is immoral and unethical.
Environmental Standards: What should a company do when the environmental standards of the host country are lower than the environmental standards of the home country?	Known as “race to the bottom,” some countries lower their environmental standards to attract foreign direct investment.	Producers in a developed country should not use underdeveloped countries to skirt the environmental standards of their home country which turn the underdeveloped country into a wasteland.
Human Rights: What should a company do when the human rights of the host country are lower than the human rights of the home country?	Each country should be permitted the flexibility to “govern” itself. Home companies can help make progress in human rights in host countries.	Home companies should not conduct business and investment in host countries that violate basic human rights.
Cultural Diversity: What should a company do when the cultural norms of the host country are different than the cultural norms of the home country?	Many countries have their own cultural norms with respect to gender and race relations and the cultural norms of host countries should be followed and respected. With regard to marketing practices, different countries have different cultural norms with regard to tobacco and alcohol products. The cultural norms of host countries should be followed and respected.	Producers in home countries should not conduct business and investment in host countries where cultural norms such as gender and race relations and marketing practices are in conflict with the cultural norms of the home country.
Corruption: What should a company do when the accepted corruption practices of the host country are different than the accepted corruption practices of the home country?	Bribery is a common operating expense in emerging economies Bribery supplements the salaries of low paid employees Some cultures exchange “favors” in general between two parties as a cultural norm. Favors are not tied to specific activities and therefore do not fit neatly in the western culture’s view of bribery.	Corruption is unethical and should be avoided regardless of cultural norms.

to evaluate the quality of service provided; heterogeneity reflects the difficulty in standardization and quality control; and inseparability reflects the human element involved in the service delivery process. All three dimensions contribute to customer vulnerability to and reliance upon the service provider's ethical conduct during the service encounter.

In more specific terms, customer vulnerability to ethical misconduct within the service sector can be attributed to several sources (see Figure 3-4), including:

- Services are characterized by few search attributes.
- Services are often specialized and/or technical.
- Some services have a significant time lapse between performance and evaluation.
- Many services are sold without guarantees and warranties.
- Services are often provided by boundary-spanning personnel.
- Variability in service performance is somewhat accepted.
- Reward systems are often outcome-based as opposed to behavior-based.
- Customers are active participants in the production process.



Most service firms conduct business in an ethical manner; however, there have been a few corporations such as Enron, infamous for shredding financial documents, who have not played by the rules ... and eventually paid a very heavy price.

Services Consist of Few Search Attributes All products contain attributes that can be described as search, experience, and credence attributes. **Search attributes** comprise the parts of a product that can be evaluated before purchase and include such attributes as touch, smell, visual cues, and taste. Products that contain search attributes can be evaluated objectively and are much easier to compare to competing products. For example, automobiles contain many search attributes, and side-by-side comparisons can easily be assessed.

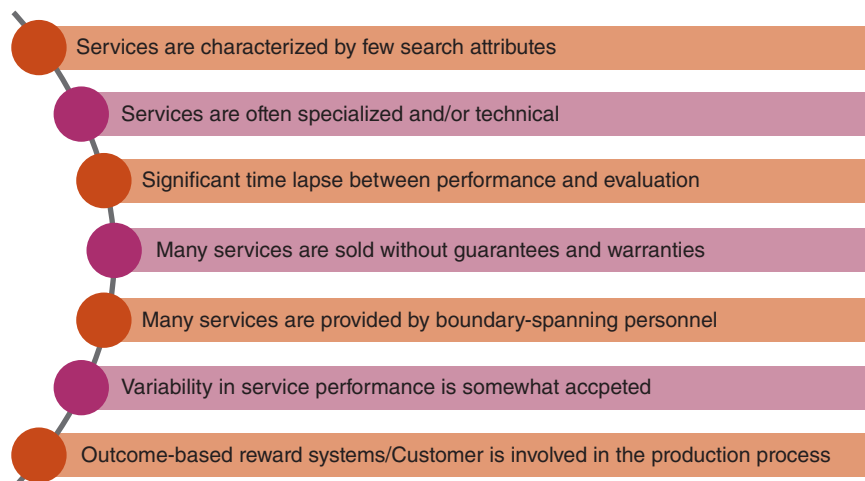
In comparison, due primarily to their intangibility, services contain few search attributes. Therefore, customers have little prepurchase information available to help them make informed, intelligent decisions. Service customers often must base their purchase decisions on information provided by the service provider. Unethical service providers can easily twist information that is provided to the customer to gain an advantage.

Technical and Specialized Services Many services are not easily understood and/or evaluated; consequently, the opportunity exists to easily mislead customers. Evaluating the performance of professional service providers is especially challenging. As a customer, how do you know whether your doctor, lawyer, financial planner, or religious leader is competent? Often our evaluations of these people are based on their appearance, the furniture in their offices, the physical location of their office building, and whether they have pleasant social skills. In other words, in the absence of information that customers can understand, customers often resort to evaluating information that surrounds the service as opposed to the core service when forming evaluations.

search attributes

Components of a product that can be evaluated prior to purchase.

Figure 3-4 Factors Contributing to Service Consumer Vulnerability



Time Lapse Between Performance and Evaluation

The final evaluation of some services such as insurance and financial planning is often conducted only at a time in the distant future. For example, the success or failure of retirement planning may not be realized until 30 years after the original service transaction is conducted. Hence, service providers may not be held accountable for their actions in the short run. This could lead to a scenario where unethical service providers may maximize their short-term gains at the expense of customers' long-term benefits.

Services Sold Without Guarantees and Warranties

In contrast to the sales of goods, service transactions are typically conducted with few meaningful guarantees and warranties. Consequently, when the customer experiences difficulties with an unscrupulous provider, there are few or no means of seeking restitution. For example, what are your options if you get a bad haircut—glue? Perhaps a new hat would help cover the mistake?

Services Performed by Boundary-Spanning Personnel

Many service providers deliver their services outside their firm's physical facilities. In doing so, these types of service providers expand the boundary of a firm beyond the firm's home office. Service providers such as painters, lawn care specialists, paramedics, and carpet cleaners are typical examples. Because of the physical distance from the main office inherent in the role of **boundary-spanning personnel**, these service providers often are not under direct supervision, and they may act in a manner inconsistent with organizational standard operating procedures. Hence, the opportunity to engage in ethical misconduct without repercussions from upper management increases. For example, a video was posted on YouTube that featured a Comcast employee sleeping on a customer's couch. Now, while we agree that sleeping on a customer's couch may be more poor judgment than unethical, it certainly is not the behavior expected of a Comcast employee, nor would it have happened had a supervisor been present—at least we would hope not!

Accepted Variability in Performance Another opportunity for ethical misconduct in the service sector comes from heterogeneity in the provision of services. Due to heterogeneity, standardization and quality control are difficult to maintain for every transaction. Many services are customized, requiring a variety of skills, and often customers are exposed to different providers from the same firm. The bottom line is that variability in service performance is unavoidable. Ultimately, unscrupulous service providers may stretch the zone of acceptable performance to their advantage.⁴²

boundary-spanning personnel

Personnel who provide their services outside the firm's physical facilities.



Service providers who are not under direct supervision have more opportunity to engage in ethical misconduct

Outcome-Based Reward Systems The reward system of an organization often dictates the behavior of its employees, and it does not take employees long to figure out the shortest route to the most income. Hence, the reward system of an organization may encourage, albeit unintentionally, the unethical conduct of its employees. For example, straight commissions and quotas in retailing reinforce activities that are directly linked to making the sale while discouraging nonselling activities such as maintaining the store, stocking shelves, and spending an inordinate amount of time fielding customer questions.

Customer Participation in Production On the surface, one would think that the more the customer is involved in the service encounter, the less the opportunity exists for the service provider to engage in ethical misconduct. However, service exchanges may be jeopardized by coercive influence strategies used by the service provider. The customer's involvement in the service delivery process enables a service provider to try to influence the customer through fear or guilt to agree to a purchase the customer would otherwise decline. An auto mechanic who makes a statement such as, "I wouldn't want my family riding around in a car that has brakes like these," is a typical example of the type of influence a service provider can have on a customer. Moreover, due to the customer's input into the production process, the customer often accepts much of the responsibility for less-than-satisfactory service transactions. Customers often feel that they didn't explain themselves clearly enough and will accept much of the blame to avoid a confrontation with the service provider. In fact, conflict avoidance is one of the major reasons customers do not complain to service providers. This situation further removes service providers from taking responsibility for their own actions and provides yet another opportunity to engage in unethical behavior.

3-6c Issues that Create Ethical Conflict

The types of ethical issues service providers encounter are not always unique to the service sector. This can be accounted for by the mix of products and customer service

Table 3-3 Ethical Issues Encountered by Businesses

• Honesty	• Use of company proprietary information
• Conflict of interest	• Accuracy of books, records
• Marketing, advertising issues	• Privacy of employee records
• Environmental issues	• Political activities and contributions
• Discrimination by age, race, or sex	• Misuses of company assets
• Product liability and safety	• Corporate governance issues
• Codes of ethics and self-governance	• Ethical theory
• Relations with customers	• Ethics in negotiation
• Bribery	• Relations with local communities
• Rights of and responsibilities to shareholders	• Plant closing and layoffs
• Whistleblowing	• Employee discipline
• Kickbacks	• Use of others' proprietary information
• Insider trading	• Relations with U.S. government representatives
• Antitrust issues	• Relations with competitors
• Issues facing multinationals	• Employee benefits
• Relations with foreign governments	• Mergers and acquisitions
• Ethical foundations of capitalism	• Drug and alcohol abuse
• Workplace health and safety	• Drug and alcohol testing
• Managing an ethical environment	• Intelligence gathering
• Relations with suppliers and subcontractors	• Leveraged buyouts

involved in a multitude of different businesses. Table 3-3 contains a sample of the many types of ethical issues that are encountered in the business world. By surveying their personnel, companies can determine the specific ethical issues that affect their specific firms. The most typical issues that managers and/or employees will face while conducting business include:⁴³

- Conflict of interest
- Organizational relationships
- Honesty
- Fairness
- Communication

Conflict of Interest Service providers are often in close proximity to customers during the provision of services. Service providers may therefore experience **conflicts of interest** as the service provider/customer relationship develops and friendships are formed. In such a situation, the service provider may feel torn between the organization, the customer, and/or the service provider's own personal

interest. For example, insurance personnel may coach friends and family members on how to complete the necessary forms in order to obtain a less expensive rate. In this situation, the customer benefits (via lower rates), the employee benefits (via "the sale"), but the organization suffers (by failing to obtain the proper insurance premium).

Organizational Relationships Service providers form working **organizational relationships** with a variety of role partners, including customers, suppliers, peers, subordinates, supervisors, and others. The information gained from these relationships is often highly sensitive. For example, most people would not want their banker to reveal the contents of their bank accounts or their doctor telling others about their medical problems. Because of the sensitivity of information, ethical service providers are required to maintain confidentiality in relationships to meet their professional obligations and responsibilities. In contrast, unethical service providers may use the information acquired from organizational relationships for their own personal

conflict of interest

The situation in which a service provider feels torn between the organization, the customer, and/or the service provider's own personal interest.

organizational relationships

Working relationships formed between service providers and various role partners such as customers, suppliers, peers, subordinates, supervisors, and others.

gain. Ivan Boesky, one of Wall Street’s top arbitragers, was charged with insider trading activities by the Securities and Exchange Commission (SEC). Boesky allegedly made millions by obtaining information about company takeovers before the public announcements of the takeovers were made. Once Boesky learned of a takeover, he would purchase large blocks of stock that he later sold at huge profits. In exchange for the names of other inside traders, Boesky pled guilty to one charge of criminal activity and agreed to pay \$100 million in penalties. He also served three years in jail. The old adage that “knowledge is power” is often embraced by those who engage in ethical misconduct.

Honesty Honesty is a partner of truthfulness, integrity, and trustworthiness. Examples of dishonesty in customer service include promising to do something for a customer but having no intention of delivering on the promise or stating that a service has been performed when, in fact, it has not. Honesty issues may also cover selected business strategies used by service firms to manage customer expectations. For example, a typical practice at some restaurants today is to purposely estimate waiting times in excess of the actual expected waiting times. If customers are seated before expected, they feel they are getting better service. Do you think this practice is ethical? Other honesty issues involve: (1) respecting the private property of clients while services are provided in the clients’ homes and places of business; (2) performing services as promised at the designated time; (3) providing accurate billing for services delivered; and (4) providing clients with accurate information even if it means the loss of a sale.

Fairness Fairness is an outcome of just treatment, equity, and impartiality. Clients should be treated equitably, and deals based on favoritism should be avoided. In addition, service discrimination issues should also be addressed. Do men receive better service than women, or vice versa? Are well-dressed people served better than blue jean-clad clients? Does a client’s race or general appearance affect the level of service provided?

Communication Ethical issues also arise through communications the service organization releases to the public. Communication may range from mass advertising to warranty information to interpersonal communication between the service provider and the customer. Ethical misconduct stemming from communication may include making false claims about the superiority of the company’s services, making false claims about competitive offerings, and/or making promises that the company knowingly cannot keep.

3-6d The Effects of Ethical Misconduct

Service organizations should stress the importance of ethical conduct by employees for several reasons. First, in terms of social responsibility, service organizations should be required to act in a manner that is in the best interest

of society. Secondly, employees forced to deal with ethical issues on a continuing basis often suffer from job-related tension, frustration, anxiety, ineffective performance (i.e., reduced sales and reduced profits), turnover intentions, and lower job satisfaction.⁴⁴

In addition to the personal effects of ethical misconduct, the organization as a whole suffers. Ethical improprieties have also been linked to customer dissatisfaction (loss of sales), unfavorable word-of-mouth publicity for the organization, and a negative public image for the entire industry (see Table 3-4).

3-6e Controlling Ethical Decision Making

The adverse effects of unethical decision making may lead service firms to try to control the ethical behavior of their employees in a number of ways (see Figure 3-5). Suggestions for controlling and managing ethical behavior include:⁴⁵

- Employee socialization
- Standards of conduct
- Corrective control
- Leadership training
- Service/product knowledge
- Monitoring of employee performance
- Building long-term customer relationships

Employee Socialization Employee socialization refers to the process by which a person adapts and comes to appreciate the values, norms, and required behavior patterns of an organization. Ethical issues such as cheating, payment of bribes, and lying may be defined through socialization of organizational values and norms. These values and norms may be transmitted via new employee orientation sessions and subsequent formal meetings to address new issues and reinforce past lessons.

Service organizations can also convey organizational values and norms through communications such as company newsletters and advertising. For example, Southwest Airlines has been commended for its YouTube posts that

Table 3-4 The Effects of Ethical Misconduct

Employee Consequences	Organizational Consequences
• Job-related tension • Frustration • Anxiety • Ineffective performance • Turnover intentions • Lower Job satisfaction	• Customer dissatisfaction • Loss of sales • Negative word-of-mouth publicity • Negative public image for the entire industry

employee socialization

The process through which a person adapts and comes to appreciate the values, norms, and required behavior patterns of an organization.

Figure 3-5 Strategies for Controlling Ethical Decision Making



depict very helpful, friendly, and happy employees who exert discretionary effort to help the airline's customers. The ads not only appeal to customers, but they also help define for Southwest employees their role within the company and the types of behavior the company expects and rewards.⁴⁶

Standards of Conduct As part of the socialization process, formal standards of conduct can be presented to service employees through a **code of ethics**. Research indicates that employees want codes of ethics to help them define proper behavior, thereby reducing role conflict and role ambiguity.⁴⁷ Although developing a code of ethics does not guarantee subsequent employee ethical behavior, it is an important early step in the process of controlling ethical decision making.

Corrective Control For the service firm's code of ethics to be effective, the conditions set forth in it must be enforced. Enforcement of the code of ethics may be accomplished through **corrective control**, the use of rewards and punishments. Service providers who are rewarded (or not punished) for unethical behavior will continue practicing it. Interestingly, research indicates that employees of firms that have codes of ethics are more prone to believe that violators of ethical codes should be punished.

Leadership Training Due to the apparent effects of differential association upon ethical decision making, service

organizations need to stress to their leaders the importance of those leaders' own behavior and its influence on subordinates. Leaders must be examples of the standards of ethical conduct. They need to understand that employees faced with ethical decision making often emulate the behavior of their supervisors. This is particularly true of young employees, who tend to comply with their supervisors to demonstrate loyalty.

Service/Product Knowledge Service firms need to constantly train all employees about the details of what the service product can and cannot provide. Due to the complex nature of many service offerings and an ever-changing business environment, service firms cannot afford to assume that employees completely understand the ramifications of new service/product developments. A few service industries understand the social responsibility of keeping employees informed. For example, the insurance industry requires continuing education of its sales agents to keep employees up to date on the insurance products they sell.⁴⁸

Monitoring of Employee Performance Behaviors Another possible method of controlling ethical decision making is the measurement of employee ethical performance. This approach involves comparing behaviors against organizational ethical standards. Service firms may monitor employee performance either by observing employees in action or by using employee questionnaires about ethical behavior. Results obtained from monitoring should be discussed with the employees to alleviate any ambiguities in their minds about the appropriate actions to take in questionable situations.

Stress Long-Term Customer Relationships Service providers must build trust with customers to promote long-term, mutually beneficial relationships. Ethical marketing practices provide the basis for such trust-based relationships.

code of ethics

Formal standards of conduct that help in defining proper organizational behavior.

corrective control

The use of rewards and punishments to enforce a firm's code of ethics.

Many unethical decisions focus on short-run benefits. For example, a service provider may mislead a customer in order to make a quick sale. Service firms that properly socialize their employees should stress the importance of building

long-term relationships. Service firms whose employees are oriented toward long-term customer relationships should be able to minimize unethical decision making.

Summary

Along with mainstream marketing, service marketers have expanded their philosophical view of marketing from a functional orientation to a societal orientation. Marketers engaged in a societal orientation pursue what is termed the triple bottom line. This approach involves conducting daily operations in a manner that considers not only the firm's economic prosperity, but also its goals and objectives on environmental issues, social justice, and equality movements. As marketers have developed a fuller understanding of the complexities involved in achieving the triple bottom line, the triple bottom line nomenclature has evolved into what is now referred to as environmental, social, and governance (ESG) factors. Selected ESG concerns are introduced and discussed including climate change and other negative environmental impacts, the loss of manufacturing, paying a living wage, ageing markets, diversity, executive pay, and conflicts of interest.

As service marketing firms embrace the ideals of ESG initiatives, the challenge becomes how to balance the needs of society with the needs of the firm's financial objectives. Traditionally, the primary mission of for-profit companies is to generate profits. In comparison, the primary mission of nonprofits is to generate positive change in the world. By combining the missions of both, social enterprises pursue the balanced mission of generating profits and positive change. Nine social enterprise models are introduced and discussed.

ESG initiatives and ethical considerations often overlap. Although unethical business practices may result in short-term profits, the long-term consequences of such behaviors can be catastrophic. Unique circumstances occur in the service sector, creating an ethical environment worth examination.

Service consumers are particularly vulnerable to ethical misconduct for a variety of reasons. For example, services

possess few search attributes and therefore are difficult to evaluate before the purchase decision has been made; services are often technical and/or specialized, making evaluation by the common customer even more difficult; many services are sold without warranties and/or guarantees and are often provided by unsupervised boundary-spanning personnel. In addition, reward systems that compensate service personnel are often based on results as opposed to the behaviors used to achieve those results. Other factors contributing to customer vulnerability include the time lapse that occurs for some services between service performance and customer evaluation (e.g., financial planning, life insurance), the inherent variation in service performance, and the customer's willingness to accept the blame for failing to effectively communicate his or her wishes to the service provider.

The most common ethical issues that take place in the provision of both goods and services involve conflicts of interest, confidentiality in organizational relationships, honesty, fairness, and the integrity of the firm's communications efforts. Employees forced to deal with ethical issues on a continuous basis often suffer from job-related tension, frustration, anxiety, ineffective performance, turnover intention, and low job satisfaction. In addition to the personal effects of ethical misconduct, the organization as a whole is likely to suffer as well. Ethical improprieties have been linked to customer dissatisfaction, unfavorable word-of-mouth publicity, and negative public images for the entire industry.

Finally, organizations have used several strategies to try to control the ethical behavior of employees, including employee socialization, the development and enforcement of codes of ethics, leadership training, service/product knowledge training, monitoring employee performance, and education of employees about the benefits of long-term customer relationships.

Key Terms

functional orientation

societal orientation

triple bottom line

environmental, social, and governance factors (ESG)

dichotomization of wealth

replacement rate

cross over point

social enterprises

ethical vigilance

ethics

business ethics

search attributes

boundary-spanning personnel

conflicts of interest

organizational relationships

employee socialization

code of ethics

corrective control

Review Questions

1. Compare and contrast marketing's functional orientation and marketing's societal orientation.
2. Explain the composition of ESG factors. Select two ESG concerns highlighted in the text and explain their relevance to services marketing.
3. Go to <http://www.bls.gov/iag/tgs/iag70.htm> and discuss working conditions, current and projected employment, occupations, and earnings as they related to the hotel industry.
4. Compare changing from an agricultural economy to an industrial economy with moving from an industrial economy to a service economy.
5. Compare and contrast three social enterprise business models and provide real life examples of each.
6. How does the public feel about the ethical behaviors of businesspeople?
7. What type of company has more difficulties controlling the ethical behavior of its employees—a centralized firm or a decentralized firm? Please explain.
8. Explain how reward systems affect ethical behavior.
9. Discuss the relationship between a code of ethics and corrective control.
10. Describe the relevance of a “search attribute” as it applies to service marketing ethics.

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Case 3

Starbucks Commitment—People, Planet, Coffee

Most of the world's population is well aware of Starbucks dominance as a retail coffee purveyor. Starbucks operates more than 15,000 company and licensed stores in the United States and over 32,000 stores worldwide. The company commands 40 percent of the coffee café market in the United States, with Dunkin' as its closest competitor. Known throughout the world for its trendy coffee, tea, and cocoa beverages and welcoming cafes, a much smaller portion of the market is likely to have much knowledge about the company's socially minded business practices.

Although Starbucks does not deliberately hide its positive social initiatives, the company certainly does not openly boast about its numerous efforts as much as it could. Perhaps the less the company openly discusses its Environmental, Social, and Governance (ESG) practices in marketing communications to attract new customers, the more credible its ESG efforts become. To understand more fully Starbucks' notable efforts, customers must scroll down to the bottom of the home page where no fewer than 24 links exist to learn more about the company's culture and operations.

With regards to culture, the company clearly strives to form a connection with its customers, employees, and suppliers. The company positions itself as a destination not only to celebrate the coffee culture but also to serve as a neighborhood gathering place for the community. "We make sure everything we do is through the lens of humanity—from our commitment to the highest-quality coffee in the world, to the way we engage with our customers and communities to do business responsibly."

Starbucks is committed to valuing and respecting inclusion, diversity, equity, and accessibility. Starbucks actively hires and accommodates individuals with disabilities with assistive technologies that allow individuals with disabilities to succeed in their jobs. In addition, the company focuses on hiring Opportunity Youth, emerging adults between the ages of 16 to 24 who are disconnected from school and work and consist of 4.6 million individuals in the United States alone. The company also actively hires refugees, veterans,

and military spouses. Starbucks has hired 25,000 veterans and military spouses to date and has set goals to hire 5,000 more each year into the future.

Starbucks also strives to become resource positive by—doing more with 50 percent less. This includes reducing the company's carbon footprint by half. More specifically, Starbucks has been focusing on expanding its plant-based menu options, shifting away from single-use to reusable packaging, working on better ways to manage the company's waste, and investing in regenerative agriculture, reforestation, and water replenishment activities that sustain and improve the livelihood of its supply chain partners. Starbucks' supply chain is vast. The company purchases 3 percent of the world's coffee production from more than 400,000 farmers in 30 countries.

The company's Coffee and Farmer Equity (C.A.F.E.) practices provide farmer loans, agronomy and farmers support centers, disease-resistant coffee tree donations, and Origin Grants to help break down barriers to education, promote clean water and sanitation, and provide economic activities to women and girls. The company estimates that the Origin Grants program has positively impacted 66,000 women in Africa, Asia, and Latin America, and seeks to empower 250,000 women by 2025.

Starbucks Corporate Governance Principles and Practices requires that when recruiting Board of Director candidates, potential candidates will be sought that reflect diverse backgrounds including, but not limited to, diversity of race, ethnicity, national origin, gender, and sexual orientation. Moreover, Starbucks Compensation and Management Development Committee oversees the company's compensation and benefit packages for Officers of the company. In addition, the committee is tasked with developing and implementing human capital development plans. Upon accepting employment, Starbucks' leadership team consisting of its CEO, COO, and CFO and other financial leaders are required to sign and adhere to Starbucks' Code of Ethics.

Code of Ethics for CEO, COO, CFO and Finance Leaders

In my financial leadership role with Starbucks Coffee Company, I recognize that I hold an important and elevated role in corporate governance. I am charged with ensuring that stakeholders' interests are appropriately balanced, protected and preserved. Accordingly, this Code provides principles to which I am expected to adhere.

To the best of my knowledge and ability, in executing my job responsibilities:

1. I act with honesty and integrity, avoiding actual or apparent conflicts of interest.
2. I provide internal and external constituents with appropriate and objective information that is full, fair, accurate, timely and understandable.
3. I comply with all applicable governmental laws, rules and regulations, and other appropriate private and public regulatory agencies' requirements.
4. I act in good faith, responsibly, with due care, competence and diligence, without misrepresenting material facts or allowing my independent judgment to be compromised.
5. I respect the confidentiality of information acquired in the course of my work except when authorized or otherwise legally obligated to disclose. I will not use confidential information acquired in the course of my work for personal advantage.
6. I proactively promote ethical behavior as a responsible partner among others in my work environment. I understand my accountability for adhering to this code and my responsibility to report violations of this code, including concerns regarding accounting and internal controls matters, to the corporate compliance officer or other appropriate individuals in accordance with Starbucks Standards of Business Conduct.
7. I exercise responsible stewardship over company assets and resources.

(Signature)

(Date)

(Print Name)

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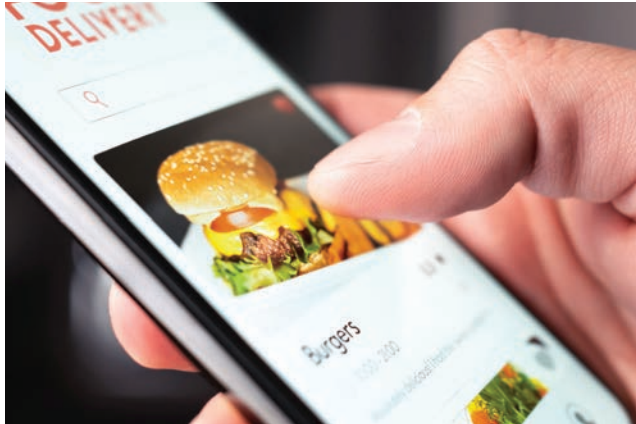
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Discussion Questions:

1. Based on the information provided, categorize Starbucks' socially minded business practices by Environmental, Social, and Governance (ESG) activities.
2. As a social enterprise, discuss the social enterprise model(s) that Starbucks has adopted. Please explain.
3. Do you believe that Starbucks authentically embraces its' ESG initiatives, or is Starbucks using these activities for the sole purpose of increasing corporate revenues? Please relate your answer to the concept of greenwashing.
4. As a customer/investor/employee of Starbucks, what would you like to see improved with regards to the company's ESG initiatives? Address all three perspectives in your response.

Chapter 4

Consumer Behavior in Services Marketing



istock.com/Tero Vesalainen

Chapter Objectives

After reading this chapter, you should be able to:

1. Outline the three stages that comprise the consumer decision process model and their special considerations pertaining to service marketers
2. Explain nonsystematic approaches to consumer decision making
3. Recognize how the ageing process influences consumer decision making

In this chapter, we discuss consumer decision process issues as they relate to the purchase of services. Service marketers who understand how consumers make purchase decisions are better able to focus on key inputs into the decision-making process, deliver more satisfying consumer experiences, and achieve improved organizational objectives. As circumstances in the marketplace change, service marketers must recognize and react to the modifications consumers make in regard to their decision making.

The 2020s: Post-Pandemic Changes in Consumer Behavior

Due to the Covid-19 pandemic and its subsequent domino effects on most everything else, consumers have adapted to changes in the marketplace by modifying their consumer behavior. Many of these adaptations in behavior are expected to continue long after the pandemic has subsided. As such, service marketers should not expect a “return to normal” and must adapt their approach

to serving consumers accordingly. Predicted sustained changes in consumer purchase behaviors include the following¹:

A Shift to Value and Essentials: Although variations exist across the globe, consumer uncertainty associated with the pandemic has been associated with a shift to spending on essentials and cutting back on discretionary spending.

A Shift in Brand Loyalty: Consumers in countries experiencing the greatest economic shock associated with the pandemic are engaging in new shopping behaviors and trying new brands, stores, and service offerings. Product value is the major driver of decisions followed closely by convenience and availability. A large percentage of consumers (65 percent) intend practicing their new shopping behaviors into the future.

Stay-at-Home Economy: Given the need for social distancing and government enforcement of social distancing guidelines, consumers are conducting the majority of their purchase behavior and consumption activities from home.

A Shift to Digital: Food and household categories have experienced 30 percent growth in online business across the globe. In addition, survey results indicate that holiday online shopping is likely to increase 30 to 60 percent depending on the country surveyed.

Overall, the consumer confidence index (CCI) indicates a roller coaster-like ride for the foreseeable future. The CCI, which considers consumer future financial situations, sentiments about economic conditions, unemployment and consumers ability to save, decreased drastically at the beginning of the pandemic, increased in 2021, and then decreased again at the beginning of 2022 due to covid variants, inflation, and geopolitical differences. When assessing consumer decision-making practices, future consumer sentiment and consumer adaptations to a rapidly changing marketplace must be considered.

4-1 Introduction

Consumer orientation lies at the heart of the marketing concept.² As marketers, we are required to understand our consumers and to build our organizations around them. As Jeff Bezos of Amazon.com puts it, “We see our consumers as invited guests to a party, and we are the hosts. It’s our job every day to make every important aspect of the customer experience a little bit better.”³ Understanding consumers and improving the experience is particularly important for services, which in many instances still tend to be operations-dominated rather than consumer-oriented. Case in point: Richard Branson, best known for his Virgin brand of over 360 companies, explains, “I never get the accountants in before I start up a business. It is done on gut feeling, especially if I can see that they [the operations-dominant accountants] are taking the *mickey* out of the consumer.”⁴ Given today’s rapidly changing macro-environmental forces (e.g., economic, political/legal, competitive, natural, technological and sociocultural), it is more important than ever to understand consumers, how they choose among alternative services offered to them, and how they evaluate these services once they have received them.

Whether marketing managers like it or not, every time they make marketing decisions, they are basing their decisions on some model of how consumers will behave. Quite often these models are implicit and seldom shared with others, representing, in effect, the marketing manager’s own experience. However, every time a price is changed, a new product is launched, or advertising appears, some assumption has been made about how the consumers will react. The purpose of this chapter is to discuss the consumer decision process as it relates to the purchase of services.

Throughout the three primary stages of consumer decision making—*prepurchase*, *consumption*, and *postpurchase evaluation*—consumers must be using a process or model to make their decisions. Although a variety of models have been developed and are discussed in this chapter, it is important to point out that no model is wholly accurate. The

consumer’s mind is still closed to us; it is a black box that remains sealed. We can observe inputs to the box and the decisions made as a result, but we can never know how the act of processing inputs (information) truly happens.⁵

This chapter has three main sections. The first section is a broad overview of the consumer decision-making process. It provides a summary of the process and its applications to all marketing decisions. The second section discusses the way that consumers make the routine decisions that are required every day. The final section looks particularly at the decision-making process of ageing services consumers.

4-2 The Consumer Decision Process Model: An Overview

To market services effectively, marketing managers need to understand the thought processes used by consumers during each of the three stages of the **consumer decision process**: (1) the prepurchase choice among alternatives, (2) the consumer’s reaction during consumption, and (3) the post purchase evaluation of satisfaction (see Figure 4-1). Although we can never truly know the thought process used by each person who makes a buying decision, the consumer decision process helps to structure our thinking and to guide our understanding of consumer behavior. Let’s begin this discussion by focusing on the prepurchase stage of the consumer decision process model, which includes the phases of stimulus, problem awareness, information search, and evaluation of alternatives.

4-2a The Prepurchase Stage: The Stimulus

The prepurchase stage of the consumer decision process refers to all consumers activities that trigger a purchase prior to actually making a purchase. This stage begins when a person receives a **stimulus** which is a thought, action, or motivation that incites a person to consider a purchase.⁶ For example, when asked about their major motivations to start to look for a university, students responses include: “graduating from high school”; “friends leaving for college”; “getting away from home”; “to have some fun”; “to make my parents happy,” etc. Ultimately, the stimulus that starts the consumer decision process may be a commercial cue, a social cue, or a physical cue.

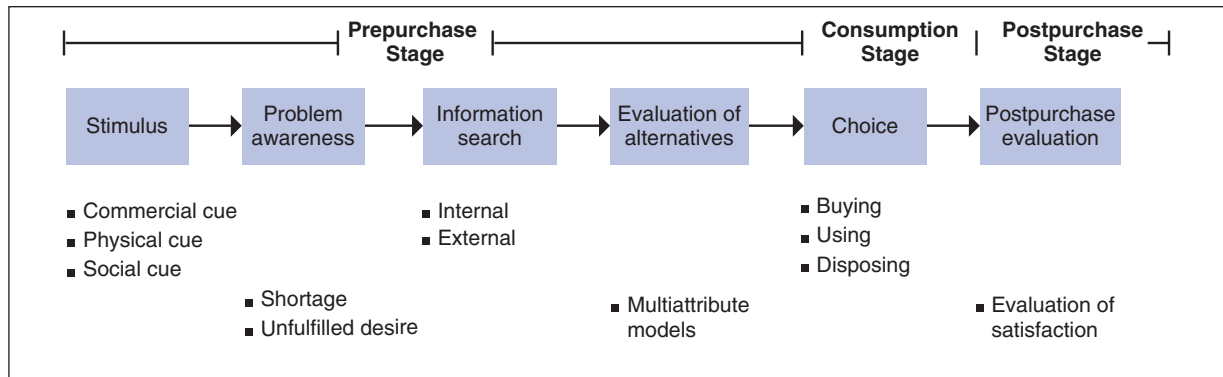
consumer decision process

The three-stage process model consumers use to make purchase decisions; includes the prepurchase stage, the consumption stage, and the postpurchase evaluation stage.

stimulus

The thought, action, or motivation that incites a person to consider a purchase.

Figure 4-1 Consumer Decision Process Model



Commercial cues are the result of promotional efforts. For example, a consumer may be exposed to a commercial about a local college. As a result, the person may begin to assess their current situation in life and the possibility of enrolling at a university to pursue a university degree.⁷ Similarly, **social cues** are obtained from the individual's peer group or from significant others. For example, watching friends leave for college in the fall, or watching peers who have completed college degrees being promoted at work, may incite one to consider furthering their own education. Finally, the stimulus may also be the result of a **physical cue**. This is less likely to be the cause of a university search. It is often related to cues such as thirst, hunger, or various other biological cues, which are more likely to trigger a search for lunch than a college. Hypothetically, one may enroll in a university because of a sense of getting older and the perception that time is running out to pursue a college degree.

Upon receipt of a stimulus, the consumer begins to think about the product category (in this case a university education), and to assess the current situation. Service marketers can effectively use commercial, social, and physical cues to stimulate consumers to consider their unmet needs and wants and move them along the second step in the consumer decision process—problem awareness.

commercial cue

An event or motivation that provides a stimulus to the consumer and is a promotional effort on the part of the company.

social cue

An event or motivation that provides a stimulus to the consumer, obtained from the individual's peer group or from significant others.

physical cue

A motivation, such as thirst, hunger, or another biological cue that provides a stimulus to the consumer.

4-2b The Prepurchase Stage: Problem Awareness

During the **problem awareness** phase of consumer decision making, the consumer examines whether a need or want truly exists for the product category. There are two ways that a need exists. To use our college example, our customer perceives a shortage. The consumer does not have a college degree and decides that they need one. The alternative driver is dissatisfaction. Our consumer has enrolled in a college but finds that the quality of student life is very poor. Hence, the desire for a good education is only being partly fulfilled. They perceive a problem that can be fixed by a purchase – choosing a new college. Accordingly, problem awareness may be based on a **shortage** (a need) or on an **unfulfilled desire** (a want). Finally, if the consumer does not recognize a shortage or unfulfilled desire, the decision process stops at this point. Otherwise, the decision process continues and then proceeds on to the third step in the consumer decision process—information search. Managers who understand consumer needs and wants can appreciate the consumer's motivations for seeking their product category in the first place. Communication messages that reinforce these motivations, such as a college billboard that states, "Tired of Working in that Same Old Poor Paying Job?" or "Not Meeting Anyone New While Spending Your Life on Your

problem awareness

The second phase of the prepurchase stage, in which the consumer determines whether a need exists for the product.

shortage

The need for a product or service due to the consumer's not having that particular product or service.

unfulfilled desire

The need for a product or service due to a consumer's dissatisfaction with a current product or service.

Parents’ Couch?” may reinforce notions that already exist in the minds of potential consumers and motivate consumers to take definitive actions.

4-2c The Prepurchase Stage: Information Search

Problem awareness demands a solution and usually implies that a potential purchase will occur. The person searches for alternatives during the information search phase of the prepurchase stage. As the name implies, during the **information search** phase, the consumer collects information about possible alternatives that will ultimately resolve the consumer’s problem (See Services for a Better World in Action). Consumers seldom consider all feasible alternatives. Instead, they have a limited list of options. Options

information search

The phase in the prepurchase stage in which the consumer collects information pertaining to possible alternatives.

may be chosen on the basis of past experience, convenience, and knowledge, or come from the information search. This list is often referred to by theorists as the **awareness set**—the set of alternatives of which a consumer is aware. This list of alternatives is further narrowed down at the time of actual decision making. Alternatives that the consumer actually remembers at the time of decision making are referred to as the **evoked set**. Of the brands in the evoked set, those considered unfit (e.g., too expensive, too far away) are eliminated right away. The remaining alternatives are termed the **consideration set**.

awareness set

The set of alternatives of which a consumer is aware.

evoked set

Alternatives that the consumer actually remembers at the time of decision making.

consideration set

Alternatives of the brands in the evoked set that have not been eliminated right away.

Services for a Better World in Action

Socially Responsible Financial Institutions⁸

When selecting a financial institution, consumers have a multitude of choices and typically perceive little differentiation among competing alternatives. For better or worse, financial institutions, in their role of gatekeepers of capital, have a major societal impact on local communities. Financial institutions that pursue Environmental, Social, and Governance (ESG) missions provide consumers with a socially responsible choice pertaining to the societal impact of their deposits. Although many banks and credit unions would include themselves in a list of socially responsible institutions,

the manner in which institutions participate varies from drawing the attention of employee volunteer activities to sponsoring community events to tracking bank debit card purchases that support local business. However, the gold standard for accessing a financial institution’s societal impact is to track the projects that are financed by the institution. Provided below are societal impact certifications to look for when comparing alternative financial institutions.

Type of Financial Institution	Description
Community Development Financial Institution (CDFI) Banks Certified by the U.S. Department of the Treasury	“Mission-driven institutions that serve and empower economically distressed communities.” CDFI banks target their financing efforts to low- and moderate-income communities and communities of color.
Low-income Credit Unions and CDFI Credit Unions Certified by the U.S. Department of the Treasury	Similar to CDFI banks but financing efforts are provided by nonprofit credit unions.
Minority Depository Institutions (MDIs) Certified by the Federal Deposit Insurance Corporation	Banks that are owned and/or led by populations that have been historically underserved in the banking industry—Black, Native, Hispanic, and/or Asian Americans. The primary mission of MDIs is to increase the representation of people of color in the banking industry and improve economic mobility for communities of color.
B-Corps or Global Alliance for Banking on Values (GABV)	Banks and credit unions that have sustainability certifications and who do not finance fossil fuels.
Other Community-focused Banks and Credit Unions	A variety of banks and credit unions that focus financing on local companies, small business and farms, and communities that matter to banking/credit union customers.

Returning to our college selection example, when considering alternatives, our student needs to assemble as much information as possible about the alternatives. They may first engage in an internal search. An **internal search** accesses the consumer's own memories about the possible choices of colleges. In this example, the previous knowledge may be based on the proximity to a local college, information obtained while watching local sporting events, or listening to older family members reminisce about their own college experiences. An internal search is a passive approach to gathering information. The internal search may be followed by an **external search**. This is a proactive step which might involve the collection of new information obtained via campus visits, talking to friends, and/or viewing websites and social media that rate universities on an annual basis. Based on internal and external search processes, consumers work their way through a possible broad range of alternatives and narrow their searches from an awareness set to an evoked set to a final consideration set of alternatives.

Service marketers who examine consumer information search processes have a much better understanding of where to strategically place promotional information. Providing smartly placed and easily accessible information substantially increases the odds that a service purchase will be made. For example, when asked about information sources for making college decisions, students responded stating high school counselors, the Internet, friends, family, college visits, and direct mail brochures. Interestingly, mass media advertising was rarely mentioned.

4-2d The Prepurchase Stage: Evaluation of Alternatives

Once relevant information has been collected from both internal and external sources, the consumer arrives at a consideration set of alternative solutions to resolve the unfulfilled need and/or want. The possible solutions are further considered in the **evaluation of alternatives** phase of the consumer decision process. This phase may consist of a **nonsystematic evaluation**, such as the use

of intuition—simply choosing an alternative by relying on a “gut-level feeling”—or it may involve a **systematic evaluation** technique, such as a *multi-attribute choice model*. Such systematic models use a set of formalized steps to arrive at a decision.

Marketing theorists have made extensive use of multi-attribute models to simulate the process of evaluating products.⁹ According to these models, consumers employ a number of attributes or criteria as basic references when evaluating a service. For example, students may compare alternative universities based on location, tuition, admission requirements, academic reputation, specific degree programs, and future job prospects after graduation.

Consumers are assumed to compare competing alternatives by creating a matrix similar to the one shown in Table 4-1. The example provided in Table 4-1 reflects the choice of a university for an undergraduate degree for a single individual. Across the top of the figure are the *consideration set of alternatives* to be evaluated. As previously mentioned, this consideration set will, for various reasons, be less than an exhaustive list of all possible university choices. In this example, the list includes UA, ASU, BYU, and UNM. Down the left side of the table are the attributes to be used to evaluate the different colleges. In addition, the consumer is assumed to attach an *importance weight* to each attribute (noted on the right side of the table). Importance weights rank the various attributes that comprise the vertical axis. For example, in Table 4-1, the consumer weights location and tuition as the most important attributes, followed by academic reputation and degree programs, followed by admission requirements and job prospects. To complete the table, the consumer rates each alternative on each attribute based on what they have assembled in the information search. For example, this particular consumer gives ASU top marks for location, lower marks for tuition and academic reputation, still lower marks for admission requirements and degree programs, and even lower marks for job prospects.

Given such a table, various choice processes have been suggested with which the consumer can use to make a decision. The **linear compensatory approach** proposes that the consumer create a global score for each alternative by multiplying the rating of the alternative on each attribute by the importance weight attached to the attribute and adding the scores together. UA would score 10×10 (location) plus 9×10 (tuition) plus 8×8

internal search

A passive approach to gathering information in which the consumer's own memory is the main source of information about a product.

external search

A proactive approach to gathering information in which the consumer collects new information from sources outside the consumer's own experience.

evaluation of alternatives

The phase of the prepurchase stage in which the consumer places a value or “rank” on each alternative.

nonsystematic evaluation

Choosing among alternatives relying on a “gut-level feeling” approach.

systematic evaluation

Choosing among alternatives by using a set of formalized steps to arrive at a decision.

linear compensatory approach

A systematic model that proposes that the consumer creates a global score for each brand by multiplying the rating of the brand on each attribute by the importance attached to the attribute and adding the scores together.

Table 4-1 A Consumers Multi-Attribute Choice Model for Evaluating Alternative Universities

Consideration Set of University Alternatives					
Attributes	UA	ASU	BYU	UNM	Importance Weights
Location	10	8	8	7	10
Tuition	9	7	7	8	10
Admission Requirements	8	8	8	8	8
Academic Reputation	9	10	8	8	9
Degree Programs	8	9	9	8	9
Job Prospects	7	10	10	8	8

*Rankings range from 1 (lowest) – 10 (highest)

(admission requirements), and so on. The university with the highest score, in this example ASU, is then chosen. Its total would be 465 just ahead of UA at 463 (see Table 4-2). The process is compensatory because a high score on a less ranked attribute can compensate for lower scores on higher ranked attributes.

Another type of multi-attribute choice process that has been suggested is the **lexicographic approach**. This approach describes so-called “lazy decision makers” who try to minimize the effort involved. They look at each attribute in turn, starting with the most important, and try to

lexicographic approach

A systematic model that proposes that the consumer make a decision by examining each attribute, starting with the most important, to rule out alternatives.

make a decision. The person whose preferences are shown in Table 4-2 would look first at location. They would try to make a choice. In this case they can, and UA clearly wins. They can then stop the process and rule out ASU, BYU, and UNM. If one or more different colleges were tied on location the process would move on to the next most important attribute: tuition. The two or three remaining colleges which had tied on location would then be compared on tuition. In some markets the choices are so close together that in order to make a decision, the customer moves to quite low-ranking attributes. Thus, a different decision rule results in a different choice: UA under the lexicographic model and ASU under the linear compensatory model.

Given the popularity of multi-attribute models, it is no surprise that they have been used to describe and explain the consumer service decision processes. The merit of these models lies in their simplicity and explicitness. The attributes identified cover a wide range of concerns related to

Table 4-2 Multi-Attribute Choice Model for Evaluating Alternative Universities

Consideration Set of University Alternatives					
Attributes	UA	ASU	BYU	UNM	Importance Weights
Location	10*(10)**	8(10)	8(10)	7(10)	10
Tuition	9(10)	7(10)	7(10)	8(10)	10
Admission Requirements	8(8)	8(8)	8(8)	8(8)	8
Academic Reputation	9(9)	10(9)	8(9)	8(9)	9
Degree Programs	8(9)	9(9)	9(9)	8(9)	9
Job Prospects	7(8)	10(8)	10(8)	8(8)	8
Totals	463	465	447	422	

*Rankings range from 1 (lowest) – 10 (highest)

**Numbers in parentheses are the weights for each criterion

the service experience, and they are easily understood by service marketers. For example, analyzing multi-attribute models generated by multiple customers provides at least five valuable pieces of information:

1. A list of alternatives that are included in the consideration set.
2. The lists of attributes that customers consider when making purchase decisions.
3. The importance weights attached to each attribute.
4. Performance beliefs, reflected by ratings, associated with a particular alternative.
5. Performance beliefs, reflective by ratings, associated with competing alternatives.

The tasks for service marketers when using these models are relatively straightforward:

1. Move a college into the consideration set by building awareness in the mind of the customer. This is particularly an issue for new colleges.
2. Add a new attribute on which the college is particularly strong. For example, strength in communications, the strength of online offerings, etc.
3. Change the importance of an attribute that would favor the college.
4. Try to influence the score given to the college on a particular attribute. For example, publishing tables on admission criteria if the college is doing well.
5. Try to reduce the score of a competitor college on an attribute that is important to prospective students.

4-2e The Prepurchase Stage: Considerations for Service Marketers

Higher Levels of Perceived Risk In contrast to customers who purchase goods, customers of services tend to perceive a higher level of risk during the prepurchase decision stage. As the idea of customer perceived risk developed, commonalities in purchase decisions emerged. Based on outcomes, these risks can be categorized into five types: financial, performance, physical, social, and psychological.¹⁰

- **Financial risk** assumes that financial loss could occur if the purchase goes wrong or fails to operate correctly.
- **Performance risk** relates to the idea that the service purchased will not perform the task for which it was purchased.

financial risk

The possibility of a monetary loss if the purchase goes wrong or fails to operate correctly.

performance risk

The possibility that the item or service purchased will not perform the task for which it was purchased.

- **Physical risk** of a purchase can emerge if something does go wrong, inflicting injury on the purchaser.
- **Social risk** suggests that there might be a loss of personal social status associated with a particular purchase
- **Psychological risk** pertains to the influence of the purchase upon the person's self-esteem.

Higher Levels of Brand Loyalty If we start with the premise that customers do not like taking risks, it would seem obvious that they will try, whenever possible, to reduce risk during the purchase process. One strategy is to be brand loyal.¹¹ Brand loyalty is based on the degree to which the customer has obtained satisfaction in the past. If customers have been satisfied in the past with their service provider, they have little incentive to risk trying someone or something new. For example, satisfied banking clients of Merrill Lynch may see little reason to switch their loyalty to another financial service provider.

Having been previously satisfied in a high-risk purchase, a customer is less likely to experiment with a different provider. Consequently, maintaining a long-term relationship with the same service provider helps reduce the perceived risk associated with the purchase. This is why it is common to find customers acquiring services from the same physician, dentist, and hairstylist over long periods of time.

Brand loyalty may also be higher for services due to the **switching costs** that can accrue when changing from one service provider to another. A wide array of switching costs can be accrued, depending on the service product involved. For example, consider the switching costs involved in changing from one brand of canned vegetables to another compared with the switching costs involved in changing banks. Typical switching costs include:

- Search costs—the time costs associated with seeking out new alternatives.
- Transaction costs—the monetary costs associated with first-time visits, such as new X-rays when changing dentists.
- Learning costs—costs such as time and money that are associated with learning new systems, such as new versions of software packages.

physical risk

The possibility that if something does go wrong, injury could be inflicted on the purchaser.

social risk

The possibility of a loss in personal social status associated with a particular purchase.

psychological risk

The possibility that a purchase will affect an individual's self-esteem.

switching costs

Costs that can accrue when changing from one service provider to another.



In general, customers of services tend to be more brand loyal than the customers of goods. Brand loyalty reduces service customers levels of perceived risk.

- Loyal customer discounts—discounts that are given for maintaining the same service over time, such as accident-free auto insurance rates. Such discounts are sacrificed when switching from one supplier to the next.
- Customer habit—costs associated with changing established behavior patterns.
- Emotional costs—the emotional turmoil that one may experience when severing a long-term relationship with a provider. Emotional costs are especially high when a personal relationship has developed between the client and the provider.
- Cognitive costs—costs in terms of the time it takes simply thinking about making a change in service providers.

Greater Reliance on Personal Sources of Information

Another special consideration pertaining to services during the prepurchase stage is the importance of personal sources of information. Research has shown that in the area of communications, personal forms such as word-of-mouth references and information from opinion leaders are often given more importance than company-controlled communications, such as mass advertising. A reference from a friend becomes more important when the purchase to be made has a greater risk. For example, a visit to a new hair stylist can be stressful because the outcome of the service will be highly visible. That stress can be reduced by a recommendation from someone in whose judgment the customer trusts. The customer will then feel more confident about the outcome.

Similarly, evidence suggests that opinion leaders play an important role in the purchase of services. An opinion leader in a community is a person looked to for advice. Within the perceived-risk framework, an opinion leader can be viewed as a source of reduced social risk. A prospective student who visits a university for the first time may feel uncertain about the quality of the future outcome. However, the prospective student might be reassured by the fact that the person

who recommended the university is a friend and is widely known to have good judgment in such matters. In this way, the opinion leader's judgment partially substitutes for the customer's own.

Another reason that customers rely to such a great extent on personal sources of information is that nonpersonal sources may simply not be available. Professional restrictions or negative attitudes about the use of advertising in certain service sectors reduce its use as a communication tool. Alternatively, many service providers are small and lack the resources or knowledge to advertise effectively. The bottom line is that many professional service providers either lack the knowledge or feel uncomfortable marketing their own services.

Fewer Alternatives to Consider In comparison with goods, another difference for service marketers to consider is that customers of services tend to evaluate a smaller number of alternative sources of supply during the prepurchase stage. This situation occurs for a variety of reasons. First, each service provider tends to offer only one brand. For example, Geico Insurance sells only one brand of insurance—Geico. Similarly, your dentist provides only one brand of dental care. In contrast, customers shopping for blue jeans generally have many brands to consider at each retail location.

The second reason the consideration set tends to be smaller pertains to the number of establishments providing the same service. Services tend to have a smaller number of outlets providing the same service. For example, a market area can support only so many neurosurgeons, physical therapists, and general practitioners. In comparison, similar goods tend to be available in many locations. The difference between the distribution of goods and services relates directly to the diversification of the product mix. Retailers of goods sell many products under many brand names, thereby earning their revenues through many different sources. For example, if a particular good is not sold one day in a grocery store, this same store has approximately 30,000 other items that it can sell. Due to the diversified product mix of grocery stores, the same goods are available at many locations. In contrast, the survival of the service firm often depends upon selling only one brand of service.

A third reason customers consider fewer service alternatives relates to the lack of available prepurchase information. Customers of services are simply not aware of as many service alternatives and/or do not choose to undertake the time-consuming task of obtaining information from competing service providers. In contrast, customers of goods often look at what is on the store's shelves and can compare prices as well as a number of other factors such as ingredients, construction quality, feel, and size.

Self-Service as a Viable Alternative The final, but important, difference between goods and services in the prepurchase choice stage of the consumer decision process

Table 4-3 The Consumer Decision Process: Special Considerations Pertaining to the Prepurchase Stage

Consumer Decision Process Stage	Service Purchase Tendencies
Prepurchase Stage Considerations	1. Perceived risk tends to be higher for service purchases 2. Service customers tend to be more brand loyal 3. Service customers rely more on personal sources of information 4. Service customers tend to have fewer alternatives to consider 5. Service customers often include self-service as a viable alternative

is that of self-provision. While customers rarely consider building a refrigerator over purchasing one from a local retailer, they often perform their own lawn care, deck construction, housekeeping, painting, and a number of other services. Consequently, many service providers must consider the customer's own self-provision as a viable competitor in the marketplace. For a summary of special considerations pertaining to service purchases during the prepurchase stage of the consumer decision process model, see Table 4-3.

4-2f The Consumer Decision Process Model: The Consumption Stage

Thus far, we have discussed the prepurchase stage of the consumer decision process, which described the stimulus, problem recognition, information search, and evaluation of alternatives phases. An important outcome of the

prepurchase stage is a decision to purchase one of the alternatives under consideration (see E-Services in Action). During this consumption stage, the customer may make a *store choice*—deciding to purchase from a particular outlet, or a *nonstore choice*—deciding to purchase from a catalog, an online provider, or a variety of mail order possibilities. This decision is accompanied by a set of expectations about the performance of the product to be purchased. In the case of goods, the customer then uses the product and disposes of any solid waste remaining. The activities of buying, using, and disposing are grouped together and labeled the **consumption process**.¹²

consumption process

The activities of buying, using, and disposing of a product.

E-Services in Action

Touchscreens, Haptic Feedback, and Consumer Choice Decisions¹³

It is estimated that more than 20 billion “smart” interfaces such as Echo devices, social robots, chatbots, and applications are connected to the Internet. Given that technology connects people, assists in collecting information, facilitates the evaluation of information, and offers a variety of payment options, technology has become an integral part of consumer decision making.

Technology's influence on the consumer decision process is twofold. First, technology facilitates the decision process by making it easier to access information and compare competing alternatives via the web. In addition, technology can also influence decision process through what tech-enabled algorithms learn about user prior preferences and then direct the user to choices that are consistent with past purchases. Hence, consumer decision making via technology partially reflects consumer preferences and partially reflects the medium's decision on which alternatives are generated and how these alternatives (e.g., touchscreens, haptic feedback) are presented to the customer.

For example, research pertaining to the use of touchscreens with regards to consumer decision making have yielded many interesting results. Study participants who were able to use a touchscreen (as opposed to a keyboard

and/or mouse), tended to focus more on the room's physical attributes. Findings indicated the physical act of touching the screen enhanced the salience of the room's tangible attributes. In another study, ordering food from a touchscreen was related to the selection of more hedonic options. In addition, touch-enabled technology was positively correlated with customers adding more options to customized products.

Studies pertaining to haptic feedback (e.g., vibrations) also provided interesting results. Shoppers who received haptic feedback when placing items in their online shopping carts, included more items in their cart than nonhaptic feedback counterparts. Users of online healthcare monitoring programs were more likely to engage in physical activity (e.g., steps) when reminders were sent with haptic feedback. Findings surmised that haptic feedback made users feel that a personal trainer was actively monitoring their progress. Finally, other research indicates that haptic feedback associated with mobile messages enhanced attitudes toward brands the consumer favors (but had no effect on attitude toward brands the consumer did not favor). Clearly, technology will have a major impact on consumer decision making well into the future.

Understanding customer choices for consumption alternatives is important for managerial decision making. For example, banking services traditionally were only available at a centrally located bank. Over the years, customers have become accustomed to conducting banking activities electronically via ATMs or at grocery stores through branch banks that are physically located conveniently within the store itself. Today, for many, the physical bank location has become irrelevant as many bank customers rely solely on online banking services, mobile banking services, and debit/credit cards. Interestingly, providing online access to services dramatically decreases the need and the corresponding costs associated with establishing multisite locations in the field. Of course, providing an online alternative is only feasible for services that can be delivered electronically. For example, an online solution is not viable for restaurants and hotels where the provision of a physical product (e.g., food, bedroom) is a part of the service offering.

Similarly, at one time higher education was thought to be only provided and consumed at physical locations of institutions of higher learning. Today, more and more students are opting for online delivery of courses either as their sole source of education or as a way to supplement their traditional brick and mortar coursework. As customers continue to shift their demand in some service sectors (e.g., entertainment, movies, concerts) from physical locations to on online options, service marketers must monitor changes in customer behavior and adjust their delivery systems accordingly.

4-2g **The Consumption Stage: Considerations for Services Marketers**

The consumption of goods can typically be divided into four unique activities: production, acquisition, use, and disposal. For goods, the four activities occur in a definite production-acquisition-use-disposal order and have clear boundaries between them. For example, Tide laundry detergent is produced in a factory, the customer buys a box of Tide at a supermarket, uses the detergent at home in the washing machine, and then disposes of the empty box after the detergent has been used. This scenario does not apply to the consumption of services, however.

An Entangled Relationship Without a doubt, the consumption stage is far more complex for services in comparison with that of goods. Because of the prolonged interactions between the customer and the service provider, the production, acquisition, and use of services become entangled and appear to be a single process.¹⁴ Furthermore, the concept of disposal is irrelevant because of the intangibility and experiential nature of services.

The bundle of benefits purchased by a service customer consist of the experience that is delivered through the four dimensions of the servuction model—contact personnel, the servicescape, other customers, and the invisible organization and systems. Even when a service is rendered to something that the customer owns, such as a car, rather than to

the individual's person, the service production/consumption process often involves a sequence of personal interactions (face-to-face, email, or by telephone) between the customer and the service provider.¹⁵

Interactions between the service customer and the company's physical facilities and personnel are often inevitable. It is from these interpersonal interactions that the service experience is acquired.¹⁶ Perhaps the most important outcome of these interactions is the contradiction of the idea that post purchase evaluation occurs only at a certain point in time after use.¹⁷ The difference in how goods and services are evaluated can be explained in the following manner. The use of goods is essentially free from any kind of direct marketer influence. For example, the manufacturer of the breakfast cereal that you consumed this morning had no interaction with you whatsoever. Hence, customers of goods can choose when, where, and how they will use a good. On the other hand, service firms play an active role in customer consumption activities because services are produced and consumed simultaneously.

Evaluations are Based on Process and Outcomes

Few services can be produced or used with either the customer and the service firm absent from the transaction. Due to the extended delivery process common with services, many believe that the customer's post purchase evaluation occurs both *during* and *after* the use of services rather than only afterward. In other words, customers evaluate the service while they are experiencing the service encounter during the consumption stage as well as during the post purchase stage.

From a service marketer's point of view, this opens up the prospect of being able to directly influence the customer's evaluation. Hence, the restaurant manager who visits diners' tables and asks, "How is your dinner this evening?" can identify service failure issues during the consumption stage and change customer evaluations in a way that the manufacturer of a packaged good cannot. The bottom line for managers is to recognize that customer evaluation of service occurs both during the service delivery process and after consumption. This insight, in turn, increases the importance of developing and effectively managing the customer's overall service experience. For a summary of special considerations pertaining to service purchases during the consumption stage of the consumer decision process model, see Table 4-4.

4-2h **The Consumer Decision Process Model: The Post Purchase Stage**

The post purchase evaluation stage of the consumer decision process model is also a complex process. It begins soon after the customer makes the choice of the service firm and continues throughout the consumption and post purchase stages. The customer's evaluation is influenced by the unavoidable interaction of a substantial number of social, psychological, and situational variables. Service satisfaction relies not only on the properties of the four elements of the servuction system—contact personnel, the servicescape, other customers,

Table 4-4 The Consumer Decision Process: Special Considerations Pertaining to the Consumption Stage

Consumer Decision Process Stage	Goods Versus Services
Consumption Stage Considerations	1. For customers of goods, production, acquisition, use, and disposal are four separate and distinct activities 2. For customers of services, production, acquisition, and use are an entangled process that occurs simultaneously 3. For customers of services, disposal is irrelevant due to the intangibility of the service. 4. For customers of services, evaluation occurs <i>during</i> and <i>after</i> consumption 5. For customers of goods, evaluation primarily occurs <i>after</i> consumption

and internal organization systems—but also on the synchronization of these elements in the service production/consumption process.

Once a purchase has been made and the product consumed, post purchase evaluation takes place. During this stage, customers may experience varying levels of **cognitive dissonance**—doubt that the correct purchase decision has been made. Marketers often try to minimize cognitive dissonance by reassuring the customer. Strategies to minimize cognitive dissonance include after-sale contact with the customer, providing a reassuring letter providing warranties and guarantees, and reinforcing the customer's decision through the firm's advertising. For example, learning through the university's advertising that the student's college of choice has been nationally recognized by *U.S. News & World Report* would positively reinforce the student's enrollment decision. Since consumption and evaluation take place simultaneously for services there are more opportunities to reduce cognitive dissonance. The welcome in the restaurant can reassure. So too can the smell and sight of the food being delivered to other tables before the customer even sits down. All these reassure that the customer has made the correct choice.

Ultimately, service marketers would like to better understand post choice considerations to gain additional insight into how customer satisfaction/dissatisfaction evaluations are formed. Several proposed models attempt to describe the process by which customers evaluate their purchase decisions.

4-2i The Post Purchase Stage: Satisfaction Models

Simply stated, post purchase evaluation is all about customer satisfaction, and customer satisfaction is the key outcome of the marketing process. Ultimately, *customer satisfaction is*

achieved when customers' perceptions meet or exceed their expectations. Customer satisfaction is an end to itself, but it typically leads to customer loyalty and retention, which generate positive word-of-mouth recommendations, which lead to increased sales and profitability.

Satisfaction Models: The Expectancy Disconfirmation Model

How does customer satisfaction develop during the consumption and post purchase stages? A number of approaches have been suggested, but perhaps the simplest and most powerful is the **expectancy disconfirmation theory**. The basic concept behind this explanation is straightforward. Customers evaluate services by comparing *expectations* with *perceptions*. Perceptions that are greater than expectations result in a positive satisfaction score, and customers are said to be *delighted*. Perceptions equal to their expectations result and customers are said to be *satisfied*. Perceptions less than expectations result in a negative satisfaction score.

- $Perceptions = Expectations \Rightarrow SATISFACTION \text{ 😊}$
- $Perceptions < Expectations \Rightarrow DISSATISFACTION \text{ 😞}$
- $Perceptions > Expectations \Rightarrow DELIGHT \text{ 😄!!!}$

It is crucial to point out that this entire process of comparing expectations with perceptions takes place in the mind of the customer. It is the perceived service that matters, not the actual service. One of the best examples that reinforces this issue of managing perceptions involves a high-rise hotel. The hotel was receiving many complaints about the length of time guests had to wait for elevator service in the main lobby. In analyzing the situation, time appears at first sight to be an objective attribute that can be measured with a stopwatch. It is in fact far more perceptual than it first appears. For example, a bank was trying to understand their customers perception of waiting. Using the security cameras, it was possible to measure the exact waiting time.

cognitive dissonance

Doubt in the customer's mind regarding the correctness of the purchase decision.

expectancy disconfirmation theory

The theory proposing that customers evaluate services by comparing expectations with perceptions.

Customers were surveyed and asked to estimate their waiting time. The customers consistently overestimated how long that they had waited by thirty percent on average.

Realizing that, from an operational viewpoint, the speed of the elevators could not be increased, and that trying to schedule the guests’ elevator usage was futile, management installed mirrors in the lobby next to the elevator bays. Guest complaints were reduced immediately—the mirrors provided a distraction for the guests to occupy their waiting time. Guests were observed using the mirror to view their own appearance and that of others around them. In reality, the speed of the elevators had not changed; however, customers perceived that the waiting time was now acceptable. It is perception that matters not reality.

In another example, Singapore Airlines is world renowned for the quality of its service. It had a problem with the passengers’ reaction to the food in their premium economy cabin. Singapore Airlines was charging extra for the cabin that provided extra leg room. Passengers however were not impressed with the quality of the food. In fact, the food was rated lower than the quality of the food served in the cheaper economy seat section. This was particularly surprising since the food was identical. Clearly, the higher price had created a higher expectation. The airline’s solution was not to change the food. Instead, the airline increased the service. For example, bread rolls were now being served from a basket rather a pre-packaged on the tray. As a result, the satisfaction with the food increased.

Ultimately, service marketers would like to better understand post-choice considerations to gain additional insight into how consumer satisfaction/dissatisfaction evaluations are formed. During the evaluation process of the post purchase stage, multi-attribute models can be a useful model to think about the expectancy disconfirmation process. In this case, the matrix is changed. The choices of universities are replaced by two columns termed *perception score* and *expectation score*. The perception score for each attribute is obtained by the customer after enrollment. Hence, the perception score reflects what the customer actually believes has happened based on

personal experience. The expectation score for each attribute was obtained from the original example provided in Table 4-1, which reflected the student’s expectations before actually attending the university selected. The satisfaction score is then derived by creating a global score of the comparisons between perceptions and expectations weighted by the importance of each attribute. This is shown in Table 4-5.

Although this student is delighted with the university’s degree programs (+9) and satisfied with other attributes, this student is dissatisfied with their overall choice of university (−29) and particularly dissatisfied with the school’s reputation (−18) and tuition (−20). Service marketers can use the information obtained from multi-attribute models to focus their resources and prioritize areas for improvement.

Satisfaction Models: The Script Perspective—All the World’s a Stage and All the People Players

How do customers hold their expectations for a service experience? Is it in the form of a multi-attribute score? An alternative model uses a theatrical analogy and the idea of a script. The experience is thought of a play. The actors are all of the customers and the service providers. The physical setting is the scene set on the stage. The experience works because everyone knows their parts and has learned the script.

A number of theories in psychology and sociology can be brought together in the idea of a *script*. The **script perspective** proposes that rules, mostly determined by social and cultural variables, exist to facilitate interactions in daily repetitive events, including a variety of service experiences.¹⁸ It is a way that we cope with the complexity of all the situations we face. When we are young, we learn scripts

script perspective

Argues that rules, mostly determined by social and cultural variables, exist to facilitate interactions in daily repetitive events, including a variety of service experiences.

Table 4-5 University Selection: A Post Purchase Evaluation for ASU

Attributes	Perception Score ¹	Expectation Score ²	Satisfaction Score ³	Customer Evaluation	Importance Weights
Location	8(10)	8(10)	0	Satisfied	10
Tuition	5(10)	7(10)	−20	Dissatisfied	10
Admission Requirements	8(8)	8(8)	0	Satisfied	8
Academic Reputation	8(9)	10(9)	−18	Dissatisfied	9
Degree Programs	10(9)	9(9)	+9	Delighted	9
Job Prospects	10(8)	10(8)	0	Satisfied	8
Totals	436	465	−29	Dissatisfied	

¹Perception scores based on the student’s actual experience.
²Expectation scores for ASU obtained from original multi-attribute model in Table 4-1.
³Satisfaction Score = Perception − Expectation.

by watching what other people do. As we grow, we learn more and more scripts and develop more specific scripts for example learning the appropriate scripts (behaviors) for a fine dining experience versus a family restaurant.

These rules shape the participants' expectations in these types of interactions. Furthermore, the rules or scripts must be acknowledged and obeyed by all participants if satisfactory outcomes are to be generated. For example, patrons of a fine dining restaurant will have behavioral expectations of their waiter consistent with the service setting. Similarly, the waiter will have expectations of the patrons' behavior as well. If one participant deviates from the rules, the other co-actors in the service setting will become uncomfortable. Therefore, a satisfied customer is unlikely given a dissatisfied service provider, and a satisfied service provider is unlikely given a dissatisfied customer. Consequently, the principal idea proposed by script theory is that in a service encounter, customers follow scripts, and their satisfaction is a function of

script congruence—whether the actual scripts performed by customers and staff are consistent with the expected scripts. This is the disconfirmation model applied to scripts.

The key managerial implications of script theory are: (1) to design scripts for the service encounter that are acceptable and capable of fulfilling the needs of both the customers and the service providers; and (2) to communicate these scripts to both customers and employees so that both have realistic expectations and perceptions of their roles as well as those of their partners in their interactions. Failure to effectively communicate scripts can lead to awkward and disappointing moments for customers and providers alike (see Global Services in Action).

script congruence

Occurs when the actual scripts performed by customers and staff are consistent with the expected scripts.

Global Services in Action

How Cultural Differences Impact the Customer Experience (CX)¹⁹

When marketing to customers globally, marketing strategies that work in the home country may not necessarily be effective in international markets. Astute service marketers adjust marketing strategies to suit the cultural differences in international markets. More specifically, successful service marketers recognize the importance of localization and engage in strategies such as (1) hiring local copywriters that are familiar with the local lifestyle;

(2) utilize country-level domains in website transactions to enhance feelings of trust about using the website; (3) adjust delivery times to local expectations; and (4) make adjustments to suit localized perceptions of quality. For example, comfort and pleasure in Scandinavia is associated with ecology and sustainability. Additional cultural considerations and their impact on the CX are provided below.

Customer Experience (CX) Considerations	Cultural Difference
Communications	Germans prefer more formal communications Americans tend to engage in more informal communications
Online Purchases and Sharing Personal Data	78% of Spaniards feel uncomfortable about sharing data online 62% of Germans feel uncomfortable about sharing data online 57% of Europeans feel uncomfortable about sharing data online Less than 50% of U.K. customers feel uncomfortable about sharing data online
Payment Methods	Credit card use is not always preferred in some countries Some countries prefer cash transactions The most popular method of payment in Germany is by invoice
Reading the Fine Print and Needing More Time to Make Decisions	82% of Germans read terms and conditions prior to making a purchase
Trust	Germans want information about legal and related regulations Translation mistakes on websites lead to mistrust Some countries provide trust badges and assurances of quality to qualifying websites to reassure customers
Color	Orange is the national color of the Netherlands and is associated with the Dutch Royal Family Orange in Egypt is associated with mourning Black is a good color for high-end products in most of the world
Advertising	Some countries are more data driven and interpret typical U.S. emotional advertising as trivial or hiding facts

Satisfaction Models: The Perceived-Control Perspective

Another model that can be used to understand customer satisfaction evaluations during the post purchase stage is the **perceived-control perspective**. Over the years, the concept of control has drawn considerable attention from psychologists. They argue that in modern society, in which people no longer have to bother about the satisfaction of primary biological needs, the need for control over situations in which one finds oneself is a major force driving human behavior.²⁰ The basic premise of this perspective is that during the service experience, *the higher the level of perceived control over the situation by customers, the higher their satisfaction with the service will be*. A similar positive relationship is proposed between service providers' experience of control and their job satisfaction.

In medical settings, perceived control has been shown to be transformational: patients can get better faster. Intensive care units (ICUs) hit the headlines throughout the COVID crisis. ICUs offer the very best of care for the most sick patients. Everything is controlled and monitored. Control researchers have however shown that the ICUs take all control away from the patients. In a sense, patients are “institutionalized” and often have problems taking back control of their lives when moving back to a regular ward. Experiments have shown that giving control back to the patients means that they get better faster. Simple things like allowing them to choose when they have visitors or when to eat are positively correlated with leaving the ICU earlier. Some patients are even allowed to initiate their own medical tests such as an EKG when they feel unwell.

In addition to feeling better, the other benefit is that patients are more able to cope with life on a regular ward.



Effectively communicating scripts, “Please Take A Number,” facilitates script congruence between customers and providers.

perceived-control perspective

A model in which customers evaluate services by the amount of control they have over the perceived situation.

The same phenomenon has been shown with magnetic resonance imaging (MRI) scans. Patients are placed in tomb-like tubes and the machinery is very noisy. Providing a “panic” button so that patients have some control over the situation (by requesting assistance) reduces anxiety significantly. In most cases, the panic buttons are never used—it is just the presence of the button and the perceived control of the situation that ultimately matters.

When considering strategies to increase customer and employee perceived control, it is equally important for the service firm itself to maintain control of the service experience. If the customer gets too much control, the firm’s economic position may be affected as customers tip the value equation in their favor—even to the extent that the firm may begin to lose money. For example, self-service checkouts at the grocery store provide the customer with more control; however, this technology is also associated with higher customer theft rates and decreasing profit margins. On the other hand, if the service employee takes complete control (e.g., a flight attendant dictating to passengers where to sit on an airline), customers may become unhappy and seek another service provider. Even if neither of these two scenarios occurs, increasing customer control is often associated with decreasing operational efficiency.

To better understand the control perspective, think of services as experiences where customers give up cash and control to the service provider in exchange for benefits. Ultimately, the concept of control consists of two types of control—behavioral and cognitive. **Behavioral control**, the ability to control what is actually going on, is only part of the idea. Research shows that **cognitive control** is also important. Thus, when customers “perceive” that they are in control, or at least that what is happening to them is predictable, the effect can be the same as that achieved by behavioral control. In other words, it is the perception of control, not the reality, that is most important.

Managerially, this concept raises a number of interesting ideas. The first is the value of the information given to customers *during* the service experience in order to increase customers’ sense that they are in control. Information facilitates predictability, and predictability provides cognitive control. This is especially important for professional service firms, which often assume that simply having a “good outcome” will make their clients happy—however, if their clients have not heard from them for more than an hour, they may be frantic due to the lack of contact and little or no information. The point also applies in the case of an airline that delays a flight after passengers have boarded and

behavioral control

The ability to control what is actually occurring.

cognitive control

When customers perceive that they are in control, or at least that what is happening to them is predictable.

then fails to let them know what is happening or how long the delay will be. In both situations, customers will feel that they have lost control. Passengers cannot leave the plane nor possibly warn people meeting them at their destinations. This tends to result in customer dissatisfaction. Even announcing to passengers that the airline does not know the new departure time but will have additional information in (say) 30 minutes will help.

Moreover, according to the perceived-control perspective, if a firm is due to make changes in its operation that will have an impact on customers, it is important that those customers be forewarned. (e.g, changing the check-in procedures at the airport from checking-in with a ticket agent versus checking-in using an electronic kiosk). If customers are not informed of changes, they often perceive that the situation is out of control. As a result, they become dissatisfied, frustrated, and eventually switch providers.

The control perspective raises interesting issues about the trade-off between predictability and choice. Operationally, one of the most important strategic issues in the perceived control perspective is the amount of choice (customization) to give the customer. Because both choice (provided by customized services) and predictability (provided by standardized services) can contribute to a sense of control, it is crucial to determine which is the more powerful source of control for both the customer and the service firm.

In closing, the expectancy disconfirmation model, the perceived-control perspective, and the script perspective allow us to make logical deductions about customer behavior when making marketing decisions. Moreover, the three models should be considered complementary rather than mutually exclusive. For example, all three models deal with different but complementary aspects of customer expectations and perceptions. Managerial insights can be developed more effectively through a combination of these various perspectives as we continue to learn about consumer decision processing. For a summary of models pertaining to customer satisfaction evaluations formed during the post purchase stage of the consumer decision process model, see Table 4-6.

4-3 Consumer Decision Making: Nonsystematic Approaches

Developing and completing a multi-attribute model is hard work. It is such hard work that our eyes dilate with the effort according to researchers. When choosing a college, completing a multi-attribute model is perhaps worthwhile. Suppose that our student has chosen their college is currently in their second semester. A biological driver says that they need lunch so they walk to their regular food court. Will they set up a multi-attribute decision matrix to decide whether to choose SUBWAY today? The human brain is an amazing instrument.²¹ It consists of 86 billion neurons, the *grey matter*. Each neuron is connected to many thousands of others. There are estimated to be 160 trillion connections. During our lifetime, but especially when we are young, we create those connections. “Joining the dots” allows us to make sense of our world. Those interconnections are insulated with white fatty myelin. There are 100,000 kilometers of *white matter* interconnections. Enough to travel around the earth two and a half times. All of these connections are contained within the brain that typically weighs only 1.5 kilograms.

Despite all its sophistication and complexity, the brain has a finite capacity and seeks to optimize decision making.²² It cannot process all decisions using a linear compensatory model or even a lexicographic model. Sometimes it switches to “autopilot,” especially if the decision is not that important. At some point in the past, it may have systematically evaluated the food service options. After a while though, the brain has made the decision often enough that it has expertise. As a result, it can make the decision on **autopilot**.

The brain’s decision-making expertise also means that it can if necessary truncate the effort it takes to make decisions. The brain can reduce the consideration set even

autopilot

Decision making that is efficient, often based on past experiences, and nonsystematic.

Table 4-6 Post Purchase Models of Customer Satisfaction

Postpurchase Models of Customer Satisfaction	Description
Expectancy Disconfirmation Theory	Customer satisfaction is achieved when customer perceptions meet or exceed customer expectations
Perceived-Control Perspective	The higher the level of customer control within a service encounter, the higher the level of customer satisfaction
Script Theory	Customer satisfaction is the result of script congruence—when the actual scripts performed by customers and staff are consistent with expected scripts

further or it can decide to collect only a limited amount of information on each alternative. Everything is done to drive the efficiency of the decision making and leave the brain to get on with more important work. This does not mean that the service marketers of those different chains of food outlets do not need a “model” of customer decision making. Service marketers still need to think their plans through in terms of attributes and importance weights. They just have to accept that if they want to change customer behavior, they are going to have to break people out of their routines. Service marketers will need to make the decision salient again such as stressing the importance of consuming healthier foods, supporting local business, and/or informing and incentivizing customers to seek more savory alternatives.

4-4 Consumer Decision Making: Special Considerations Pertaining to Ageing Consumers

Markets around the world are getting older. This is a result of two different forces. Women are having fewer children in their lifetimes.²³ They are choosing to have children later. A recent U.K. study shows just how profound is this change.²⁴ Half of the thirty-year-old women born in 1990 have yet to have a child. The forecast is that most will have their first child at the age of 31. Their mothers on average had their first child at the age of 22. All the data suggests that the later people have their first child the fewer children they will have. The average children per female in the United States is now 1.71 children. This means that couples are not replacing themselves and there are far fewer children.

The second force is the impact of medical science and lifestyle on longevity. This means that Americans are living longer than they have ever lived before. The opioid crisis and COVID may change this long run trend temporarily, but people are living longer. With less young people and more older people, the result is that many service firms will increasingly need to attract and maintain the 65+ customer segment in order to sustain their operations.

4-4a Consumer Decision Making for 65+

Older people have many more purchasing experiences to draw upon based on their past experiences. For example,

they have chosen where to have lunch a multitude of times. Given their past experience, they are more efficient at making these choices. They can and do rely on their “autopilot” much more for routine consumer choices. Buying a car would seem like a big decision. Something that it would be worthwhile investing the mental energy needed to draw up a multi-attribute model. Older customers do not see it that way.

A massive French survey of car buyers showed that the consideration sets of the over 65s was much smaller than of the 20 to 30 year olds.²⁵ The older customer group considered fewer brands of cars and within each brand they considered fewer models. In addition, the older customer group were much more loyal to the brand of their previous car independent of their satisfaction with the vehicle. The older they got, the more loyal to brand and model they were. They even reduced their consideration set of dealers. They might not buy a new car on “autopilot,” but they certainly were not investing the same amount of mental energy as a younger person exerts when purchasing a new vehicle.

For a service marketer in the car industry, this poses a problem. Service marketers will need to focus their efforts on customer retention as opposed to conquest marketing practices that attract new customers. As a result, service marketers will have to reassure their existing customers and reduce any “cognitive” dissonance. They must engage in marketing practices that keep current customers loyal. In the future, obtaining new customers will be a lot harder work. In order for service marketers to initiate brand switching, they must make the decision much more important to their perspective customers. Perhaps the increased acceptance of electric cars will reinvigorate the older customers desire to invest time and effort in this decision?

Ultimately, older customers have different motivations compared to their younger counterparts. Theory suggests that as mortality becomes increasingly real, people change. They focus much more on maximizing the pleasurable experiences in their lives and will consciously avoid unpleasant experiences.²⁶ When shown a selection of photographs, older people will remember the positive photos far more than the negative photos. They will even change their memories of unpleasant medical experiences to be more pleasant. This selective distortion of unpleasant memories into more pleasant memories reinforces their brand loyalty. As populations continue to age, astute service marketers will have to adjust their marketing strategies accordingly.

Summary

This chapter has presented consumer decision process issues as they relate to service consumers. The consumer decision process model consists of three main stages: the prepurchase stage, the consumption stage, and the post purchase stage. The prepurchase stage consists

of the events that occur prior to the consumer’s acquisition of the service and includes stimulus reception, problem awareness, information search, and evaluation of alternatives. The outcome of the prepurchase stage is a choice.

The next step in the consumer decision process model is the consumption stage. For goods the consumption stage includes the activities of buying, using, and disposing of the product. For services the situation is more complex. Customers consume and evaluate their services simultaneously and evaluate the service based on both the service process and outcomes. From a marketer's point of view, this provides the opportunity to directly influence the customer's evaluation during the service delivery process. Because of the client/company interface, the service provider can identify and resolve problems and positively influence evaluations in a way that the manufacturer of a packaged good cannot.

The final stage in the consumer decision process model is the post purchase stage. Post purchase evaluation of services is a complex process. The evaluation process begins soon after the customer makes a choice of where to purchase and continues throughout the consumption and post consumption stages. The evaluation of services is influenced by the unavoidable interaction of a substantial number of social, psychological, and situational variables. Service satisfaction relies not only on the technical quality of the service and the four elements of the servuction system (contact personnel, the servicescape, other customers, and internal organizational systems), but also on the synchronization of these elements in the service production/consumption process.

Models that assist in our understanding of the consumer's post purchase evaluation process include the expectancy disconfirmation model, the perceived-control perspective, and script theory. The expectancy disconfirmation model defines satisfaction as meeting or exceeding customer expectations. The perceived-control perspective proposes that during the service experience, the higher the level of control over the situation perceived by customers, the higher their satisfaction with the service. Script theory

proposes that rules, mostly determined by social and cultural variables, exist to facilitate interactions in daily repetitive events, including a variety of service experiences. Moreover, script theory proposes that in a service encounter, customers and their satisfaction is a function of "script congruence"—whether the actual scripts performed by customers and staff are consistent with the expected scripts. Models such as these help us understand how customer evaluations are processed, and they indicate areas where service marketers can focus their efforts in pursuit of the ultimate goal of providing customer satisfaction.

The brain has a limited capacity for consumer decision making. As such, customers do not always have the ability or the desire to make decisions in a systematic way. Instead, for decisions that are less important, customers move to "autopilot" and make decisions as efficiently as possible even if it appears to be unsystematic. For example, past experiences are utilized in lieu of systematic decision making to save time and mental energy.

In closing, it is important to note that due to the decline in birth rates and the increased life spans, older customer segments are becoming and will continue to be a dominant force in the marketplace. Traditionally and culturally, marketers have focused on the youth markets in the past for growth opportunities. Marketers must now adapt their strategies to the changes in the marketplace. As customers age, their decision-making changes. They have many more experiences to draw upon; therefore, older customers are more efficient at making decisions. Older customers tend to consider fewer alternatives and are typically more brand loyal than their younger counterparts. Service marketers seeking to obtain older customers to grow their business will need to develop strategies to make routine decisions more important to broaden consideration sets while at the same time developing and implementing pleasant consumer decision making experiences.

Key Terms

consumer decision process
stimulus
commercial cue
social cue
physical cue
problem awareness
shortage
unfulfilled desire
information search
awareness set
evoked set
consideration set

internal search
external search
evaluation of alternatives
nonsystematic evaluation
systematic evaluation
linear compensatory approach
lexicographic approach
financial risk
performance risk
physical risk
social risk
psychological risk

switching costs
consumption process
cognitive dissonance
expectancy disconfirmation theory
script perspective
script congruence
perceived-control perspective
behavioral control
perceived control
autopilot decision making

Review Questions

1. In general terms, discuss the purpose of consumer behavior models like the consumer decision process model depicted in Figure 4-1.
2. Regarding multi-attribute models, what is the difference between the linear compensatory approach and the lexicographic approach?
3. Discuss the reasons why personal sources of information tend to be more important for consumers of services.
4. Who is typically more brand loyal—a consumer of goods or a consumer of services? Please explain.
5. Discuss the managerial implications of the production, acquisition, use, and disposal sequence during the consumption stage. How does this sequence differ for goods and services? What are the managerial implications associated with this difference?
6. Based on the expectancy disconfirmation theory, how can a service firm increase customer satisfaction?
7. What is a script, and how does it relate to the manner in which customer satisfaction evaluations are formed?
8. Explain the relevance of the perceived-control perspective with specific reference to behavioral control and cognitive control as each relates to the post purchase stage.
9. Under what situations are consumers more likely to use autopilot or unsystematic decision making. Provide examples.
10. What are the marketing implications associated with declining birth rates and increasing life spans as service marketers look for future growth opportunities?

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Case 4

United, Southwest, or Frontier: Which Airline to Fly Out of DIA?

Denver International Airport, locally known as DIA and ticketed as DEN, is the largest airport in North America by land area and the second largest in the world behind King Fahd International Airport in Saudi Arabia. DIA occupies 52.4 square miles (33,500 acres) of land which is approximately one and half times the size of Manhattan. In terms of passenger traffic, DIA consistently ranks in the top ten worldwide and within the top five in the United States. Opened in 1995, DIA employs over 35,000 employees and is the largest employer in the state of Colorado. The airport provides non-stop service to 215 destinations in North America, Europe, Asia, and Latin America and is one of only four airports in the United States that provides non-stop service to over 200 destinations. Flight services are provided by 23 different airlines; however, the dominant players at DIA are United Airlines, Frontier Airlines, and Southwest Airlines.

United Airlines, in terms of fleet size and destinations served, is the third-largest airline in the world. United commands 42 percent of DIA's market share, making the airline the largest carrier at the airport. In terms of number of flights, DIA overtook Chicago-O'Hare as United's largest hub in 2021. United offers passengers First Class service, Business Class service, and four levels of coach service—Basic Economy, Economy, Economy Plus, and Premium Plus. Basic Economy is United's lowest fare and provides many of the same amenities as Economy; however, group/family seating, seat selection/upgrades, and bringing full-sized carry-on-bags is not allowed. In contrast, Premium Plus offers more seating space, upgraded dining, free alcoholic beverages, and a Saks Fifth Avenue blanket and pillow.

Southwest Airlines, the world's largest low-cost carrier, began services at DIA in 2006 and is now the airport's second largest carrier behind United. Southwest provides service to 121 destinations in the United States and 10 additional countries. In recent years, Southwest carries more U.S. domestic passengers than any other airline. Known for its "bags fly free" service, Southwest exclusively uses Boeing 737 jets in its fleet. Southwest offers one class of seating—economy. Economy seating on Southwest includes two-free-of-charge checked bags per passenger, one free carry-on bag and personal item per passenger, no-charge flight changes up to 10 minutes prior to the flight, and flight

cancellation credits which may be used within a year of the original ticket purchase. Seating on Southwest is unassigned and is primarily based on a first-come, first-serve basis with priority given to passengers who check-in online in a timely fashion. Each passenger receives an A, B, or C boarding pass along with a number (e.g., A-15, B-22). Passengers line up by letter and number, board the plane, and select any available seat. Interestingly, the television show *MythBusters* found this seating method to be on average 10 minutes faster than traditional boarding practices.

Frontier Airlines, positioned as America's ultra-low-cost carrier, provides service to over 100 destinations within the United States as well as 31 international destinations. The airline began service at DIA in 1995. In 2022, Frontier announced its intention to merge with Spirit Airlines. If approved, the merger would produce the fifth-largest airline in the country. Frontier's primary customers are the price-sensitive, nonbusiness travelers who purchase plane tickets for vacations or to visit friends and family. Who purchases the tickets for these types of trips? In a word, women. These same women often have kids in tow who can also have a say in airline ticket purchase decisions. Frontier's Emmy-award winning advertising campaign featuring unique animal images such as Grizwald the Bear, Jack the Rabbit, and Larry the Lynx that adorn the tails of 60 different Frontier aircraft were intentionally designed to be very family friendly. In addition, Frontier's newly announced Discount Den Benefits membership program is designed to allow kids under 15 to fly free on certain dates for every Discount Den fare purchased.

Based on Frontier's understanding of its consumer decision-making processes, the airline focuses on what it calls "Low Fares Done Right." At 19" wide, Frontier's middle seats are the widest middle seats of any airline in the United States; however, Frontier's pitched seats at 28"–29" is the tightest seat pitch of any airline. Main cabin seats are pre-reclined, described by passengers as thin hard stationary seats, seat trays are 50 percent of the size of traditional trays, and there are no televisions mounted on seatbacks to save weight. Frontier flies narrow-body Airbus jets and offers no-frill service—additional fees are required for checked-in baggage, carry-ons, assigned seating, in-flight beverages, etc.

Sources: https://en.wikipedia.org/wiki/Denver_International_Airport; https://en.wikipedia.org/wiki/United_Airlines; https://en.wikipedia.org/wiki/Southwest_Airlines; https://en.wikipedia.org/wiki/Frontier_Airlines; <https://www.cnn.com/2022/02/07/heres-what-the-spirit-and-frontier-airlines-merger-means-for-travelers.html>;

Criteria	United Airlines	Southwest Airlines	Frontier Airlines	Importance Weights
Flight Price	8	9	10	10
Baggage Fees	7	10	7	10
In-flight Entertainment	10	8	5	8
Carry-on Fees	10	10	6	10
Assigned Seating	10	7	7	7
Seat Comfort	9	9	5	8
In-flight Beverage Service	8	8	5	5
Employee Attitudes toward Passengers	8	9	8	8
Family Friendly	9	9	10	9

Clearly, customers flying in and out of DIA are faced with a number of trade-offs pertaining to which airline to select for their travel needs. Based on information obtained from focus groups, customer expectations regarding the performance of each airline on several purchasing criteria are provided above and ranked based on a 1-10 scale (1 = low performance, 10 = high performance). In addition, importance weights are also provided on a 1-10 scale (1 = not important, 10 = very important)

Discussion Questions:

- Based on the information provided in the above multi-attribute matrix, list the five pieces of information service marketers could use for future decision making.
- Based on the decision criteria, rankings, and importance weights provided above, which airline would be selected in this scenario? Please show your work.
- After flying with each of the airlines, passengers were asked to record their perceptions about their experience pertaining to each of the decision-making criteria (noted in parentheses below). The results are displayed in table form here (expectation scores were obtained from the original multi-attribute matrix). Given this information, determine the size and direction of the satisfaction gap and whether customers were dissatisfied, satisfied, or delighted.
- Based on the information provided in the case and within the multi-attribute matrixes, what advice would you give to each of the three airlines as they move forward?

Criteria	United Airlines	Southwest Airlines	Frontier Airlines	Importance Weights
Flight Price	8 (8)	9 (9)	10 (8)	10
Baggage Fees	7 (7)	10 (10)	7 (7)	10
In-flight Entertainment	10 (8)	8 (8)	5 (5)	8
Carry-on Fees	10 (10)	10 (10)	6 (4)	10
Assigned Seating	10 (10)	7 (8)	7 (8)	7
Seat Comfort	9 (7)	9 (8)	5 (2)	8
In-flight Beverage Service	8 (7)	8 (8)	5 (7)	5
Employee Attitudes toward Passengers	8 (7)	9 (10)	8 (9)	8
Family Friendly	9 (7)	9 (10)	10 (10)	9

Part 2

The Tactical Services Marketing Mix



Lifestyle pictures/Alamy Stock Photo

Chapter 5

The Service Delivery Process

Chapter 6

The Pricing of Services

Chapter 7

Developing the Service Communication Strategy

Chapter 8

Managing the Firm's Physical Evidence

Chapter 9

People as Strategy: Managing Service Employees

Chapter 10

People as Strategy: Managing Service Customers

Now that we have discussed many of the basic differences between goods and services in Part I of this text, Part II is dedicated to topics that pertain to managing the service experience. Due to customer involvement in the production of services, many challenges for management occur that rarely, if ever, need to be considered in the production of goods. In this section of the text, you will learn about the strategic issues that affect both the marketing mix and the components of the servuction model. Ultimately, the services marketing mix is comprised of 7Ps—the traditional 4Ps plus *process*, *physical environment (servicescape)*, and *people (employees and customers)*.

Chapter 5

The Service Delivery Process



Chapter Objectives

After reading this chapter, you should be able to:

1. Compare and contrast the four stages of operational competitiveness
2. Discuss the relationship between operations and marketing as it pertains to developing service delivery systems
3. Explain the types of operational models that facilitate operational efficiency
4. Recognize the challenges associated with applying operational efficiency models to service organizations
5. Explain the art of service blueprinting as it relates to the design of service delivery operations
6. Discuss the role of complexity and divergence as they relate to new service product development (see Chapter Appendix)

The main objective of this chapter is to familiarize service marketers with operations concepts and to explain the strategic importance of balancing processes and marketing functions in service operations.

Chippy, the AI Robotic Arm, Finds a Job at Chipotle¹

In the effort to increase both efficiency and effectiveness of its operations, Chipotle is testing an artificial intelligence (AI) kitchen assistant that makes tortilla chips imperfectly on purpose. The robotic arm, named “Chippy,” is being developed through Chipotle’s relationship with Miso Robotics. Chipotle queried its team members (store employees) for ideas concerning how operations could develop a better

mousetrap to make life easier for working in the restaurant—the most popular response pertained to developing an easier way to make tortilla chips. The idea was to take away a chore that team members did not like and to provide more time for team members for other tasks. Of course, the other benefit for Chipotle is that Chippy can make tortilla chips 24/7, doesn’t take breaks, or require benefits. On the other hand, it is estimated that each Chippy may cost each franchise location up to \$3000 monthly.

Although Chippy follows the same exact recipe as its human counterparts (corn masa flower, water, and sunflower oil), Chippy is taught to purposely vary the amount of lime and salt that it sprinkles on finished chips. Chipotle’s Vice President of Culinary observed that customers love to find that one chip with a little extra salt or little more lime. As a result, Chippy is being trained to provide variations in flavors to keep the humanity in the chips! Chippy is currently

being tested at Chipotle's Cultivate Center, their innovation hub located in Irvine California, and is expected to be rolled out into Chipotle locations in southern California in the very near future.

Prior to Miso Robotics development of Chippy, the company has developed a few relatives along the way. "Flippy 2," the second version of White Castle's Chicago-based burger-flipping robot, is now being rolled out to more than 100 of the restaurant's 350 White Castle locations. In addition, "Wingy" is currently being tested at one of Inspire Brands ghost kitchens. The hope is that "Wingy" will become the world's "only robotic chicken wing frying solution" that will soon be appearing at Buffalo Wild Wings locations. Early results indicate that Wingy speeds up food production by 20 percent. What could possibly be next? The cooking robot market is predicted to grow by 16 percent a year through 2028.

5-1 Introduction

Service customers often find themselves as integral components of most service production processes. The customer's participation in the process may be active (e.g., exercising at the local health club to become more physically fit) or passive (e.g., patrons viewing a theatrical production), but customers are often physically present during the service production process. Given the customer's physical presence during the service encounter, it is clear that if the process within the service factory (e.g., health club, theatre, airport) changes, consumer scripts that guide behavior will have to change as well. To understand this point more fully, simply think about what it is like to cash a check inside a bank as opposed to using the bank's ATM locations. These are two different processes that achieve the same final goal but require customers to follow two completely different scripts. Finally, and perhaps most importantly, service marketers should recognize the importance of process strategy in the customer's overall service experience. Since consumer evaluation of service often occurs during and after the service experience, customer satisfaction is often based as much on the process as on the final outcome.

This chapter highlights the trade-offs between the search for operational efficiency (i.e., speed, cost reduction) and the need to create marketing effectiveness (i.e., customer satisfaction, employee satisfaction, revenue growth). With regard to service operations, many of the traditional methods typically recommended for increasing operational effectiveness cannot be implemented without affecting customers or employees. Changes made to increase the service operation's efficiency can often downgrade the final service product. This chapter focuses on the positive aspects that service marketers can achieve to help improve the efficiency of service operations.



"Still getting the hang of
laser surgery?"

The importance of having good service processes in place prior to serving customers.

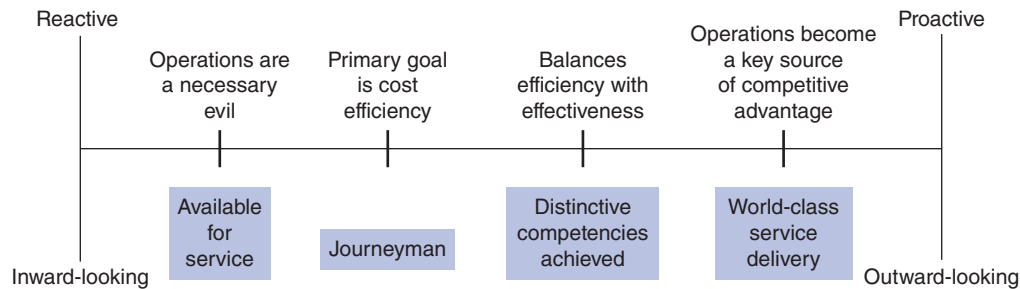
5-2 Stages of Operational Competitiveness

Due to the inseparable nature of services, customer evaluations of services considers both process and outcomes. Without a successful service delivery process, the service firm will suffer as customers become frustrated over the level of poor service delivered. For example, a hotel may have the best location and the best rooms on the market, but if it takes guests forever to check into and out of their rooms, the hotel's food and beverage offerings are not properly stocked, and housekeeping services are dismal, the hotel will eventually lose all existing and future potential customers.

Service firms seeking to construct a service process to improve operational effectiveness can choose from a large range of operational options. Strategically, the service firm can choose to view its operations as a necessary evil to complete day-to-day tasks, or to use its operations as the key component of its competitive strategy. The manner in which "operational competitiveness" is embraced by various service firms can be described by four stages (See Figure 5-1):²

5-2a Stage 1: Available for Service

Operations for a firm at this level of competitiveness are viewed as a necessary evil. Operations are at best reactive to the needs of the rest of the organization and deliver the service as specified. As its mission, the operations department mainly tries to avoid mistakes. Back office support is

Figure 5-1 The Four Stages of Operational Competitiveness

minimized to keep costs down. Technological investment is also minimized, as is investment in training for frontline personnel. Management designs skill out of the work done by these personnel, leaving little room for any discretionary effort, and pays minimum wage whenever possible.

A basic example of “available for service” would be a person who sells local concert tickets online via their own website. Customers place orders, and the business simply fulfills the customer orders as they are received. In this case, operations are reactive to customer requests, the major goal is to send the correct ticket to the correct person, and the complexity of the operation is kept to a minimum.

5-2b Stage 2: Journeyman

The motivation to jump to Stage 2 of operational competitiveness is often provided by the arrival of competition. The service firm may find that it is no longer enough just to have a basic operation that works. The firm must now seek feedback from its customers on the relative costs and perceived qualities of the service to seek improvements in the service delivery process. At this point, the operations department becomes much more outward-looking, and it often becomes interested in benchmarking its operations relative to the competition with regard to efficiencies.

The Journeyman stage is characterized by the introduction of technologically based systems for the primary purpose of cost savings. For example, the introduction of self-checkout systems at grocery stores assists in reducing labor costs. Within the Journeyman stage of operational competitiveness, the emphasis shifts from controlling workers to managing processes. As such, employees are often given procedures to follow, and management focuses on ensuring that standardized procedures are followed. This is much like how an employee handbook at a casual dining restaurant such as Olive Garden or Texas Roadhouse outlines specific processes for waitstaff appearance and time-based steps for interacting with customers. The motivation for waitstaff to follow the handbook is reinforced by managers who assess employee performance, set work schedules, and determine pay levels.

5-2c Stage 3: Distinctive Competencies Achieved

Upon entering Stage 3 of operational competitiveness, operations have reached a point where they continually excel, reinforced by the personnel management function and systems that support the customer focus. By this time, the firm has mastered the core service and understands the complexity of changing current operations. Within Stage 3, technology is no longer seen as a source of cost efficiencies alone, but also as a way of enhancing the effectiveness of service to customers. Consequently, the transition from Stage 2 to Stage 3 involves a philosophical change of balancing efficiency with effectiveness.

In addition to the philosophical change of heart, perhaps the second biggest change pertains to the workforce and the nature of frontline management. Within Stage 3, frontline workers are allowed to select from alternative procedures and are not obligated to treat all customers in a uniform way regardless of the customer’s request. Stage 3 of operational competitiveness encourages frontline management to listen to customers and become coaches and facilitators to frontline workers.

5-2d Stage 4: World-Class Service Delivery

Stage 4 of operational competitiveness offers “world-class service delivery.” To sustain this level of performance, operations not only have to continually excel, but also have to become fast learners and adapt to competitive offerings and customers’ ever evolving needs. Within Stage 4, technology is seen as a way to “break the mold”—to do things competitors cannot easily duplicate. For example, Amazon tracks purchases and makes recommendations to its customers based on the purchase patterns of other buyers. In addition, billing and shipping information are stored with customers’ consent, making purchasing on Amazon a one-click process.

When offering “world-class service delivery,” the workforce itself must be a source of innovators, not just robots following a standardized process. To achieve this, the frontline supervisors must go beyond coaching to mentoring. As mentors, they need to be accountable for the personal development of the workforce so that employees can develop the skills necessary for the service firm to evolve. Firms that

Services for a Better World in Action

Microsoft: AI for Earth³

Microsoft, a widely acknowledged leader in sustainability, demonstrates the strong commitments that leading firms such as Apple, Dow, Nestle, Google, and others are making to their operations to address climate change. Building on the success of a string of climate initiatives during the past decade, Microsoft announced a bold new sustainability vision and strategy that includes industry-leading commitments to be a *carbon negative*, *water positive*, *zero waste* company by 2030 and to develop a new *Planetary Computer* to better monitor, model, and manage the world's ecosystems. Enriched with large environmental datasets, the Planetary Computer will empower customers and partners, including leading ecologists, to address important environmental questions.

To achieve these ambitious goals, Microsoft will:

1. Take responsibility for its carbon, water, waste, and land footprints.
2. Develop new technology and services driven by data and artificial intelligence (AI) to power sustainability (for example, Microsoft provides a free tool that reveals the embodied carbon in materials so architects and

contractors can make more informed choices in selecting materials for a building that will have the lowest climate impact).

3. Assist customers and suppliers around the world to reduce their environmental footprint.
4. Openly support new public policy initiatives to accelerate carbon, water, waste, and ecosystem opportunities.
5. Engage all employees in contributing innovative ideas and efforts to realize the vision.

To support Microsoft's sustainability commitment, the firm will invest \$1B over four years to scale up existing technologies and to fund technologies that are in an early discovery phase. Moreover, Microsoft has developed the "AI for Earth" platform to support organizations around the world that are solving environmental problems by exploiting the full potential of cloud computing and artificial intelligence. The Planetary Computer builds on this success by providing tools that make it easier for scientists to ask global-scale questions of large, continuously updated datasets.

excel at world-class-service delivery can utilize operational differential advantages to impact an individual customer experience and/or utilize its operations to make a much greater impact (see Services for a Better World in Action)

Overall, as service firms transition through the four stages of operational competitiveness, the transformation from "Available for Service" to "World-Class Service Delivery" highlights the fact that operations management problems in services are best solved through the joint efforts of marketing and operations personnel. As pointed out by the four stages just noted, the search for operations efficiency can be crucial to long-term competitiveness. However, operational efficiency must be balanced with the effectiveness of the system from the customer's point of view. Table 5-1 provides a quick glimpse into the major trade-offs between efficiency

and effectiveness when developing operations for low-customer-contact versus high-customer-contact services.

Often, from a pure operational perspective, it is easy to view the customer as a constraint: "If these customers didn't always show up at the same time, we could provide much better service!" Such a negative perspective ignores a golden opportunity. The physical presence of service customers within the service operation can be used to help, not hinder operations. Such a positive view does, however, require that traditional operations personnel recognize the importance of the goals of their marketing counterparts—to enhance the effectiveness of the customer's service experience. Just as important, such a view also requires that marketing personnel have an intimate knowledge of the operations system and its challenges. It is not enough to propose new service offerings to be delivered through existing operational systems. Marketers who excel at providing world-class service recognize that the potential negative impact of offering new services through existing operational systems must be considered before introducing new services to the customer.⁴ Such is the case when domestic food franchises begin to expand globally and must consider adapting to local behavior and tastes within what is typically a rigid operational system (see Global Services in Action).

When engaging in global franchising, franchisors must decide among two location decisions. First, locate the franchise in a developed country with well-established infrastructure and supply chains and intense competition. Alternatively, locate in an emerging country where the infrastructure and supply chains are less reliable; however, competition is minimal and growth opportunities abound. Of interest, eighty percent of collective growth for the top 200 U.S. franchises has occurred outside of the United States over the last several years.



E-tailer, Amazon.com, distinguishes itself from its competitors by employing processes that result in a world class service delivery system.

Table 5-1 Major Design Trade-Offs in High- and Low-Contact Systems

Decision	High-Contact System	Low-Contact System
Facility location	Operations must be near the customer.	Operations may be placed near supply, transportation, or labor.
Facility layout	Facility should accommodate the customer's physical and psychological needs and expectations.	Facility should enhance production.
Product design	Environment as well as the physical product define the nature of the service.	Customer is not in the service environment so the product can be defined by fewer attributes.
Process design	Stages of production process have a direct immediate effect on the customer.	Customer is not involved in the majority of processing steps.
Scheduling	Customer is in the production schedule and must be accommodated.	Customer is concerned mainly with completion dates.
Production planning	Orders cannot be stored, so smoothing production flow will result in loss of business.	Both backlogging and production smoothing are possible.
Worker skills	Direct workforce makes up a major part of the service product and so must be able to interact well with the public.	Direct workforce need have only technical skills.
Quality control	Quality standards are often in the eye of the beholder and, hence, variable.	Quality standards are generally measurable and, hence, fixed.
Time standards	Service time depends on customer needs, so time standards are inherently loose.	Work is performed on customer surrogates (e.g., forms), and time standards can be tight.
Wage payments	Variable output requires time-based wage systems.	"Fixable" outputs permits output-based wage systems.
Capacity planning	To avoid lost sales, capacity must be set to match peak demand.	Storable output permits setting capacity at some average demand level.
Forecasting	Forecasts are short-term, time oriented.	Forecasts are long-term, output oriented.

Source: Richard C. Chase, "Where Does the Customer Fit in a Service Operation?" *Harvard Business Review* (November-December 1978), pp. 137–142. Reprinted by permission of *Harvard Business Review*. Copyright © 1978 by the President and Fellows of Harvard College.

Global Services in Action

Global Franchising Considerations⁵

Although the typical mantra for franchise operations is to achieve 100 percent consistency across all locations, this may not be an appropriate objective for those engaged in global franchising. Conducting business in host countries (international) can vary greatly differ from the typical home country (domestic) approach. Differences often included customer expectations, employee roles, business formats, political/legal/religious considerations, and supply chains. It is important for global franchisors to consider these cultural differences and leave room for adjustments in their typically rigid operational guidelines. Franchisors have found that lessons learned from making adaptations in global markets can benefit domestic practices as well. Interesting examples of franchise adaptations include:

- McDonald's uses a cheese that is commonly used in curry dishes called paneer as a substitute for beef in India where cattle cannot be slaughtered.
- Pizza Hut tops its pizzas in Japan with squid, mayonnaise, and seaweed.
- Starbucks redesigned its semi-nude siren logo for parts of the Middle East.
- Cold Stone Creamery trained employees to dance when they received a tip in Japan; however, customers do not tip in Japan. As a result, Cold Stone employees now dance when customers contribute to the store's charity jar—watching employees dance is now an important component of the Cold Stone experience in Japan.
- Wingstop typically offers a dozen wing flavors of which up to four are adapted to local tastes. The company has also adapted its side dishes, offers flavored bubble teas, and fried seasoned street corn.
- In Saudi Arabia, restaurant dining rooms are reconfigured to have separated dining rooms for women and children. In addition, apparel retailers do not offer female changing rooms as women are not allowed to use them in Saudi Arabia.
- Due to worker shortages in some areas of the Middle East, employees are imported from Indonesia, Pakistan, and the Philippines. Employers often house workers in addition to operating the franchise.
- For security reasons, Ace Hardware employees in Kabul are protected by machine gun carrying security guards.

5-3 The Relationship between Marketing and Operations: Balance Is Critical

One way of viewing the relationship between marketing and operations in a service firm is to think of it as marrying the customers' needs with the technology and manufacturing capabilities of the firm. As is the case with most marriages, a successful union between operations and marketing will obviously involve compromises, since the customers' needs can seldom be met completely and economically.

In a service firm, establishing a balance between marketing and operations is critical! Significant aspects of the service operation are the product that creates the experience that delivers the bundle of benefits to the consumer. For example, a restaurant experience is not based solely on the quality of the food. The physical environment and interactions with staff throughout the experience also greatly influence consumer perceptions of the quality of service delivered. Therefore, a successful compromise between operations efficiency and marketing effectiveness is much more difficult to achieve. Success in services marketing demands a much greater understanding of the constraints and opportunities posed by the firm's operations.

To introduce these complexities, in this chapter we first adopt the perspective of an operations manager and ask, "What would be the ideal way to run the service delivery system from an operations perspective?" The impact on

marketing and the opportunities for marketing to assist in the creation of this ideal are then developed.

The distinctive characteristic of services is that the service product is an experience. The service experience is created by the firm's operating system interacting with the customer. Thus, the operating system of the firm, in all its complexity, is the service product. For a marketing manager, this imposes constraints on potential strategies, but it also presents new and challenging opportunities for improving the profitability of the firm.

An understanding of consumer behavior has always been necessary for successful marketing. One way of viewing the service product design process is to think of it as the process of combining such an understanding with the technological and manufacturing skills of the organization. Consequently, to be an effective services marketer, a knowledge of consumer behavior is not enough to produce economically successful products. Successful service marketers also need a keen understanding of operations and human resource concepts and strategies.

In contrast to many services, it is possible for goods producers to separate the problems of manufacturing and marketing by the use of inventory. Even so, there are many areas of potential conflict, as can be seen in Table 5-2. Although the issues are characterized as conflicts, they can be reconceptualized as opportunities. In each area it is clear that a better integration of marketing and operations could yield a more efficient and profitable organization. For example, a firm that is considering whether to expand its product line or focus solely on one

Table 5-2 Sources of Cooperation/Conflict Between Marketing and Operations

Problem Area	Typical Marketing Comment	Typical Manufacturing Comment
1. Capacity planning and long-range sales forecasting	"Why don't we have enough capacity?"	"Why didn't we have accurate sales forecasts?"
2. Production scheduling and short-range sales forecasting	"We need faster response. Our lead times are ridiculous."	"We need realistic customer commitments and sales forecasts that don't change like wind direction."
3. Delivery and physical distribution	"Why don't we ever have the right merchandise in inventory?"	"We can't keep everything in inventory."
4. Quality assurance	"Why can't we have reasonable quality at reasonable costs?"	"Why must we always offer options that are too hard to manufacture and that offer little customer utility?"
5. Breadth of product line	"Our customers demand variety."	"The product line is too broad— all we get are short, uneconomical runs."
6. Cost control	"Our costs are so high that we are not competitive in the marketplace."	"We can't provide fast delivery, broad variety, rapid response to change, and high quality at low cost."
7. New product introduction	"New products are our lifeblood."	"Unnecessary design changes are prohibitively expensive."
8. Adjunct services such as spare parts, inventory support, installation, and repair	"Field service costs are too high."	"Products are being used in ways for which they weren't designed."

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product can be seen as deciding between the heterogeneous demands of customers and the operations demand of homogeneity. If marketing managers have their way, too many products will probably be developed, and the operation will become inefficient. As long as this is compensated for by higher prices, a successful strategy can be implemented. In contrast, if the operations people have their way, customers would have only one product to select from, which is a less attractive option. However, as long as this is compensated for by lower costs and hence lower prices, a successful strategy can emerge.

Ultimately, marketing and operations are in a tug-of-war that should be resolved by compromise. In the service sector, the possible areas of conflict or compromise are much broader because the operation itself is the service product. Again, there is no single solution since operational efficiency and marketing effectiveness may often push in opposite directions.

This chapter is operations oriented rather than marketing oriented, and the perspective adopted in this chapter is that of the operations manager. Consequently, the remaining focus of this chapter is on requirements for operational efficiency and the ways that service marketers can help achieve those requirements. Finally, we must stress that in the drive for competitive advantage in the marketplace, marketing goals and objectives in their pursuit of effectiveness may produce less operational efficiency. This is especially true for high-contact service firms. As the amount of customer contact increases, the likelihood that the service firm will operate efficiently decreases. In the end, service customers ultimately determine the type of demand, the cycle of demand, and the length of the experience. Meanwhile, as customer inputs increase, the service firm loses more and more control over its daily operations. It's the nature of the service business.

5-4 In a Perfect World, Service Firms Would Be Efficient

From an operations manager's perspective, establishing processes that operate a service firm at peak efficiency would be the ideal situation. J. D. Thompson's *perfect-world model* provides us the direction needed to achieve this ultimate goal. In reality, however, peak efficiency is often unattainable. Proposed as more realistic solutions, the *focused factory* and *plant-within-a-plant* concepts provide managers with alternative strategies that enhance the efficiency of the firm while taking into consideration marketing effectiveness.

5-4a Thompson's Perfect-World Model

The starting point for this discussion is the work of J. D. Thompson.⁶ Long ago Thompson introduced the idea of a **technical core**—the place within the organization where

technical core

The area within an organization where its primary operations are conducted.

the primary operations functions are conducted. In the service sector, the technical core consists of kitchens in restaurants, service bays in auto dealerships, and surgical rooms in a hospital. Thompson proposed in his **perfect-world model** that in order to operate efficiently, a firm must be able to operate “as if the market will absorb the single kind of product at a continuous rate and as if the inputs flowed continuously at a steady rate and with specified quality.” At the center of his argument was the idea that uncertainty creates inefficiency. In the ideal situation, the technical core can operate without uncertainty on both the input and output sides, thereby creating many advantages for management. In other words, inputs arrive at a steady rate to be processed within the technical core and are then absorbed into the market instantaneously, removing the need to maintain inventories.

The absence of uncertainty means that decisions within the core can become programmed and that individual employee decision making can be replaced by rules. The removal of individual discretion means that jobs are “deskilled” and that a lower quality of labor can be used, resulting in lower labor costs. Alternatively, the rules can be programmed into AI-enabled robotics and labor replaced by automation. Because output and input can be fixed through the use of inventories, it is simple to plan production and run at the high levels of utilization needed to generate the most efficient operations performance.

All in all, a system without uncertainty is easy to control and manage. Performance can be measured using objective standards. And since the system is not subject to disturbances from the outside, the causes of any operations-related problems are also easy to diagnose.

5-4b The Focused Factory Concept

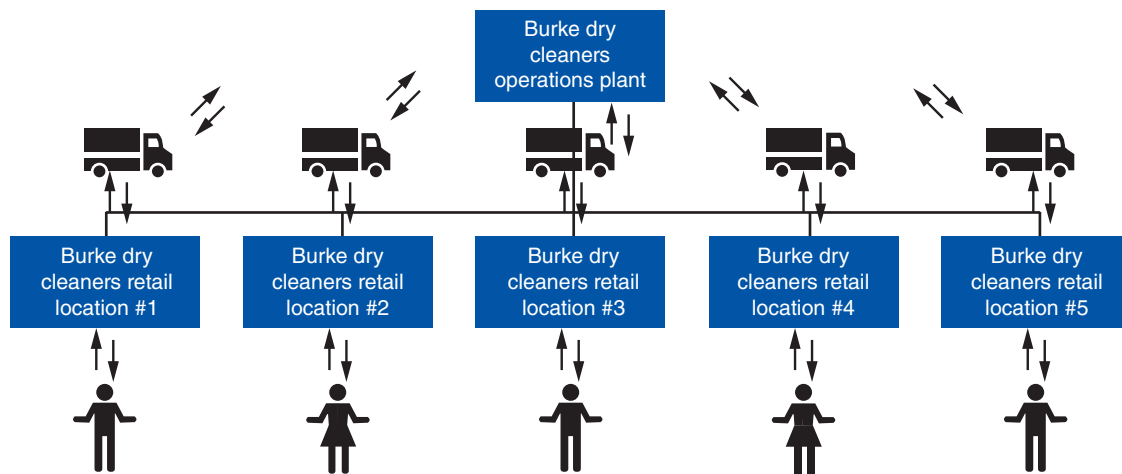
Obviously, the perfect-world model as proposed by Thompson is virtually impossible to create, and even in goods companies the demands of purchasing the inputs and marketing's management of the outputs have to be traded off against ideal operational demands. Alternative models are available that more realistically reflect the true nature of goods and service businesses.⁷ These models include the focused factory and plant-within-a-plant concepts. The **focused factory** focuses on a particular job

perfect-world model

J. D. Thompson's model of organizations proposing that operations' “perfect” efficiency is possible only if inputs, outputs, and quality happen at a constant rate and remain known and certain.

focused factory

An operation that concentrates on performing one particular task in one particular location; used for promoting efficiency and effectiveness through repetition and concentration on one task necessary for success.

Figure 5-2 An Illustration of the Focused Factory Concept

in a particular location; once this focus is achieved, the factory does a better job because the factory is buffered from outside influences and repetition and concentration in one area allow the workforce and managers to become effective and experienced in the task required for success. For example, consider a dry-cleaning operation that collects soiled clothing at many small retail satellite sites conveniently located near customer homes and places of work (see Figure 5-2). The satellite sites collect and distribute clothing directly to customers and focus on the *effectiveness* of the operation; however, a separate focused factory operations site is used to actually dry clean the clothes. This separate facility is insulated from customer contact on the input and output sides and can therefore focus on *efficiency*. The focused factory broadens Thompson's perfect-world model in that it argues that focus can generate effectiveness as well as efficiency. In other words, the focused factory can meet the demands of the market better whether the demand is low cost through efficiency, high quality, or any other criterion.

5-4c The Plant-Within-a-Plant Concept

The idea of a focused factory can be extended in another direction by introducing the **plant-within-a-plant (PWP)** concept. Because there are advantages to having operations capability and marketing exchanges with customers within a single location, the plant-within-a-plant strategy introduces the concept of breaking up large, unfocused locations into

plant-within-a-plant (PWP)

The strategy of breaking up large, unfocused plants into smaller units buffered from one another so that each can be focused separately.

Figure 5-3 Illustration of the Plant-within-a-Plant Concept The Plant-within-a-Plant concept isolates the technical core. Restaurants typically isolate the technical core (the kitchen) by dividing the store layout into high customer contact and low customer contact areas through the use of barriers such as a counter.



Source: Kipnis Architecture + Planning/Nathan Kipnis Architects, Inc.

smaller units buffered from one another so that they can each be focused separately (see Figure 5-3).

5-4d Additional Tactics Utilized to Increase Operational Efficiency

In addition to the broader concepts of the perfect-world, focused factory, and plant-within-a-plant models, tactical approaches to increasing operational efficiency include buffering, smoothing, anticipating, and rationing. In goods



Although perfect-world operations models are nearly impossible to replicate in the service sector, drive-thru concepts attempt to replicate the situation where inputs (customers) arrive at a steady rate, inputs are then processed (customer food orders are fulfilled), and outputs are absorbed into the market at a steady rate (the customer exits with their food order).

manufacturing, the concept of **buffering** is a powerful one. “Organizations seek to buffer environmental influences [and isolate the technical core] by surrounding their technical core with input and output components.”⁸ A PWP can thus be operated in a manner close to Thompson’s perfect-world model if buffer inventories are created on the input and output sides. On the input side, the components needed in a plant can be inventoried and their quality controlled before they are needed; in this way, it can appear to the PWP that the quality and flow of the inputs into the system are constant. In a similar way, the PWP can be separated from downstream plants or from the market by creating finished goods inventories. Automobile manufacturers are good examples. Finished goods are absorbed downstream by an established retail dealership system that purchases and holds the manufacturer’s inventory in regional markets until sold to the final consumer.

From a service marketer’s perspective, the newly proposed four-lane, two-story, no-dining room drive-thru concept for Taco Bell provides an epic example of buffering. Three drive-thru lanes are dedicated to customers who placed digital orders prior to their arrival through the company’s mobile app or website, and one drive-thru lane is dedicated to customers who place orders at the store location. Orders are elevated down to customers from the store’s second floor kitchen, and an interactive video screen is available in each lane so that customers and employees can communicate

buffering

Surrounding the technical core with input and output components to buffer environmental influences.

if necessary. This concept buffers the technical core (the kitchen) on the input side by collecting orders digitally and one at a time for those who select the traditional drive-thru lane. In addition, once customers receive their orders (output), they drive away which buffers the technical core on the output side as well. Contact with the technical core is minimized, the kitchen is on the second floor with no customer access, and any remaining customer contact is accomplished remotely via video screens. This concept is an operations manager’s dream and perhaps a marketing manager’s (who embraces face-to-face customer interactions) nightmare!¹⁹

Additional alternatives to buffering proposed by Thompson include operational tactics such as smoothing, anticipating, and rationing. **Smoothing** focuses on managing the uncertainty introduced into the system caused by fluctuations in supply and/or demand. Typical smoothing strategies in a services context would include reservations systems that allow for the predictability of demand; time-based price promotions such as “early bird specials” which spread out demand over longer periods of time; and turning customers into partial employees who self-service much of their own demand which expands the organization’s overall supply of service.

Anticipating involves mitigating the worst effects of demand and/or supply fluctuations by planning for them before they occur. For example, if the service firm typically receives higher demand on the weekends, then the firm should have more staff on hand during the weekends. If a performance hall has a popular artist scheduled to perform that typically draws a large number of patrons, then the performance hall should anticipate this increase in demand and plan food, beverage, and staffing needs accordingly.

Finally, **rationing** involves resorting to triage tactics when the demands placed on the system by unpredictable environmental forces exceed the firm’s typical ability to handle them. Try as they might, service firms cannot predict every possible fluctuation in demand and supply prior to their occurrence. Some circumstances are simply random events. However, service firms that take rationing seriously may consider cross-training employees to perform a variety of duties to supplement the supply of service available when

smoothing

Managing the environment to reduce fluctuations in supply and/or demand.

anticipating

Mitigating the worst effects of supply and demand fluctuations by planning for them before they occur.

rationing

Involves resorting to triage tactics when the demands placed on the system by unpredictable environmental forces exceed the firm’s typical ability to handle them.

the unpredictable occurs. For example, dish room employees may be cross-trained as bartenders, bussers, and food preparers to assist in meeting unexpected high levels of demand.

5-5 Applying Efficiency Models to Service Firms

The application of operations concepts to services that were originally designed for manufacturing is a bumpy road. The problem can be easily understood by thinking about the servuction model that describes the influence of the physical environment, contact personnel, other customers, and organization and systems on the customer experience. From an operational point of view, the key characteristics of the model are that the customer is an integral part of the process, and that the system operates in real time. Because customers are often inseparable from the operation, the system can be (and often is) used to customize the service for each person. However, as the amount of customer contact increases within a service operation, the efficiency of the operation itself decreases.

To put it bluntly, the servuction system itself is an operations nightmare! In most cases it is impossible to use inventories on the input and output sides of the operations and impossible to decouple production from the customer. Instead of receiving demand at a constant rate, the system is linked directly to a market that often varies from day to day, hour to hour, and even minute to minute. This creates massive problems in capacity planning and utilization—the fundamental building blocks of managing supply and demand. In fact, in many cases the only time supply and demand match up in service firms is when it happens purely by accident! For example, when are there exactly enough wait staff to serve restaurant customers, when are there exactly enough doctors and nurses to serve hospital patients, and when are there exactly enough home repair personnel (i.e., electricians, plumbers, painters, carpenters) to serve homeowners? There are times when supply and demand do balance, but due to the unpredictable ebb and flow of customer demand and supply chain challenges, a balance is achieved only by accident.

It is clear, by their very nature, that services do not meet the requirements of Thompson's perfect-world model. The closest the servuction model comes to this ideal state is the part of the *organization and systems* that are invisible to the customer (aka the technical core). Even here, however, the customization taking place may introduce uncertainty into the system. Provided that all customization can take place within the servuction system itself, the part that is invisible to the customer can be run separately. It can often be located in a place different from the customer contact portion of the model.¹⁰ However, when customization cannot be done within the servuction system, uncertainty can be introduced into the back office.

Instead of “the single kind of product” desired by the perfect-world model, the service system can be called upon



Customers do not always arrive at service firms at a steady rate. As a result, cues form making smoothing and anticipation of incoming demand difficult.

to make a different customized “product” for each customer. Indeed, one could argue that since each customer is different and is an integral part of the process, and since each experience or product is unique, the uncertainty about the next task to be performed is massive.

The Thompson model requires inputs that flow continuously, at a steady rate, and at a specified quality. Consider the inputs to the servuction system: the physical environment, contact personnel, other customers, and the individual customer. The physical environment (servicescape) may remain constant in many service encounters, but the other three inputs are totally variable, not only in their quality, but also in their rate of arrival into the process.

Moreover, contact personnel are individuals, not inanimate objects. They have emotions and feelings and, like all other people, are affected by things happening in their lives outside of the work environment. If they arrive in a bad mood, this can influence their performance throughout the day. And that bad mood directly influences the customer, since the service worker is a visible part of the experience being purchased.

Customers can also be subject to moods that can influence their behavior toward the service firm and toward one another. Some moods are predictable, like the mood when a home sports team wins and their fans celebrate at the local bars. Other moods are individual, specific, and totally unpredictable until after the consumer is already part of the servuction system.

Finally, customers arrive at the service firm at unpredictable rates, making smoothing and anticipation of incoming demand difficult. One minute a restaurant can be empty, and in the next few minutes, it can be full. One need only consider the variability of demand for cashiers in a grocery store to understand the basics of this problem. Analysis of demand can often show predictable peaks that can be planned for in advance, but even this precaution introduces inefficiency since the firm would ideally prefer the customers to arrive in a steady stream. Worse still are the unpredictable peaks. Planning for these peaks would produce large amounts of excess capacity at most times—lots of waitstaff standing



Jeffrey Isaac Greenberg 20+/Alamy Stock Photo

As customer contact increases, the efficiency of the operation decreases. Baristas are particularly frustrated with over-the-top TikTok orders which involve a ridiculous number of ingredients and are time-consuming to fulfill.

around waiting for the peak rush to begin. The excess would strain the entire system, undermining the experience for customer and contact personnel alike.

5-6 Operations Solutions for Service Firms

Within the operations management and marketing literatures, a growing list of strategies has emerged about overcoming some of the problems of service operations. Some of these strategies have been introduced within the focused factory and plant-within-a plant discussions; however, they merit their own separate discussion as well. These strategies can be classified into five broad areas:

1. Isolating the technical core
2. Production-lining the whole system
3. Creating flexible capacity
4. Increasing customer participation
5. Moving the time of demand

5-6a Isolating the Technical Core

Isolating the technical core proposes the clear separation of the servuction system (the part of the service operation where the customer is present), which is characterized by a high degree of customer contact, from the technical core. Once separation is achieved, different management philosophies should be adopted for each separate unit of operation. In other words, let's adopt the focused factor or plant-within-a-plant concept and divide the service firm into two distinct areas—high customer contact, and no/low customer contact—and operate each area differently. For example, consider a restaurant where high customer contact takes place in the dining and bar areas and low customer contact takes place in the kitchen.

In high customer contact areas, management should focus on optimizing the effectiveness of the experience

for the customers. Conversely, once the technical core (no/low contact area) has been isolated, it should be subjected to traditional production-lining approaches to maximize the efficiency of the operation.¹¹ In sum, high-contact areas within the service firm should sacrifice efficiency in the interest of the customer, but low-contact systems need not do so.¹²

Isolating the technical core argues for minimizing the amount of customer contact with the system. “Clients ... pose problems for organizations ... by disrupting their routines, ignoring their offers for service, failing to comply with their procedures, making exaggerated demands and so forth.”¹³ Thus, operating efficiency is reduced by the uncertainty introduced into the system by the customer.¹⁴

Examples of **decoupling** the technical core from high-contact areas include suggestions from operations experts such as handling only exceptions on a face-to-face basis, with routine transactions as much as possible being handled by telephone or, even better, by mobile or web—mobile and/or web transactions have the great advantage of being able to be inventoried.¹⁵ In addition, the degree of customer contact should be matched to customer requirements, and the amount of high-contact service offered should be the minimum acceptable to the customer.¹⁶ Overall, operational efficiency always favors low-contact systems, but effectiveness from the customer's point of view may be something completely different.

At this point, the need for marketing involvement in the approach becomes clear, as a decision about the extent of contact favored by the customer is clearly a marketing issue. In some cases, a high degree of customer contact can be used to differentiate the service from its competitors; in such cases, the operational costs must be weighed against the competitive benefits. For example, consider the competitive advantages that a five-star restaurant has over a fast-food franchise and/or the advantages that a live performance has over a performance that has been previously recorded.

Conversely, in some situations, the segment of the firm that the operations group views as the back office is not actually invisible to the customer. For example, in some financial services, the teller operation takes place in the administrative offices. Operationally, this means that staff members can leave their paperwork to serve customers only when needed. Unfortunately, customers view this operationally efficient system negatively. A customer waiting to be served can see a closed teller window and observe staff who apparently do not care because they sit at their desks without offering to assist the customer. However, the reality is that these tellers may be very busy, but the nature of the administrative work is such that they may not give this impression to customers.

decoupling

Separating the technical core from the servuction system.

Even if it is decided that part of the system can be decoupled, marketing has a major role in evaluating and implementing alternative approaches. Any change in the way the servuction system works implies a change in the behavior of the customer. For example, a switch from personally interacting with an airline ticketing agent during the check-in process to interacting with a tech-based kiosk clearly requires a massive change in the way the customer behaves in the system.

Sometimes decoupling the system to become more efficient does not go over well with customers. For example, in its effort to make its tellers use their time more efficiently, First National Bank of Chicago made national news when it started charging customers a \$3.00 fee for speaking with a bank teller. The bank's competition quickly created promotional messages featuring "live tellers" and giving away "free" money at their teller windows. "Nice day isn't it? ... That'll be \$3.00 please. Huh? What? Who? ... That'll be another \$9.00 please."¹⁷

5-6b Production-Lining the Whole System

A second possible solution to tackle the operations problems of service firms involves production-lining the whole system. The **production-line approach** involves the application of hard and soft technologies to both the "front" and "back" of the service operation.¹⁸ **Hard technologies** involve hardware such as dedicated machinery, robotics, and other AI-enabled technologies, to facilitate the production of a standardized

production-line approach

The application of hard and soft technologies to a service operation in order to produce a standardized service product.

hard technologies

Hardware that facilitates the production of a standardized product.

product and processes (see E-Services in Action). Similarly, **soft technologies** refer to rules, regulations, and procedures that should be followed to produce a consistent result. This kind of approach to increasing operational efficiency is becoming more common, and, indeed, ATMs, airport check-in kiosks, automated phone cues, and fast-food firms provide classic examples in which customization is minimal, volume is large, and customer participation in the process is high.

Generating any kind of operational efficiency in such high-contact systems implies a limited product line. In the case of fast food, the product line is the menu. Moreover, customization must be kept to a minimum since the whole operating system is linked straight through to the consumer. The primary problem is how to provide efficient, standardized service at some acceptable level of quality while simultaneously treating each customer as unique.¹⁹ Past attempts to solve this problem illustrate its complexity. Attempts at forms of routine personalization such as the "have-a-nice-day" and/or "my pleasure" syndrome have had positive effects on the perceived friendliness of the service provider but adverse effects on their perceived competence. Such an apparently simple operations decision can have complex effects on customer perceptions.

Production-lining an entire fast-food system also depends for its success on a large volume of customers being available to take the standardized food that is produced. Since the invisible component is not decoupled and food cannot be prepared to order, the operating system has to run independently of individual demand and assume that, in the end, aggregate demand will absorb the food produced. This is why pre-made sandwiches are stacked in bins as they wait to be absorbed by future demand in the marketplace.

soft technologies

Rules, regulations, and procedures that facilitate the production of a standardized product.

E-Services in Action

E-Procurement Options Streamline Operations²⁰

Like consumers who are shopping at Amazon (<http://www.amazon.com>), service operation purchasing managers use the Internet to find new suppliers, communicate with current suppliers, or place an order. Why are purchasing managers embracing hard technologies such as online purchasing technologies? Because they "deliver measurable benefits in the form of material cost savings, process efficiencies, and performance enhancements" according to supply chain consultants at the Aberdeen Group. Studying procurement processes at 60 companies, including American Express, Motorola, and Alcoa, Aberdeen found that e-procurement cut purchasing cycle time in half, reduced material costs by 14 percent, reduced purchasing administrative costs by 60 percent, and enhanced the ability of procurement units to identify new suppliers on a global scale.

McKinsey and Company are also advocates of online procurement. Advantages for both buyers and sellers include hours and time zones become irrelevant, detailed product and service information and technical specifications usable for comparison purposes, transparent and dynamic pricing, access to past ordering and fulfillment data, available financial services, alternative payment options, cost effective and efficient logistics, and professional returns and refund processes. Ultimately, e-procurement provides a space where purchasing managers can automate repetitive daily tasks allowing greater time to be focused on more strategic purchasing issues. In contrast, e-procurement also benefits sellers by providing access to new customers, insights into the market's pricing structure, opportunities to minimize shipping costs, and a host of data analytics to improve future transactions.

Such an operating system is extremely demanding of its customers, who must preselect what they want to eat. They are expected to have their orders ready when they reach the order point. They must leave the order point quickly and carry their food to the table or drive off in their cars. Finally, in many cases, these same customers that select to dine-in are expected to bus their own tables.

5-6c **Creating Flexible Capacity**

The third method to effectively manage service operations is used to minimize the effects of variable demand by creating flexible capacity (supply).²¹ However, even in this area, strategies that start as common-sense operational solutions have far-reaching marketing implications as these new initiatives come face-to-face with the service firm's customer base. For example, strategies to create flexible capacity may include: (1) using part-time employees; (2) cross-training employees so that the majority of employee efforts focus on customer-contact jobs during peak hours; and (3) sharing capacity with other firms.

Although these strategies are fairly straightforward from an operational point of view, consider their marketing implications. Part-time employees appear to be a useful strategy since they can be used to provide extra capacity in peak times without increasing the costs in off-peak times. There are, however, a number of marketing implications. For example, part-time employees may deliver a lower-quality service than full-time workers; their dedication to quality may be less, as their training will probably be. They are used at times when the operation is at its busiest, such as holiday seasons or during tourist seasons, when demand is fast and furious, and this may be reflected in part-time employee attitudes of frustration, which can be highly visible to customers, negatively influencing customer perceptions of the quality of service delivered.²²

In a similar way, the other two possible solutions for creating flexible capacity also have major marketing implications. First, focusing on customer contact jobs during peak demand presupposes that it is possible to identify the key part of the service from the customer's point of view. Secondly, the dangers of sharing capacity with other providers are numerous. Confusion may be produced in the customer's mind over exactly what the service firm is doing (e.g., who is their target market?), and this could be particularly critical during changeover times when customers from two different firms share the same facility, each group with different priorities and different behavior scripts. For example, a past student described his grandmother's confusion with her favorite local ice cream shop that sold ice cream during the day and then transformed into a gay nightclub in the evenings.

5-6d **Increasing Customer Participation**

A fourth approach to managing service operations involves increasing the customer's involvement with the service operation itself. The essence of increasing customer participation is to replace the work done by the employees of the firm with work done by the customer.²³ Unlike the other strategies discussed, which focus on improving the

efficiency of the operation, this approach primarily focuses on reducing the costs associated with providing the service to the customer. This strategy, too, has its trade-offs.

Increasing consumer participation in the service encounter requires a substantial modification of the consumer's script. Moreover, as greater customer participation is required, customers are called upon to take greater personal responsibility for the service they receive. For example, the automatic teller machine (ATM) is seen by many operations personnel as a way of saving labor. In fact, the substitution of human labor with machines is a classic operations approach, and the ATM can definitely be viewed in that light. From a customer's point of view, such ATMs provide added convenience in terms of the hours during which the bank is accessible. However, it has been shown that for some customers, an ATM represents increased risk, less control of the situation, and a loss of human contact.²⁴ Perhaps from lessons learned during the pandemic, future restaurant concepts seem to be eliminating inside dining spaces. For example, Chipotle recently introduced its first Chipotle Digital Kitchen Restaurant which has no dining room nor frontline operations for customers. Customers are now instructed to place orders digitally via the chain's app or website and pickup orders by driving through the Chipotle lane or using a walk-up lane. From a business standpoint, Chipotle locations with a Chipotle are experiencing 15 percent greater sales and nearly 40 percent of all Chipotle sales are now digital sales.²⁵ For those customers that enjoy interacting with waitstaff, those dining options may soon see a significant decrease. These same challenges will need to be addressed as robotics and AI are increasingly being introduced as key aspects of the service experience.

Such a switching of activities to the customer clearly has major market implications since it changes the whole nature of the service product received. Such changes in the customer's script, therefore, require much customer research and detailed planning prior to the introduction of any schemes to further involve customers in the service delivery process.

5-6e **Moving the Time of Demand to Fit Capacity**

Finally, yet another strategy used to optimize the efficiency of service operations is the attempt to shift the time of demand to smooth the peaks and valleys associated with many services. Perhaps the classic example of this problem is the mass transit system that needs to create capacity to deal with the rush hour and, as a consequence, has much of its fleet and labor idle during non-rush hours. Many mass transit authorities have tried to reduce the severity of the problem by inducing customers through discounts and giveaways to travel during non-rush periods. Once again, operations and marketing become intertwined. Smoothing demand is a useful strategy from an operations point of view; however, this strategy fails to recognize the change in consumer behavior needed to make the strategy effective. Unfortunately, because much of the travel on the mass transit system derives from demand based on consumer work schedules, little success in the effort to reallocate demand can be expected.²⁶

5-7 The Art of Blueprinting

One of the most common techniques used to analyze and manage complex production processes in pursuit of operational efficiency is flowcharting. Flowcharts identify:

- Directions in which processes flow
- Time it takes to move from one process step to the next
- Costs involved with each process step
- Amount of inventory buildup at each step
- Bottlenecks in the system

The flowcharting of a service operation, commonly referred to as **blueprinting**, is a useful tool not only for the operations manager but for the marketing manager as well.²⁷

Because services are delivered by an interactive process involving the customer, the marketing manager in a service firm needs to have a detailed knowledge of the operation. Blueprinting provides a useful systematic method for acquiring that knowledge. Blueprints enable the marketing manager to understand which parts in the operating system are visible to the customer and hence part of the servuction system—the fundamental building blocks of customer perceptions. In addition, service blueprints can be utilized to examine the operational adaptations required pertaining to new product development (see Chapter 5 Appendix).

Identifying the components of an individual firm's servuction system turns out to be more difficult than it first appears. Many firms, for example, underestimate the number of points of contact between them and their customers. Many forget or underestimate the importance of telephone operators, websites, apps, secretarial and janitorial staff, or accounting personnel. The material

blueprinting

The flowcharting of a service operation.

that follows describes the simple process of flowcharting these many points of contact.

5-7a An Example of a Simple Blueprint²⁸

Figure 5-4 shows a simple process in which, for now, it is assumed that the entire operation is visible to the customer. It represents the blueprint of a cafeteria-style restaurant and specifies the steps involved in obtaining a meal. In this example, each process activity is represented by a box. In contrast to a goods manufacturer, the “raw materials” flowing through the process are the customers. Due to the intangibility of services, there are no inventories in the process, but clearly, inventories of customers form at each step in the process while they wait their turn to proceed to the next counter. A restaurant operated in this manner would do so by utilizing a single long chain of counters with customers progressing along the chain and emerging after paying, such as a Western Sizzlin', Golden Corral, or other cafeteria-style restaurant. In Figure 5-4, the cost figure by each stage represents the cost of providing personnel to service each counter.

To calculate the **service cost per meal**, or the labor costs associated with providing the meal on a per-meal basis, the following calculations are made:

First, the **process time** is calculated by dividing the **activity time** (the time required to perform the activity) by

service cost per meal

The labor costs associated with providing a meal on a per-meal basis (total labor costs/maximum output per hour).

process time

Calculated by dividing the activity time by the number of locations in which the activity is performed.

activity time

The time required to perform one activity at one station.

Figure 5-4 Blueprint for Cafeteria-Style Restaurant

	Appetizer counter	Salad counter	Hot-food counter	Dessert counter	Drinks counter	Cashier
	\$8/hr	\$8/hr	\$8/hr	\$8/hr	\$8/hr	\$10/hr
Number of stations	1	1	1	1	1	1
Activity time	15 sec	30 sec	60 sec	40 sec	20 sec	30 sec
Process time	15 sec	30 sec	60 sec	40 sec	20 sec	30 sec
Maximum output/hr	240	120	60*	90	180	120

*Bottleneck

Service cost per meal = $\$50/60 = \$0.83$

the number of **stations**, or locations performing the activity. In our example, the process and activity times are the same because only one station is available for each activity.

Second, the **maximum output per hour** for each location is calculated based on the process time. Simply stated, the maximum output per hour is the number of customers that can be served at each station in an hour's time. For example, the process time at the salad counter is 30 seconds. This means that two customers can be processed in a minute, or 120 people (two people $\times$ 60 minutes) in an hour. Another easy way to calculate the maximum output per hour is to use the formula: $60(60/\text{process time})$. In our example, the salad counter calculation would be $60(60/30) = 120$.

Finally, to calculate the service cost per meal, total labor costs per hour of the entire system are divided by the maximum output per hour for the system (service cost per meal = total labor costs/maximum output per hour). Total labor costs per hour are calculated simply by adding together the hourly wages of personnel stationed at each counter. In our example, total labor cost per hour equals \$50.00 (\$8 + \$8 + \$8 + \$8 + \$8 + \$10). Maximum output per hour is determined by selecting the lowest maximum output calculated in the second step. Hence, the service cost per meal in our example is $\$50/60$ customers, or \$0.83 per meal.

Why would you use the lowest maximum output per hour to calculate the service cost per meal? This step is particularly confusing for some students. The lowest maximum output in the system is the maximum number of customers who can be processed through the entire system in an hour's time. In our example, 240 customers can be processed through the appetizer station in an hour; however, only 120 customers can be processed through the salad station in the same amount of time. This means that after the first hour, 120 customers ($240 - 120 = 120$) are still waiting to be processed through the salad station. Similarly, only 60 customers can be processed through the hot-food station in an hour's time. Since 60 is the lowest maximum output per hour for any station in the system, only 60 customers can actually complete the entire system in an hour.

5-7b The Service Operations Manager's Perspective

The first thing the blueprint does is provide a check on the logical flow of the whole process. Clearly, a service blueprint makes it immediately apparent if a task is being performed out of sequence. At this point, we shall place a constraint on

station

A location at which an activity is performed within a service blueprint.

maximum output per hour

The number of people that can be processed at each station in one hour.

our example system that the cashier's station is fixed and cannot be moved to another point in the process. All other stations can be moved and resequenced.

Once the different steps have been identified, it is relatively easy to identify the potential **bottlenecks** in the system. Bottlenecks represent points in the system where customers wait the longest periods of time. In Figure 5-4, the hot-food station is an obvious bottleneck since it represents the longest process time—the time to process one person through that stage. A balanced production line is one in which the process times of all the steps are the same and inventories or, in our case, customers flow smoothly through the system without waiting for the next step in the process.

To solve this particular bottleneck problem, we could consider adding one extra station, in this case an extra counter, to the hot-food stage. The process time would drop to 30 seconds (60 seconds divided by 2). The bottleneck would then become the dessert station, which has a process time of 40 seconds and a maximum turnover rate of 90 persons per hour. Costs would go up by \$8.00 per hour since we added another employee at the additional hot-food counter; however, the service cost per meal would decrease to \$0.64 per meal. These changes are illustrated in Figure 5-5.

The creative use of additional counters and staff may produce a model such as that shown in Figure 5-6, which combines certain activities and uses multiple stations. This particular layout is capable of handling 120 customers per hour compared with the original layout presented in Figure 5-4. Although labor costs rise, the service cost per meal falls because of the increase in the number of customers who are processed through the system in a shorter period of time. Further changes to this particular setup would be fruitless. Adding counters at the bottlenecks created by both the dessert/drinks and cashier counters would actually increase the service cost per meal from \$0.48 ($\$58.00/120$ meals) to \$0.50 ($\$68.00/137.14$ meals).

5-7c The Service Marketing Manager's Perspective

A marketing manager dealing with the process illustrated in Figure 5-4 has some of the same problems as the operations manager. The process as defined is designed to operate at certain production levels, and these are the service standards that customers should perceive. But if the process is capable of processing only 60 customers per hour, there may be a problem. For example, lunch customers who need to return to work quickly might purchase their lunches at a competing restaurant that serves its customers more efficiently. Also, it is clear that the bottleneck at the hot-food counter will produce lengthy, possibly frustrating, waits within the line.

bottlenecks

Points in the system at which consumers wait the longest periods of time.

Figure 5-5 Modified Blueprint for Cafeteria-Style Restaurant

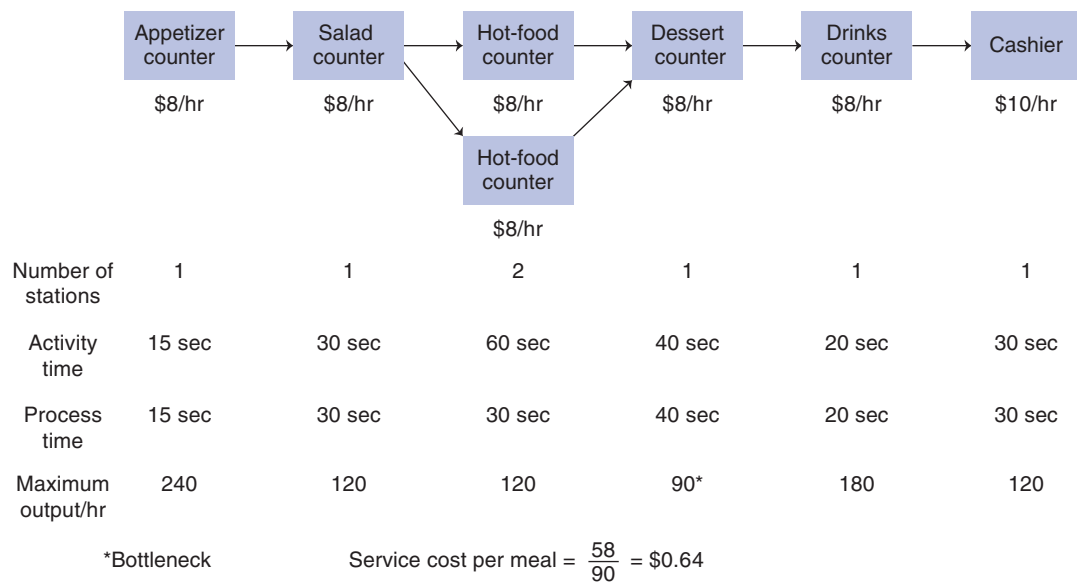
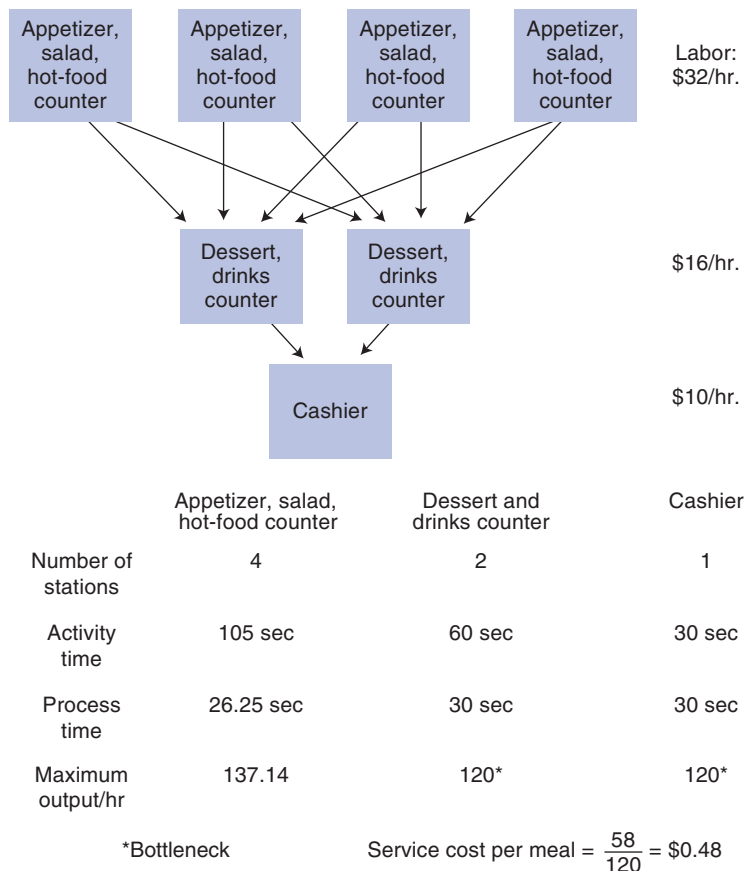


Figure 5-6 Alternate Blueprint for Cafeteria-Style Restaurant



The marketing manager should immediately recognize the benefits of changing the system to process customers more effectively. However, the blueprint also shows the change in consumer behavior that would be required in order for the new system to operate. In Figure 5-4, the customer moves from counter to counter, has only one choice at each counter, will probably have to wait in line at each counter, and will definitely have to wait longer at the hot-food counter. Moreover, the wait at each stage will certainly exceed the time spent in each activity. In the process proposed in Figure 5-6, the consumer visits fewer stations but is often faced with a choice between different stations. Clearly, depending on the format chosen, the behavior script to be followed by consumers will be different. In addition, the restaurant itself will look completely different.

The use of the blueprinting approach allows the marketing and operations personnel to analyze in detail the process that they are jointly trying to create and manage. It can easily highlight the types of conflicts between operations and marketing managers and provide a common framework for their discussion and a basis for the resolution of their problems.

5-7d Using Service Blueprints to Identify the Servuction Process

Blueprints may also be used for a different purpose. Consider Figure 5-7, which shows a much more detailed blueprint for the production of a discount brokerage service. This chart is designed to identify the points of contact between the service firm and the customer. The points above the line are visible to the consumer, and those below are invisible. In assessing the quality of service received, according to the servuction model, the customer refers to the points of contact when developing perceptions about the value of service quality received.

To illustrate, consider the customers to be proactive rather than reactive. Consider them as worried individuals looking for clues that they have made the right decision rather than as inanimate raw materials to which things are done. The points of contact are the clues that develop the servuction process.

Besides illustrating a more complicated process, Figure 5-7 has a number of added features. First, each of the main features is linked to a target time. In the top right corner, for example, the time to mail a statement is targeted as five days after the month's end. In designing a service, these target times should initially be set by marketing, and they should be based on the consumers' expected level of service. If the service is to be offered in a competitive marketplace, it may be necessary to set standards higher than those of services currently available. Once the standards have been set, however, the probability of achieving them must be assessed. If the firm is prepared to invest enough, it may be feasible to meet all of the standards developed by marketing; doing so, however, affects the costs and, therefore, the subsequent price of the service. The process should, then, be an interactive one.

Figure 5-7 also highlights the potential **fail points**, "F." Fail points have three characteristics:

1. The potential for operations malfunction is high.
2. The result of the malfunction is visible to consumers.
3. A system malfunction is regarded by consumers as particularly significant.

5-7e A Marketing or an Operations Blueprint?

Although the idea of a blueprint is attractive to both marketing and operations, it may well be that a marketing blueprint should be prepared in a different way. The blueprints we have discussed so far have an internal focus—although they identify clearly the tangible points of contact with the client, they start from the organization and look outward.

An alternative way to develop a blueprint would be to start from consumer scripts. Consumers, individually or in groups, would be asked to describe the process or steps they follow in using a service. Obviously, such an approach cannot cover the invisible part of the service firm, but it can provide a much better understanding of the points of contact. The process as described by the consumer may differ greatly from that perceived by the firm.

Consumers asked to describe a flight on Lufthansa, for example, might start with their experience with the travel agent. They might then describe the process of getting to the airport, parking, and entering the terminal. If the signs for Lufthansa and the entrance to its terminal are confusing, this will be reflected in consumers' perceptions of the airline. A parking lot that is littered, poorly lit, and inhabited by vagrants will also deter customers. Although the airline may not have direct control over these points of contact, it could be a wise investment for the airline to use its own staff to improve the parking lot. McDonald's long ago learned the value of removing the litter not only from its own property but also from the adjoining roadways. McDonald's recognized that their customers' experiences began long before they entered the actual restaurant.

5-7f Constructing the Service Blueprint²⁹

The first step in the design of a service blueprint is to elicit scripts from both employees and consumers. The primary objective of this task is to break down the service system into a sequence of events followed by both parties. Too often, management makes the mistake of developing a **one-sided blueprint** based on its own perception of how the sequence

fail points

Points in the system at which the potential for malfunction is high and at which a failure would be visible to the customer and regarded as significant.

one-sided blueprint

An unbalanced blueprint based on management's perception of how the sequence of events *should* occur.

of events should occur. This one-sided approach fails to recognize that consumer perceptions, not management's, define the realities of the encounter. Similarly, employee scripts are equally important in identifying those parts of the service system not observable to the consumer. Hence, both scripts are necessary to develop a successful blueprint.

Script theory suggests that consumers have purchasing scripts that guide their thinking and behavior during service encounters. The scripts contain the sequence of actions that consumers follow when entering a service interaction. Experts believe that “these action sequences, or cognitive scripts, guide the interpretation of information, the development of expectations, and the enactment of appropriate behavior routines.”³⁰

Similarly, service employees also have scripts that dictate their own behavior during interactions with the customer. **Convergent scripts**, those that are mutually agreeable, enhance the probability of customer satisfaction and the quality of the relationship between the customer and the service operation. **Divergent scripts** point to areas that need to be examined and corrected because consumer and/or employee expectations are not being met and evaluations of service quality could decline.

Obtaining consumer and employee scripts is a potentially powerful technique for analyzing the service encounter. Scripts provide the dialogue from which consumer and employee perceptions of the encounter can be analyzed and potential or existing problems identified. Overall, scripts provide the basis for:

- Planning service encounters
- Setting goals and objectives
- Developing behavioral routines that maximize the opportunities for a successful exchange
- Evaluating the effectiveness of current service delivery systems

The procedure used to develop **two-sided blueprints** is to present employees and customers with a script-relevant situation, such as the steps taken to proceed through an airline boarding experience. Respondents are asked

convergent scripts

Employee/consumer scripts that are mutually agreeable and enhance the probability of customer satisfaction.

divergent scripts

Employee/consumer scripts that “mismatch” and point to areas in which consumer expectations are not being met.

two-sided blueprint

A blueprint that takes into account both employee and customer perceptions of how the sequence of events actually occurs.

to note specific events or activities they expect in their involvement in the situation. In particular, employees and consumers are asked to pay special attention to those contact activities that elicit strong positive or negative reactions during the service encounter. **Script norms** are then constructed by grouping together commonly mentioned events and ordering the events in their sequence of occurrence.

To facilitate the process of identifying script norms, the blueprint designer can compare the frequency of specific events mentioned by each of the groups. The value of this process is the potential recognition of gaps or discrepancies that may exist between employee and consumer perceptions. For example, consumers may mention the difficulties associated with parking, which employees may not mention since many report to work before the operation is open to customers.

The second step of the blueprint development process is to identify steps in the process at which the system can go awry. By asking employees and customers to further focus on events that are important in conveying service (dis)satisfaction, fail points can be isolated. The consequences of service failures can be greatly reduced by analyzing fail points and instructing employees on the appropriate response or action when the inevitable failure occurs.

After the sequence of events/activities and potential fail points have been identified, the third step in the process involves specifying the time frame of service execution. The major cost component of most service systems relates to the time required to complete the service; consequently, standard execution time norms must be established.

Once the standard execution times of the events that make up the service encounter have been specified, the manager can analyze the profitability of the system, given the costs of inputs needed for the system to operate. The resulting blueprint allows the planner to determine the profitability of the existing service delivery system as well as to speculate on the effects on profitability when changing one or more system components. Consequently, the service blueprint allows a company to test its assumptions on paper and minimize the system's shortcomings before it imposes the system on customers and employees. The service manager can test a prototype of the delivery system with potential customers and use the feedback to modify the blueprint before testing the procedure again.

script norms

Proposed scripts developed by grouping together events commonly mentioned by both employees and customers, and then ordering those events in their sequence of occurrence.

Summary

The primary objective of this chapter is to highlight the idea that for a service firm to be successful, its marketing and operations departments must work together. In a broad sense, one could view the functions of marketing and operations as the marriage of customer's needs with the technology and manufacturing capabilities of the firm. This marriage entails many compromises that try to balance operational efficiency with the effectiveness of the system from the customer's point of view. To be effective, operations personnel must recognize the importance of their marketing counterparts, and vice versa.

Firms operating within a "perfect-world-model" are free from outside influences and operate as if the market will consume the firm's production at a continuous rate. Uncertainty creates inefficiency. Hence, in an ideal situation, the technical core of the firm is able to operate without uncertainty on either the input or output side. Although the attempt to operate at peak efficiency is a worthy goal, it likely represents an unrealistic objective for most service firms. The production of most services is an operations nightmare. Instead of receiving demand at a constant rate, service firms are often linked directly to a market that often varies from day to day, hour to hour, and even minute to minute. Service customers often affect the time of demand, the cycle of demand, the type of demand, and the duration of many service transactions.

Plans to operate at peak efficiency within the-perfect-world-model must be altered to cope with the uncertainties inherent in service operations. Strategies that try to increase the efficiency of the service operation by facilitating the balance of supply and demand include minimizing the servuction system by isolating the technical core; production-lining the whole system using hard and soft technologies; creating flexible capacity; increasing customer participation; and moving the time of demand to fit capacity. Alternative models, such as the focused factory and plant-within-a-plant concepts, utilize many of these strategies to balance efficiency and effectiveness objectives.

Service blueprints can be developed that identify the directions in which processes flow and parts of a process that may both increase operational efficiency and enhance the customer's service experience. Operational changes made to the service blueprint often require changes in consumer behavior and, in some instances, lead to new service products. New service development is achieved through the introduction of complexity and divergence. Reducing divergence standardizes the service product and reduces production costs, whereas increasing divergence enables service providers to tailor their products to individual customers. Similarly, reducing complexity is consistent with a specialization positioning strategy, while increasing complexity is appropriate for firms pursuing a penetration strategy.

Key Terms

technical core
perfect-world model
focused factory
plant-within-a-plant (PWP)
buffering
smoothing
anticipating
rationing
decoupling
production-line approach
hard technologies

soft technologies
blueprinting
service cost per meal
process time
activity time
station
maximum output per hour
bottlenecks
fail points
one-sided blueprint
convergent scripts

divergent scripts
two-sided blueprints
script norms
complexity
divergence
volume-oriented positioning strategy
niche positioning strategy
specialization positioning strategy
unbundling
penetration strategy

Review Questions

1. Why is developing an effective process strategy particularly important for service firms?
2. Discuss the role of technology as a service firm transitions itself through the four stages of operational competitiveness.
3. Explain how the inability to inventory services on the input and output sides of the technical core affects the operational efficiency of most service firms.
4. Compare Thompson's perfect-world model to the focused factory and plant-within-a-plant concepts.
5. What is buffering? How do the strategies of anticipating, smoothing, and rationing relate to buffering?
6. Discuss some specific examples of how the customer's involvement in the service encounter influences the operational efficiency of the average service firm.

7. What does it mean to isolate the technical core of a business?
8. Provide examples of hard and soft technologies and explain their relevance to this chapter.
9. Discuss the steps for developing a meaningful blueprint.
10. What are the trade-offs associated with increasing/decreasing divergence and increasing/decreasing complexity (see Appendix)?

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Case 5

Build-A-Bear Workshops: Calculating the Service Cost per Bear

Service firms can strategically view their operations along a continuum ranging from necessary evil to the other extreme, where operations are viewed as a key source of competitive advantage. Clearly, Build-A-Bear Workshops have used their world-class service delivery systems to create a compelling service experience for their customers. Build-A-Bear Workshops offer an experience-based business model where customers and their children, grandchildren, nieces, nephews, or friends can make and accessorize their own teddy bears and other furry options. Given the option of purchasing a bear off the shelf at a local discount toy store or accompanying a child to a Build-A-Bear Workshop where they can be personally involved in creating the bear as a family, many customers are enthusiastically opting for the latter choice.

Build-A-Bear Workshop is the only national company that provides a make-your-own stuffed animal interactive entertainment retail experience. The company opened its first store in St. Louis in 1997 and today operates nearly 500 stores, including company-owned stores in the United States, Puerto Rico, Canada, the United Kingdom, Ireland, and France and franchise stores in Europe, Asia, Australia, and Africa. To date, the company and its customers have produced over 125 million furry friends. Following the closure of “Toys-R-Us,” Build-A-Bear is now the largest toy retailer.

In addition to Build-A-Bear Workshops, the company has also introduced make-your-own Major League Baseball mascots in stadium locations and Build-A-Dino Stores. The company has also teamed up with prominent zoos and the Rain Forest Cafe and offers customers the opportunity to make stuffed animals that are unique to these specific locations. Since 1997, the company has sold tens of millions of stuffed animals, making Build-A-Bear Workshop the global leader in the teddy bear business.

Build-A-Bear’s competitive advantage has been its service delivery system, consisting of the clever process of *Choose Me*, *Hear Me*, *Stuff Me*, *Stitch Me*, *Fluff Me*, *Name Me*, *Dress Me*, and *Take Me Home*. As described by the company’s website (www.buildabear.com), the process of making a teddy bear flows as follows:

Choose Me—guests select from a variety of bears, dogs, cats, bunnies, monkeys, and a series of limited-edition offerings.

Hear Me—guests then select from several sound choices that are placed inside their new stuffed friend. Examples of sounds include giggles, growls, barks, meows, and recorded messages such as “I Love You” and songs like “Let Me Call You Sweetheart.”

Stuff Me—guests with the help of Master Bear Builder Associates fill their new stuffed friends with just the right amount of stuffing for customized hugability. Each guest then selects a satin heart, makes a wish, and places the heart inside their new furry friend.

Stitch Me—stuffed friends are stitched up, but not before a store associate places a barcode inside the stuffed animal so that if lost, the furry friend can be reunited with its owner. The company believes that thousands of bears have been returned to their owners through their exclusive Find-A-Bear ID tracking program.

Fluff Me—guests are now able to fluff their new friends to perfection with the use of cool-air hair dryers and brushes at the purposely designed bear spa.

Name Me—guests stop at the Name me computer where they enter their names and the birth date and name of their new friend. Guests can then select between customized birth certificates or a story that incorporates the owner’s name and the stuffed animal’s name. Guests can either select English or Spanish.

Dress Me—guests are now directed to the bear apparel boutique where Pawsonal Shoppers help guests select from hundreds of choices the perfect outfit and accessories for their new friend.

Take Me Home—guests end their experience at the Take Me Home station where they receive their customized birth certificate or story and a Buy Stuff Club Card to apply toward future purchases. Finally, each new furry friend is placed within a Club Condo carrying case, which is specifically designed as a handy travel carrier and new home.

As testament to the effectiveness of Build-A-Bear Workshop’s extraordinary delivery system, the company has received numerous awards throughout its existence such as ICSC “2004 Hot Retailer Award” and was named National Retail Federation’s International 2001 Retail Innovator of the Year—Global Winner. In 2008, the company’s founder and CEO, Maxine Clark, was named one of the 25 Most

Source: “Building Memories, One Bear at a Time,” accessed April 4, 2022; <https://www.buildabear.com/brand-about-story-history.html>; “Build-A-Bear Workshop, Inc.,” accessed April 4, 2022; chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/viewer.html?pdfurl=http%3A%2F%2Fmedia.corporate-ir.net%2Fmedia_files%2Firol%2F18%2F182478%2FFactSheet_010709.pdf&clen=1229133&chunk=true.

Influential People in Retailing by *Chain Store Age*. In 2006, Clark was inducted into the Junior Achievement National Business Hall of Fame.

As a manager of a local Build-A-Bear Workshop, Laura Gray was wondering about the service costs associated with making each bear (or other type of animal friend). Store associates, known as Master Bear Builder Associates, shared the experience with customers at each stage of the bear-making process and were paid \$10 per hour. Laura further estimated the average activity time for each stage of the bear-making process:

Build-A-Bear Process Steps	Activity Times (Seconds)*
Choose Me	180
Hear Me	45
Stuff Me	90
Stitch Me	300
Fluff Me	90
Name Me	120
Dress Me	240
Take Me Home	60

*Activity times used in this case are hypothetical.

Discussion Questions

1. Construct a service blueprint for the bear-making process indicating (1) the stages in the process; (2) the directional flow of the process; (3) labor cost for each stage in the process; (4) the number of stations per stage; and (5) the activity time for each process stage.
2. Based on the information provided in question 1, calculate (1) the number of customers that can complete the bear-making process in an hour; (2) the average service cost per bear; and (3) identify the bottleneck in the current process.
3. Develop a solution that minimizes the negative impact of the bottleneck and improves the number of customers that can make a bear in an hour. (1) What is your suggestion to improve the bottleneck situation? (2) Upon implementing your solution, how many customers can now build a bear in an hour? (3) What is the new service cost per bear?
4. Discuss your next step in increasing the efficiency of the bear-making process. What are the managerial (practical) implications of taking additional steps to decrease the service cost per bear?

Chapter 5

Appendix

5-8 Blueprinting and New-Product Development

Blueprints may also be used in new-product development. Once the process has been documented and a blueprint has been drawn, choices can be made that will produce “new” products. Although the processes in Figures 5-4 to 5-6 are for the same task, from the consumer’s point of view they are very different. The three blueprints define alternatives that are operationally feasible; the choice between which of the three to implement is for marketing to decide.

Strategically, the decision may be to move the line separating visibility and invisibility. Operationally, arguments have been made for minimizing the visible component by isolating the technical core of the process. From a marketing point of view, however, more visibility may create more differentiation in the mind of the consumer. For example, a restaurant can make its kitchen into a distinctive feature by making it visible to restaurant patrons. This imposes constraints on the operational personnel, but it may add value in the mind of the consumer.

5-8a The Role of Complexity and Divergence

New-product development within service firms can be implemented through the introduction of complexity and divergence.³¹ **Complexity** is a measure of the number

and intricacy of the steps and sequences that constitute the process—the more steps, the more complex the process. **Divergence** is defined as the degrees of freedom service personnel are allowed when providing the service. As an example, Figures 5-8 and 5-9 illustrate the blueprints for two florists who differ dramatically in their complexity and divergence. Although they perform equivalent tasks from an operations viewpoint, they can be very different from a marketing viewpoint and, therefore, constitute new products.

Figure 5-8 presents a traditional florist. The process, as in our restaurant example in Figure 5-4, is linear and involves a limited number of steps and so is low in complexity. However, the generation of flower arrangements under such a system calls for considerable discretion or degrees of freedom to be allowed the florist at each stage—in the choice of vase, flowers, and display—and produces a heterogeneous final product. The system is, therefore, high in divergence.

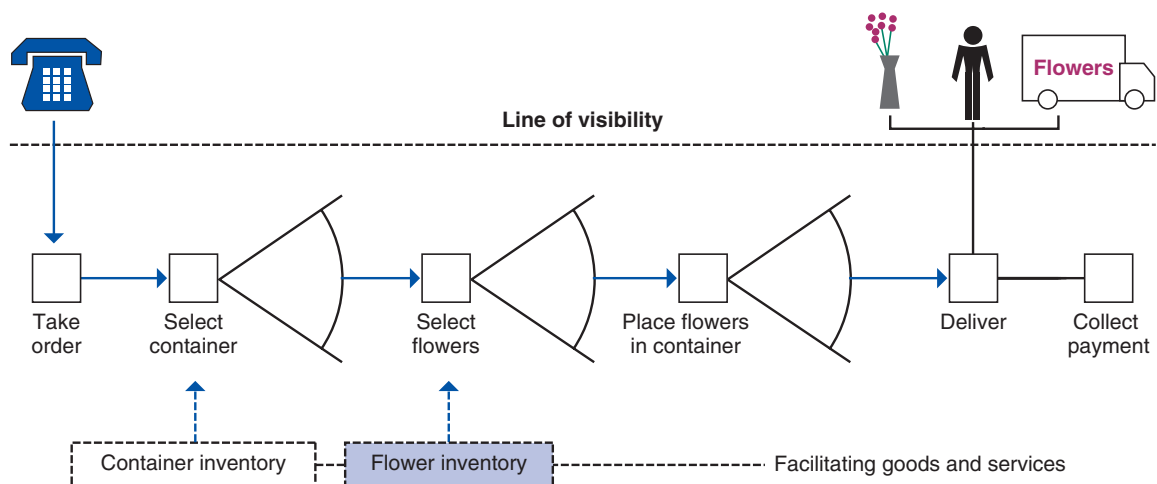
complexity

A measure of the number and intricacy of the steps and sequences that constitute a process.

divergence

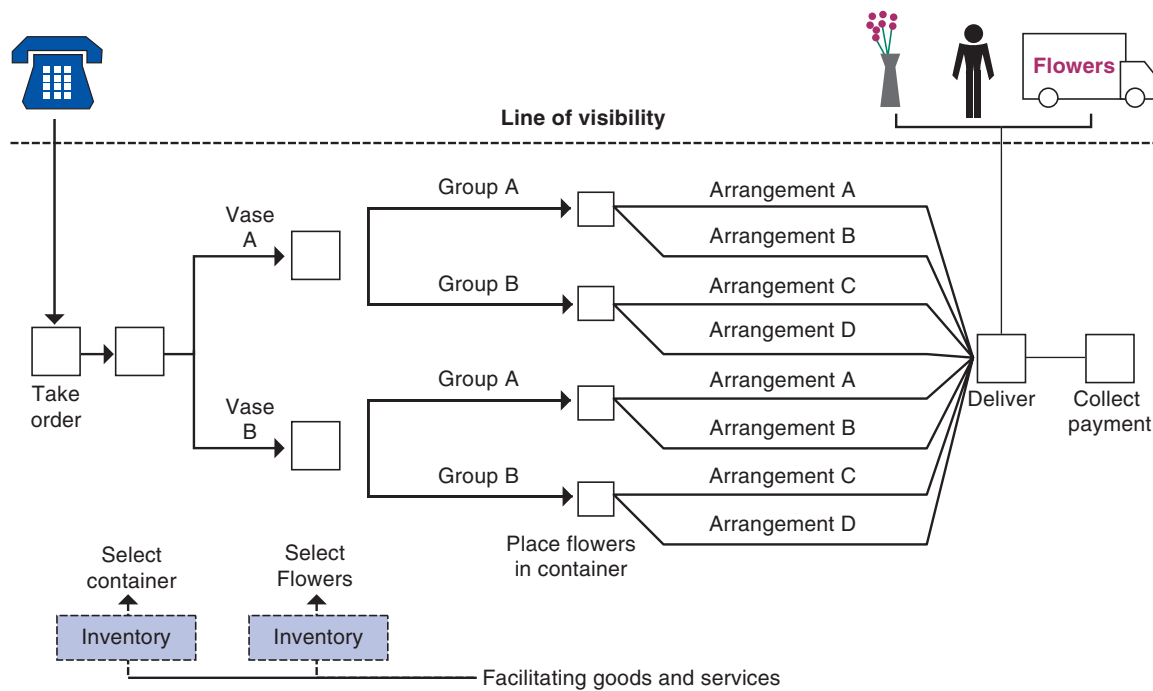
A measure of the degrees of freedom service personnel are allowed when providing a service.

Figure 5-8 Park Avenue Florist



Source: G. Lynn Shostack, “Service Positioning Through Structural Change,” *Journal of Marketing*, 51, (January 1987), pp. 34–43. Reprinted by permission of the American Marketing Association.

Figure 5-9 Florist Services: Alternative Design



Source: G. Lynn Shostack, "Service Positioning Through Structural Change," *Journal of Marketing*, 51, (January 1987), pp. 34–43. Reprinted by permission of the American Marketing Association.

Figure 5-9 provides the blueprint for a second florist that has tried to standardize its final product. Because the objective of this system is to deskill the job, the system is designed to generate a limited number of standardized arrangements. The divergence of the system is therefore reduced, but to achieve this, the complexity of the process is increased significantly.

Volume-Oriented Positioning Strategy In developing products in the service sector, the amount of manipulation of the operation's complexity and divergence are the two key choices. Reducing divergence creates the uniformity that can reduce costs, but it does so at the expense of creativity and flexibility in the system. Companies that wish to pursue a **volume-oriented positioning strategy** often do so by reducing divergence. For example, a builder of swimming pools who focuses on the installation of prefabricated vinyl pools has greatly reduced the divergence of their operations. In addition to lowering production costs, reducing divergence increases productivity and facilitates the distribution

of the standardized service. From the customer's perspective, reducing divergence is associated with improved reliability, availability, and uniform service quality. However, the downside of reduced divergence is the lack of customization that can be provided to individual customers.

Niche Positioning Strategy On the other hand, increasing divergence creates flexibility in tailoring the experience to each customer, but it does so at increased expense, and consumer prices are subsequently higher. Companies wishing to pursue a **niche positioning strategy** do so by increasing the divergence in their operations. For example, our pool builder may increase the divergence of their operation by specializing in the design and construction of customized pools and spas that can be built to resemble anything from a classical guitar to an exclamation point! Profits, under this scenario, depend less on volume and more on margins on each individual purchase. The downside of increasing divergence is that the service operation becomes more difficult to manage, control, and distribute. Moreover,

volume-oriented positioning strategy

A positioning strategy that reduces divergence to create product uniformity and reduce costs.

niche positioning strategy

A positioning strategy that increases divergence in an operation to tailor the service experience to each customer.

customers may not be willing to pay the higher prices associated with a customized service.

Specialization Positioning Strategy Reducing complexity is a **specialization positioning strategy** often involving the **unbundling** of the different services offered. Hence, our hypothetical pool builder may restrict their services to the installation of a single type of prefabricated pool and divest operations that were focused on supplemental services, such as pool maintenance and repair as well as the design of pools and spas. The advantages associated with reduced complexity include improved control over the final product and improved distribution. However, risks are involved if full-service competitors offering one-stop convenience continue to operate. The full-service competitor appeals to consumers who wish to work with a provider that offers a number of choices.

specialization positioning strategy

A positioning strategy that reduces complexity by unbundling the different services offered.

unbundling

Divesting an operation of different services and concentrating on providing only one or a few services in order to pursue a specialization positioning strategy.

Penetration Strategy Increasing complexity is used by companies that pursue a mass market or **penetration strategy**. Increasing complexity translates into the addition of more services to the firm's offering, as well as the enhancement of current ones. Within this scenario, our pool builder would offer customized pools and spas and a wide variety of prefabricated vinyl pools. In addition to installation, other services such as general pool maintenance and repair would be offered. Firms pursuing a penetration strategy often try to be "all things to all people" and often gloss over individual consumer needs. Moreover, when providing such a broad range of services, the quality of the provider's skills are bound to vary depending upon the task being performed, leaving some customers less than satisfied. Hence, firms that increase the complexity of their operations by offering enhanced and/or additional services run the risk of becoming vulnerable to companies that pursue more specialized types of operations.

penetration strategy

A positioning strategy that increases complexity by adding more services and/or enhancing current services to capture more of a market.

Chapter 6

The Pricing of Services



Dangubic/Getty Images

Chapter Objectives

After reading this chapter, you should be able to:

1. Demonstrate the concept of perceived value as it pertains to comparing total customer cost to total customer value
2. Explain the special considerations of service pricing as they relate to cost, demand, customer, competitor, profit, product, and legal considerations
3. Compare different approaches to service pricing and provide examples of service firms that are using each of these pricing strategies
4. Identify pricing guidelines used by successful service firms

The purpose of this chapter is to discuss pricing as a strategic decision in overall service strategy. More specifically, the major objectives of this chapter are to familiarize service marketers with the special considerations pertaining to service pricing decisions and to introduce emerging pricing practices within the service sector.

Service Pricing and the Minimum Wage¹

When formulating prices for services, a major cost consideration is labor. In turn, service sector labor rates are often set based on federal, state, and local minimum wage guidelines. In recent times, much has been discussed and written about the advantages and disadvantages of approximately doubling the current minimum wage guidelines.

In 1938, the Fair Labor Standards Act (FLSA) was passed which established a federal minimum wage of 25 cents per hour to “maintain a minimum standard of living necessary for

health, efficiency, and general well-being, without substantially curtailing employment.” Today, the federal minimum wage is \$7.25 per hour which has not been changed since 2009. It literally takes an “Act of Congress” to adjust the federal minimum wage.

In 1998, legislation was passed that allow states to establish their own minimum wage. Today, state minimum wages range from the federal minimum of \$7.25 per hour (21 states) to \$15 per hour in California (for employers with more than 26 employees) and the District of Columbia (NCSL 2021). Local municipalities can now also establish minimum wages that take precedent over federal and state minimum wages. Several municipalities have established minimum wages that exceed the highest state minimum wage of \$15, such as Portland, Maine which offers the highest minimum wage in the country at \$18 per hour.

Firms that employ tipped employees, such as restaurants, are legally permitted to pay employees below the established minimum wage using a tip credit. Tip credits permit the employer to subsidize a portion of the established

minimum wage with tips the employee receives. Depending on the state, the amount of the tip credit varies, and employees must be paid at least the established minimum wage through a combination of wages and tips. Consequently, labor costs and subsequent consumer prices can vary greatly based on the geographic location of the service firm.

Employers, employees, and customers hold a variety of views pertaining to minimum wage increases. For example, restaurant employers are concerned that increases in the minimum wage will lead to wage disparity between tipped employees (e.g., servers) and non-tipped employees (e.g., kitchen staff), higher menu prices to offset the increase in labor costs, greater worker layoffs, fewer hires resulting in lower quality service, and ultimately the demise of the restaurant. Employees have their concerns as well including fears that employers will reduce employee hours making them ineligible for benefits resulting in lower compensation and no insurance. Other employees favor the end of tipping altogether and share the view that employers should determine wages not customers as tipping customers are influenced by a host of personal beliefs and biases that have nothing to do with level of service quality delivered.

Despite these concerns, customer support for an increase in the minimum wage have significantly increased over the past decade. For example, 62 percent of U.S. adults now believe that the current federal minimum wage of \$7.25 should be increased to \$15, with 40 percent strongly supporting the notion. However, customers also believe that his change will lead to decreases in staffing and overall higher retail prices.

6-1 Introduction

Of the traditional marketing mix variables, price has the most direct effect on profitability and is the most easily controlled element of the marketing mix.² However, despite its

importance and ease of use, the development of effective pricing strategies remains perhaps the most elusive concept in business today. Pricing is often a perplexing issue for practitioners and researchers alike. Consider the following sample of expressed opinions regarding pricing practices over the last 50 years that reflect both the confusion and frustration associated with pricing decisions:

...pricing policy is the last stronghold of medievalism in modern management... [Pricing] is still largely intuitive and even mystical in the sense that the intuition is often the province of the big boss.³

...perhaps few ideas have wider currency than the mistaken impression that prices are or should be determined by costs of production.⁴

...for marketers of industrial goods and construction companies, pricing is the single judgment that translates potential business into reality. Yet pricing is the least rational of all decisions made in this specialized field.⁵

...many managing directors do not concern themselves with pricing details; some are not even aware of how their products are priced.⁶

...pricing is approached in Britain like Russian roulette—to be indulged in mainly by those contemplating suicide.⁷

...perhaps it is reasonable that marketers have only recently begun to focus seriously on effective pricing. Only after managers have mastered the techniques of creating value do the techniques of capturing value become important.⁸

Today, price remains one of the least researched and mastered areas of marketing. Research and expertise pertaining to the pricing of services is particularly lacking. As a result, this chapter focuses on special considerations with regard to service pricing decisions and discusses service pricing practices that are in use today (see E-Services in Action).

E-Services in Action

Contactless Payment: Changing the Way we Pay⁹

The impact of the coronavirus pandemic on various aspects of consumer behavior has made a profound difference on how business transactions are now being conducted. Without question, the pandemic accelerated the adoption rate of a wide range of technologies that facilitated social distancing. Contactless payment technologies are a prime example.

Prior to the pandemic, contactless payment methods were much less popular in the United States compared to Europe and Canada. Contactless payment methods pertaining to credit cards come in two forms: (1) via mobile wallets or app payments, and (2) embedded directly within a physical credit card. Point-of-sale (POS) terminals equipped with near-field communication (NFC) capability are able to obtain contactless payment method information as the payment method is passed near the POS-NFC equipped terminal.

In 2016, only 3 percent of credit cards were equipped to handle contactless transactions. By the first quarter of

2020, Mastercard reported a 40 percent growth in world-wide contactless transactions. Even more impressive, Visa reported a 100 percent plus growth rate of tap-to-pay transactions for such items as pharmaceuticals and groceries, and a 150 percent overall growth rate in a two-year period. Other contactless payment systems experiencing phenomenal growth include pay ahead online or in-app (e.g., Uber Eats, Amazon), mobile payment services (e.g., Venmo, PayPal); mobile wallets (e.g., Apple Pay, Google Pay), QR code payments, and table-side payment options.

For those concerned about the disappearance of cash transactions...no worries! Cash is still king and particularly important for interacting with ageing and low-income groups who may not have access to or may not trust electronic options. For service marketers wanting to support marginalized communities, keeping cash as a payment option is of ultimate importance.

6-2 What Does It Mean to Provide Value?

As we begin our discussion on the pricing of services, it is important first to understand the fundamentals of providing value to the service firm's customers, clients, patients, and others. Often, both service providers and service customers incorrectly assume that value is calculated simply by comparing the value of the core service provided (e.g., medical care, transportation, sporting event) to the money spent to obtain the service. Ultimately, the buyers' perceptions of value represent a trade-off between the perceived benefits of the service to be purchased and the perceived sacrifice in terms of the total costs to be paid (see Figure 6-1). Total customer costs include more than just the **monetary cost** paid for the service. Other costs include **time costs**, **energy costs**, and **psychic costs**, which reflect the time and trouble the customer has to endure to acquire the service. Similarly, total customer value extends beyond **product value** and includes **service value**, **personnel value**, and **image value**.¹⁰

For example, a customer who wishes to purchase an airline ticket must pay the *monetary cost* for the right to board the plane and travel to a destination. This particular customer selected a direct flight to their destination, which reduced their overall travel time (*time cost*) and allowed them to spend more time at the beach. Moreover, this customer selected an airline that offered curbside check-in at



Hero Images/AGE Fotostock

The value of a service goes beyond simply comparing the service product to its monetary price. Value also includes service, personnel, and image aspects which when maximized increase the total value of the service experience.

the airport, which reduced the amount of physical labor (*energy cost*) necessary to carry their luggage. Finally, the customer purchased their ticket from a well-established airline, which minimized their safety concerns (*psychic cost*).

In exchange for the monetary price of the ticket, the customer boarded a modern jet that was equipped with very comfortable seats and a variety of nicely appointed modern conveniences (*product value*). The flight attendants were very friendly and very knowledgeable (*personnel value*). In addition, the airline offered a number of food and beverage options in addition to a very flexible cancellation policy in case the trip needed to be postponed (*service value*). Finally, their friends were impressed by the choice of airline, given the airline's reputation as a top-notch provider of air travel services (*image value*).

Overall, if the signal sent by total customer cost is an indicator of sacrifice relative to value received, then price will have a negative or repelling effect and may reduce demand. If the signal sent by the price is an indicator of benefit or value, then price will be an attractor and may increase demand. Because of the perceived connection between cost and benefit, buyers have both lower and upper price thresholds. For example, buyers might be discouraged from buying when the price is perceived to be too low simply because they see a low price as an indicator of inferior quality.

Consumers exchange their money, time, and effort for the bundle of benefits the service provider offers. Economic theory suggests that consumers will have a reservation price that captures the value they place on these benefits. As long as the total cost to the consumer is lower than the reservation price, the consumer will be prepared to buy. Consequently, if the consumer can purchase the service for less than the reservation price, a consumer's surplus will exist. In addition to describing the four components of total product value and the four components of total customer cost, the eight dimensions considered together provide direction for how service firms can effectively differentiate themselves from competitors beyond being positioned as the low-price provider.

monetary cost

The actual dollar price paid by the consumer for a product.

time cost

The time the customer has to spend to acquire the service.

energy cost

The physical energy spent by the customer to acquire the service.

psychic cost

The mental energy spent by the customer to acquire the service.

product value

The worth assigned to the product by the customer.

service value

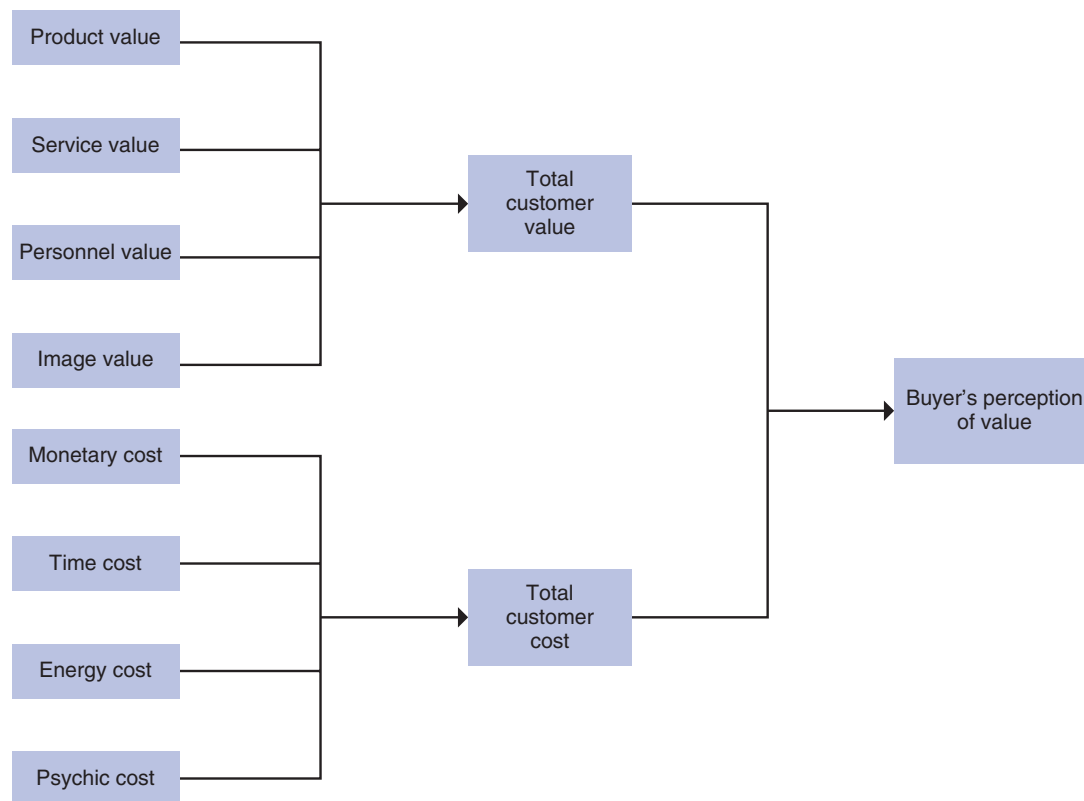
The worth assigned to the service by the customer.

personnel value

The worth assigned to the service-providing personnel by the customer.

image value

The worth assigned to the image of the service or service provider by the customer.

Figure 6-1 Buyer's Perception of Value

Source: Philip Kotler, *Marketing Management: Analysis, Planning, Implementation, and Control*, 9th ed. (Englewood Cliffs, NJ: Prentice Hall, 1997), p. 37. Print and electronically reproduced by permission of Pearson Education, Inc., Upper Saddle River, New Jersey.

6-3 Special Considerations of Service Pricing

The ultimate pricing decision faced by most firms is determining a price that sells the service while at the same time offering a profitable return. Despite the fact that companies can literally spend billions of dollars developing their images, establishing brand preference, and creating a differential advantage in the minds of consumers, these same companies often “blink” (lower their own prices) or become paralyzed (do nothing) when faced with competitors offering lower prices.¹¹ The end result is that the firm becomes obsessed with “setting prices” as opposed to engaging in “strategic pricing” activities. “The difference between price setting and strategic pricing is the difference between reacting to market conditions and proactively managing them.”¹² The literature suggests that strategic pricing decisions should be based on cost, demand, customer, competitive, profit, product, and legal considerations.¹³ While these market conditions are the same for goods and services, the content of these considerations differs. The discussion that follows highlights these key differences. Table 6-1 provides a summary of the key considerations for service pricing decisions.

6-3a Cost Considerations

Compared to their goods-producing counterparts, service firms encounter a number of unique cost considerations that need to be addressed when formulating service pricing strategy. First, service pricing is often not finalized until after provision. Consequently, the consumer experiences greater price uncertainty. Second, since services have no cost of goods sold (nothing tangible was produced), cost-based pricing is more difficult for services. Third, many service industries are often characterized by a high fixed-cost to variable-cost ratio, which leads to further pricing challenges. Finally, the mass production of services leads to limited economies of scale.

Cost-Based Pricing Is Often More Difficult for Services

Many service managers experience difficulties in accurately estimating their costs of doing business. This difficulty arises for several reasons. First, when producing an intangible product, the cost of goods sold is either a small or nonexistent portion of the total cost. For example, what is the cost of goods sold for a marketing consultant to provide a one-hour seminar to a local business on the pricing of services? Since nothing tangible is produced, there is little to no cost of goods sold! Second, cost-based pricing for

Table 6-1 Unique Differences Associated with Service Prices

Cost Considerations	
D1:	Cost-oriented pricing is more difficult for services.
D2:	Services tend to be characterized by a high fixed-cost to variable-cost ratio.
Demand Considerations	
D3:	The demand for services tends to be more inelastic than the demand for goods.
D4:	Due to the implicit bundling of services by consumers, cross-price elasticity considerations need to be examined.
D5:	Price discrimination is a viable practice to manage demand and supply challenges.
D6:	Economies of scale tend to be limited.
Customer Considerations	
D7:	Price tends to be one of the few cues available to consumers during prepurchase.
D8:	Service consumers are more likely to use price as a cue to quality.
D9:	Service consumers tend to be less certain about reservation prices.
Competitive Considerations	
D10:	Comparing prices of competitors is more difficult for service consumers.
D11:	Self-service is a viable competitive alternative.
Profit Considerations	
D12:	Price bundling makes the determination of individual prices in the bundle of services more complicated.
D13:	Price bundling is more effective in a services context.
Product Considerations	
D14:	Consumers are less able to stockpile services by taking advantage of discount prices.
D15:	Product-line pricing tends to be more complicated.
Legal Considerations	
D16:	The opportunity for illegal pricing practices to go undetected is greater for services than for goods.

services is often more difficult because labor needs are challenging to forecast accurately in many service settings due, in part, to fluctuating demand. Third, workforce turnover is typically high in many service industries. This, coupled with the fact that finding good personnel is an ongoing challenge, leads to further difficulty in estimating the costs associated with a particular service encounter. These factors make what is often considered the most common approach to pricing, cost-oriented pricing, difficult at best for service firms. Consequently, the difficulties associated with controlling and forecasting costs are a fundamental difference between goods and services pricing.

Many Services Are Typically Characterized by a High Fixed-to-Variable-Cost Ratio

The United Parcel Service (UPS) is a prime example of the high fixed-to-variable cost service. On the retail side of the business, the company maintains 3,400 UPS Stores, 1,100 Mail Boxes Etc., 1,000 UPS Customer Centers, 17,000 authorized outlets, and 45,000 UPS Drop Boxes. Packages and documents collected at these retail sites are then funneled to 1,748 operating facilities, where they are distributed to a delivery fleet consisting of 88,000 package cars, vans, tractors, and motorcycles, 270 UPS jet aircraft, and 304 chartered aircraft. As a result of this infrastructure, the company handles more than 3 billion packages and 5.5 percent of the United States’ GDP annually.¹⁴ In comparison to UPS’s massive **fixed costs**, the **variable costs** associated with handling one more package are practically nil.

The airline industry is another typical example of a service with a high fixed-cost to variable-cost ratio. The three major costs to an airline are cost of the fleet, labor, and jet fuel. Fleet and labor costs are primarily fixed, whereas fuel costs are variable. Perhaps more importantly, fuel costs are beyond an airline’s control; however, the airline has some influence over the other two expenses. In order to increase profits, airlines can sell more tickets, reduce costs, or both. In the attempt to sell more tickets, airlines engage in price discounting, which is almost always matched by their competition. The net result is that the airline cost structure has stayed the same while industry revenues steadily decrease. In other words, the net result is a greater loss for the airline. In the end, the winners of any price war within the airline industry will be the providers with the lowest cost structures. For example, if Frontier Airlines’ break-even load factor is approximately 55 percent—on average, 55 percent of available seats need to be filled on every flight for the airline to break even. In contrast, if United Airlines’ break-even load factor is approximately 91 percent. Clearly, Frontier and other discount airlines are better positioned to withstand the competitive pressures of a price war.¹⁵

The challenges faced by businesses that have a high fixed-cost to variable-cost ratio are many. First, what prices should be charged to individual customers (see Services for a Better World in Action)? For example, the airline industry commonly makes 75,000 price changes a day. How should the firm sell off unused capacity? For example, should an airline sell 20 unsold seats at a reduced rate to customers who are willing to accept the risk of not reserving a seat on

fixed costs

Costs that are planned and accrued during the operating period regardless of the level of production and sales.

variable costs

Costs that are directly associated with increases in production and sales.

Services for a Better World in Action

Pay What You Want (PWYW) Restaurants¹⁶

The “Pay What You Want (PWYW)” movement most likely began in 1985 when a Hindu religious teacher opened a vegetarian restaurant named Annalakshmi for the purpose of pursuing the mission of a world without hunger. Based on the restaurant’s website, Annalakshmi “is not a soup kitchen or a place to feed the socially deprived. Instead, it is a place that supports the act of giving, from the heart.” Since then, countless PWYW concepts have been opened to serve local communities throughout the world. Examples include Der Wiener Deewan in Vienna, Austria, Moya in Amsterdam, The Land Split in Pai, Thailand, and JBJ Soul Kitchen in New Jersey, USA. There is even a PWYW wine bar in Berlin, Germany called the Weinerei!

The FOCO Café in Fort Collins, Colorado operates its PWYW on the values that:

- Every human innately has dignity and should be treated as such.
- Every duty, volunteer or otherwise, has value.
- Participating in a community nourishes the soul.
- Everyone deserves to eat nutritional food.
- All people need a hand-up at some point(s) in their lives.

Denver is also home to three such restaurants, where customers can pay for their meals with cash or labor,

or nothing at all. The business model for these socially responsible restaurants is simple: Feed all customers, regardless of their ability to pay, and ask those who can afford it to contribute a little more to help others. There are no set prices on the menu. Denver’s Café 180 reports the average diner pays 8 to \$9 for a meal but some customers leave \$20 for just a beverage, and occasionally they find a \$100 bill in the donation box. In contrast, studies indicate that only one-fifth of one percent of customers leave paying nothing at all.

Economists are studying this business model to uncover the secrets to its success. It turns out that people have a strong sense of fairness, and through a combination of altruism and shame, will make economic decisions that benefit others. For example, customers who pay the waitress in sight of others tend to leave more money than those who leave payment anonymously in a donation box.

In addition to paying what you can, sitting down to a meal at one of these restaurants is unique because it brings together people from all walks of life, unlike soup kitchens where all diners are poor. Volunteering is also critical for PWYW places, where customers wash windows and dishes, serve others, or even sing to cover their tab.

the plane prior to the day of departure? Does selling unused capacity at discounted rates alienate full-fare-paying customers? How can companies offer reduced prices to sell off unused capacity without full-fare-paying customers shifting their buying patterns?

Service Economies of Scale Tend to Be Limited Due to the service characteristics of inseparability and perishability, the consumption of services is not separated by time and physical space. For example, consider the daily operations of a dental office. Inventory cannot be used to buffer demand, and the physical presence of patients and providers is often necessary for a transaction to take place. As a result, service providers often produce services on demand rather than in advance. Therefore, it is difficult for service providers to achieve the cost advantages traditionally associated with **economies of scale**—based on the idea of the more you produce, the cheaper it is to produce it ... the cheaper it is to produce it, the cheaper it can be sold ... the cheaper it can be sold, the more it is sold ... the more it is sold, the more it can be produced (and so on and so forth). Moreover, since many services are also customized to individual customer

specifications, the act of customization limits the amount of work that can be done in advance of a customer’s request for service and further limits potential cost advantages obtained through traditional economies of scale.

In closing, it should also be mentioned that although costs are an important consideration in establishing pricing strategy, pricing experts would agree that their role in setting the final price is often overemphasized.¹⁷ Without a doubt costs are paramount in determining the firm’s profitability; however, service firms that overemphasize the role of cost in setting final prices are limited by their internal focus and tend to underprice their services in the market. Firms that rely solely on costs to set prices fail to look externally at the market and extract the full value that customers place on the services offered. For example, tickets for popular sporting events and Broadway shows are often quickly purchased by brokers who resell these same tickets for 5 to 10 times the original asking price. In cases such as this, the additional profits go to the resellers, not to the businesses that created the value in the first place and priced their tickets for the purpose of covering their costs.

6-3b Demand Considerations

Service firms that are better able to extract the full value from the market take into account external market factors such as demand considerations. There are a number of demand considerations that differentiate the pricing of services from the pricing of goods. First, demand for services tends to be more inelastic. Cost increases are often simply passed along to consumers. Second, consumers of services

economies of scale

Based on the idea of the more you produce, the cheaper it is to produce it... the cheaper it is to produce it, the cheaper it can be sold ... the cheaper it can be sold, the more it is sold ... the more it is sold, the more it can be produced (and so on).

often implicitly bundle prices. For example, the demand for food services at a theme park may be affected by the price of the theme park’s hotel and ticket prices. Consequently, the cross-price elasticity of services should be taken into careful consideration. Finally, due to the supply and demand fluctuations inherent in services, price discrimination strategies should also be investigated.

Demand for Services Tends to Be More Inelastic In general, consumers of services are more willing to pay higher prices if doing so reduces their level of perceived risk. Perceived risk is a function of consequence (the degree of importance and/or danger associated with the purchase) and uncertainty (the variability in service performance from customer to customer or from day to day). The service characteristics of intangibility, inseparability, heterogeneity, and perishability contribute greatly to heightened levels of perceived risk.

Experts in the field suggest 10 factors that can play a major role in influencing customer price sensitivity. The 10 price sensitivity factors include:

- Perceived substitute effect
- Unique value effect
- Switching cost effect
- Difficult comparison effect
- Price-quality effect
- Expenditure effect
- End-benefit effect
- Shared-cost effect
- Fairness effect
- Inventory effect.

Table 6-2 provides an overview of each of the 10 price sensitivity factors and their proposed relationships to

price sensitivity. Successful strategic pricing considers the impact of each of these 10 factors on final pricing decisions. Clearly, price sensitivities will vary across different types of services, but in general the demand for services tends to be **inelastic**. Different groups of consumers will likely weigh the importance of each price sensitivity factor differently. Service firms must assess which of the factors are more salient to their target market’s purchasing decisions.

Cross-Price Elasticity Considerations Need to Be Examined Consumers of services often implicitly bundle prices. In other words, consumers may figure that the total cost of going to the movies includes the tickets and refreshments. Therefore, total revenues may be maximized by carefully considering the cross-price elasticities of the total product offering. This is particularly true in cases where the price of the core service offering influences the demand of supplemental services. **Cross-price elasticity** of demand measures the responsiveness of demand for a service relative to a change in price for another service. If this relationship is negative (e.g., as the price of Product A increases,

inelastic demand

The type of market demand when a change in the price of a service is greater than a change in quantity demanded.

cross-price elasticity

A measure of the responsiveness of demand for a service relative to a change in price for another service.

Table 6-2 Factors Influencing Customer’s Price Sensitivity

Price Sensitivity Factors	Proposed Relationship
Perceived substitute effect	Price sensitivity increases when the price for Service A is higher than the price of perceived substitutes.
Unique value effect	Price sensitivity increases as the unique value of Service A is perceived to be equal to or less than the unique value of perceived substitutes.
Switching costs effect	Price sensitivity increases as switching costs decrease.
Difficult comparison effect	Price sensitivity increases as the difficulty in comparing substitutes decreases.
Price–quality effect	Price sensitivity increases to the extent that price is not used as a quality cue.
Expenditure effect	Price sensitivity increases when the expenditure is large in terms of dollars or as a percentage of household income.
End-benefit effect	The more price-sensitive consumers are to the end benefit, the more price-sensitive they will be to services that contribute to the end benefit.
Shared-cost effect	Price sensitivity increases as the shared costs with third parties decrease.
Fairness effect	Price sensitivity increases when the price paid for similar services under similar circumstances is lower.
Inventory effect	Price sensitivity increases as the customer’s ability to hold an inventory increases.

the demand for Product B decreases), then the two services are said to be **complements**. For example, as the price of movie tickets continues to increase, customers may offset the price increase by purchasing less popcorn and soda. If the relationship is positive (e.g., as the price of Product A increases, the demand for Product B increases), then the two services may be **substitutes**, and consumption of one is at the expense of the consumption of the other. For example, as the price of movie tickets increases, the demand for substitute services such as Hulu and Netflix streaming services increases.

Multiproduct considerations dominate many service industries such as business services, personal services, professional services, and the hospitality industry. The golf industry provides a prime example of the effects of cross-price elasticity. Consumers have different price sensitivities for greens fees, cart fees, range fees, and food and beverage expenses. If consumers perceive the price of admission (greens fees) as a good value, they are likely to purchase additional products such as riding carts, practice range balls, and food and beverages, which in turn produce more revenue for the firm. In contrast, if the price of admission is perceived as low in value, consumer price sensitivities for supplemental services are likely to increase. They often forgo some or all of these additional services in order to keep their total expenses in line. In effect, the higher price of admission often leads to overall lower consumer

complements

The effect of cross-price elasticity in which an increase in the price of Product A decreases the demand for Product B.

substitutes

The effect of cross-price elasticity in which an increase in the price of Product A increases the demand for Product B.



Price discrimination is a viable practice in the movie industry due to differences in the demand elasticities held by customers and the need for movie theaters to balance demand and supply for its motion pictures.

expenditures and reduces the revenue stream for the firm. If this is the case, the service firm is much better off keeping admission prices low and making additional margins from complementary products.

Price Discrimination Is a Viable Practice to Manage Demand and Supply Challenges Price discrimination involves charging customers different prices for essentially the same service and involves four tiers of pricing structures (see Table 6-3). This unique aspect of service pricing relates to both the perishability and simultaneous production and consumption of services. Price discrimination is a viable

price discrimination

The practice of charging different customers different prices for essentially the same service.

Table 6-3 The Four Tiers of Price Discrimination

Price Discrimination Tier	Description
First-Degree (aka: Perfect Price Discrimination)	Determines what each individual customer is willing to pay and then sells the service for that amount (e.g., negotiations)
Second-Degree	Prices based on product versioning or menu pricing. (e.g., quantity discounts, buy-two-get-one offers, coupons, and loyalty rewards)
Third-Degree	Prices based on the unique demographics of the customer base (e.g., senior citizens, students, military personnel, emergency responders).
Fourth-Degree	A pricing structure based on financial ability to pay. For example, a race-conscious pricing structure rooted in reparationist policy where White populations pay more than populations of color.

Sources: Melissa Horton, Robert C. Kelly, and Diane Costagliola, "3 Degrees of Price Discrimination," *Investopedia*, updated July 30, 2021; <https://www.investopedia.com/ask/answers/042415/what-are-different-types-price-discrimination-and-how-are-they-used.asp>; Anastasia Reesa Tomkin, "Race-conscious Pricing Structures as Reparationist Policy," NP, December 9, 2021; <https://nonprofitquarterly.org/race-conscious-pricing-structures-as-reparationist-policy/>.

practice in service industries due in part to differences in the demand elasticities held by customers and the need of the organization to balance demand and supply for its service products.

The viability of price discrimination is enhanced by the fact that in some services customers readily accept that prices often drop significantly before the opportunity to sell the service passes completely (e.g., last-minute concert tickets). In other service settings, customers have become quite accustomed to different customers paying different amounts for the same service (e.g., airfares). In addition, online services such as Priceline.com allow customers to name their own price for airline tickets and car rentals. Service providers accept these proposals in order to cover at least some portion of their fixed costs. Some revenue is deemed better than no revenue in these situations.

Effective price discrimination benefits customers and providers alike. Customers often benefit from options that offer lower prices, and providers are often able to manage demand and increase capacity utilization. As a result, pricing is called upon to try to smooth demand in two ways:

- Creating new demand in off-peak, low-capacity utilization periods.
- Flattening peaks by moving existing customers from peaks to less busy times.

In order to engage in an effective price discrimination strategy, the following six criteria should be met:¹⁸

1. **Different groups of consumers must have different responses to price.** If different groups of consumers have the same response to price changes, then the price discrimination strategy becomes counterproductive. For example, for years movie theaters have offered afternoon matinees at a reduced fee. This strategy helped the theater create demand for unused capacity during the day, and it also helped to smooth demand during the evening shows. Moreover, this approach has attracted additional market segments such as families with children and people on fixed incomes, who may not otherwise attend the higher-priced evening shows. This strategy has been effective because the price change did not create the same response for everyone. If most consumers had shifted their demand to the afternoon shows at lower rates, the movie theater would have overused capacity in the afternoons and would be generating lower total revenues for the theater.
2. **The different segments must be identifiable, and a mechanism must exist to price them differently.** Effective price discrimination requires that consumer segments with different demand patterns be identifiable based on some readily apparent common characteristics such as age, family life cycle stage, gender, and/or educational status. Discriminating based on a convoluted segmentation scheme confuses customers and service providers, who must implement the strategy. Common forms of segmentation identification for a price

discrimination strategy based on age include college ID card holders, AARP card holders, and drivers' licenses.

3. **No opportunity should exist for people in one segment who have paid a low price to sell their tickets to those in other segments.** For example, it does the movie theater little good to sell reduced-price seats in the afternoon to buyers who can turn around and sell those tickets that evening to full-paying customers.
4. **The segment should be large enough to make the exercise worthwhile.** The time and effort involved in offering a price discrimination scheme should be justified based on the return it generates to the business. Having little or no response to the firm's effort signals that either customers are uninterested, eligible customers are few, or the firm's price discrimination offer is off the mark.
5. **The cost of implementing the price segmentation strategy should not exceed the incremental revenues obtained.** The objectives of engaging in price discrimination efforts may be to reduce peak demand, fill periods of underutilized capacity, increase overall revenues, or achieve nonprofit issues, such as making a service available to people who otherwise may not be able to take advantage of the services the firm offers. If the cost of running the price discrimination strategy exceeds the returns produced, management needs to reconsider the offering.
6. **The customers should not be confused by the use of different prices.** Electric utilities often offer customers reduced rates that are based on the time of usage. Often, however, these time-related discounts change as new promotions arise. Customers caught unaware of the change often end up paying higher rates than expected, which negatively affects customer satisfaction.

6-3c Customer Considerations

The third special consideration of service pricing involves customer considerations. Customer considerations take into account the price the customer is willing to pay for the service. In comparison to goods, the price of the service tends to be one of the few search attributes available to consumers to compare services. As a result, the price of the service is often used as a quality cue—the higher the price, the higher the perceived quality of the service. Services that are priced too low may be perceived as inferior and bypassed for more expensive alternatives. Finally, service customers tend to be less certain about reservation prices.

Price Tends to Be One of the Few Cues Available to Consumers During Prepurchase Due to the intangible nature of services, services are characterized by few search attributes. Search attributes are informational cues that can be determined prior to purchase. In contrast, the tangibility of goods dramatically increases the number of search attributes available for consumers to consider. For example, the style and fit of a suit can be determined prior to purchase. In contrast, the enjoyment of a dinner is not known until during and after the experience is complete.

Pricing research has noted that the informational value of price decreases as the number of other informational cues increases. Similarly, others have found consumer reliance on price to be U-shaped. Price is heavily used if few cues are present, loses value as more cues become present, and then increases in value if consumers are overwhelmed with information.¹⁹

Further research suggests using **signpost items** to form an impression of overall service firm prices. Signpost items are items that customers buy often, so they are well aware of typical prices. Astute service marketers price signpost items at competitive prices because customers use these items to benchmark the value of other services that the firm offers. For example, health clubs typically offer personal trainer services for an additional fee. If the health club happens to sell bottles of water and sodas in a vending machine at competitive prices, the soda and water become signpost items that convey to health club members that the personal trainer rates must be competitive as well.²⁰

Service Customers Are More Likely to Use Price as a Cue to Quality Service providers must also consider the message the service price sends to customers. Much work has been devoted to understanding whether price can be an indicator of quality. Some studies seem to imply that customers can use price to infer the quality of the product they are considering. Conflicting studies seem to indicate that they cannot. For example, classic studies in the field have presented customers with identical products, such as pieces of carpet, priced at different levels. The respondents' judgment of quality seemed to indicate that quality followed price. However, very similar studies later found little relationship between price and perceived quality.²¹

Price plays a key informational role in service consumer decision processes. Decision theory suggests that customers will use those cues that are most readily available in the alternative evaluation process to assess product quality. Due to the importance of its role, price should be a dominant cue for customers who are trying to evaluate service quality before purchase. Interestingly, the United States is recently adopting a European pricing idea that directs cinemas to charge different prices depending on the quality of the film—the better the quality of the film, the higher the price. Where pricing in the cinema is traditionally based on the “seat,” pricing is now changing to reflect the “value” of the film. Studies suggest that price is more likely to be used as a cue to quality under the following conditions:

- Price is the primary differential information available.
- Alternatives are heterogeneous.
- Comparative price differences are relatively large.

signpost items

Items that customers buy often, so they are very well aware of typical prices.

Clearly, these conditions exist in many service purchase scenarios.

Service Consumers Tend to Be Less Certain about Reservation Prices A consumer's **reservation price** is the maximum amount that the consumer is willing to pay for a product. Ultimately, a consumer's reservation price for a service determines whether a purchase or no purchase decision is made. If the reservation price exceeds the price charged for the service, the consumer is more inclined to purchase that service. However, if the reservation price is lower than the actual price charged, then the consumer is precluded from purchasing that particular service offering.

Research has noted the lack of service consumer certainty regarding reservation prices (see Global Services in Action). Consumers' reservation prices are determined in part by their awareness of competitive prices in the market. For some services, the lack of pricing information available and the lack of purchasing frequency may lead to less certainty about the reservation price of the service under consideration.²²

6-3d Competitive Considerations

Service pricing strategy is also influenced by two unique competitive considerations. First, comparing prices of service alternatives is often difficult, which may make competitive-based pricing a less important consideration for services than for goods. In addition, a unique competitor must be considered when pricing services—the self-service consumer. Consumers are often willing to provide self-service to save money and customize the end result among other perceived advantages.

Comparing Prices of Competitors Is More Difficult for Service Consumers Actual price information for services tends to be more difficult for consumers to acquire than price information for goods. Further, when service price information is available to consumers, it also tends to be more difficult to make meaningful comparisons between services. For example, although base service prices can sometimes be determined in advance, competing services are not sold together in retail stores the way that many competing goods are in supermarkets, discount, or department stores. Consumers either have to visit geographically separated service firms in person or contact them to compare prices. With regards to services, comparative shopping requires more time and effort.

Self-Service Is a Viable Competitive Alternative One result of the inseparability of production and consumption for services is the possibility of the customer actively

reservation price

The price a consumer considers to capture the value they place on the benefits.

Global Services in Action

Global Tipping Practices²³

Although tipping is customary in most of North, Central, and South America., tipping acceptance in other countries varies from gratefulness to insulting. Tipping practices in the U.S. supplement employee wages and allow business

owners such as restaurants to keep menu prices in check. However, if operating restaurants in other countries where tipping does not supplement employee wages, managers must factor in the higher labor costs into their menu prices.

Country	Tipping Practices
United States	A 15-20% gratuity is considered the norm.
Canada and Columbia	A 15-20% gratuity is considered the norm.
Argentina, Mexico, Nicaragua, and Peru	A 10-15% gratuity is considered the norm.
Brazil, Chile, and Costa Rica	Includes a 10% sit-down charge on the bill. No extra tip is expected, but feel free to leave and extra 5-10%. In Brazil, extra tips are to be left discreetly.
Europe	In general, larger tips than 15-20% is considered unnecessary and sometimes ignorant.
Czech Republic, France, Hungary, Spain, and Sweden	These countries typically add a service charge to the bill. Tipping is not customary but considered a generous act.
Germany, Ireland, Portugal, and the UK	These countries do not have a strong tipping culture. Leaving a 5-10% tip is acceptable unless a service charge is already included in the bill. In some cases, simply rounding up the bill is appreciated.
Austria, Italy, and Russia	Tipping is not customary but rounding up the bill is appreciated. If you do tip, leave it in cash so the waitstaff as opposed to management actually receives the tip.
The Middle East & Parts of Asia	Similar to the Americas, tipping is customary and varies based on the economic state of the country (10-20%). Some countries include a service charge, so beware of double tipping.
Iran	A small gift from the guest's country means more than a monetary tip.
China, Myanmar, Singapore, and Taipei	Tipping is unnecessary and not expected.
Japan and Nepal	Good service is a part of life, so tips should only be left for good service. Some servers in Japan will politely decline a tip.

participating in the service delivery process, commonly referred to as self-service options. The availability of self-service options influences customer perceptions of the service. Self-service options invariably offer some form of price reduction (e.g., customers can paint their own houses as opposed to hiring professional painters). Today, the literature suggests that service customers often are seeking other benefits besides lower prices when pursuing self-service options. These benefits might include greater convenience, more control, less human contact, faster service time, greater efficiency, and greater independence. Self-service options must be considered in the formation of pricing strategy.

6-3e Profit Considerations

Price bundling is another special consideration and often increases the profit opportunities for service firms. Compared to goods, services are more amenable to price bundling; however price bundling makes the determination of individual prices in the bundle of services more complicated.

Price bundling involves pricing a group of services at a price that is below their cost if bought separately. For example, a ski lodge located in the Rocky Mountains may bundle a guest room, dinner, skis, ski tickets, and ski lessons. In general, price bundles are perceived as a better value for the customer and typically generate additional revenues for the selling firm.

Price Bundling Makes the Determination of Individual Prices in the Bundle of Services More Complicated Bundling, the practice of marketing two or more goods and/or services for a single price, is a useful strategic pricing tool that can help services marketers

price bundling

The practice of marketing two or more products and/or services in a single package at a single price to increase the value of the offering.



Bogsteiger/AGE Fotostock

Unlike goods, self-service is a viable competitive alternative. Customers may select to perform their own personal services and forgo the expense of hiring a service provider.



www.CartoonStock.com

"YEAH, BUT LOOK AT THE MONEY WE SAVED BY YOUR ACTING AS YOUR OWN ATTORNEY."

The downside of self-service.

achieve several different strategic objectives. However, it also complicates the alternative evaluation process for consumers. Consumers have difficulty calculating how much each component of the bundle is contributing to the total cost. For example, a consumer evaluating available alternatives for a trip to Jamaica might have a hard time comparing the costs associated with an all-inclusive hotel package bundled with airfare and transfers to a traditional pay-as-you-go vacation alternative.

Price Bundling Is More Effective in a Service Context A wide variety of services feature price bundling. Many service organizations bundle their own service offerings together, as when a doctor combines diagnostic tests with physical examinations. Other service organizations choose to form strategic alliances with other firms and bundle services that each provides. For example, the travel industry bundles hotel charges, airline tickets, and transfer services into a single price. Regardless of the form or type of bundling, this strategy essentially creates a new service that can be used to attract new customers, cross sell existing customers, or retain current customers. Bundling

has proliferated in the service sector primarily because of high fixed/variable cost ratios, the degree of cost sharing, and the high levels of interdependent demand. For example, the demand for a hotel restaurant is directly related to the demand for hotel rooms.

It should also be mentioned that **price unbundling** is an important consideration particularly in cases where low-cost providers are taking away market share from mainstream providers. Today, this is particularly common in the airline industry where low-cost providers such as Spirit Airlines and Frontier Airlines (currently in merger discussions) are effectively courting price conscious passengers away from airlines such as Southwest and United Airlines. In response, Southwest and United now offer unbundled ticket options that do not include the same amenities as regular fare passengers such as seat assignments, baggage allowances, etc. Unbundling allows the price conscious segments of Southwest and United to stay brand loyal with their traditional airline of choice while providing Southwest and United a pricing strategy that combats the threats posed by low-cost carriers.

6-3f Product Considerations

Service pricing strategy also recognizes two unique service product considerations. First, since service products cannot be inventoried, service consumers should be less price sensitive and less prone to delay their purchases until a better price is offered some time in the future. Second, the common practice of product-line pricing used for tangible products makes less sense to service consumers.

Consumers Are Less Able to Stockpile Services by Taking Advantage of Discount Prices Retail pricing researchers note that pricing policies and strategies can have a direct impact on inventory decisions and planning.²⁴ Goods are often discounted to reduce overabundant inventories. Consumers take advantage of the discounts and often engage in forward buying. **Forward buying** enables consumers to build their own inventories of products, which in turn benefits the seller by reducing the number of defections to competitive brands. In contrast, services cannot be stored, and service consumers cannot stockpile service offerings. When consumers need or want a service, they must pay the prevailing price.

price unbundling

The practice of decoupling benefits from a product offering for the purpose of offering lower price options.

forward buying

When customers purchase enough product on deal to carry over until the product is being sold on deal again.

Product-Line Pricing Tends to Be More Complicated

Product-line pricing, the practice of pricing multiple versions of the same core product or grouping similar products together, is widely used in goods marketing. For example, beginner, intermediate, and expert level options for sports equipment are generally priced at different price points to reflect the different levels of buyer and seller expertise. Consumers of goods can more easily evaluate the differences among the multiple versions offered since tangibility provides search attributes that can be objectively evaluated prior to purchase. In contrast, consider the difficulty of real estate consumers when faced with the choices offered by real estate firms. The company offers home sellers three levels of service that are priced at increasing commission rates of 6, 7, and 8 percent. Customers, particularly those who sell their homes infrequently, lack the expertise to make an informed decision. The performance levels associated with the three levels of service offered cannot be assessed until after the contract with the real estate agent has been signed and the customer has committed to the commission rate.

Traditionally, product-line pricing provides customers with choices and gives managers an opportunity to maximize total revenues. However, the product-line pricing of services more often than not generates customer confusion and alienation. Industries struggling with the price-lining of their services include telecommunications (e.g., multiple versions of calling and texting plans), health care (e.g., multiple versions of Blue Cross/Blue Shield plans, HMOs), and financial services (e.g., multiple types of checking and savings accounts, investment options).

6-3g Legal Considerations

Finally, when developing pricing strategy, service marketers must not only consider what is profitable, but also what is legal. The opportunity to engage in and benefit from illegal pricing practices in the service sector is predominantly attributed to intangibility, inseparability, and heterogeneity. Intangibility decreases the consumer's ability to objectively evaluate purchases, while inseparability reflects the human element of the service encounter that can potentially expose the customer to coercive influence techniques.

The Opportunity for Illegal Pricing Practices to Go Undetected Is Greater for Services Than Goods

Is it legal for a physician to charge excessive prices for vaccinations during an influenza epidemic, or for repair services to triple their hourly rates to repair homes in neighborhoods damaged by severe weather? In some states there are price gouging laws to protect consumers from such practices during special circumstances. However, the special

circumstances (e.g., epidemics and severe weather) draw attention to such practices. In contrast, identifying excessive service pricing practices is not as clear for “everyday” types of purchase occasions.

Service consumers are more vulnerable to illegal pricing practices. The pricing implications of service consumer vulnerability are twofold. First, consumer vulnerability and perceived risk are directly related. Consumers feeling particularly vulnerable are willing to pay higher prices for a service if it lowers their perceived risk. Second, dubious service providers that abuse the customer's trust by taking advantage of vulnerable consumers through excessive prices may benefit in the short term, but once they are discovered, the long-term success of their firms is doubtful. To consumers, the issue is one of fairness and **dual entitlement**. Cost-driven price changes are perceived as fair because they allow sellers to maintain their profit entitlement. In contrast, demand-driven prices are often perceived as unfair. They allow sellers to increase their profit margins purely at the expense of the increasing consumer demand.²⁵

6-4 Service Pricing Strategies

Due to the many special considerations surrounding the pricing of services, traditional pricing strategies such as penetration pricing, competitive pricing, and premium pricing may offer little benefit to service customers or service providers. For example, competitive pricing has led to disappearing profit margins in such industries as car rental, airlines, and health insurance. At the core of the pricing problem is a lack of understanding of the special considerations in the pricing of services and how consumers use and benefit from the services they are purchasing. Service marketers should create pricing strategies that offer a compromise between the overly complex and the too simplistic, both of which neglect the variations in consumer needs.²⁶

To price services effectively, the service firm must first understand what its target market truly values. Seven alternative pricing strategies that convey value to the customer include free-based pricing, subscription-based pricing, usage-based pricing, satisfaction-based pricing, relationship pricing, efficiency pricing, and adaptive pricing (see Table 6-4).²⁷

6-4a Free-based Pricing

Although initially it may seem that providing services for free is not economically sustainable, this emerging pricing

product-line pricing

The practice of pricing multiple versions of the same product or grouping similar products together.

dual entitlement

Cost-driven price increases are perceived as fair, whereas demand-driven price increases are viewed as unfair.

Table 6-4 Service Pricing Strategies

Pricing Strategy	Description	Methods
Free-based	A pricing strategy where part or all of the service is provided to customers at no charge.	Lead generation model Advertising revenue model Exchange revenue model Free basic service model Free trial model Freemiums model
Subscription-based	Generates revenues by asking customers to pay a reoccurring price at reoccurring intervals in return for granting customers access to the firm's service products.	Fixed rate model Tiered pricing model Per unit/user model
Usage-based	Usage-based pricing measures customers frequency of use of the service and bills accordingly.	Fixed rate usage-based model Tiered rate usage-based model
Satisfaction-based	Recognizing and reducing customers' perceptions of uncertainty, which the intangible nature of service magnifies.	Service guarantee model Benefit-driven pricing model Flat-rate pricing model
Relationship pricing	Encouraging long-term relationships with the company that customers view as beneficial.	Long-term contract model Price bundling model
Efficiency pricing	Sharing with customers the cost saving that the company has achieved by understanding, managing, and reducing the costs of providing the service.	Cost-leader pricing model
Adaptive pricing	The practice of offering discounts without conceding margins on a permanent basis.	Temporary pricing model

Source: Updated and partially adapted from Leonard L. Berry and Manjit S. Yadav, "Capture and Communicate Value in the Pricing of Services," *Sloan Management Review* (Summer 1996), pp. 41-51; : Lucas Miller, "5 Ways Your Business Stands to Benefit for Offering a Free Product or Service," *Entrepreneur*, June 15, 2020; <https://www.entrepreneur.com/article/351180>.

strategy, especially within the world of e-commerce, is particularly effective. Specific strategies within the **free-based pricing** realm include *lead generation models*, *advertising revenue models*, *exchange revenue models*, *free basic service models*, *free trial models*, and *freemiums* just to name a few. Descriptions and examples of each of these approaches is provided in Table 6-5. Overall, the major benefits derived from the use of free-based pricing strategies include removing barriers to entry and allowing customers to understand what providers have to offer, generating buzz around the provider's brand, creating a source of honest market feedback, and upselling purchases.²⁸

6-4b Subscription-based Pricing²⁹

Whether it be for SiriusXM satellite radio, Netflix and Disney+ streaming services, and/or the local car wash, subscription-based pricing for services seems more prevalent

than ever. Simply stated, **subscription-based pricing** generates revenues by asking customers to pay a reoccurring price at reoccurring intervals in return for granting customers access to the firm's service products. Originally developed by publishers in England during the seventeenth century, today subscription-based pricing is used by network carriers, Internet service providers, cloud-based software, and music and video streaming services. Types of subscription services include a *fixed rate pricing model*—a fixed price for a fixed set of features for a fixed period; a *tiered pricing model*—different subscriptions of different bundles of features offered at tiered prices, and the *per unit/per user model*—offers a subscription which establishes the number of users that can access the subscription within each user company.³⁰ Once the company adds additional users beyond the initial established user cap, the price of the subscription increases.

Subscription-based pricing models benefit service providers and customers alike. From the provider perspective, subscription-based pricing results in a predictable revenue stream, and the revenue streams from subscriptions often

free-based pricing

A pricing strategy where part or all of the service is provided to customers at no charge. Strategies include lead generation models, advertising revenue models, exchange revenue models, free basic service models, free trial models, and freemiums.

subscription-based pricing

A pricing strategy that generates revenues by asking customers to pay a reoccurring price at reoccurring intervals in return for granting customers access to the firm's service products.

Table 6-5 Free-based Pricing Strategies: Free Today, Profits Tomorrow

Free-based Pricing Strategy	Description	Examples
Lead Generation Model	Provides free content to interested customers in exchange for signing up for the provider's newsletter. Email addresses provides a data base of leads.	The Content Marketing Institute reports that 88% of B2B companies use content marketing for lead generation.
Advertising Revenue Model	Provides a free platform for customers to search or share information. Advertisers pay a fee to access that platform's customer base.	Billions of people use Google, Facebook, Instagram, and Snapchat and never pay a penny. Google's primary revenue stream stems from paid advertising which nets the company approximately 15–\$20 billion every quarter.
Exchange Revenue Model	Provides a free platform for customers and charges sellers a fee to sell their offerings to the platform's customers	Airbnb, eBay, and Etsy are classic examples of exchange revenue models
Free Basic Service Model	Provides customers the basic service for free but then offers additional services for a fee.	LinkedIn offers its basic service for free to users. Users can upgrade their experience which provides additional access for a fee.
Free Trial Model	Provides customers the use of a service for free for a specific time period. Once the time period ends, users must pay a fee to continue the use of the service.	SiriusXM satellite radio offers new users a free three-month trial period. Users may continue to use SiriusXM after the trial period for a fee.
Freemiums Model	Provides customers with free shipping and/or other value-added services once purchase amounts meet established thresholds.	It is estimated that nearly 50% of online shoppers add items to their shopping carts to qualify for free shipping.

Sources: Lucas Miller, "5 Ways Your Business Stands to Benefit for Offering a Free Product or Service," *Entrepreneur*, June 15, 2020; <https://www.entrepreneur.com/article/351180>; Dominic Rushe, "Google Remains Dominant as Company Reports Quarterly Profits of \$20bn," *The Guardian*, February 1, 2022; <https://www.theguardian.com/technology/2022/feb/01/google-alphabet-profits-revenues-earnings>.

exceed the revenue stream yielded from discrete purchases. In addition, subscriptions facilitate brand loyalty, promotes consistency in communications with customers, increases the average customer lifetime value, creates opportunities for upselling and cross-selling, and provides a database of customer information to improve future services. Similarly, customer benefits include the convenience of automatic order replacement, breaks payments down into smaller amounts, builds trust with an existing provider, improves the timeliness and quality of after-sales services, and provides the customer with a method of opting-out at the time of renewal.

6-4c Usage-based Pricing³¹

Usage-based pricing is a popular alternative to subscription-based pricing due to its flexibility. **Usage-based pricing** measures customers use of the service and bills accordingly. The idea is based on the premise that the more the service offering helps customers reach their goals, the

greater amount and/or more frequent the customers will use the service. Positioned as a win-win pricing strategy, as customers improve their own bottom-lines, the firm offering the service improves their own bottom-line as well.

There are many advantages to utilizing usage-based pricing. First, usage-based pricing strategies are appealing to users. The user simply pays for what they use and does not pay for what they do not use. Customers tend to underestimate their usage, so it does not feel like a big commitment to sign up for usage-based services. This leads to the second advantage of low barrier to entry. Since there is no large upfront investment for customers to get started, customers can easily start purchasing the service at the time of use. Service firms that utilize usage-based pricing may also enjoy the spike in revenues as customer use increases (although the opposite is true as well). In addition, service firms can offer incentives for customers to reach certain levels of usage where beyond that point, the usage-based rate can be purchased for a discounted price. In essence, the use of incentives transforms a *fixed rate usage-based fee* to a *tiered rate usage-based fee*. Finally, when compared to subscription models, usage-based pricing typically nets a 10 percent increase in net dollar retention.

Usage-based pricing

A pricing strategy based on the customer's frequency of use of the service and bills accordingly.

6-4d Satisfaction-Based Pricing

The primary goal of **satisfaction-based pricing** is to reduce the amount of perceived risk associated with the service purchase and appeal to target markets that value certainty. Satisfaction-based pricing can be achieved by offering *guarantees*, *benefit-driven pricing*, and *flat-rate pricing*.

Service Guarantees Service guarantees are a popular way of attracting and retaining customers.³² The guarantee assures customers that if they are less than satisfied with their purchase, they can invoke the guarantee and obtain a partial or full refund to offset their dissatisfaction with the service firm. Offering service guarantees signals to customers that the firm is committed to delivering quality services and confident in its ability to do so. Customers often believe that a firm offering service guarantees would not do so unless it was confident in its ability to deliver. In cases where competing services are priced similarly and options to differentiate providers are few, the service guarantee offers a differential advantage.

Benefit-driven Pricing **Benefit-driven pricing** focuses on the aspects of the service that customers actually use. In comparison to usage-based pricing which bases prices on how frequently a service is used, benefit-driven pricing bases pricing on what specific components are being used (not how often). For example, those that are familiar with Limu the Emu of Liberty Mutual Insurance should also be familiar with the company's tag line, "Only pay for what you need!" Liberty Mutual touts, "You could save 12% when you buy customized car insurance online."³³ In other words, the company allows its clients to pick and choose their own types of insurance coverage and create bundles that meet individual customer needs.

Flat-rate Pricing Satisfaction-based pricing can also be achieved through flat-rate pricing. The primary objective of **flat-rate pricing** is to decrease consumer uncertainty about the final price of the service by agreeing to a fixed price before the service transaction occurs. With flat-rate pricing, the provider assumes the risk of price increases and overruns. Flat-rate pricing makes the most sense when:

satisfaction-based pricing

Pricing strategies that are designed to reduce the amount of perceived risk associated with a purchase.

benefit-driven pricing

A pricing strategy that charges customers for services actually used as opposed to overall "membership" fees.

flat-rate pricing

A pricing strategy in which the customer pays a fixed price, and the provider assumes the risk of price increases and cost overruns.

- Price is competitive.
- The firm offering the flat rate has its costs under control and runs an efficient operation.
- Opportunities exist to engage in a long-term relationship and to generate additional revenues with the customer.

The United States Postal Service has introduced flat-rate pricing for customers interested in shipping packages across the country. According to USPS, "Shipping shouldn't take a lot of time and guesswork. With Priority Mail Flat-Rate Boxes, if it fits in the box, it ships anywhere in the United States for a low flat rate. And no need for those zone maps."³⁴

6-4e Relationship Pricing

The primary objective of **relationship pricing** is to enhance and expand the firm's relationship with its targeted consumers. For example, in the banking industry, relationship pricing strategies can be used to further nurture the relationship between the bank and its existing checking account customers by offering special savings accounts, deals on safe deposit boxes, and special rates on certificates of deposit. Two types of relationship pricing techniques include *long-term contracts* and *price bundling*.

Long-term Contracts Long-term contracts offer prospective customers price and nonprice incentives for dealing with the same provider over a number of years. UPS recently entered into long-term shipping contracts with Land's End and Ford Motor Company. Because of its customers' long-term commitments, UPS has been able to transform its business with these clients from discrete to continuous transactions. UPS now has operations and personnel dedicated solely to providing services to these specific customers. Since transactions are now continuous, economies of scale have developed, and cost savings that can be passed to the customer plus opportunities for improving the firm's profit performance have emerged.

Price Bundling Since most service organizations provide more than one service, the practice of bundling services has become more common.³⁵ *Price bundling*, broadly defined, is the practice of marketing two or more services in a single package at a single price. For example, Xfinity's Triple Play offer, which bundles HD (high-definition) cable, phone, and high-speed Internet services for a single price, is a classic example.³⁶ Price bundling encourages customers to expand their relationship with the service provider by providing incentives to purchase additional

relationship pricing

Pricing strategies that encourage customers to enhance and expand their dealings with the service provider.

services which bundled together is sold to the customer at a less expensive price point than purchased individually. Other common bundling examples include hotels offering weekend packages that include lodging, meals, and entertainment options at an inclusive rate, and online travel sites such as Travelocity that offer vacation packages that include air travel, car rental, and hotel accommodations for one single price.³⁷

6-4f Efficiency Pricing

The primary goal of **efficiency pricing** is to engage in *cost leader pricing* and appeal to economically minded consumers who are looking for the best price. “Efficiency pricers almost always are industry heretics, shunning traditional operating practices in search of sustainable cost advantages.”³⁸ Southwest Airlines and its relentless efforts to reduce costs is one such example. Southwest Airlines reduces costs by flying shorter, more direct routes to less-congested, less-expensive airports. No meals are served, passengers are seated on a first-come, first-served basis, and the airline was the first to offer “ticketless” travel on all flights.

Efficiency pricing focuses on delivering the best and most cost-effective service available for the price. Operations are streamlined, and innovations that enable further cost reduction become part of the operation’s culture. The leaner the cost structure, the more difficult it is for new competitors to imitate Southwest’s success. Understanding and managing costs are the fundamental building blocks of efficiency pricing.

Today, Southwest Airlines continues its price leadership in the airline industry with its Bags Fly Free™ promotion.³⁹ “While many other airlines charge their customers baggage fees for their first (up to \$65) and second (up to \$100) pieces of luggage in addition to ticket prices⁴⁰, Southwest proudly boasts, “We don’t believe in springing unpleasant surprises on our Customers ... Take a stand against other airline bag fees. Book a Southwest flight today and save up to \$100 roundtrip when your Bags Fly Free™.” Readers might also notice that when Southwest speaks of its “Customers,” the first letter is capitalized. Symbolically, the capital “C” reflects the importance Southwest places on delivering top-notch, value-based services to its customers.

6-4g Adaptive Pricing

During the recent Great Recession (2007–2009), consumers stopped spending and companies scrambled to stay

profitable. Desperate, many retailers offered deep discounts to bump up demand for their goods, accepting thinner margins as a natural consequence of a sluggish economy.

The Great Pizza War of 2009 is one example of this. Domino’s, Papa John’s, and Pizza Hut slashed prices, offering pies for as little as a third of the original price and forcing other pizza restaurants to follow suit or lose customers. The strategy increased sales for all but left lingering effects. The economy has been in recovery for years now, but customers have been conditioned to pay low prices for pizza—and price increases are never popular, even when the economy is good.

To avoid this problem, many companies have turned to **adaptive pricing** (*aka temporary pricing*) strategies during tough times, offering discounts without conceding margins on a permanent basis.⁴¹ The idea is to vary product attributes to appeal to a variety of customers and their ideas of value. Common adaptive pricing strategies include altering the product size, using new distribution channels (online versus brick and mortar, pick-up versus delivery), or requiring purchase minimums. Other adaptive pricing tactics include price versioning (offering “good,” “better,” and “best” quality), a la carte pricing (unbundled offerings), and promotional pricing (two-for-one deals).

6-5 Pricing Guidelines: Some Final Thoughts on Pricing Services

The pricing of services is a complex task. Consumers are buying an experience, and they often feel uneasy about or do not understand for what they are paying. Similarly, service providers do not have a cost of goods sold figure upon which to base their prices. Confused and bewildered, many providers simply look to what the competition is charging, regardless of their own cost structures and competitive advantage. In contrast, successful service providers tend to abide by the following pricing guidelines:⁴²

- The price should be easy for customers to understand.
- The price should represent value to the customer.
- The price should encourage customer retention and facilitate the customer’s relationship with the providing firm.
- The price should reinforce customer trust.
- The price should reduce customer uncertainty.

efficiency pricing

Pricing strategies that appeal to economically minded consumers by delivering the best and most cost-effective service for the price.

adaptive pricing

The practice of offering discounts without conceding margins on a permanent basis.

Summary

Successful service pricing depends on recognizing the value that a customer places on a service and pricing that service accordingly. Customer perceptions of value represent a trade-off between the perceived benefits obtained from purchasing the product and the perceived sacrifice in terms of cost to be paid. Total customer costs extend beyond monetary costs and include time, energy, and psychic costs. Similarly, total customer value extends beyond product value and includes service, personnel, and image value.

When developing service pricing strategies, managers should take into account a number of considerations, including cost, demand, customer, competitive, profit, product, and legal considerations. Table 6-1 provides a summary of each of these considerations.

Overall, traditional pricing strategies and cost accounting approaches offer little benefit to either service consumers or service providers. Seven alternative pricing strategies that convey value to the customer include free-based, subscription-based, usage-based, satisfaction-based, relationship, efficiency, and adaptive. Free-based pricing offers customers some portion or all of the service for free.

Subscription-based pricing generates revenues by asking customers to pay a reoccurring price at reoccurring intervals in return for granting customers access to the firm's service products. Usage-based pricing is a popular alternative to subscription-based pricing due to its flexibility. Usage-based pricing measures customers use of the service and bills accordingly. The primary goal of satisfaction-based pricing is to reduce the perceived risk associated with the purchase of services and to appeal to target markets that value certainty. Satisfaction-based pricing strategies include offering guarantees, benefit-driven pricing, and flat-rate pricing. The goal of relationship pricing is to enhance and expand the firm's relationship with its targeted consumers. Relationship pricing techniques include offering long-term contracts and price bundling. In comparison, efficiency pricing appeals to economically minded consumers and focuses on delivering the best and most cost-effective service for the price. Understanding and managing costs are the fundamental building blocks of efficiency pricing. Finally, adaptive pricing is the practice of offering discounts without conceding margins on a permanent basis.

Key Terms

monetary cost
time cost
energy cost
psychic cost
product value
service value
personnel value
image value
fixed costs
variable costs
economies of scale

inelastic
cross-price elasticity
complements
substitutes
price discrimination
signpost items
reservation price
price bundling
price unbundling
forward buying
product-line pricing

dual entitlement
free-based pricing
subscription-based pricing
usage-based pricing
satisfaction-based pricing
benefit-driven pricing
flat-rate pricing
relationship pricing
efficiency pricing
adaptive pricing

Review Questions

1. It is often suggested that service firms should set their prices based on customers' perceived value of the service. What is value?
2. Discuss the role of costs in setting final prices.
3. Discuss the role of price as an indicator of quality to consumers.
4. Describe the trade-offs associated with taking hotel reservations from customers who pay lower rates than same-day customers.
5. Should self-service always be rewarded with lower prices? Please explain.
6. Under what conditions is price discrimination most effective?
7. Compare and contrast subscription-based pricing and usage-based pricing models.
8. Provide three examples of relationship pricing not addressed in this chapter.
9. Define price bundling and provide three reasons why it makes sense for service firms to engage in price bundling practices.
10. Define flat-rate pricing and provide an explanation for why a service firm may want to pursue a flat-rate pricing strategy.

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Case 6

MDVIP: Become a Priority, Not Just a Patient

Faced with the mounting pressure of practicing family medicine, Dr. Ray knew something had to change. Dr. Ray's current practice consisted of nearly 3,000 patients that the office normally saw only when they [the patients] were already sick. Trained in the areas of preventive medicine, Dr. Ray felt the office staff never really had the opportunity to use their training effectively to prevent illness and promote a healthy lifestyle for their patients before they fell ill. Moreover, due to the increasing number of patients, the average time for each visit was approximately eight minutes, and the appointment schedule was often booked out nearly a week in advance. As a result, sick patients were often waiting 7 to 10 days to actually get an appointment. Complicating matters even further, insurance companies often dictated the final fees for many services and paid doctors a fraction of what was actually charged to patients. Over the years, Dr. Ray felt increasingly stressed over the patient load, work/life balance was suffering due to the number of nights on call, and most importantly, patients were not getting the quality of care that ideally the office wanted to provide.

Upon attending a medical conference, Dr. Ray learned of a new business model for physicians that was being promoted by a firm named MDVIP. MDVIP is a network of more than 1,000 primary care physicians serving over 350,000 patients in 43 states who emphasize preventive, personalized health care. MDVIP offers what many call "concierge medical care," where physicians offer individualized health care for an annual fee. The annual fee buys patients a higher level of care, more personalized attention, easier access to physicians, and is paid for in addition to regular medical fees. The business model allows physicians to decrease the size of their practices dramatically and focus on preventive as well as acute patient care.

More specifically, physicians who adopt the MDVIP patient care business model promise to keep their patients as healthy as possible by providing unprecedented value and services, including:

- A smaller practice size, which allows time to focus on wellness, prevention, and the best treatment available. In Dr. Ray's case, the size of the practice would be reduced from 3,000 to 600 patients.
- An executive annual physical and personalized wellness plan. The executive annual physical is a \$2,000 value

covered by the patient's annual fee. The personalized wellness plan focuses on preventive health care activities in the hope of avoiding healthcare problems before they occur.

- Specialty care from premier hospitals and research facilities in the country, such as the Cleveland Clinic, Memorial Sloan-Kettering Cancer Center, and UCLA Medical Center, as part of MDVIP's Medical Centers of Excellence. MDVIP's Medical Centers of Excellence provide patients additional care for those situations that are beyond the care abilities of the local physician.
- A system of 24-hour physician availability and same or next day appointments. Due to the smaller size of the practice, patients can obtain appointments the same day, or, in the worst-case scenario, the next day. In addition, patients receive the physicians' direct cell phone number for 24/7 access. Each member patient also receives a personalized website that offers a secure messaging feature where patients can contact their physicians directly by email. Moreover, adult children under the age of 25 as well as out-of-town guests also have access to the physician for no additional charge.
- Access to other MDVIP physicians throughout the country for urgent or emergent care to provide patients with peace of mind when they travel. As the network of MDVIP physicians continues to grow, member patients can access other providers, if necessary, while traveling throughout the country.

Physicians invited to join the MDVIP network are carefully screened to assure patients that they are receiving the gold standard in terms of quality of care. The network selects physicians based on their medical expertise and philosophical relationships with their patients. MDVIP selects physicians who believe in preventive care and want to emphasize preventive care in their practices.

The annual cost for patients to participate in an MDVIP practice ranges from \$1,650 to \$2,200. The amount may be tax deductible and may be reimbursable through FSAs (Flexible Spending Accounts) or HSAs (Health Savings Accounts). As Dr. Ray considered adopting the MDVIP business model, the office staff wondered how patients would respond.

Source: MDVIP, accessed April 9, 2022; <https://www.mdvip.com/about-mdvip/philosophy>.

Discussion Questions

1. Using the Buyer's Perception of Value presented in Figure 6-1, discuss the value provided by the MDVIP business model. Do you believe that MDVIP offers a good value to patients?
2. What type of pricing model is MDVIP? Discuss the advantages and disadvantages of this type of pricing model.
3. Based on the 10 factors that influence price sensitivity described in the text, select 5 of these factors and discuss whether patient demand for health care is elastic (patients are typically price sensitive) or inelastic (patients are typically less price sensitive).
4. If Dr. Ray reduces the medical practice to 600 patients, discuss the pros and cons of three possible strategies for making arrangements for the 2,400 patients who will no longer be served.
5. Discuss the ethical or social responsibility issues that Dr. Ray faces as this medical office considers signing on with MDVIP.

Chapter 7

Developing the Service Communication Strategy



Chapter Objectives

After reading this chapter, you should be able to:

1. Recognize the importance of the customer decision journey (CDJ) as it relates to formulating communication strategy
2. Explain the steps necessary to manage the firm's service communication strategy effectively
3. Recognize the special challenges associated with developing service communications
4. Demonstrate specific guidelines for developing service communications
5. Discuss the special considerations faced by professional service providers and recommend solutions to overcome these challenges

The purpose of this chapter is to provide an overview of communication strategy as it applies to the marketing of services.

Multidirectional Promotions: McDonald's "Thank You Crew" Initiative¹

Given the importance of word-of-mouth communications as it relates to service decision-making, it makes sense for a company to attempt to generate and promote as many positive stories about its own successes as possible. This is particularly important since studies show that customers share negative word-of-mouth information at a rate of at

least twice as much as positive word-of-mouth information. Further complicating matters is the detrimental impact that negative word-of-mouth communications about company and employee performance has on employee satisfaction, productivity, and retention. Service employees are the public face of the firm. As such, employee performance and attitude are critical contributors to the customer's overall service experience. Ultimately, employee satisfaction drives customer satisfaction which means creating and maintaining a supportive work environment is of paramount importance.

McDonald's "Thank You Crew" initiative is a multidirectional promotional strategy that aims to create positive feelings among customers and employees alike. The program involves two simple steps: (1) the creation of a user interface that provides an opportunity for customers to

share thank-you stories about McDonald's employees that do their jobs well and/or went beyond the call of duty; and (2) promoting the program to customers and the media to create awareness about the program.

Analysts believe that this simple straightforward promotion will yield at least five positive benefits:

1. Gratitude (being acknowledged and thanked for efforts) has been shown in study after study to be one of the most powerful forces in developing employee satisfaction and productivity.
2. The program promotes confidence and pride among employees for efforts that are seldom measured, observed, or rewarded.
3. It alters customer feedback and emotions to focus on the positives of the relationship and builds a deeper connection with the firm.
4. The program is likely to generate a trove of positive stories that are likely to receive additional publicity which assists in attracting future customers and future employees.
5. The program focuses on the positives of customer/employee interactions and filters out the constant bombardment of critical information. Any critical information received can certainly be managed and acted upon separately but does not have to become a permanent remark within the program.

Ultimately, the promotion of the program itself also reinforces positive feelings about the firm. Store signage, QR codes that direct users to the website, and the name of the program itself motivate customers to recognize the positive aspects of their relationship with the firm. Finally, the multidirectional aspects of the promotion are directed to customers and employees alike making this a win-win promotional strategy for all involved.

7-1 Introduction

The firm's promotion, or **communications strategy**, informs, persuades, and reminds target markets, including customers, employees, and stockholders, about the firm's goods and services for the purpose of achieving organizational objectives. The term **communications mix** describes the array of communications tools available to

marketers that deliver the firm's communication strategy. Just as marketers need to combine the elements of the marketing mix (the four Ps of product, price, place, and promotion) to produce a marketing program, managers of service firms must also select the most appropriate communication tools to convey their messages.

The tools of the communications mix fall into five broad categories: personal selling; advertising; publicity, sales promotions, and sponsorships. Much like five players on a basketball team, each of the five communication tools excels at its own unique purpose. For example, *personal selling* is the only communication tool that enables two-way communication between the service provider and the customer. As a result, service providers can tailor their messages to each customer. As for *advertising*, no other communication tool is faster in creating overall awareness. Moreover, *publicity* is free and is typically reported by a third party, making it the most credible source of information. In turn, the primary strategic advantage of utilizing *sales promotions* is to increase short-term sales. Finally, *sponsorships* allow the service firm to target narrow but highly desirable target audiences and provide an option for service firms to adapt to customers' changing media habits—customers are simply not watching that much television anymore, and when they do, advertising is often ignored or skipped.

The five broad tools of the communication mix can be deployed utilizing traditional methods and/or through an ever-expanding list of digital marketing techniques such as:²

- Search engine optimization (SEO)—considered to be the art and science of making web pages attractive to search engines which considers the quality of content, level of user engagement, mobile-friendliness, and number and quality of inbound links.
- Content marketing—the creation and distribution of relevant materials aimed at specific target audiences for the purposes of lead generation and customer conversion (see E-Services in Action).
- Social Media—building customer traffic and brand awareness by engaging people in online discussions through platforms such as Instagram, Twitter, TikTok, Facebook, LinkedIn, and YouTube.
- Pay-per click Marketing—placing ads on a platform site and paying the platform when a user clicks on the ad which routes the user to the advertisers' information where users can be converted in purchasers and/or recipients of newsletters, etc.
- Affiliate marketing—allows others to make money while promoting another person's business.
- Native advertising—informational and/or entertaining content that is provided to users that is actually an advertisement for the sponsor.
- Marketing automation—automated digital marketing campaigns that collect and analyze consumer information, design targeted marketing campaigns, and delivers messages to the right audiences at the right time.

communication strategy

Communicates the firm's positioning strategy to its target markets, including customers, employees, stockholders, and suppliers for the purpose of achieving organizational objectives.

communication mix

The array of communications tools available to marketers including advertising, personal selling, publicity, sales promotions, and sponsorships.

E-Services in Action

Content Marketing: What, How and Why?

As an alternative to traditional promotional tactics, the web along with a variety of social media tools has opened new avenues to effectively reach customers. Content marketing has been particularly effective in driving traffic to a firm's physical and virtual locations. "Content marketing is a marketing technique of creating and distributing valuable, relevant, and consistent content to attract and acquire a clearly defined audience — with the objective of driving profitable customer action."³

Typical approaches to content marketing include:

- Blogs that are kept current and relevant.
- Photo and visual galleries—studies show that visual content is 40X more likely to be shared on social media compared to other types of content.
- Short form evergreen content—articles that break up text with photos every 75-100 words are 2X more likely to be shared on social media.
- Long-form articles—more in-depth coverage of content compared to short form evergreen content.
- Detailed lists of Information—provides information to Google searches such as the Top 10 Most Sustainable Hotels. Google receives over 1.2 trillion requests for information each year.
- Interactive tools—quizzes, games, contests, polls, etc. are felt to be 93 percent more effective than static content in gaining customer attention.

- Visual data and infographics—visual display of data, copy, design, colors, fonts, graphs and charts that tell a story. Infographics are 3X more likely to be shared on social media than other content materials.
- Video—4X as many customers would rather watch a video to learn about new material than read about it.
- Comprehensive category landers—not a type of content marketing per se; however, this is an SEO strategy that may land customers on a specific firm's content marketing while looking for general category information.
- Multipage guides—provides users introductory information on how to complete a task, etc, that is linked to additional content material.

The relationship between engaging in content marketing and its return on investment (ROI) is eye-opening. According to Hubspot:

- "Content marketing brings in 3X as many leads as traditional marketing and costs 62 percent less.
- Small and medium-sized businesses (SMBs) that use content marketing get 126 percent more leads than those that don't.
- 61 percent of online purchases are the direct result of a customer reading a blog.
- Companies that publish 16+ blog posts per month get 3.5X more traffic than those that post four or fewer posts per month."⁴

- Email marketing—touted as the most effective lead generation tool by marketing professionals, email marketing simply involves creating and sending promotional messages to interested audiences.

Using more than one communications tool to send the same message (known as *integrated marketing communications*) or using any one tool repeatedly increases the chances that existing and potential customers will be exposed to the firm's message, associate it with the firm, and remember it. By reinforcing its message, the firm can ensure that existing customers as well as potential ones become more aware of who the firm is and what it has to offer. The firm's communications mix often lays the foundation for subsequent contact with potential customers, making discussions with customers easier for the provider and more comfortable for the customers.

7-2 Discovering the Customer Decision Journey

Service marketers need to recognize how digital marketing has altered the customer decision process, or **customer decision journey (CDJ)**. Prospective customers

customer decision journey (CDJ)

The process a customer follows prior, during, and after making a purchase decision.

are getting more of the information that they require from company websites and peers from their social and business networks. While digital interactions are increasing, face-to-face interactions with service sales personnel are decreasing. Based on a study of nearly 20,000 customers across five industries, research suggests that the "single most important impetus to buy is someone else's advocacy. Yet many marketers focus on [traditional] media spending (principally advertising) rather than on driving advocacy."⁵ This demonstrates a mismatch between where marketing communication budgets are allocated and the touchpoints at which customers are best influenced.

7-2a Charting the Customer Decision Journey

Global Light, a lighting company, radically altered its communications approach based on the study of the CDJ in its industry. Global Light serves a range of commercial customers, including public retail and hospitality firms that purchase Global Light products for use in their servicescapes. The firm first conducted interviews with 40 customers (for example, architects and construction managers) to learn more about the process they followed in gathering information, evaluating alternatives, and buying lighting products. The company learned that customers were doing extensive research online before even making an initial contact with



Net Vector/Shutterstock.com

The customer decision journey is the process a customer follows prior, during, and after making a purchase decision.

Global Light. Moreover, customers were engaging in discussions and giving advice to one another via trade associations or in threads tied to blogs. Other exchanges occurred on LinkedIn. In short, prospects and customers invested more time on community and social sites than on marketing activities funded by Global Light itself.

Results from the study indicated to Global Light that the company was overlooking two critical components of the CDJ: (1) the company needed to more fully understand where potential and existing customers were going online to discover, create and compare ideas; and (2) the company also needed to examine the content and online platforms where existing customers were sharing their experiences pertaining to Global Light.

7-2b Transforming the Communication Strategy

Drawing on these customer insights, Global Light refined its communications strategy. First, upon completion of customer design projects, the marketing team encouraged customers to post case studies on the company's website, detailing project highlights and recounting their experiences. These case studies and related images were then sent to relevant customer prospects and cross-posted to community sites. Second, the company created a team of marketing managers and salespeople who take turns monitoring community sites. The team answers questions, attaches links to favorable product reviews, and announces new product offerings.

Third, since most customers relied on the company website to gather data related to technical specifications, Global Light made that information much easier to access. Customer success stories are also linked directly to the product the customer was considering. Tools were also added to allow architects or lighting designers to make more informed

product choices, such as the wattage required for different types of space or the total cost of ownership.

To implement these changes, Global Light hired a new vice president of digital strategy and made additional investments in social media and site design. The firm also created a new call center and developed programs to strengthen the capabilities of its distributors. Based on the market response to its refined strategy, the company predicts a fivefold return on investment. The Global Light example illustrates that the *customer decision journey* includes everything from discussions in social media to face-to-face meetings with salespeople to continued interactions with the company and with other customers. Astute service marketers realize the importance of understanding where and how prospective clients access information through both traditional and digital marketing platforms and adjust their communication strategies accordingly.

7-3 Managing the Service Communication Process: The Fundamentals

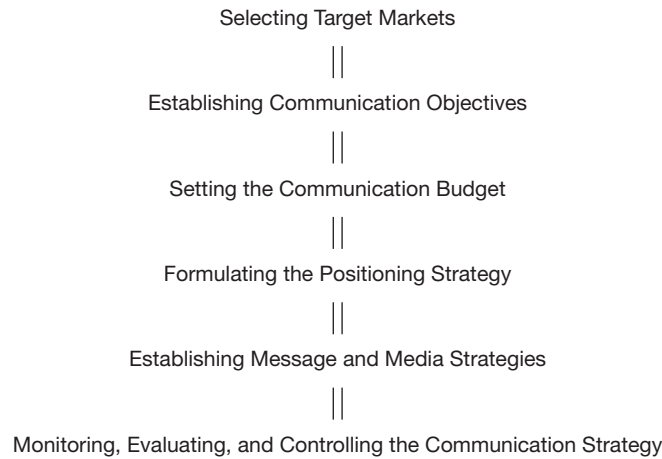
In many ways, the development of a sound communications strategy closely parallels the fundamentals of developing an effective marketing strategy—identifying a target market, selecting a positioning strategy, and tailoring a communication mix to the targeted audience that reinforces the desired positioning strategy. Consequently, managing the service communication mix is much more than developing an advertisement, buying a commercial time slot, and sitting back and watching what happens. Marketing as a discipline consists of a number of processes that, when used effectively, increase the likelihood of success for the processes' intended purpose. Similarly, service practitioners who adhere to the following service communication processes substantially increase their odds of obtaining their communication objectives (see Figure 7-1).

7-3a Selecting Target Markets

Developing a communications strategy follows a common pattern whether the firm is producing goods or services. The service firm must first analyze the needs of customers in the marketplace and then categorize customers with similar needs into market segments. Each market segment should then be considered based on profit and growth potential and the segment's compatibility with organizational resources and objectives. Segments that become the focus of the firm's marketing efforts become **target markets**.

target markets

The market segment that becomes the focus of a firm's marketing efforts.

Figure 7-1 Managing the Service Communication Strategy

If you don't particularly like the way lawyers are portrayed on television advertisements, there is probably a good reason—you're not their target market. According to Greg Norton, vice president of Rainmaker Marketing, Inc., in Wilmington, North Carolina, "over one-half of the attorney advertisers on television nationwide are sending the wrong message to the wrong audience. In markets all over the country, attorney advertisers are turning off the people they wish to reach."⁶ Rainmaker Marketing offers its services to law clients to keep them from making the same mistakes.

Who responds to lawyers who advertise on television? The results may surprise you. For example, research indicates that women make the initial calls to lawyers

60 to 70 percent of the time for automobile injuries (regardless of whether it's a male or female who is injured in the accident). Clearly, attorney advertisements should be created to speak to that female audience, and the message should be "trust." Women are looking for a relationship based on trust when selecting an attorney.

The typical respondents to attorney advertising are blue collar, age 21 to 54, with a 9th to 12th grade education. Younger callers tend to be single wage earners with families consisting of small children. This target audience is very connected to the television, as they obtain 90 percent of their current information from this medium. Women tend to respond immediately to attorney advertising viewed in the morning, but they will delay responses in the afternoon until after their favorite shows have ended.



Women are more likely to initiate a call to a lawyer when automobile-related injuries occur. Because of this, law advertising pertaining to personal injury as a result of an automobile accident should be targeted primarily to women.

7-3b Establishing Communications Objectives

At the broadest level, the service firm's communication objectives seek to *inform*, *persuade*, and *remind* current and potential customers about the firm's service offerings. Furthermore, the objectives of a firm's communication mix often relate directly to the service offering's stage within its product life cycle (PLC) (see Table 7-1). In general, the major communication objectives within the introduction and growth stages of the PLC are to inform the customer. Informational communications introduce the service offering and create brand awareness for the firm. Informational communications also encourage trial, and they often prepare the way for personal selling efforts to be conducted later.

As professional service providers slowly begin to communicate with the market, informational communications objectives tend to be the first step. Informational communications tend to be less obtrusive than other forms of communication, and, in many ways, the information conveyed

Table 7-1 Product Life Cycle Stage and Communication Objectives

Product Life Cycle Stage	Communication Objective	Communication Tactics
Introduction	Informational	Introduce the service offering Create brand awareness Prepare the way for personal selling efforts Encourage trial
Growth and Maturity	Informational and Persuasive	Create a positive attitude compared to competitive offerings Provoke an immediate buying action Enhance the firm's image
Maturity and Decline	Persuasive and Reminder	Encourage repeat purchases Provide ongoing contact Express gratitude to existing customer base Confirm past purchase decisions

often provides a public service to customers who otherwise might not have access to or knowledge of the range of services available. Legal and medical services that engage in communication campaigns are typical examples. Although many of us poke fun at many of the ads that lawyers place on the airways, they do serve their purpose. Many of the clients who contact these services are lower-income, less-educated clients who, by their own admission, have stated that if it were not for the advertisements they would not know where to turn.⁷



"I'm giving you 10,000 free golf balls with my company's logo on them. Since you'll lose every one of them, it'll be good advertising."

Since many service providers own and operate small firms with limited resources, exploring unique approaches to create awareness is a top priority.

Communications objectives during the growth and maturity stages of the PLC tend to lean toward informational and persuasive content. Objectives during this stage include creating a positive attitude toward the service offering compared to competitive alternatives, trying to provoke an immediate purchase action, and enhancing the firm's image. Professional service organizations often discourage the use of persuasive advertising among their members as it often pits one professional member of the organization against another. For example, it is hard to imagine that one physician would mention a competing physician by name and make claims that one physician is better than the other. In general, professional service organizations maintain that members who engage in persuasive communications ultimately cheapen the image of the entire industry. As a result, promotional messages that are primarily information-based are viewed as a more acceptable and tasteful method of promotion. When persuasive approaches are undertaken in the service arena, they are typically less personal and more global in nature. For example, service firms may claim more expertise or that they have been in business longer than their competition (without mentioning the specific names of competitors).

Communications objectives during the maturity and decline stages of the PLC tend to use persuasive and reminder communications. The communications objectives during this phase of the PLC are to influence existing customers to purchase again; to provide ongoing contact with the existing client base in order to remind clients that the firm still values their relationship; and to confirm clients' past purchase decisions, thereby minimizing levels of felt cognitive dissonance. As with informational communications, reminder communications tend to be less obtrusive and more acceptable to professional organizations than persuasive communications.

Finally, the broad categories of informational, persuasive, and reminder objectives are typically undertaken to achieve additional strategic objectives such as *increases in sales, positive changes in customers attitudes, and increases*

in overall customer awareness of the firm and its offerings. Furthermore, when developing communication objectives, each objective should be stated in **SMART terms**:

- **Specific**—objectives should be stated in specific (e.g., sales, awareness) as opposed to general (e.g., let's do an excellent job this year) terms.
- **Measurable**—objectives should be stated in quantitative terms so that they can be measured (e.g., the objective is to increase sales by 10 percent).
- **Achievable**—objectives should be realistic and reachable. Unrealistic objectives will never be achieved, and they may actually discourage instead of encourage employee behavior.
- **Relevant**—objectives should be relevant to the people who are undertaking the objectives. Corporate personnel should undertake corporate-level objectives, while department personnel should undertake department-level objectives.
- **Time-bound**—Objectives should be stated to be completed within a specific time frame (e.g., six months, one year).

7-3c Setting the Communications Budget

Once the target market is selected and communication objectives established, the communications budget needs to be set. Budget-setting techniques typically are covered in most introductory marketing classes and include the corporate-level approaches of *top-down budgeting*, *bottom-up budgeting*, *bottom-up/top-down budgeting*, and *top-down/bottom-up budgeting*. Other budget-setting techniques that are more applicable to small service firms include the *percentage-of-sales technique*, the *incremental technique*, the *all-you-can-afford approach*, *competitive parity*, and the

objective-and-task method.⁸ As a refresher, Table 7-2 provides a brief description of each technique.

Ideally, the communications budget should provide the resources needed for the service firm to meet its established communication objectives. In other words, the firm's communication objectives should drive the budget. However, a quick review of most of the budget-setting techniques just mentioned reveals that it is often the budget that drives which objectives can be achieved and not the other way around. Limiting the budget severely hinders the firm in reaching its communication objectives. As Derby Brown has said, "The business that considers itself immune to the necessity of advertising [communications] sooner or later finds itself immune to business."

7-3d Formulating the Service Firm's Positioning Strategy

The next step in managing the service communication process is to formulate the service firm's positioning strategy. A successful **positioning strategy** communicates to customers how the service firm distinguishes itself from competing alternatives.

Other typical examples of positioning strategies used by both goods and service firms include product differentiation, image differentiation, personnel differentiation, and service differentiation (see Table 7-3). In the end, despite a firm's best efforts to communicate its desired positioning, it is the customer who ultimately defines the company's positioning strategy. Effective positioning is particularly critical for service firms where intangibility clouds the customer's ability to differentiate one service provider from the next (See Services for a Better World in Action).

SMART terms

When setting objectives, objectives should be SMART—specific, measurable, achievable, relevant, and time-bound.

positioning strategy

How the firm is viewed by customers compared to its competitors. Positioning strategy speaks to the firm's differential advantage.

Table 7-2 An Overview of Communication Strategy Budget Setting Techniques

Budget-Setting Technique	Description
Top-down budgeting	Budget is set by upper management
Bottom-up budgeting	Budget is set by the product-level or brand manager
Bottom-up/Top-down budgeting	Budget is set by the product-level or brand manager and then revised by upper management
Top-down/Bottom-up budgeting	Budget is set by upper management and then revised by the product-level or brand manager
Percentage-of-sales technique	Budget is set based on a percentage of the previous year's sales
Incremental technique	Budget is increased by a fixed percent every year
All-you-can-afford approach	Budget is set based on what is left over after the firm pays for operating expenses and planned profits
Competitive parity	Budget is set based on promotional spending behavior demonstrated by the competition
Objective-and-task method	Budget is set based on the amount necessary to achieve stated communication objectives

Table 7-3 Differentiation Approaches for Effective Positioning

Product Differentiation	Personnel Differentiation
Features	Competence
Performance	Courtesy
Conformance	Credibility
Durability	Reliability
Reliability	Responsiveness
Repairability	Communication Style
Design (integrates the above)	
Image Differentiation	Service Differentiation
Symbols	Delivery (speed, accuracy)
Written, audio/visual media	Installation
Atmosphere	Customer training
Events	Consulting service
	Repair
	Miscellaneous service

Source: Adapted from Philip Kotler, *Marketing Management: Analysis, Planning, Implementation, and Control*, 9th ed. (Englewood Cliffs, NJ: Prentice Hall, 1997), p. 283.

7-3e Establishing Message and Media Strategies

Upon developing the service firm's positioning strategy, message content must be created that conveys the positioning strategy to current and potential customers. For example, the Ritz Carlton effectively positions itself as a high-end



Max Ryazanov/Alamy Stock Photo

Through the effective use of its “Ladies and Gentlemen Serving Ladies and Gentlemen” communications campaign, the Ritz Carlton has successfully positioned itself as the hotel of choice for both affluent customers and professional service providers.⁹

hospitality provider through its motto, “We Are Ladies and Gentlemen Serving Ladies and Gentlemen.”⁶ This is a classic example of using personnel differentiation as a positioning strategy. In addition to creating message content, the message also needs to be effectively delivered to customers via effective media strategies. The effectiveness of media strategies varies based on whether the message is targeted to nonusers or users.

Media Strategies for Targeting Nonusers If the objective is to reach nonusers of the service, then the choice of communications channel is reduced to media advertising, selling performed by a sales force rather than a service provider, public relationships, and sponsorships.

Services for a Better World in Action

The Use of Cause-related Marketing (C-RM) as a Promotional Strategy: A Note of Caution¹⁰

Throughout this text, we have promoted the positives associated with firms that adopt ESG initiatives that make a positive impact locally as well as throughout the world. Service provider involvement with cause-related marketing initiatives seems like a win-win situation—the cause receives attention and support, and the service firm receives the benefits of being associated with making a positive societal impact.

However, based on recent research findings, firms that utilize cause-related marketing tactics as a promotional tool should realize the reality of cause-related promotions as they are related to future business performance. Cause-related promotional campaigns are a form of nonmonetary promotion that rewards customers intrinsically for their involvement but not extrinsically (which the latter is more positively associated with reinforcing behavior). As a result, the initial upswing in sales linked to the cause-related promotion increases short-term sales but tends to wane when

the promotion is completed. In other words, increased sales associated with the good feelings directed at the firm only last for the duration of the promotion and then quickly diminish thereafter.

This phenomenon causes issues with future labor and product inventory forecasts (aka: the bullwhip effect). Caught unprepared for the initial uptick in sales, managers tend to overestimate the need for future labor and tangibles associated with the service. When the forecasted supply of new labor and support materials arrive, sales have already returned to their pre-promotion levels resulting an oversupply of labor and supporting materials. As a result, C-RM promotional campaigns may be good for the cause and generating positive brand appeal for the provider; however, C-RM campaigns may adversely impact the profitability of the firm and may be bad for business if the anticipated impacts of the campaign are not carefully considered as they relate to forecasted future supply chain decisions.

One way of assigning tasks across the array of communications channels is to consider the degree to which the message can be targeted at specific audiences. Media advertising itself varies along this dimension. At the broadcast, “shotgun” level, television advertising can reach a very wide audience but is not especially selective except in the variation of audiences across channels by time of day. For example, based on automobile accident statistics, 50 to 60 percent of all injury-causing accidents occur between Friday morning and Sunday midnight. Two-thirds of all injuries are soft tissue damage that begins to show symptoms 24 to 72 hours after the accident. Consequently, primetime for attorney advertising begins Monday morning and extends through Wednesday afternoon.¹¹

In comparison, national print media such as newspapers and magazines offer more selective focus, as they themselves tend to be targeted at more specific segments of customers. Trade magazines are even more specific in their readership. Direct mail offers the most focused of the impersonal media. Ultimately, the choice between these media must be based on the cost of reaching the target audience and the risk and cost of reaching the wrong segments.

When the service provider has a broadly defined audience and little to lose in reaching the wrong segments, television advertising may work out to be the least expensive vehicle on a cost-per-person basis. However, television and other forms of mass media are unlikely to be efficient for a specialty service such as an upscale restaurant with a tightly defined target audience and a high cost associated with attracting the wrong segment. In other words, if the “wrong crowd” shows up and shares the restaurant with its intended target market, the result may be a negative experience for all involved and a confused positioning message for the establishment.

Public relations and publicity can be either broad or tightly focused, depending on how they are used. Editorial comment can be solicited in broad or narrow media. Public relations carries with it the advantages and disadvantages of not being paid advertising. On the positive side, it receives more credence from the customer; on the negative side, it is much more difficult to control. The content may not be designed, or the coverage may be limited.

Both media advertising and public relations and publicity are one-way forms of communication. They cannot respond to customer questions or tailor the message to a particular customer. Personal or telemarketing is far more expensive per member of the target audience, but it does offer the flexibility of altering the message during the presentation. If the message is difficult to communicate or a great deal of persuasion is needed, personal communication may be most appropriate. A sales force can be highly targeted and trained to make complex arguments interactively, responding to the inputs of customers during the process.

Media Strategies for Targeting Users Current customers can be reached through all the channels discussed here, and they can be further reached by communications

through the service providers themselves. Clearly, the role of the service provider is multifaceted. Different providers are called upon to perform different communication functions. These providers and functions have been classified by the following types of service staff:¹²

Type 1 service staff are required to deal with customers quickly and effectively in “once only” transaction-based service encounters where large numbers of customers are present. The exchanges consist of simple information and limited responses to customer requests. Effective communication requires the ability to establish customer relationships very quickly, deal efficiently with customer problems, and convey short, rapid messages that customers can easily understand. Typical examples include front-line personnel at fast-food restaurants or grocery stores and patient representatives whose job is to obtain and process insurance information.

Type 2 service staff deal with numerous, often repeat customers in restricted interactions of somewhat longer duration. The information provided is mixed—partly simple and partly more complex—and requires some independent decision making on the part of the staff member. Communication in this category requires effective listening skills, the ability to establish trust, interpreting customer information, and making decisions in customer relationships that are often ongoing over a period of time. Communications are generally more intense than in type 1 situations. Typical examples include relationships with suppliers or customer relationships, such as with a customer who requests floral designs from a florist on a regular basis, a loyal customer of a seamstress/tailor, or an effective wait staff person at a fine dining establishment.

Type 3 service staff are required to have more complex communication skills. Interactions with customers are repeated over time, extensive flow of communication is required, and communication tasks are complicated and often nonrepeatable. Effective communication requires the ability to listen and process complicated information, to think creatively in face-to-face interactions with customers, and to provide information in a clear and understandable manner. Typical examples include staff members who are likely to be qualified as professionals.

type 1 service staff

Service staff who are required to deal with customers quickly and effectively in “once only” situations where large numbers of customers are present.

type 2 service staff

Service staff who deal with numerous, often repeat customers in restricted interactions of somewhat longer duration.

type 3 service staff

Service staff required to have more highly developed communication skills because of more extended and complex interactions with customers.

Any service organization may have employees in one, two, or all three of the preceding categories. Thus, a bank may have tellers performing type 1 communications, a loan officer engaged in type 2, and a commercial loan officer engaged in type 3. A travel company may have an agent engaged in both type 2 (when writing tickets and booking arrangements) and type 3 communications (when planning trips) and a receptionist handling type 1 communications.

Each type of communication requires a different set of skills from the providers and places different levels of stress on them. It is clearly important that the correct communications role be assigned to the correct person within the organization. Type 1 is predominantly an operations role, whereas type 3 is a mixed marketing and operations role.

When a communication mix that includes the service provider is developed, the final objectives for the staff will probably fall within one of the preceding categories. However, it is important to recall the position of the employee providing the service. The service provider is not simply a salesperson; he or she is an integral part of the operations process and the experience purchased by the customer. An apparently simple decision—for example, to have a bank teller sell services—can have profoundly negative consequences. It could well be that the decision produces role conflict for the teller. **Role/self-conflict** could be caused by the tellers' wanting to see themselves not as salespeople but as bankers. **Direct conflict** between the two roles can arise when the operations role demands fast service and minimization of time spent with each customer, but the selling role demands the opposite. In addition, the script may break down for both the service provider and the customer as the teller tries to do something new. The customer may be expecting a brisk, businesslike transaction when suddenly, the teller wants to build rapport by talking about the weather and local sporting events (before starting the sale).

Potentially, such a decision can also diminish operational efficiency as the transaction time per customer rises. This problem is illustrated by the experiences of FedEx before it centralized its telephone customer contact system. In times of peak demand, especially if those times were unpredicted, everyone in the FedEx depots answered telephones, including the field salespersons based at the depots. The result was that the various depot employees changed the service communication from type 1 to type 3. It also meant that calls took much longer than usual, and the telephone bottleneck consequently worsened.

role/self-conflict

Experienced when employees are asked to perform a new role that is inconsistent with their self-concept.

direct conflict

Occurs when an employee is asked to perform two contradictory roles such as being both efficient and effective.

7-3f Monitoring, Evaluating and Controlling the Communication Strategy

Once a firm's communication strategy has been launched, managers should monitor reactions to the strategy, evaluate its effectiveness, and make adjustments when necessary (see *Global Services in Action*). Evaluating the communicating strategy is typically conducted by comparing communication outcomes with previously stated objectives. For example, if the stated objective of the communication strategy is to increase customer awareness by 20 percent over the first four weeks of the communication's campaign, pretest and post-test surveys on levels of awareness could assist in verifying the success of the communication strategy. It should be noted that effective communication strategies do not always lead to immediate increases in sales. Many service communications are characterized by a **lagged effect** where demand for many types of services is infrequent, and therefore the success of the campaign may not be realized until a later point in time. For example, many patients only see their dentist once or twice a year, and their physician once a year for an annual physical. Clients may seek out their insurance agent or financial advisor even less often. However, even though sales may not immediately increase as a result of the communication strategy, the communications often increase client awareness and facilitate the formation of positive attitudes toward the service provider. Consequently, if at a future point in time, the customer looks to change an existing service provider or seeks out new services, the sales effectiveness of the communication strategy is now realized.

7-4 Special Challenges Associated with the Service Communications Strategy¹³

As established earlier in this text, the marketing of services is unique. Therefore, the development of an effective service communication strategy must take into consideration a number of special challenges not typically faced by goods-producing companies. More specifically, intangibility and inseparability present special challenges that should be considered when developing a communication strategy. First, since services are often consumed as a shared experience with other customers, *mistargeted communications* may result in the unanticipated consequence of having two diverse target markets responding to the same communication at the same time. Second, service managers should also be aware that the firm's communications are often

lagged effect

When demand for the service is infrequent, and therefore the success of the communication strategy may not be realized until a later point in time.

Global Services in Action

Adapting Global Promotional Messages

One of the many challenges faced by international service marketers is developing promotional campaigns that meet the needs of local clientele. To customize the promotional plan for the international market, the international marketer must consider issues related to positioning and advertising copy. The most important positioning adaptations are often based on local behavior, tastes, attitudes, and traditions—all reflecting the marketer's need to gain customers' approval. The service product itself may not change at all—only its positioning may need to be adjusted. Consequently, a Marriott property in one location may be positioned as a weekend getaway for adults, while another location in a more conservative country may stress family values in its communication strategy.

Frequently, in support of the service firm's positioning strategy, the content of the communication mix needs to be adjusted to appeal to the international customer. While some communications may share common graphic elements, the copy in the ad will be customized for the local culture. Marriott used similar ads to reach the business

traveler in the United States, Saudi Arabia, Latin America, and German speaking Europe. However, the copy was modified based on the needs of the local customer. While the common theme, "When You Are Comfortable, You Can Do Anything," was used worldwide, local emphases in the creative approach varied; for example, the Latin version stressed comfort, while the German version focused on results.

Similarly, ads for hotel properties marketed in countries such as Saudi Arabia need to be sensitive to local moral standards. While a global creative approach can be used, the copy and the images used in communications may require some adjusting. For example, if a Western-based Marriott advertisement showed a man and a woman embracing with bare arms visible, this version used around the world may be adjusted for Saudi Arabia to show the man's arm clothed in a dark suit sleeve, and the woman's hand merely brushing his hand. In the end, international service communications should be carefully positioned to fit the needs and expectations of local markets.

interpreted as *explicit service promises* on which customers base their initial expectations. As a result, service firms should be ready to deliver what is communicated in their promotional messages. Third, since employees often produce the service in close proximity to customers, employees should be considered *internal customers* who are as much as a target audience as traditional external customers. Finally, in many cases the service providers who produce the service also must sell the service, and questions arise concerning the strategic implications of *turning doers into sellers*. When the service provider is engaged in selling activities, the production of the service itself comes to a grinding halt. On the other hand, when the service provider is busy producing services, future customers will not be cultivated, threatening the ability of the service operation to run without interruption. This ultimately leads to the question, "How should service providers balance the activities of selling and operations?"

7-4a Mistargeted Communications

Segmentation is one of the basic concepts of marketing. In essence, it suggests that a firm's marketing efficiency can be improved by targeting marketing activities at specific groups of customers who behave differently in some way toward the firm. Although segmentation is applied in both goods and service companies, the consequences of reaching an inappropriate segment with a part of the communication mix are far less serious for goods companies than for services. If the wrong group of customers buys a particular brand of detergent, for example, it does not really affect the company making the detergent; sales are still being generated. A product may have been developed for the youth market, but through some quirk of the advertising execution, the product has attracted some senior citizens. For example, take

the Pepsi advertisement that portrayed the youthful effects of Pepsi being delivered to a senior citizens' home by error instead of to the college fraternity house.¹⁴ Let's say that the ad is interpreted by senior citizens that Pepsi will make them feel young again. Clearly, this was not the original intent of Pepsi, which targets the younger generation. Members of the group that misinterpreted the message visit the supermarket, buy the product, and use it in their homes. There are few negative consequences to the elder segment's use of the product.

Suppose, however, that some of the wrong segment decides to buy the services of a restaurant. An upscale concept has been developed, but to launch the restaurant, management decides to have a price promotion, and the advertising agency develops inappropriate advertising. Or, through poor management, the advertising is unfocused and produces feature articles in the wrong magazines. The result is that the restaurant gets two types of customer: upscale, middle-aged couples and price-conscious groups of students. The former were the original target, and the latter were attracted by mistargeted marketing tactics. Unfortunately for the restaurant and for many other services, other customers are part of the product. The result is that neither segment enjoys the experience because of the presence of the other, and neither type of customer returns. Hence, the consequences of **mistargeted communications** for service firms, because of the shared consumption experience, are clearly more significant than for traditional goods-producing firms.

mistargeted communications

Occurs when the same communication message appeals to two diverse market segments.

7-4b Managing Expectations and Perceptions¹⁵

The service firm's communication strategy can play a key role in formulating customer expectations about its services. A firm's communications may reinforce preexisting ideas, or they may dramatically alter those ideas and be replaced by a new set of expectations. Expectations can be set by something as explicit as a promise (e.g., "Your food will be ready in five minutes") or as implicit as a behavior pattern that sets a tone (e.g., a cordial greeting upon entering the place of business). Often such expectations are created unwittingly, as when a server promises to "be right back." Such a statement can be viewed both as a binding contract by a customer and as a farewell salutation by the service provider.

In addition to expectations, perception also has many sources. *Technical service quality* is an objective level of performance produced by the operating system of the firm. It is measurable with a stopwatch, temperature gauge, or other measuring instrument. Unfortunately, this is not the level of performance the customer perceives. Perception acts as a filter that moves the perceived service level up or down.

Perception is itself influenced by the same factors that dictate expectations. For example, communications can create warm feelings toward the organization that raises perceived service levels. In comparison, inappropriately dressed and ill-behaving staff can deliver high levels of technical service quality but be poorly perceived by the consumer, who will downgrade the perceived service level.

Many sources of expectations are under the direct control of the firm. Only past experience and competitors' activities cannot be directly influenced in one way or the other. Given such control, the firm must determine what the objectives of the communication mix should be. In the absence of competition, one possible communication objective would be to reduce customer expectations prior to their arrival. The reduced expectations would result in higher satisfaction levels, provided that levels of perceived service are maintained. Realistically, communications must also play the more traditional role of stimulating demand. It is inconsistent to think of achieving this by promising average service, even if doing so might minimize customers' expectations (for the few customers who use the service!).

In competitive terms, firms make promises and strive to build expectations that will differentiate them in the marketplace and cause customers to come to them and not to their competitors. The temptation is, therefore, to promise too much and raise expectations to an unrealistic level. It is perhaps fortunate that the variability in services is well known to most customers and that they, therefore, discount many of the promises made by service firms. When promises are taken seriously, however, the result is often dissatisfied customers.

7-4c Advertising to Employees

The staff of service firms often form a secondary audience for any firm's advertising campaign. Clearly, communications seen by the staff, if they empathize with it, can be

highly motivating. However, if communications are developed without a clear understanding of the reality of the service provider's role in service delivery, it can imply service performance levels that are technically or bureaucratically impossible. This has a doubly detrimental effect on the staff since: (1) it shows that people who developed the communications (the marketing department) do not understand the business; and (2) it raises the prospect that customers will actually expect the service to operate that way, and the staff will have to tell them that the reality differs from the level of service portrayed in the firm's communications. In both cases, there will be a negative impact on staff motivation, which will, in turn, negatively affect customer satisfaction.

A classic example involved American Airlines. The company developed an advertisement that featured a flight attendant reading a young child a story during the flight. As a result, passengers expected the flight attendants to tend to their children, and flight attendants were upset by the implication that they were supposed to be babysitters in addition to all of their other duties.

The bottom line is that, in order for service firms to succeed, they must first sell the service job to the employee before they sell the service to the customer.¹⁶ For years, communications from Southwest Airlines have shown smiling employees going to great lengths to please the customer. Although the communications are clearly targeted toward customers, they also send a message to employees about appropriate role behavior. In the end, service communications not only provide a means of communicating with customers, but they also serve as a vehicle to communicate, motivate, and educate employees.¹⁷

7-4d Selling/Operation Conflicts

Another consideration unique to the service sector is that the people who sell the service are often the same people who provide the service. In many cases, the service provider is much more comfortable providing the service than marketing their own abilities. However, in some cases, providers become so involved in the communications aspects of their firm that they no longer actively participate in the operations end of the business.

The conflicts associated with selling versus operations are at least twofold. First are the economic considerations. Typically, service providers are paid for providing services and not for time spent on communications activities. Clearly, the provider must engage in marketing activities in order to generate future customers, but the time spent on marketing does not generate revenues for the provider at that point in time. Complicating matters further, the time spent on communications activities with potential new customers often occurs while an ongoing project is being conducted. This means that the time dedicated to communications activities must be considered when estimating completion dates for current customers. Often the firm's communications efforts must occur while previously sold services are being processed in order to avoid shut-down periods between customer orders.

The second conflict that arises is often role related. Many professional service providers believe that communications activities such as personal selling are not within their areas of expertise, and in some cases beneath them! Therefore, some providers feel uncomfortable with communications activities. The healthcare field in particular has been plagued by this problem through the years. However, growing competition among providers has led many to recognize the need to train their technical specialists in marketing principles. Many healthcare institutions, particularly the good ones, now embrace the importance of the firm's communication efforts.

7-5 Specific Guidelines for Developing Service Communications

Based on a review of the literature that directly examines the specifics of marketing services, several common themes emerge that create guidelines for the development of service communications. Many of these guidelines have been developed over the years by service firms as solutions to challenges created by the intangibility, inseparability, heterogeneity, and perishability of services.

7-5a Develop a Word-of-Mouth Communications Network

Consumers of services often rely on personal sources (e.g., friends, family, coworkers) of information more than nonpersonal sources (e.g., mass media) to reduce the risk associated with a purchase. Given the importance of nonpersonal sources, communications should be developed that facilitate the development of a word-of-mouth network. Communications that feature satisfied customers and promotional strategies that encourage current customers to recruit their friends are typical. Other communication strategies such as presentations for community and professional groups and sponsorship of community and professional activities have also been effective in stimulating word-of-mouth communications. In many ways, today's customers and service firms can access and generate more personal sources of information through the Internet via blogs, social networks, and review and opinion websites such as *epinions.com* and *TripAdvisor.com* than any prior generation. Smart customers use these sources of information to make more informed purchase decisions, and "just as smart" service providers are learning to use these sites to drive traffic to their firms.¹⁸

7-5b Promise What Is Possible

In its most basic form, customer satisfaction is developed by customers comparing their expectations of service to their perceptions of the actual service received. In times of increasing competitive pressures, firms may be tempted to

overpromise in their marketing communications. Making promises the firm cannot keep initially increases customer expectations, but it subsequently lowers customer satisfaction when those promises are not met.

Two problems are associated with overpromising. First, customers leave disappointed, and a significant loss of trust occurs between the firm and its customers. Moreover, disappointed customers are sure to tell others of their experience, which increases the fallout from the experience. The second problem directly affects the service firm's employees. Working for firms that routinely make false promises places employees in compromising and often confrontational positions. Front-line personnel are left to explain repeatedly to customers why the company cannot keep its promises. Given the link between employee satisfaction and customer satisfaction, creating expectations that cannot be met can have devastating long-term effects.

7-5c Tangibilize the Intangible¹⁹

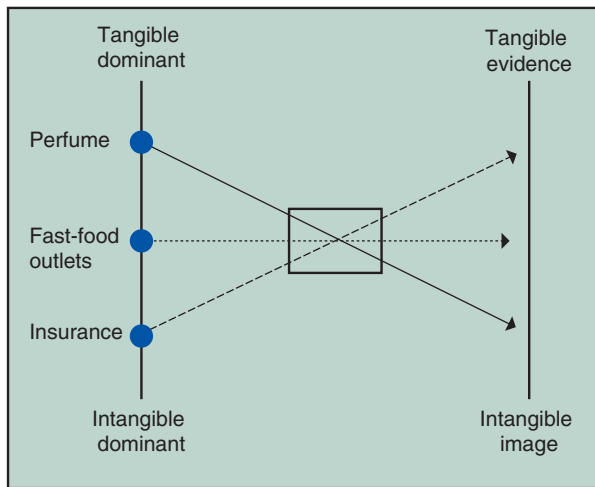
Given the intangible nature of services, service products are often abstract in the minds of potential customers. One of the principal guidelines for advertising a service is to make it more concrete. Insurance companies face this challenge on a daily basis—how to tangibilize the intangible? One possible solution for many insurance companies has been to use tangible symbols to represent their companies. Prudential has The Rock, Merrill Lynch has The Bull, and GEICO has The Gecko. However, no insurance icon has ever been as successful as the Aflac Duck!²⁰

The Aflac Duck campaign was created by Linda Kaplan Thaler, CEO/chief creative officer and Robin Koval, chief marketing officer/general manager of The Kaplan Thaler Group (KTG) Ltd. Their charge was to increase the public's awareness of the Aflac brand. Aflac's chair and CEO told Thaler, "I don't care what you do, as long as you get people to know the name of this company." The impetus behind the duck campaign was based on KTG's "big bang" theory—"if we allow a little illogic into our thoughts ... we can break through the prison of current convention." When pronounced audibly, Aflac sounds like a duck, so why not create a slightly annoying waterfowl (who hates to be ignored) to represent a company that is trying to make a splash in the marketplace?²¹

The Aflac Duck campaign has been an unparalleled success. To begin, Aflac's name recognition grew from 12 percent to over 90 percent in a five year period. Aflac is now the number one provider of guaranteed renewable insurance in the United States and Japan. Aflac has a presence in all 50 United States and the U.S. territories. Aflac is actively involved in a number of philanthropic endeavors and has been nationally recognized among the 100 Best Companies to Work for in America, the 100 Best Places to Work in IT, the 50 Best Companies for Latinas, America's Most Admired Companies, and the 100 Best Companies for Working Mothers.

In tangibilizing the intangible, the scale of market entities should be turned on its end (see Figure 7-2). Tangible

Figure 7-2 The Impact of Intangibility: Different Communication Strategies for Different Types of Products



Source: Adapted from G. Lynn Shostack, "Breaking Free from Product Marketing," *The Journal of Marketing* (April 1977).

dominant market entities—described as concrete by nature—such as perfume use image development in their advertising schemes. From a basic viewpoint, perfume is simply liquid scent in a bottle. The customer can pick it up, try it on, and smell the perfume's fragrance. Hence, the perfume is tangible dominant. As with many tangible dominant products, the advertising tends to make it more abstract in order to differentiate one product from another. In contrast, the advertising of intangible dominant products—described as abstract by nature—should concentrate on making them more concrete through the use of physical cues and tangible evidence. Insurance products are already abstract, so it becomes the communication's objective to explain the service in simple and concrete terms. In addition to tangible



The AFLAC duck campaign has helped "tangibilize" the intangible and has been one of the most successful advertising campaigns in services marketing history.

symbols, other service firms have tangibilized their service offerings by using numbers in their advertisements, such as, "We've been in business since 1925," or "Nine out of ten customers would recommend us to a friend." Finally, the communication objectives for products in the middle of the scale of market entities often use both approaches—abstract and concrete elements. McDonald's, for example, promotes "food, folks, and fun" in its advertisement. Food and folks are concrete, and fun is abstract.

7-5d Feature the Working Relationship Between Customer and Provider

As you should well understand by now, service delivery is an interactive process between the service provider and the customer. Because of inseparability, it is appropriate in the firm's communications to feature a company representative and a customer/client working together to achieve a desired outcome. Hyatt Hotel advertising commonly shows a company representative and a customer interacting in a friendly and reassuring manner. Many financial institutions, legal firms, and insurance companies also follow this same model. The advertising of services, in particular, must concentrate not only on encouraging customers to buy, but also on encouraging employees to perform. Clearly, advertising that illustrates the inseparability of the service delivery process should target both the customer and the firm's service personnel.²²

7-5e Reduce Customer Fears about Variations in Performance

The firm's marketing communications can also minimize the pitfalls of heterogeneity in the customer's mind. To enhance the perception of consistent quality, the firm's communications should provide some form of documentation that reassures the customer. Typical examples include stating the firm's performance record through numbers as opposed to qualitative testimonials. The use of "hard" numbers in advertisements reduces the consumer's fear of variability and also tangibilizes the service, as mentioned earlier. For example, statements such as 9 out of 10 doctors agree that service "X" is the best, or our company maintains a 98 percent customer satisfaction level, helps to reassure customers about the consistency of the firm's performance.

7-5f Determine and Focus on Relevant Service Quality Dimensions

The reasons customers choose among competing services are often closely related to the five dimensions of service quality—reliability, responsiveness, assurance, empathy, and the quality of the tangibles associated with the service—which will be discussed in detail later in this text. However, it is common that some features are more important to customers than others. For example, 30 percent of today's airline customers list "safety" as one of their top five considerations when choosing an airline.²³ Consequently, it

would be appropriate for airlines to emphasize the assurance dimension of service quality by featuring the airline's safety record, maintenance and training programs, and any certified aspects of their airline operations. One marketing communication campaign that backfired promoted a hotel as one of the tallest hotels in the world. Although this reinforced the tangible dimension of "bigger is better," this particular tangible component was not very important to customers in choosing hotels. In fact, many customers who had even the slightest fear of heights avoided the hotel for fear of being placed on an upper floor. The lesson to be learned is that in the development of marketing communications, the content of communications should focus on the features and benefits that really matter to customers.

7-5g Differentiate the Service Product via the Service Delivery Process

A dramatic difference exists between *what* the service provides (outcomes) and *how* it is provided (process). Identifying the various inputs into the process, which contributes to a competitive or quality advantage, and stressing these inputs in the firm's communications is likely to be a successful approach. For example, on the surface, it appears somewhat difficult to differentiate one tax accountant from the next. However, if we consider the process of obtaining a consultation, which consists of calling to make an appointment, interacting with staff at the front desk, the appearance of the office in the reception area where the client is waiting, the appearance of the accountant's office, the interaction between the client and the accountant, and the payment procedures, several potential areas for differentiation arise. Outlining the various inputs within the service delivery process may indicate key competitive and/or quality advantages that traditionally have been overlooked. As a result, these competitive differences can be stressed in the firm's marketing communications and establish a key positioning strategy in the market.

7-5h Make the Service More Easily Understood

Services can also be more fully explained to potential customers by presenting the service as a series of events. When questioned, customers often break down the service experience into a series of sequential events. Understanding the sequence permits the service provider to view the service from the customer's perspective. For example, bank customers may first view the external building, parking facilities, landscaping, and cleanliness of the grounds. When entering the bank, customers notice the interior furnishings, aroma, music, temperature, and service personnel. While conducting bank transactions, the appearance and demeanor of specific contact personnel become additional quality cues. Hence, perceptions of quality are assessed at each stage of the service encounter. Communication strategies developed from the sequence-of-events perspective consider the customer throughout the process and highlight the firm's strengths in each area.

7-6 Developing Communication Strategies for Professional Service Providers

In comparison to service marketers in general, professional service providers (e.g., consultants, doctors, lawyers) often experience their own distinct challenges that may be tempered by the development of an effective communications program.²⁴

7-6a Special Considerations for Professional Service Providers: The Top 10

Specifically, the 10 most frequent problems encountered include:

1. **Third-Party Accountability** Investors, insurance companies, banks, governmental agencies, and even members of their own professions often hold professional service providers accountable for their actions or at least monitor those actions. Creating credibility and projecting the image of a quality firm to third parties can be accomplished through the firm's communications mix, thereby minimizing excessive scrutiny by outside parties. Communication strategies that come to mind include conducting business seminars, giving speeches, and writing trade articles. Business seminars in the professional's area of specialization demonstrate the provider's expertise not only to potential and existing clients, but also to interested third parties, particularly other industry members. Speeches to local civic organizations as well as national conventions spotlight the firm's talents and further enhance the firm's image. Reprints of articles should be included in company newsletters and sent to appropriate audiences.
2. **Client Uncertainty** Many professional services are costly, associated with danger or importance, and, in some cases, technical and specialized, making them difficult for the customer/client to understand. Effective communications can communicate the procedures involved, show the likely outcomes (managing customer expectations), answer customers' common questions, and/or minimize customers' areas of concern. For example, many surgical centers now send patients informational pamphlets or direct patients to video-ready websites that describe and/or illustrate surgical procedures prior to the patient's scheduled appointment.
3. **Experience Is Essential** Effective marketing communications are successful in attracting and maintaining the customer base. The opening of a new doctor's office is not greeted with nearly the same enthusiasm as that of a new restaurant. The more professional the service, the more the service provider's years or quality of experience matters to potential customers. Once again, the value of offering seminars, membership in local organizations, speaking at civic functions or on talk radio programs, and writing blogs for local consumption are great icebreakers.

4. **Limited Differentiability** As the level of competition increases among professional service providers, differentiation among providers decreases as they match one another's offerings with comparable alternatives. Marketing communications that differentiate the provider on factors beyond the mere service product itself, such as personnel, customer service, and image, must be communicated to the marketplace to set the provider apart from the crowd.
5. **Maintaining Quality Control** Because the customer is part of the service production process, they ultimately have a large amount of control over the quality of the final outcome. Communication that stresses the importance of following the professional's advice and its relationship to achieving positive outcomes educates the customer about the importance of their own role in the service delivery system. Physicians who need their patients to follow specific diets or exercise plans to improve their health are classic examples.
6. **Turning Doers into Sellers** In many cases, the employment of outside sales representatives to market professional services to clientele is inappropriate and ineffective. Client uncertainty dictates that the professional provider must become actively involved in the sales process to reassure clients and minimize their fears. Ultimately, no one should be able to sell the available service better than the provider. However, as discussed earlier, while some providers thrive on making sales, many other providers feel uncomfortable when thrust into the sales spotlight.
7. **The Challenge of Dividing the Professional's Time Between Marketing and Providing Services** Directly related to the previous point is the problem associated with the professional provider becoming too involved in the personal selling component of the firm's communication mix. Professionals generate revenues by billing for the time that they are servicing existing customers. Not only do marketing activities consume a portion of the professional's billable hours, but the professional does not get paid directly for the time spent on marketing efforts. As a result, the professional must decide how much personal time to allocate to marketing activities and how to divide that time between cultivating new prospects, maintaining relationships with existing clients, and involvement in more general public relations work. This is not an easy task.
8. **Tendencies to Be Reactive Rather than Proactive** The pressure of everyday business cuts into the amount of time the professional can devote to marketing activities. Existing customers demand the attention of the provider in the short run by expecting services to be delivered in an expedient manner. As a result, many professionals find themselves in a reactive mode as they search out new business when existing business transactions end. This creates the unenviable situation of trying to run a business while moving from one client to the next. Often, slack time develops between clients, which

negatively affects the cash flow of the operation, not to mention placing increased pressure on anxious providers and their employee workforce to find new clients.

The communication mix should not be based solely on the professional's personal selling efforts. Ongoing communications must work for the provider in a proactive manner while the provider performs everyday activities with existing clientele. The professional can make better use of the time devoted to marketing efforts by focusing on closing the sale, not starting from scratch as the sole individual charged with initiating the sales process.

9. **The Effects of Advertising Are Unknown** In the not-so-distant past, many professional organizations such as those for U.S. lawyers forbade their members to engage in marketing communication activities. However, the courts ruled that the ban on marketing communications was unconstitutional, based on the case *Bates v. The State Bar of Arizona*. Despite the ruling, some members of professional societies still frown upon the use of certain communication methods such as traditional advertising. Consumer groups are particularly advocating that professional service providers engage in active marketing communications. Consumer advocates believe that an increase in communication efforts will provide consumers with much-needed prepurchase information and increase the level of competition among providers. They also believe that as a result of the increase in competition, prices will fall, and the quality of service will improve. However, service providers such as those in the healthcare arena do not agree. Healthcare providers quickly point to the legal profession and state that increasing communications will likely have a negative impact on their profession's image, credibility, and dignity. In addition, healthcare professionals believe that customer benefits created by increased communications efforts are unlikely. In fact, some state that if consumers believe that health care is expensive now, just wait until the profession has to start covering the costs of its communications efforts. Needless to say, the jury is still out on who is correct. However, as time has passed and as competitive pressures among professional service providers have mounted, the use of marketing communications seems to be becoming more acceptable in general.
10. **Professional Providers Have a Limited Marketing Knowledge Base** Many of the terms you take for granted as business students, such as market segments, target markets, marketing mix variables, and differentiation and positioning strategies, are totally foreign to many professional service providers. Professional service providers are trained to perform their technical duties effectively. Lawyers attend law schools, physicians attend medical schools, dentists attend dental schools, and veterinarians attend veterinary schools. What do all these professional providers have in common when they go into practice for themselves? They all run businesses, yet they have no formal business educational backgrounds.

Due to a limited marketing knowledge base, professional service providers are often tempted to develop the firm's communication mix in isolation, without regard to the firm's overall marketing strategy. Ultimately, the firm's communications mix should be consistent with targeted consumer expectations and synergistic with other elements in the marketing mix.

7-6b Additional Special Considerations for Professional Service Providers

First Impressions Are Everything Because of the **halo effect**, early stages of the service encounter often set the tone for customer evaluations made throughout the service experience. As a result, providers must pay special attention to the initial interactions in the encounter because they are often the most important. First impressions are often believed to establish or deny relationships within the first four minutes of contact.²⁵ For example, telephone calls need to be answered promptly and politely. During a speech about service excellence, Tom Peters of *In Search of Excellence* fame reported his personal experience with telephone contact personnel at Federal Express. Mr. Peters reported that on 27 of 28 occasions, FedEx operators answered his personal phone calls on or before the first ring. In fact, Mr. Peters admitted that FedEx may be 28 for 28 since he assumes that he misdialed and hung up the phone on the 28th event. Peters then redialed the number and the phone was answered before the first ring.

Communication cues on which customers base initial impressions include websites, direct mail advertisements, signage, and an easily accessible place of business. Once the client actually arrives, the firm's reception area should be a showplace, complete with tangible clues that reinforce the firm's quality image. Possible tangible clues in the reception area include the name of the firm and its service providers prominently displayed, furnishings that reflect the personality of the business, fresh flowers, a "brag book" that includes letters from happy customers, past company newsletters, provider profiles, and indications of the firm's involvement in the community. Finally, the reception area should be staffed by professional and pleasant customer contact personnel. Despite the importance of first impressions, many firms simply view their reception areas as waiting rooms, making little effort to enhance the aesthetics of these areas. In many cases, these areas are equipped with uncomfortable and unappealing furnishings and staffed by low-paid, poorly trained personnel—a major mistake when one considers the importance of first impressions.

halo effect

An overall favorable or unfavorable impression based on early stages of the service encounter.

Create Visual Pathways that Reflect the Firm's Quality

The firm's printed image includes all printed communication to clients such as correspondence, annual reports, newsletters, and billings. It also includes printed material of general use, such as firm brochures, letterhead, envelopes, and business cards, as well as internal communications—from agendas to checklists, from memos to manuals. Printed materials create a **visual pathway** through which the professional image of the firm can be consistently transmitted.

From the first time the firm's business card is put into a prospective client's hand, through the first letter the client receives, and on through finished reports delivered to the client and final billings, the presentation of printed material makes an impression. With every piece of material the client receives, the client subconsciously reacts to the quality of paper, reproduction, and binding with which the firm has produced it. And most of all, the client is responding to the visual images the professional provider has chosen to represent the firm, starting with the logo.

Establish Regular Communications with Clients

Every communication with a client is a potential promotional opportunity. Experts suggest taking advantage of this potential from the very beginning of the relationship with the client. Every new client should receive a special letter of welcome to the firm and a sample newsletter that conveys the firm's service concept. The use of standardized letters embossed with the firm's logo, which can be adapted for different circumstances such as welcome letters, thank you notes for referrals, and reminder letters/emails/texts of upcoming appointments, are also effective. Better yet, handwritten, personalized messages on the firm's note cards provide a personal touch.

Develop a Firm Brochure/Website

The firm's brochure/website is a menu of its service offerings and should be the written showpiece. In addition to providing an overview of available services, firm brochures/website typically include the firm's history, philosophy, and profiles of personnel. Personnel profiles featuring printed photographs and biographies are likely candidates for materials that often change as employees move from firm to firm. The firm brochure/website is a prime opportunity for the professional service firm to project its uniqueness. Ultimately, the firm brochure/website should be the kind of product the firm can enthusiastically present to existing and prospective clients.

visual pathway

Printed materials through which the professional image of the firm can be consistently transmitted, including firm brochures, letterhead, envelopes, and business cards.

An Informed Office Staff Is Vital Last, but definitely not least, engendering respect and pride in the firm's capabilities does not stop with external promotion. In fact, it starts internally, and generating a professional image for the benefit of firm staff can be as important as promoting

that image to clients. Remember, the staff is in constant, direct contact with clients. Failure to communicate effectively with the firm's staff is readily apparent and quickly erases all other communication efforts to project a quality program.

Summary

The firm's communications strategy *informs, persuades, and reminds* target markets, including customers, employees, and stockholders, about the firm's goods and services for the purpose of achieving organizational objectives. In many ways, the development of a sound communications strategy closely parallels the fundamentals of developing an effective marketing strategy: identifying a target market, selecting a desired positioning strategy, and developing communications that reinforce the firm's positioning strategy. More specifically, service firms that effectively manage their communication strategy engage in a communication process of selecting target markets, establishing communication objectives, setting the communication budget, formulating the positioning strategy, establishing message and media strategies, and monitoring, evaluating, and controlling the communication strategy.

The development of an effective service communication strategy must take into consideration a number of special challenges not typically faced by goods-producing companies. More specifically, intangibility and inseparability present special challenges that should be considered when developing a communication strategy. First, since services are consumed as a shared experience with other customers, mistargeted communications may result in the unanticipated

consequence of having two diverse target markets responding to the same communication at the same time. Second, service managers should also be aware that the firm's communications are often interpreted as explicit promises upon which customers base their initial expectations. As a result, service firms should be prepared to deliver what is stated in their promotional messages. Third, since service employees often produce the service in close proximity to customers, employees should be considered internal customers who are as much a target audience as traditional external customers. Finally, in many cases the service providers who produce the service also must sell the service; consequently, questions arise about the strategic implications of turning "doers into sellers."

Compared to service providers in general, professional service providers often experience distinct challenges that may be tempered by the development of an effective communications program. Specifically, the 10 most frequent problems encountered include third-party accountability, client uncertainty, limited differentiability, maintaining quality control, turning doers into sellers, dividing time between marketing and providing services, tendencies to be reactive rather than proactive, the unknown effects of advertising, and professional service providers tending to have a limited marketing knowledge base.

Key Terms

communications strategy
communications mix
customer decision journey (CDJ)
target markets
SMART terms

positioning strategy
type 1 service staff
type 2 service staff
type 3 service staff
role/self conflict

direct conflict
lagged effect
mistargeted communications
halo effect
visual pathway

Review Questions

1. Discuss the process associated with managing an effective communication strategy.
2. Describe the strategic differences among the five elements of the communication mix.
3. Define what it means to develop communication objectives in SMART terms. State three objectives that abide by the SMART guidelines.
4. Compare the communication skills necessary to conduct type 1, type 2, and type 3 transactions. Which type of service staff should a firm recruit?
5. Why is the development of an effective positioning strategy particularly important for service firms?
6. What problems are associated with mistargeted communications? Why do they occur?

7. Why should service employees be considered when developing communications materials?
8. Discuss how insurance companies like Aflac and GEICO make their services more easily understood.
9. What problems arise in turning professional service providers into proactive marketing personnel?
10. Discuss the concept of “visual pathways” and their potential use within a medical practice.

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Case 7

Marketing to Older Consumers: Creating a Content Marketing Campaign

A huge study of car purchasing in France best illustrates the changes in decision making that come with age. Raphaëlle Lambert-Pandraud of the HEC School of Management in Paris looked at a large-scale sample of recent car purchasers in France. Nearly 30,000 respondents answered the questionnaire within three months of buying a car. The survey was large and covered the make and model of the car purchased, the owner's previous car and other brands and models considered. It also included the number of dealers visited and the overall satisfaction with the purchase, the previous car, and the dealer.

Results from the study showed a consistent pattern of decision simplification as people get older. Simply stated, the number of brands considered declines with age. There are a large number of older buyers who only consider one brand. In addition, the number of models considered within brand and the number of dealers also reduces with age. The propensity to go to only one dealer increases from just under 50 percent for the youngest group to 80 percent for those 75 and over.

Satisfaction with the previous car was also measured. Thus, it was possible to separate the impact of age from that of satisfaction. Are buyers buying the same car because they were satisfied with it or because age makes them more loyal? Results indicated that older customers were still more loyal irrespective of satisfaction. In other words, age impacted customer decision making independent of satisfaction with past purchases.

Study after study confirms that older adults consider fewer pieces of information and brands when making purchase decisions. In a laboratory study, respondents were given a simple multi-attribute matrix laid out on a table. For each of the different cars, a series of characteristics or attributes was scored. The scores for the car/attribute combinations were covered. Respondents were asked to choose a car by uncovering as many cells as they wanted but one at a time.

Older adults spent more time considering the information in each cell but uncovered fewer cells. Hence, results indicate that older customers eliminate alternatives much earlier in the decision process compared to younger age groups and rely heavily on their past experiences when making decisions. As consumer's age, decision making becomes more routine and automatic.

To switch an older consumer out of "autopilot" requires salience. In other words, marketers wishing to garner the attention of older target markets must make promotional materials more noticeable and important to older consumers. Promotional strategy will need to be impactful if it is to break through the thousands of competing messages that fill the airwaves. Research suggests that promotional content aimed at older consumers would be more effective and salient if relayed as a story and consistent with the consumer's current decision-making script. Content marketing appears to be uniquely positioned to convey story-like content to older consumers and increase the saliency of decisions.

Discussion Questions:

Chapter coverage pertaining to content marketing can be found in the E-Services in Action box contained within this chapter. Additional content marketing information can be easily found online.

1. What is content marketing?
2. Compare and contrast traditional advertising practices to content marketing techniques. What do you believe are the advantages of content marketing?
3. Select four of the ten content marketing approaches discussed within the E-Services Marketing in Action box and provide examples how each approach could be effectively used in altering and increasing the saliency of a new car purchase for older consumers.

Source: Raphaëlle Lambert-Pandraud, Giles Laurant, and Eric Lapersonne, "Repeat Purchasing of New Automobiles by Older Consumers: Empirical Evidence and Interpretations," *Journal of Marketing*, April 2005; https://www.researchgate.net/publication/237802083_Repeat_Purchasing_of_New_Automobiles_by_Older_Consumers_Empirical_Evidence_and_Interpretations

Chapter 8

Managing the Firm's Physical Evidence



VILLAWAY, Inc.

Chapter Objectives

After reading this chapter, you should be able to:

1. Explain the strategic role of physical evidence as it relates to the marketing of service firms
2. Recognize the role of the sense-organize-interpret (SOI) model and the stimulus-organism-response (S-O-R) model in forming service evaluations
3. Identify the major components of a servicescape
4. Discuss the managerial use of sensory cues when developing tactical design strategies for servicescapes

Due to the intangible nature of services, consumers rely on the physical evidence that surrounds the service to form judgments about the quality of service received.

An Extraordinary Servicescape in the Caribbean: The Katitche Point Greathouse¹

Tired of the same old vacations in the same old hotels? The Katitche Point Greathouse, strategically located on the island of Virgin Gorda in the British Virgin Islands, will put a definitive end to your vacation blues. In fact, as you stand on the panoramic horizon pool deck, the word *blue* itself takes on a new meaning. Go to <https://www.villaway.com/luxury-rentals/katitche-point-greathouse-100369> and you'll see what we mean as the blue shades of pool water, the Caribbean, and the skyline provide a servicescape beyond compare.

The Katitche Point Greathouse is a compound of sorts, or more pleasantly described as a "small holiday village."

The "village" comfortably sleeps 8 to 10 people and consists of a three-level pyramid-shaped main house, four large bedroom suites, each complete with their own bathroom suite and private verandahs, and a large separate master bedroom suite complete with sitting room and a deep soaking tub that is built into the rocks next to a koi pond. In all, the Katitche Point Greathouse is comprised of 22,000 spacious square feet of living space that offers unobstructed panoramic views of the Caribbean in all directions.

Built in 2000, Katitche Point has received many accolades. *Elle* magazine ranked the Katitche Point Greathouse the eighth best "deluxe holiday home around the globe." *Vogue* magazine refers to Katitche Point as "A Private Paradise." The United Kingdom's version of *The Travel Channel* featured Katitche Point in a 10-minute-long segment on its "Cool Caribbean" series and called the Greathouse "the most stunning villa they've ever seen." *Barefoot Traveler* featured the Greathouse's Viking kitchen and called Katitche Point "the best that life has to offer." These comments and many more like them serve as Katitche

Point's primary promotional strategy, which is backed up by the website and reinforced by the positive word-of-mouth of fortunate guests. The Katitche Point Greathouse offers a once in a lifetime experience for many of its guests who will never forget this unimaginable holiday destination.

8-1 Introduction

Due to the intangible nature of services, the importance of physical evidence as a services marketing tool cannot be overstated. Since services are intangible, consumer evaluations of service are often subjectively based on the physical evidence that surrounds the service.² For example, since most consumers lack the specialized and technological knowledge necessary to objectively evaluate a doctor's skill set, consumers will rely on the physical evidence that comprises the doctor's office visit to form an opinion. In essence, the physical evidence serves as a package that contains the doctor's services. If the office is located in a questionable area of town, office furnishings are worn, office staff are unprofessional, and reading materials in the waiting room are outdated, consumer perceptions of the doctor's skill set are likely to coincide with the physical evidence at hand. Although the old adage states one shouldn't judge a book by its cover, this is exactly what consumers do when it comes to forming service evaluations.

Given the preceding scenario, it would seem that service providers should surround themselves with the highest quality physical evidence available—the nicest office, the best location, and the most expensive furnishings. However, this may be as big a marketing mistake as not attending to the effective management of physical evidence at all. Consumers may view lavish physical evidence as a pricing cue and feel the provider's services are beyond affordable. Consequently, consumers may be driven away by the same physical evidence that is being strategically used to signal high-quality services. Ultimately, service marketers must understand customer perceptions which are derived from the physical evidence that surrounds the service. Ultimately, understanding the expectations of the service providers' target market are essential in the effective management of the firm's physical evidence.

8-2 The Strategic Role of Physical Evidence

The role of physical evidence in the marketing of intangibles is multifaceted. When developing servicescapes, physical evidence is comprised of three broad categories: (1) facility exterior; (2) facility interior; and (3) other tangibles. **Facility exterior** includes the exterior design, signage, parking, landscaping, and the surrounding environment. The **facility interior** includes elements such as the interior design, equipment used to serve the customer directly or to run the business, signage, layout, air quality, and temperature. **Other tangibles** that are part of the firm's physical evidence include such items as business cards, stationery, billing statements, reports, employee appearance, uniforms, brochures, and website.³

The extensive use of physical evidence varies by the type of service firm (see Figure 8-1). Interactive service firms, where employees and customers are present throughout the service experience, such as hospitals, resorts, and child-care facilities, often make extensive use of physical evidence in facility design and other tangibles associated with the

facility exterior

The physical exterior of the service facility; includes the exterior design, signage, parking, landscaping, and the surrounding environment.

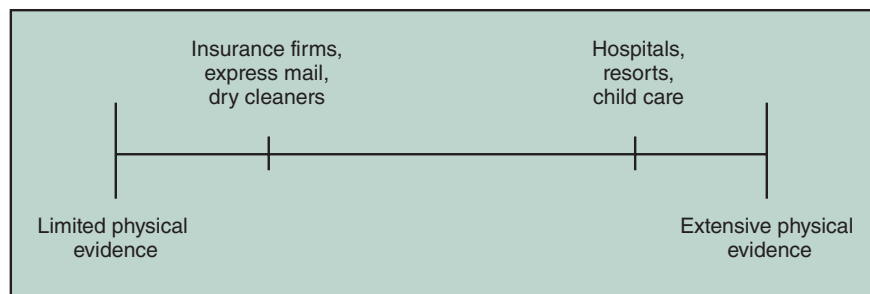
facility interior

The physical interior of the service facility; includes the interior design, equipment used to serve customers, signage, layout, air quality, and temperature.

other tangibles

Other items that are part of the firm's physical evidence, such as business cards, stationery, billing statements, reports, employee appearance, uniforms, and brochures.

Figure 8-1 Variations in Usage of Physical Evidence



Source: Mary J. Bitner, "Servicescapes: The Impact of Physical Surroundings on Customers and Employees," *Journal of Marketing*, 56, 2, (April 1992), p. 60. Reprinted with permission of the American Marketing Association.

service. In contrast, remote service firms where customer interactions are limited, such as insurance providers and express mail drop-off locations (e.g., Federal Express), use limited physical evidence. Regardless of the variation in usage, all service firms need to recognize the importance of managing their physical evidence in its multifaceted role of:

- Packaging the service
- Facilitating the flow of the service delivery process
- Socializing customers and employees alike in terms of their respective roles, behaviors, and relationships
- Differentiating the firm from its competitors⁴

8-2a Packaging the Service⁵

The firm's physical evidence plays a major role in "packaging" the service. The service itself is intangible and, therefore, does not require a package for purely functional reasons. However, using the firm's physical evidence to package the service does send quality cues to consumers and adds value to the service in terms of image development. Image development, in turn, improves consumer perceptions of service. This reduces both levels of perceived risk associated with the purchase and levels of cognitive dissonance after the purchase.

Ultimately, the firm's exterior, interior elements, and other tangibles create the package that surrounds the service. For example, firms serving ethnic cuisine such as Greek, Italian, Mexican, and Chinese restaurants often use specific types of architectural designs that communicate to customers their firms' offerings. The firm's physical facility forms the customer's initial impression concerning the type and quality of service provided. Consumers will have one set of expectations for a restaurant with low-level lighting, soft music, and linen tablecloths and napkins (e.g., The Melting Pot—A North American fondue restaurant), and a different set of expectations for a restaurant with cement floors, picnic tables, and peanut shells strewn about the floor (e.g., Texas Roadhouse—An American steakhouse).

8-2b Facilitating the Flow of the Service Delivery Process

Another use of the firm's physical evidence is to facilitate the flow of activities that produce the service. Something as commonplace as a supermarket trolley (shopping cart) is essential to the operation. It was in 1936 that Sylvan Goldman invented the first shopping trolley (cart). It consisted of a rolling carrier that could hold two baskets. He invented it to promote sales in his Humpty Dumpty supermarket chain in Oklahoma. These were designed to make the unloading of baskets onto the check-out counter easier. Initially Goldman's trolley was not popular as women said it reminded them of a pram (baby stroller).

Ten years later the shopping cart we would recognize today was created. Orla Watson was a freelance inventor. Instead of removable baskets, a single fixed basket was

utilized. This new version of the shopping cart utilized a horizontal pushing bar and the folding back panel that enabled it to stack in a nested way. That design has become ubiquitous. The final refinement came in 1954 with the introduction of the folding children's seat.⁶

Physical evidence can provide information to customers on how the service production process works. Examples include signage that specifically instructs customers. Menus and brochures explain the firm's offerings and facilitate the ordering process for consumers and providers. Physical structures direct the flow of waiting consumers, while barriers, such as counters at a quick serve restaurants such as KFC and Pizza Hut, separate the technical core of the business (the kitchen) from the part of the business in which customers take part in the production process.

Physical evidence can also be used for wayfinding. For example, fountains in shopping malls, the atrium at the Gaylord Opryland Hotel, and a variety of other landmarks are often used to give customers directions. The University of Kentucky's Medical School has purposely installed different colored tiles that emerge from the main information desk to the most commonly requested destinations. Need to find the medical school library? Just follow the blue tiles! In addition, technologically based interactive kiosks are now used to assist in wayfinding and given their advanced features they also serve as physical evidence to support consumer quality perceptions. London's Heathrow Airport now uses holograms to assist passengers through security checkpoints (see E-services In Action).

8-2c Socializing Employees and Customers

In addition to packaging the service and facilitating the flow of the service delivery process, physical evidence also facilitates the socialization process. Organizational **socialization** is the process by which a person adapts to and comes to appreciate the values, norms, and required behavior patterns of an organization.⁷ The firm's physical evidence plays an important part in the socialization process by conveying expected roles, behaviors, and relationships among employees as well as between employees and customers.

Physical evidence, such as the use of uniforms, facilitates the socialization of employees toward accepting organizational roles and influences consumer perceptions of the caliber of service provided. Studies have shown that the use of uniforms:

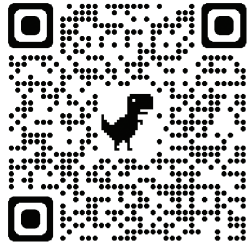
- Aids in identifying the firm's personnel
- Presents a physical symbol that embodies the group's ideals and attributes

Socialization

The process by which an individual adapts to the values, norms, and required behavior patterns of an organization.

E-Services in Action

Passenger Information Holograms⁸



E-Services in Action
(Active QR Code)

London's Heathrow Airport recently hired two new employees—Holly and Graham. Unlike human employees, Holly and Graham are life-like avatars and are the newest generation of digital signage. The result of combining holography with artificial intelligence, customer assistants are developed via video-projection to produce the image and cameras and microphones to capture customers

questions. Customer assistants deployed at airports are assisting passengers with wayfinding, security information and systems, and safety information. For example, holograms can convey wayfinding directions to confused travelers by projecting a 3D image of the pathway to their requested destination. In addition, holograms have been programmed to scrutinize traveler responses to security

questions and can identify individuals with dangerous and/or illegal intentions by observing facial expressions, interpreting tone of voice, and analyzing verbal response content. To date, holographic customer assistants are being deployed at a variety of transportation hubs, hospitals, border crossings, and universities.

Holographic customer assistants provide information in multiple languages, answer questions regarding departure and arrival times, and respond to a variety of other passenger queries via built-in responses to frequently asked questions. Operational benefits of holographic assistants include reduced staffing costs, reduced need for new infrastructure as new employees are hired, reduced redundancies of monotonous human employee tasks, provides additional opportunities for staff to work remotely, increases the supply of human labor that can be better utilized for alternative purposes, and reduces the need for face-to-face human contact and therefore decreases the health risks associated with human interaction.

- Implies a coherent group structure
- Facilitates the perceived consistency of performance
- Provides a tangible symbol of an employee's change in status (e.g., military uniforms change as personnel move through the ranks)
- Helps in controlling the behavior of errant employees

Hotels provide a prime example of the effective use of uniforms as different uniforms are designed for front-desk personnel, bellhops, concierges, housekeeping, security, and food and beverage personnel. A classic example of how tangible evidence affects the socialization process of employees involves women in the U.S. military. Pregnant military personnel were originally permitted to wear civilian clothing in lieu of traditional military uniforms. However, the military soon noticed discipline and morale problems with these servicewomen as they began to lose their identification with their roles as soldiers. "Maternity uniforms are now standard issue in the Air Force, Army, and Navy, as well as at US Airways, Hertz, Safeway, McDonald's, and the National Park Service."⁹

8-2d Provides a Means for Differentiation

The effective management of the physical evidence can also be a source of differentiation (see Global Services in Action). Service differentiation through the purposeful use of physical evidence has long been exemplified by the lodging industry through the effective management of facility exterior, facility interior, and other tangibles associated with the hotel experience.

Interestingly, the battleground in physical differentiation in hospitality settings has involved the architectural

style of the hotel and also involved the bed itself. With the introduction of the "Heavenly Bed," Westin Hotels ushered in a new movement in the hotel industry. Over the years, Westin and the Heavenly Bed have racked up multiple business awards, including "improved guest satisfaction, higher room rates, better revenue-per-available-room and an avalanche of publicity." In addition, overall cleanliness scores increased even though Westin admits all it did extra was "add the bed." Since the Heavenly Bed's introduction, Westin has sold over 7,000 beds to its enamored customers.¹⁰

The appearance of personnel and facilities can also serve as differentiating factors and can have a direct impact on how consumers perceive the firm will handle the service aspects of its business. Numerous studies have shown that well-dressed people are perceived as more intelligent, better workers, and more pleasant to engage with in interactions.¹¹ Similarly, nicely designed facilities will be perceived as having the advantage over poorly designed alternatives.

Differentiation can also be achieved by using physical evidence to reposition the service firm in the eyes of its customers. Upgrading the firm's facilities often upgrades the image of the firm in the minds of consumers, and it may also lead to attracting more desirable market segments, which further aids in differentiating the firm from its competitors. On the other hand, note that a too-elaborate facility upgrade may alienate some customers who believe the firm may be passing on the costs of that upgrade to consumers through higher prices. This is precisely why many offices, such as insurance, dental, and medical offices, are decorated professionally, but not too lavishly.

Global Services in Action

Dinner In The Sky Astonishing Views The Worldwide¹²



GIUSEPPE CACACE/AFP/Getty Images

A Belgian events planner and a Dutch crane expert pooled resources to create Dinner in the Sky, a company that offers a unique dining experience to its consumers. Originally pitched to clients as an opportunity to literally float above the competition, Dinner in the Sky became a worldwide phenomenon in the matter of a few short years. Globalization was their plan from the beginning; their company design revolved around the idea of selling their unique crane-hoisted table design and logo rights to partners across the globe. Now, the company has partners in approximately

60 countries around the world, including the United States, Latvia, England, Germany, Japan, China, and South Africa.

So, what makes Dinner in the Sky worth the hefty premium clients pay for the unique experience? The food could be found in any restaurant, and the level of service from the waitstaff is no better than what can be found in upscale restaurants. Why, then, do people pay thousands of dollars to dine? The servicescape, of course, makes all the difference. Not only are customers given the opportunity to literally dine among the clouds while suspended at 150 feet in the air, but they are also given the chance to hoist their company logos over the heads of everyone down below. And, since Dinner in the Sky is still a novelty receiving considerable attention from international publications, the interest each dining experience attracts from local press is incredible.

Dinner in the Sky continues to expand their partner base and services offered, including an entertainment option. Want an opera singer or a band on a separate platform, slowly circling your table? You got it. Want a wedding in the sky? You can have that, too. If the parent company's current monetary successes are any indication, Dinner in the Sky will continue to see its global enterprise increase, thanks to a servicescape so unique it is nearly priceless.

8-3 Environmental Psychology: The S-O-I and S-O-R Models

The science of using physical evidence to create service environments and their influence on people's perceptions and behaviors is based on **environmental psychology**.¹³ For purposes of discussion, two primary models that address how consumer perceptions are formulated and how firms can effectively manage consumer perceptions include the S-O-I and S-O-R Models.

8-3a The S-O-I Model

It is interesting to observe that a majority of customers exhibit appropriate behaviors even when encountering new service experiences. Customers utilize their perception of the experience to interpret the encounter and demonstrate appropriate behavioral scripts. **The Sense-Organize-Interpret (S-O-I) Model** assists service marketers in

understanding the formation of customer perceptions. **Perception** is the process by which one *senses, organizes, and interprets* (S-O-I) the information we receive from the environment. Marketers seek to understand the sources of customer perceptions and to influence them. When customers decide to patronize a restaurant, the smell, the ambience, and the taste of the food in the restaurant affect their *senses* and their overall perception of the restaurant. Customers *organize* this information as being similar or dissimilar to their prior experiences. Having organized the information along different criteria such as food quality, service, and ambience, customers interpret this information and exhibit appropriate behaviors.

For example, most customer behavioral responses to light may have started when parents tucked them into their beds, turned out the lights, and told them it was time to be quiet and go to sleep. Through repetitive conditioning, most people's responses to dimly lit rooms is that of relaxation. Lighting sets the mood, tone, and pace of the service encounter. Consumers talk more softly when the lights are low; the service environment is perceived as more formal, and the pace of the encounter slows. In contrast, brightly lit

environmental psychology

The branch of psychology that studies how physical evidence and environments influence perceptions and behaviors of individuals.

Sense, Organize, Interpret (S-O-I) Model

The S-O-I Model assists service marketers in understanding the formation of customer perceptions.

perception

The process by which one *senses, organizes, and interprets* (S-O-I) the information we receive from the environment.



Lehmann Herbert/Bon Appetit/Alamy Stock Photo

Stimuli within the servicescape, such as lighting, temperature, and music, are interpreted by customers who then behave in a manner consistent with the servicescape. Customers talk more softly in low-lighting conditions and spend more time in environments that play slower-paced music.

service environments are typically louder, communication exchanges among customers and between customers and employees more frequent, and the overall environment perceived as more informal, exciting, and cheerful.

8-3b The S-O-R Model

While the S-O-I model helps us understand the interpretation of physical evidence from the customer's viewpoint, the S-O-R model assists service marketers in developing physical evidence in a purposeful manner that will yield desired customer behaviors. The **stimulus-organism-response (SOR) model** presented

stimulus-organism-response (SOR) model

A model developed by environmental psychologists to help explain the effects of the environment on behavior; describes environmental stimuli, emotional states and responses to those states.

in Figure 8-2 was developed by environmental psychologists to help explain the effects of the environment on behavior.¹⁴ In this case we are interested in how the servicescape influences consumer behaviour. The S-O-R model consists of three components:

- A set of stimuli (sight, sound, touch, taste, and smell)
- A set of emotional responses by the employee or customer
- A set of behavioral responses or outcomes (approach/avoidance behaviors by employee/customers)

In a service context, the different elements of the firm's physical evidence, such as exterior, interior design, lighting, and so on, compose the set of stimuli. **Stimuli** are collected through the five senses of sight, sound, touch, taste, and smell, and they can be effectively managed to create compelling service atmospheres. Once received and interpreted, the combined stimuli lead to expectations and perceptions about the service firm. For example, even if you have never been to a particular restaurant before, you notice that the lights are low, and the table napkins are linen. This leads to the perception that the restaurant is of higher caliber and that the food should be excellent, though expensive.

The second component of the S-O-R Model is the organism component. The **organism** component, which describes the recipients of the set of stimuli within the service encounter, includes employees and customers alike. Both are usually part of the service experience and are often within the servicescape together. The

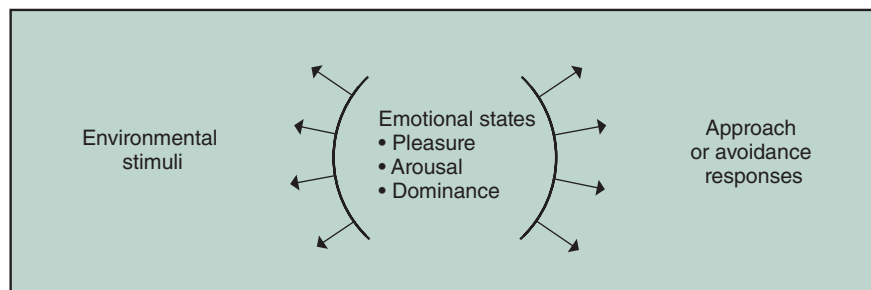
stimuli

The various elements of the firm's physical evidence that are collected through the five senses of sight, sound, touch, taste, and smell.

organism

The recipients of the set of stimuli in the service encounter; includes employees and customers.

Figure 8-2 The Three Components of the S-O-R Model



Source: Adapted from Robert J. Donovan and John R. Rossiter, "Store Atmosphere: An Environmental Psychology Approach," *Journal of Retailing*, 58, (Spring 1982), p. 42.

emotional responses of employees and customers to the stimuli are influenced by three basic emotional states: pleasure-displeasure, arousal-nonarousal, and dominance-submissiveness. The **pleasure-displeasure** emotional state reflects the degree to which consumers and employees feel satisfied with the service experience. The **arousal-non-arousal** state reflects the degree to which consumers and employees feel excited and stimulated. The third emotional state, **dominance-submissiveness**, reflects the feelings of control and the ability to act freely within the service environment. Ideally, service firms should use physical evidence to build environments that appeal to pleasure and arousal states and avoid creating atmospheres that encourage submissiveness.

Finally, consumer and employee responses to environmental stimuli are characterized as **approach behaviors** or **avoidance behaviors**. Consumer approach and avoidance behaviors and outcomes can be demonstrated in any combination of four ways (employees exhibit similar behaviors):¹⁵

1. A desire to stay (approach) or leave (avoid) the service establishment
2. A desire to further explore and interact with the service environment (approach) or a tendency to ignore it (avoidance)
3. A desire to communicate with others (approach) or to ignore the attempts of service providers to communicate with customers (avoid)
4. Feelings of satisfaction (approach) or disappointment (avoidance) with the service experience

emotional responses

Emotional reactions (feelings) in response to stimuli including pleasure-displeasure, arousal-non-arousal; and dominance-submissiveness.

pleasure-displeasure

The emotional state that reflects the degree to which consumers and employees feel satisfied with the service experience.

arousal-non-arousal

The emotional state that reflects the degree to which consumers and employees feel excited and stimulated.

dominance-submissiveness

The emotional state that reflects the degree to which consumers and employees feel in control and able to act freely within the service environment.

approach/avoidance behaviors

Consumer responses to the set of environmental stimuli that are characterized by a desire to stay or leave an establishment, explore/interact with the service environment or ignore it, or feel satisfaction or disappointment with the service experience.

8-4 The Development of Servicescapes¹⁶

The S-O-R model can be effectively used by service marketers through the creative development of servicescapes. The term **servicescapes** refers to the strategic use of physical evidence to design service environments. The servicescape framework presented in Figure 8-3 is a comprehensive application of the S-O-R model that directly applies to the influence of the service firm's physical evidence on consumer and employee behaviors. Due to inseparability, the model recognizes that the firm's environment is likely to affect consumers and employees alike. However, in the end, the servicescape should be designed to meet the needs of those people who spend the most time within the confines of the service firm. The balance between defining the servicescape for the consumer or the employee depends upon the nature of the service.

8-4a Remote, Self-Service, and Interpersonal Services

As customer involvement in coproducing services varies, so should the design of the servicescape. Service firms can be characterized as remote, self-service, or interpersonal services. Figure 8-4 presents a continuum of facility usage by service type. Some services, such as e-commerce, telephone, and utility services, are described as **remote services**. In remote services, employees are physically present within the service operation while customer involvement in the service production process is at arm's length. In other words, these services require very little of the customer's physical presence to complete the service. Consequently, facility design should facilitate the employees' overall efforts and enhance employee motivation, employee productivity, and employee satisfaction.

At the other end of the spectrum are services that customers can acquire on their own—**self-services**. Self-service environments are dominated by the customer's physical presence and include services such as ATMs, postal kiosks, and self-service car washes. Self-service establishments should be placed in conveniently accessible locations and constructed to attract customers and enhance their satisfaction.

servicescapes

The strategic use of physical evidence to design service environments.

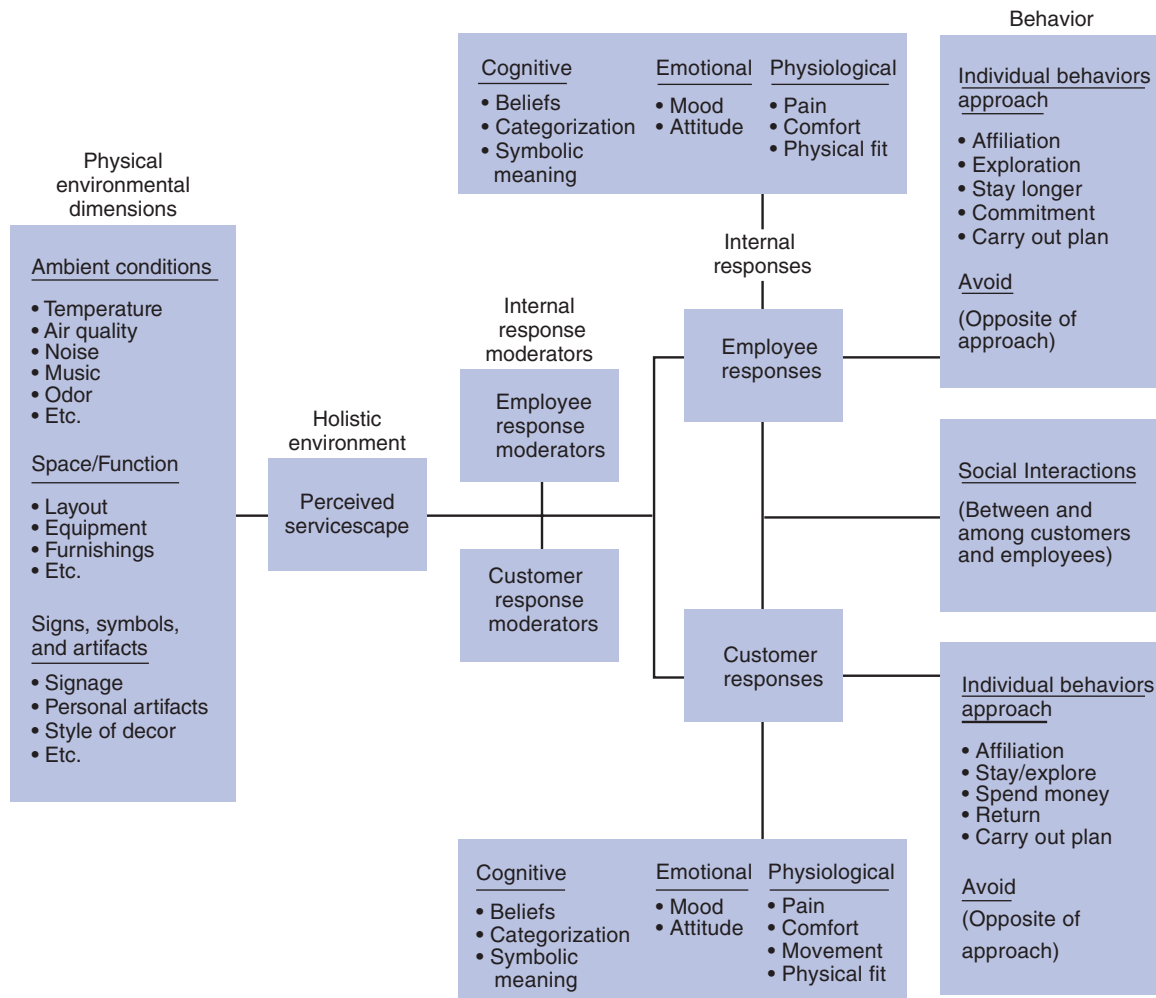
remote services

Services in which employees are physically present while customer involvement in the service production process is at arm's length.

self-services

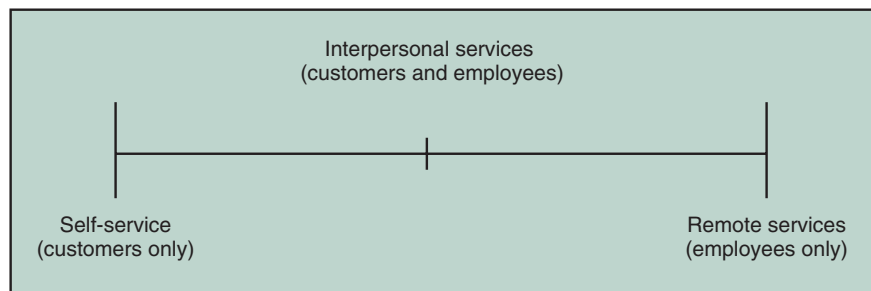
Service environments that are dominated by the customer's physical presence, such as ATMs or postal kiosks.

Figure 8-3 The Servicescapes Model



Source: Mary J. Bitner, "Servicescapes: The Impact of Physical Surroundings on Customers and Employees," *Journal of Marketing*, 60, 2, (April 1992), p. 60. Reprinted with permission of the American Marketing Association.

Figure 8-4 A Continuum of Facility Use by Type of Service



In contrast to remote and self-service environments, many services such as restaurants, hospitals, hotels, banks, and airlines can be described as **interpersonal services**, where the physical space is shared jointly by consumers and employees. In some cases, like hospitals, the patient's family is also involved and physically present. In other service settings, customers shop or dine with friends. The environments of interpersonal services should be developed with the needs of both parties in mind, and they should facilitate the social interaction between and among customers and employees. To further illustrate the importance of understanding the coproduction role of the end user with regard to servicescape design, consider the following decisions with respect to high-contact versus low-contact service firms.¹⁷

Facility Location The choice of location for the firm's service operation depends upon the amount of customer contact necessary during the production process. If customers are an integral part of the process, the operation is characterized as a high-contact service firm. The best facility locations for high-contact service firms are convenient locations near customers' homes or workplaces; these will offer the firm a differential advantage over competitors. For only a few services are customers prepared to travel, for the rest convenience is the key criteria. For example, with all other things being equal, the most conveniently located car

washes, banks, grocery stores, and hairstylists are likely to obtain the most business.

In contrast, low-contact service firms should consider facility locations that may be more convenient for labor, sources of supply, and proximity to major transportation routes. For example, fulfillment processing facilities such as Fed Ex and UPS have little or no customer contact and can increase the efficiencies of their operations by locating closer to sources of supply and major transportation alternatives, such as near interstate highways for trucking purposes or airports for overnight airline shipments. In many cases, these types of locations are less expensive to purchase or rent, since they are generally in remote areas where the cost of land and construction is not as expensive as inside city limits where other businesses are trying to locate close to their customers.

Facility Layout In regard to the layout of the service operation, high-contact service firms should take the customers' physical and psychological needs and expectations into consideration. When a customer enters a high-contact service operation, that customer expects the facility to enhance the customer experience. Professional personnel, clearly marked signs explaining the process, enough room to comfortably move about the facility, and a facility suited for bringing friends and family are among consumer expectations. In contrast, low-contact facility layouts should be designed to maximize employee expectations and production requirements. Clearly, designing facilities for high-contact services is often more expensive than designing for their low-contact counterparts.

Product Design Since the customer is involved in the production process for high-contact services, the customer will ultimately define the product differently from one produced by a low-contact service. In services such as restaurants, which have a tangible product—food—associated with their service offering, the customer will define the product by the combination of food itself as well as by the physical evidence that surrounds the food in the service environment. High-contact services that produce purely intangible products such as education and insurance are defined almost solely by the physical evidence that surrounds the service and by the thoughts and opinions of others.

In low-contact services, the customer is less directly involved in the production process; consequently, the product is defined by fewer attributes. Consider our e-commerce operation in which the customer never physically enters the fulfillment facility. The customer will define the end product by the physical product itself (a pair of boots). They will include in their evaluation the conversation that took place with personnel when ordering the boots or the usability of the website. They will assess the speed and punctuality of the delivery. They may even take signals from the box in which the boots were packaged, and the billing materials that detail payment.

Process Design In high-contact operations, the physical presence of the customer in the process itself must also be



In contrast to remote services and self service, interpersonal services should construct servicescapes with both the service providers and the customer's physical and psychological needs in mind.

interpersonal services

Service environments in which customers (and perhaps "other customers") and providers are physically present.

considered. Each stage in the process will have a direct and immediate effect on the customer. Consequently, a set of mini-service encounters and the physical evidence present at each step of the process will contribute to the customer's overall evaluation of the service process. For example, a hotel guest is directly involved in the reservation process; the check-in process; the consumption process associated with the use of the hotel room itself; the consumption processes associated with the use of hotel amenities such as the restaurant, pool, and health club; and the checkout process. In contrast, consider the experience of customers who simply drop off and pick up their dry cleaning. Since customers are less involved with many of the production steps in low-contact services, their evaluation is based more on the outcome itself—the cleanliness of the clothes.

8-4b Stage 1: Physical Environmental Dimensions

The servicescapes model depicted in Figure 8-3 consists of five stages and begins by recognizing the set of stimuli that are commonly used when developing service environments. In broad terms, the set of stimuli include ambient conditions, space/function, and signs, symbols, and artifacts. **Ambient conditions** reflect the distinctive atmosphere of the service setting and include elements such as lighting, air quality, noise, music, and so on. Environmental dimensions that pertain to the use of **space/function** include elements such as the layout of the facility, equipment, and the firm's furnishings. **Signs, symbols, and artifacts** include signage that directs the flow of the service process, and thereby signals to the customer the behavioral script to be followed. Personal artifacts lend character and individuality to the facility, and the style of décor, such as Southwestern, contemporary, or traditional.

8-4c Stage 2: Holistic Environment

Once the physical environmental dimensions are in place, perceptions of the firm's holistic environment are formed. Hence, the **holistic environment** portion of the servicescapes

model pertains to the collective perceptions of the servicescape that individual employees and customers form based on the physical environmental dimensions. In other words, the holistic environment is a perceived overview or image of the firm based on the physical evidence, which is referred to in the model as the **perceived servicescape**. The perceived servicescape is difficult to define precisely, and perceptions of the same establishment will vary. Each person, customer or employee, will perceive the environment slightly differently. Essentially, the perceived servicescape is a composite of mental images of the service firm's physical facilities held by an individual.

Strategically managing the perceived servicescape aids in establishing a positioning strategy that differentiates the firm from competitors and ultimately influences the customer decision process when choosing among competing alternatives. The firm should develop the servicescape with its target market in mind. **Economic customers**, who make purchase decisions based on price, will avoid service establishments that appear too up-scale based on the perception that such an establishment will be a higher-priced provider. Economic customers tend to be attracted to environments that are simple yet reflect quality, and those that are clean and modern. Oil-change specialists such as the Jiffy Lube franchise use this type of environment, as does the modern-day superpower of retailing, Walmart. In contrast, **personalized customers** want to be pampered and attended to, and they are much less price sensitive when choosing among competing providers. Firms catering to personalized shoppers create environments that reflect the status their customers seek by investing more in items such as marble foyers, glass and brass fixtures, and furnishings that encourage customers to shop at a leisurely pace. Similarly, firms that service **apathetic customers**, who seek convenience, and **ethical customers**, who support smaller or local as opposed to larger or national service providers, should create their servicescapes accordingly.

ambient conditions

The distinctive atmosphere of the service setting that includes lighting, air quality, noise, music, and so on.

space/function

Environmental dimensions that include the layout of the facility, the equipment, and the firm's furnishings.

signs, symbols, artifacts

Physical evidence that includes signage to direct the flow of the service process, personal artifacts to personalize the facility, and the style of decor.

holistic environment

Overall perceptions of the servicescape formed by individual employees and customers based on the physical environmental dimensions.

perceived servicescape

A composite of mental images of the service firm's physical facilities held by an individual.

economic customers

Consumers who make purchase decisions based primarily on price.

personalized customers

Consumers who wish to be pampered and attended to and who are much less price sensitive.

apathetic customers

Consumers who seek convenience over price and personal attention.

ethical customers

Consumers who support smaller or local firms as opposed to larger or national service providers.

8-4d Stage 3: Internal Response Moderators

A customer or employee response to the firm's servicescape is influenced (moderated) by a number of factors. The **internal response moderators** component of the servicescapes model simply pertain to the three basic emotional states of the S-O-R model discussed earlier: pleasure–displeasure, arousal–nonarousal, and dominance–submissiveness. The three response moderators mediate the reaction between the perceived servicescape and customers' and employees' responses to the service environment. For example, if a customer wants to remain in a state of nonarousal and spend a nice, quiet evening with someone special, that customer will avoid bright, loud, and crowded service establishments and will be attracted to environments that are more peaceful and conducive to conversation.

Similarly, an employee's response to the firm's environment will also be affected by their own emotional states. Sometimes employees look forward to engaging in conversations with customers. Other days, employees would just as soon minimize conversations and process customers as inputs on a production line. Response moderators help explain why services are characterized by heterogeneity as the service varies from provider to provider, and even from day to day with the same provider.

8-4e Stage 4: Internal Responses

Thus far, we have seen that the servicescapes model encompasses a variety of physical environmental dimensions. These dimensions form the one's overall (holistic) perception of the servicescape. Moreover, a person's reaction to the servicescape will be moderated by their current emotional state. The next step in the servicescapes model attempts to describe how individuals respond to the firm's servicescape, which can be described at three different levels: cognitively, emotionally, and physiologically.

Cognitive Responses Cognitive responses are the thought processes of individuals and, according to the model, they include beliefs, categorization, and symbolic meaning. In the formation of **beliefs**, the firm's environment acts as a form of nonverbal communication and influences a consumer's beliefs about the provider's ability to perform the service. For example, if a professor's lectures are difficult to follow in class, a student may attribute this

difficulty to the professor's inability to teach or may blame themselves for an inability to learn the subject. Studies have shown that in this type of scenario, the physical environment influences consumers when they are attributing blame.¹⁸ For example, if the professor's office is in disarray, students are more likely to attribute poor service to the professor. Hence, physical evidence may help customers to form beliefs about the provider's success, price for services, and competence. Similarly, employees form beliefs about their own employers based on their perception of the overall servicescape.

Categorization is the second type of cognitive response. Restaurants and nightclubs operate with different environments depending on their positioning. Some are fine dining establishments, while others cater strictly to local clientele or specific market segments. The process of categorization facilitates human understanding at a quicker pace. Consumers assess the physical evidence via their five senses, quickly categorize the service establishments with existing types of operations, and then access the appropriate behavior script for the type of operation and act accordingly. For example, a dimly lit restaurant typically symbolizes a higher caliber of restaurant, and cues customers to talk softly while enjoying their meal.

Individuals also infer **symbolic meaning** from the firm's use of physical evidence. For example, if a nightclub features portraits of James Dean, Jimi Hendrix, Amy Winehouse, Kurt Cobain, and others who have followed similar paths, the club evokes a symbolic meaning for its employees and customers. In this case, the physical evidence may translate into a number of symbols, such as individuality, youthful success, shattered dreams, or other meanings, depending on individual interpretation. Symbolic meaning through the use of physical evidence aids in differentiation and positioning.

Emotional Responses In addition to forming beliefs, people will respond to the firm's physical environment on an emotional level. **Emotional responses** do not involve thinking; they simply happen, often inexplicably and suddenly. Specific songs, for example, may make one feel happy or sad, or they may re-create other past feelings that were associated with a particular song. Scents have similar

internal response moderators

The three basic emotional states of the S-O-R model that mediate the reaction between the perceived servicescape and a customers' or employees' responses to the service environment.

beliefs

Consumers' opinions about the provider's ability to perform the service.

categorization

The process of categorizing servicescapes based on previous experiences to identify the appropriate behavioral script.

symbolic meaning

Meaning inferred from the firm's use of physical evidence.

emotional responses

Feelings that are a result of the servicescape.

effects. Research showed that a chocolate smell induced customers to remain longer in a book store and to buy more books.¹⁹ Obviously, the goal of effective physical evidence management is to stimulate positive emotions that create atmospheres in which employees love to work and customers want to spend their time and money.

Physiological Responses In contrast to cognitive and emotional responses, **physiological responses** are subconscious. Bright light will stimulate a set of responses directly in the body. Our heart rate increases, our body temperature rises and we will secrete the hormones needed to wake us up. All this happens automatically without any conscious thoughts. Typical physiological responses can involve pain and comfort. Environments in which music is played very loudly may lead to employee and customer discomfort and movement away from the source of the noise. In fact, noise above 100 Db is defined as medically dangerous. For example, the retail operations of Hollister are known for creating environments that teenagers love, and older adults despise. A dimly lit restaurant may cause eye strain as customers struggle to read their menus. All these responses determine whether a customer will approach and explore the firm's offerings or avoid and leave the premises to minimize the amount of physiological discomfort. Because of the amount of time they spend in the firm's facility, employees might find the physical environment particularly harmful if it is mismanaged. Adequate workspace and proper equipment to get the job done are directly related to employees' willingness to continue to work. So too are appropriate ambient conditions such as temperature, air quality and noise levels. All these will also influence employees, productivity while at work, their job satisfaction, and their positive interactions with co-workers. This is particularly the case for the increasing number of older employees.

8-4f Stage 5: Behavioral Responses to the Environment

Individual Behaviors The servicescapes model concludes with a person's behavioral response to the physical environment. **Individual behaviors** in response to environmental stimuli are characterized as approach and avoidance behaviors. In retail settings, the store's environment influences approach behaviors such as:

- Shopping enjoyment
- Repeat visits

physiological responses

Subconscious responses to the firm's physical environment often based on pain or comfort.

individual behaviors

Responses to the servicescape that are typically described as approach and avoidance behaviors.

- Favorable impressions of the store
- Money spent
- Time spent shopping
- Willingness to stay and explore the store

In other instances, environmental stimuli have been purposely managed to discourage unwelcome market segments. For example, some U.S. convenience stores have cleverly used "elevator music" (e.g., Muzak-boring music) outside their stores to repel unwelcome neighborhood teenagers that hang out in the store's parking lot and deter desired clientele from entering the store. In another case, shopkeepers in New Zealand purposely played Barry Manilow music to drive away "mall rats"—more commonly known as "unruly teenagers."²⁰

Social Interactions Ultimately, an interpersonal service firm's servicescape should encourage interactions between employees and customers, among customers, and among employees. The challenge in creating such an environment is that often what the customer desires, employees would prefer to forego so that they can complete their tasks with a minimum of customer involvement. Environmental variables such as physical proximity, seating arrangements, facility size, and flexibility in changing the configuration of the servicescape define the possibilities and place limits on the amount of social interaction possible.²¹

Consider the seating arrangements of a Japanese steakhouse, which often combines different groups of customers at one table as opposed to traditional seating arrangements in which each party has its own table. For better or worse, "community seating" at a Japanese steakhouse encourages interaction among customers. In addition, each table is assigned its own chef who interacts with the customers during the production process. Finally, Virgin America took the initiative to encourage social interactions to reach new heights via the airline's in-flight messaging system. A passenger could buy a fellow passenger a beverage and correspond with their newfound friend via the airline's seat chat system. Intriguing at first, the system was eventually phased out due to harassment complaints by passengers and the evolution of on-board Wi-Fi.²²

8-5 Managing the Senses When Creating Servicescapes

When developing the servicescape, the service firm must consider the physical and psychological impact of the atmosphere on customers, employees, and the firm's operations (see *Services for a Better World in Action*). Just as the firm cannot be all things to all people, the servicescape must make trade-offs to meet its human resource, marketing, and operation's needs. Experts suggest answering the following questions before implementing a servicescape development plan:²³

1. Who is the firm's target market? Which different segments of customers are likely to be in the servicescape.
2. What do the target segments seek from the service experience?

Services for a Better World in Action

Design Considerations for Ageing Consumers²⁴



As ageing consumers become the dominant market in the very near future, service marketers should adjust their design plans for future servicescapes to accommodate the needs for this important segment. Listed below are examples of some of the design adjustments that should be considered.

Lighting The future restaurant service experience will be a brighter if older people are to navigate the restaurant successfully. The average 65-year-old will need three times as much light in any given situation than the average twenty-year-old. Standards have been set for different age groups by the Illuminating Engineers Society of North America. They specify how much light ought to be available for different tasks. Background, ambient light levels will at least need to double. The Illuminating Engineers suggest a minimum of three hundred lux for an environment for a sixty-year-old. Today, a typical upscale-market restaurant might have an ambient light level of half of that. Lighting needs to be task focused. Bright downward facing lights on the table can make reading the menu possible without destroying the ambience. In addition, Floor lighting will aid navigation without flooding the restaurant with unattractive bright light.

Sensory Management The senses do change with age; however, not all old customers suffer from sensory loss. It is uncommon below the age of eighty for customers to have problems with more than one sense. The most common

problem is the raising of thresholds. It takes more light, sound, scent, and touch to stimulate a particular senses. For example, a study in a shopping mall in Montreal introduced a pleasant smell. The result was that people spent more time and money in the shopping mall. When the researchers used only the over 65s in their sample, the results disappeared. Researchers speculated that the amount of scent that was being used was below the threshold of the older people. Additionally, it is a lot more likely that an older person will feel cold in a room that for someone younger seems fine. To satisfy the older segment it may be necessary to turn up the thermostat.

Sight Sight deteriorates for everybody as they get older. Our lenses grow throughout our lives. They thicken, stiffen and yellow. The combination of thicker yellow lenses and smaller pupils means a loss of up to 70 percent of the light hitting the retina. Ageing consumers need more light to see properly. The result, amongst others is that ageing consumers cannot read menus in dimly lit restaurants. In addition, color contrast fades and it becomes more difficult to tell the difference between colors at the blue end of the spectrum. As a result, designing color schemes for ageing consumers should incorporate brighter colors.

Accessibility Accessibility becomes an issue as consumers age; however, there is a huge variation in the mobility of older customers. Flexibility often declines and it is more difficult to bend over and reach the "bottom shelf" of the supermarket. Older people are more dependent on their cars and the convenience of the parking lot can become a deciding purchase factor. Additionally, Singapore has one of the oldest populations in the world. In response, the Transit Authority has slowed down the escalators on those stations serving hospitals. Older patients were finding the escalators intimidating.

Accuity Older people have less sensitive fingers. If they are to successfully co-produce their service, keypads will need to be redesigned. The keys need to be bigger and spaced further apart. Given how many keypads the average service consumer interacts with this can be an important issue. Credit card machines and hotel safes are only the beginning. Access gates and remote ordering terminals need to be redesigned. Even computers and smartphones may need to be adapted.

3. What atmospheric elements can reinforce the beliefs and emotional reactions that the different groups of buyers seek?
4. How do these same atmospheric elements affect employee satisfaction and the firm's operations?
5. Does the suggested atmosphere development plan compete effectively with competitors' atmospheres?

Ultimately, people base their perceptions of a firm's facilities on their interpretation of sensory cues. The following section discusses how firms can effectively manage the senses of sight, sound, scent, touch, and taste in creating sensory appeals that enhance customer and employee attraction responses.²⁵

8-5a Sight Appeals²⁶

The sense of sight conveys more information to consumers than any other sense and, therefore, should be considered the most important means available to service firms when developing the firm's servicescape. Sight appeals can be defined as the process of interpreting stimuli, resulting in perceived visual relationships. On a basic level, the three primary visual stimuli that appeal to consumers are **size, shape, and colors**. Consumers interpret visual stimuli

size/shape/colors

The three primary visual stimuli that appeal to consumers on a basic level.

in terms of visual relationships, consisting of perceptions of harmony, contrast, and clash. **Harmony** refers to visual agreement and is often the basis for quieter, plusher, and more formal business settings. In comparison, **contrast** and **clash** are associated with exciting, cheerful, and informal business settings. Hence, based on the size, shape, and colors of the visual stimuli used and the way consumers interpret the various visual relationships, very different perceptions of the firm can emerge.

Size The actual size of the firm's facility, signs, and departments conveys different meanings to different markets. In general, the larger the physical evidence, the more consumers associate it with importance, power, success, security, and stability. For many consumers, the larger the firm, the lower the perceived risk associated with the service purchase. Such consumers believe that larger firms are more competent and successful, and more likely to engage in service recovery efforts if problems do arise. Still other customers enjoy the prestige often associated with conducting business with a large, well-known firm.

On the flip side, some customers may view large firms as impersonal and uncaring, and they may seek out smaller, niche firms that they view as more personal, intimate, and friendly. When is bigger not better? When smaller translates

into more personal service, that's when! In a time when mergers and acquisitions spawn megabanks that find it difficult to provide personal service to their customers, private boutique banks are filling the void. Hence, depending on the needs of the firm's target market, size appeals differently to different segments.

Shape Shape perceptions of a service firm are created from a variety of sources, such as the use and placement of shelves, mirrors, and windows, and even the design of wall-paper if applicable. Studies show that different shapes arouse different emotions in consumers. Vertical shapes or vertical lines are perceived as "rigid, severe, and lend[ing] a masculine quality to an area. It expresses strength and stability ... gives the viewer an up-and-down eye movement... tends to heighten an area, gives the illusion of increased space in this direction."²⁷ In contrast, horizontal shapes or lines evoke perceptions of relaxation and restfulness. Diagonal shapes and lines evoke perceptions of progressiveness, proactiveness, and movement. Curved shapes and lines are perceived as feminine and flowing. Using similar and/or dissimilar shapes in facility design will create the desired visual relationship of harmony, contrast, or clash. For example, the use of several different shapes in one area might distinguish an area of emphasis.²⁸

Color The color of the firm's physical evidence often makes the first impression, whether used throughout the firm's website, the business cards of its personnel, or the exterior or interior of the facility itself. The psychological impact of color is the result of three properties: hue, value, and intensity. **Hue** refers to the actual family of the color, such as red, blue, yellow, or green. **Value** defines the lightness and darkness of the colors. Darker values are called **shades**, and lighter values are called **tints**. **Intensity** defines the brightness or the dullness of the hue.

Hues are classified into warm and cool colors. Warm colors include red, yellow, and orange hues, while cool colors include blue, green, and violet hues. Warm and cool colors symbolize different things to different consumer groups, as presented in Figure 8-5. In general, warm colors tend to evoke feelings of comfort and informality. For example,

harmony

Harmony refers to visual agreement and is often the basis for quieter, plusher, and more formal business settings.

contrast/clash

Visual effects associated with exciting, cheerful, and informal business settings.



Reismeyer Productions, Inc./SuperStock

Service customers base many of their expectations on visual cues. What would be your expectations of this service provider's organizational skills and level of professionalism?

hue

The actual color, such as red, blue, yellow, or green.

value

The lightness and darkness of the colors.

shades

Darker values.

tints

Lighter values.

intensity

The brightness or the dullness of the colors.

Figure 8-5 Perceptions of Colors

Warm Colors			Cool Colors		
Red	Yellow	Orange	Blue	Green	Violet
Love	Sunlight	Sunlight	Coolness	Coolness	Coolness
Romance	Warmth	Warmth	Aloofness	Restfulness	Shyness
Sex	Cowardice	Openness	Fidelity	Peace	Dignity
Courage	Openness	Friendliness	Calmness	Freshness	Wealth
Danger	Friendliness	Gaiety	Piety	Growth	
Fire	Gaiety	Glory	Masculinity	Softness	
Sin	Glory		Assurance	Richness	
Warmth	Brightness		Sadness	Go	
Excitement	Caution				
Vigor					
Cheerfulness					
Enthusiasm					
Stop					

Source: Dale M. Lewison, *Retailing*, 4th ed. (New York: Macmillan, 1991), p. 277.

red commonly evokes feelings of love and romance, yellow evokes feelings of sunlight and warmth, and orange evokes feelings of openness and friendliness. Studies have shown that warm colors, particularly red and yellow, are a better choice than cool colors for attracting customers in retail settings. Warm colors are also said to encourage quick decisions, and they work best for businesses where low-involvement purchase decisions are made.

In contrast to warm colors, cool colors are perceived as aloof, icy, and formal. For example, the use of too much violet may dampen consumer spirits and depress employees who have to continuously work in the violet environment. Although cool colors do not initially attract customers as well as warm colors, cool colors are favored when the customer needs to take time to make decisions, such as the time needed for high-involvement purchases. Despite their different psychological effects, when used together properly, combinations of warm and cool colors can create relaxing yet stimulating atmospheres. One professor went so far as to regularly redecorate his classroom to test which hue, saturation and brightness could allow students to maintain their attention. Colors with high saturation and brightness such as yellow, yellow green, and magenta produced the highest level of attention.²⁹

The value of hues also psychologically affects the firm's customers. Offices painted in lighter colors tend to look larger, while darker colors may make large, empty spaces look smaller. Lighter hues are also popular for fixtures such as electrical face plates, air conditioning vents, and overhead speaker systems. The lighter colors help the fixtures blend in with the firm's environment. On the other hand, darker colors can grab consumers' attention.

The intensity of the color also affects perceptions of the service firm's atmosphere. For example, bright colors make objects appear larger than do duller colors. However, bright colors are perceived as harsher and "harder," while duller colors are perceived as "softer." In general, children appear to favor brighter colors, and adults tend to favor softer tones. For firms serving international markets, cultural perceptions of color must be taken into consideration (see Figure 8-6).

Lighting The psychological effects of lighting on consumer behavior are particularly intriguing. In a study in Germany, researchers asked respondents to taste white wine at a vineyard tasting room. The wines were identical and served in black glasses. What varied was the ambient light. They found that in blue or red background light the wines were rated higher on quality. Indeed respondents were prepared to pay more for the same wine if they tasted it in blue light.³⁰

8-5b Sound Appeals

Sound appeals have three major roles: mood setter, attention grabber, and informer. Proactive methods for purposely inserting sound into the service encounter can be accomplished through the strategic use of music and announcements. Music helps set the mood of the consumer's experience while announcements can be used to grab consumers' attention or inform them of the firm's offerings. Sound can also become "noise" when it distracts from the consumer's experience. Consequently, sound avoidance tactics should also be considered.

Figure 8-6 Color Perceptions by Culture How color is accepted and perceived by one culture does not necessarily translate into a universal interpretation. Service marketers engaged in international business must be aware of cultural color perceptions as they relate to design considerations.

	China	Cherokees	Eastern	Egypt	India	Iran	Ireland	Japan	Russia	Western
Red	Good luck, celebration, summoning	Success, triumph	Worn by brides		Purity				Bolsheviks and communism	Excitement, danger, love, passion, stop,
Orange							Religious (Protestants)			Halloween (with black), creativity, autumn
Yellow	Nourishing			Color of mourning	Merchants			Courage		Hope, hazards, coward
Green	Green hats indicate a man's wife is cheating on him, exorcism				Islam		Symbol of the entire country			Spring, new birth, go, Saint Patrick's Day, Christmas (with red)
Blue		Defeat, trouble				Color of heaven and spirituality				Depression, sadness, conservative, corporate, "something blue" bridal tradition
Purple										Royalty
White			Funerals					White Carnation symbolizes death		Brides, angels, good guys, hospitals, doctors, peace (white dove)
Black	Color for young boys									Funerals, death, Halloween (with orange), bad guys, rebellion

Source: <http://webdesign.about.com>.

Music Studies have shown that background music affects sales in at least two ways. First, background music enhances the customer's perception of the store's atmosphere, which in turn influences the consumer's mood. Second, music often influences the amount of time spent in stores.³¹ In one study, firms that played background music in their facilities were thought to care more about their customers.³²

Studies have shown that in addition to creating a positive attitude, music directly influences consumer buying behavior. Playing faster tempo music increases the pace of consumer transactions. Slowing down the tempo of the music encourages customers to stay longer. Still other studies have indicated that consumers find music distracting when they are considering high-involvement purchases but listening to music during low-involvement purchases made the selection process easier. Moreover, employees tend to be happier and more productive when listening to background music. If the staff are happier and more productive this can lead to a more positive experience for customers. If, however the music is the wrong kind it can produce a negative effect if the staff turn the volume up.

Figure 8-7 displays the impact of background music on consumer and provider behavior in a restaurant setting. As can be concluded by the figures, the pace of service delivered, and the pace of consumer consumption are affected by the tempo of the music. Service time seems to be reduced by the fast tempo of the music. Time at the table increases significantly with slow tempo sound. The food bill stays the same, but the beverage bill increases. Although the estimated gross margin was higher when the restaurant played slow music, the restaurant should also consider the additional number of tables that would turn if faster-paced music were played throughout the day. There is evidence that fast tempo music actually increases the speed at which we raise our forks to our mouths and take sips from a soda.³³

Noise When planning the firm's facilities, it is as important to understand the avoidance of undesirable sounds as it is to understand the creation of desirable sounds. Desirable sounds attract customers, and undesirable sounds detract

from the firm's overall atmosphere. Within a restaurant setting, some sounds are intrinsically unattractive, these include those emanating from kitchen, dish room, and restroom areas. Obviously, listening to a toilet flush throughout dinner does little to add to the enjoyment of the customer's dining experience. Other sounds like background music or even the sound of other guests can be positive initially but become negative if they get louder. Research in New York bars with sound meters showed that during "Happy Hour" only 10 percent of bars had a noise level low enough for a regular conversation.³⁴

Tactics for eliminating unwanted noise include installing durable hallway carpets to eliminate the distracting sounds of clicking heels, strategically placing loud central air conditioning units in areas away from areas where the firm conducts most of its business and installing lower ceilings and sound-absorbing partitions so that unwanted sounds can be reduced even further.

Unfortunately, all of these approaches conflict with the current design ethos for many public spaces. Restaurants are designed to have almost the opposite effect. Wooden floors have replaced carpets. Windows no longer have drapes and reflect all sound. Furniture is not upholstered, and tables do not have sound absorbing tablecloths. Bars are incorporated into the restaurants. Ceiling tiles are removed. Walls and ceilings are unfinished. The result is a space that amplifies all sound.

Employees working in noisy environments are protected under "Health & Safety" regulations around the world. Regulators specify how much sound energy an individual can be subjected to during the working "day". A typical norm is 80Db for eight hours. 80 Db is the noise produced by the average TV in a sitting room. As the sound level rises the employee is required to either wear ear protectors or reduce the amount of time they are exposed. The average dance floor in a small venue can generate 100–110 Db. Standing next to the staff are the customers. Above 100Db regulators specify that the sound is injurious to your health. The noise level is equivalent to having a trombonist stand 6 feet in front of you and play into your face.

Figure 8-7 The Impact of Background Music on Restaurant Patrons

Variables	Slow Music	Fast Music
Service time	29 min.	27 min.
Customer time at table	56 min.	45 min.
Customer groups leaving before seated	10.5%	12.0%
Amount of food purchased	\$55.81	\$55.12
Amount of bar purchases	\$30.47	\$21.62
Estimated gross margin	\$55.82	\$48.62

Sources: R. E. Milliman, "The Influences of Background Music on the Behavior of Restaurant Patrons," *Journal of Consumer Research*, 13, (September 1986), p. 288; see also R. E. Milliman, "Using Background Music to Affect the Behavior of Supermarket Shoppers," *Journal of Marketing*, (Summer 1982), pp. 86–91.

8-5c Scent Appeals

The servicescape of the firm can also be strongly affected by scents. When considering scent appeals, as was the case with sound appeals, service managers should pay as much attention to scent avoidance as to scent creation. Stale, musty, foul odors affect everyone and are sure to create negative impressions. Poor ventilation systems that fail to remove odors and poorly located trash receptacles are common contributors to potential odor problems.

On the other hand, pleasurable scents often induce customers to make purchases and can affect the perception of products that do not naturally have their own scent. For example, in one study conducted by Nike, customers examined pairs of gym shoes in two different rooms. One room was completely odor free, and the other was artificially permeated with a floral scent. Results of the study indicated that the floral scent had a direct positive effect on the desirability of the sneakers to 84 percent of the participants.³⁵ A retail service experience using scents, “wrapped” around the merchandise can influence its perception. Scents do influence consumer perceptions about products and services that do not naturally smell on their own. Experts in scent creation note that a firm should smell like it’s supposed to, according to target market expectations. Hospitals should smell clean and antiseptic; and perhaps older, established law firms should even smell a little musty. Smells seem to be more effective if they are simple (e.g., lemon) rather than complex mixtures.³⁶

8-5d Touch Appeals

The chances of a product’s selling increase substantially when the consumer handles the product. But how does one touch an intangible product? Touch can be thought of as having three independent systems. We have the ability to touch and interpret inanimate objects. We can feel the sweater in the store or the quality of the tableware in the restaurant. We all engage in interpersonal touch. One of the earliest sensations we have as an infant is the touch of our mothers. The third touch system senses temperature. All can have a major impact in a servicescape.

Using Touch to Interpret Inanimate Objects For example, to produce “better” yoghurt, you do not need to change the recipe or the ingredients. Instead, all you need to do is to serve it in heavy bowls and give people heavy spoons. Our sense of touch gives us our sense of how heavy things are. We have learned to associate quality with weight. The weight of the utensils influences our assessment of that food. More specifically, plain yoghurt was served to individuals in bowls that were visually identical to each other. The bowls however differed significantly in weight (one third of, two thirds of and a kilogram). The heavier the bowl the more the yoghurt was liked. It was thought to be thicker and to be higher priced. Of course, the yoghurt in the bowls was identical, it was the weight of the bowls that made the difference.³⁷

If you cannot change the bowls, then spoons will work just as well. In another study the bowls and the yoghurt were

the same for everyone. All that was changed was the weight of the spoons. One weighed five grams and the second was more than four times heavier at twenty grams. The results were just as impressive. Respondents rated the yoghurt that they ate with the heavier spoon as significantly higher quality and they much preferred it.

It appears that if you want your yoghurt creamy you may also have to be careful about the texture of the bowls in which you serve it. Digestive biscuits served from a container covered in a rough sandpaper feel crunchier and harder than when served in a smooth pot. A textured bowl will also make potato chips taste saltier than a smooth bowl.³⁸

Inter-Personal Touch American researchers as long ago as 1984 coined the phrase “the Midas Touch”. They were studying the impact of touch on tipping in restaurants. Waitresses touched clients when returning the change. One group of clients had the palms of their hands touched twice for one and half seconds. For a second group of randomly assigned customers the waitress approached from the side and placed their hand on the person’s shoulder when returning the change. The third group had no touch. Waitresses were trained to make the touch unobtrusive.

The results were truly a Midas touch. Clients who were touched in either way give significantly bigger tips than those who were not touched. The effect was independent of the sex of the client, the weather, and the consumption of alcohol, all of which are known to affect tip size.³⁹

Another study of interpersonal touch was conducted in a bookstore. Nearly three hundred shoppers were approached as they entered the store and given a catalogue. The experimenters giving them out, touched half of the shoppers on their upper arm. At the exit shoppers stopped to have their car parking ticket validated. It was therefore possible to know how long they spent in the store and how much they spent. Shoppers were also asked to complete a short store evaluation card. The light touch was shown to influence shoppers’ evaluations and behaviors. Shoppers who were touched spent significantly more time in the store (70 percent more). They bought more and rated the store more positive on every criterion in the survey. This was truly a Midas Touch since its impact extended across all perceptions.⁴⁰

Temperature Researchers looked at over 2,300 National Football League games and could show that the hotter the day, the more fouls related to aggression. This was independent of the relative humidity on the day. It was even independent of the score in the match.⁴¹ The same effect has been shown in auctions and price negotiations. Bidders are more aggressive at higher temperatures and negotiations are more difficult to resolve.

8-5e Taste Appeals

Taste comes into its own in the food service sector. Our perception of flavors is a mixture of taste and smell. With

age taste can start to fail. Older customers will often load their food with extra salt or sugar to simulate their taste. They even resort to hot sauces. Our mouths have a self-defense mechanism that responds to things like chilis. It is designed to stop us eating dangerous things. That mechanism does not decay with age. Restaurants may need to resort to larger condiment sets in the middle of the table.

For older customers they need to include a wide selection of flavor enhancers.

What we taste can influence our risk-taking behaviors. Our propensity to take risks varies with the taste in our mouth. Given a sour tasting drink and we will gamble more. Switch the drink to a sweet one and we become more conservative.⁴²

Summary

The effective management of physical evidence is especially important to service firms. Due to the intangibility of services, consumers lack objective sources of information when forming evaluations. As a result, they often look to the physical evidence within the servicescape.

A firm's physical evidence includes, but is not limited to, exterior design elements such as the architecture of the building, the firm's signage, parking, landscaping, and the surrounding environment of the firm's location; interior design elements such as size, shape, and colors, the firm's entrance and foyer areas, equipment used to operate the business, interior signage, layout, air quality, and temperature; and other physical evidence that forms customer perceptions, including shopping trolleys, business cards, stationery, billing statements, reports, the appearance of personnel, and brochures.

From a strategic perspective, the importance of managing the firm's physical evidence stems from its ability to: (1) package the service; (2) facilitate the flow of the service delivery process; (3) socialize customers and employees alike in terms of their respective roles, behaviors, and relationships; and (4) differentiating the firm from its competitors.

From a theoretical perspective, the firm's environment influences the behavior of consumers and employees alike,

due to the inseparability of many services. When designing the firm's facilities, consideration needs to be given to whether the firm is a remote service, an interpersonal service, or a self-service. The subsequent design should reflect the needs of the parties who are dominating the service production process in that facility. Decisions about facility location, layout, product design, and process design in particular may result in different outcomes, depending on whether the firm is a high customer contact or low customer contact operation. Figure 8-3 illustrates the servicescape framework that helps us to further understand how people are affected by the firm's environmental dimensions, which ultimately lead to approach and/or avoidance behaviors.

Finally, many tactical decisions must be made when designing the firm's environment. People base their perceptions of the firm's services on sensory cues that exist in the firm's environment. Specific tactical decisions must be made about the creation and sometimes the avoidance of scent appeals, sight appeals, sound appeals, touch appeals, and taste appeals. The design and management of the firm's sensory cues are critical to the firm's long-term success. This is especially the case if the firm decides to target an older segment of consumers. Their senses are changing and the servicescape needs to be adapted to their needs

Key Terms

facility exterior
facility interior
other tangibles
socialization
environmental psychology
Sense, Organize, Interpret (S-O-I)
Model
perception stimulus–organism–
response (SOR) model
stimuli
organism
emotional responses
pleasure–displeasure
arousal–non-arousal
dominance–submissiveness

servicescapes
remote services
self-services
interpersonal services
ambient conditions
space/function
signs, symbols, and artifacts
holistic environment
perceived servicescape
economic customers
personalized customers
apathetic customers
ethical customers
internal response moderators
beliefs

categorization
symbolic meaning
emotional responses
physiological responses
individual behaviors
size/shape/colors
harmony
contrast/clash
hue
value
shades
tints
intensity

Review Questions

1. Explain the relationship between physical evidence and the formation of customer perceptions and expectations.
2. Discuss the four strategic roles of physical evidence.
3. Discuss the relevance of low-contact versus high-contact service firms with respect to location, layout, product design, and process design decisions.
4. How should the servicescape of a firm that targets ethical shoppers be designed?
5. Discuss how internal response moderators influence the customer's response to the servicescape.
6. Discuss the three types of internal responses to the firm's environment.
7. Describe the impact of music on customer and employee behavior.
8. Develop strategies for a service firm that would enhance the firm's touch and taste appeals.
9. Discuss the use of employee uniforms as physical evidence as they relate to the unique service characteristic of heterogeneity.
10. Discuss the problems of having both young and old segments in the same servicescape.
11. Go to www.colorquiz.com and complete the quiz. Do you agree or disagree with the psychographic profile that was generated based on your color selections?

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Case 8

Developing an Orthodontic Servicescape: Dr. Crane's Dilemma

In layman's terms, orthodontics is a specialty of dentistry that addresses the treatment of improper bites that are the result of tooth irregularity, misalignment of the jaw, or both. The term *orthodontics* originates from the Greek words *orthos* (meaning straight or proper), and *odons* (meaning tooth). The majority of clients that seek out orthodontic services are looking to improve the general appearance of their teeth and/or to improve the functionality of their teeth by improving bite. Dentists seeking to become orthodontists typically engage in two- to three-year full-time postgraduate study. The typical orthodontist in the United States earns approximately \$121,000 a year.

As a young orthodontist, Dr. Crane started his practice in Fort Collins, Colorado. His office was quite small but accommodated the functional needs of his early practice. The vast majority of Dr. Crane's patients consisted of not only young clients between the ages of 8 and 16, but also included a growing practice of adult orthodontic patients. The typical fee for orthodontic services ranged from \$3,000 to \$5,000 per patient. Over the years, Dr. Crane's reputation as an orthodontist and the professional and friendly manner in which he and his staff treated patients spread quickly throughout the town. Within a handful of years, Dr. Crane's office was typically mentioned as the number one provider of orthodontic care. In fact, Dr. Crane's services became so popular that his waiting room often overflowed onto a deck located outside the office. The deck offered comfortable seating during warmer months, but it was not a practical solution during the snowy Colorado winters. As adding onto his existing office was not a viable option to increase space, Dr. Crane considered building and designing a new office for his practice.

After visiting fellow orthodontists' offices for design ideas, Dr. Crane sought additional innovative ideas from the Internet. A Google search of the phrase "orthodontic office design" generated over 96,000 search options, including floor plans, ideas to consider, and a growing list of companies that specialized in dental office design. As he pondered the intricacies of orthodontic office design, Dr. Crane was feeling a little overwhelmed by all the decisions he would soon face. Furthermore, realizing that his medical practice was indeed a service business, Dr. Crane began to ponder how service marketing concepts, specifically servicescape design, should factor into his office design considerations.

Discussion Questions

1. When considering the servicescape design of an orthodontic office, discuss whether orthodontics is a self-service, an interpersonal service, or a remote service, and how this will influence the design of the office.
2. Given that an orthodontics office is typically divided up into a number of rooms, specify the rooms you believe would be necessary for an orthodontics office.
3. In addition to space allocation for the necessary rooms, what other factors should be considered when designing an orthodontic servicescape?
4. Service firms often have to balance effectiveness and efficiency. Discuss what this trade-off means and how it affects the design of an orthodontics office.
5. If an orthodontist and staff can serve six patients per hour, how many chairs need to be available in the waiting room? Please explain.

Sources: <http://swz.salary.com>; <http://en.wikipedia.org>.

Chapter 9

People as Strategy: Managing Service Employees



Source: <https://www.vox.com/recode/23042785/the-great-resignation-older-tenured-higher-paid>

Chapter Objectives

After reading this chapter, you should be able to:

1. Recognize the importance of customer facing employees and contrast the stresses and strains faced by typical service employees
2. List the tasks necessary for creating a climate for service
3. Explain the role of management in supporting the resultant “climate for service”
4. Examine the impact of information technology on service provider roles

Service businesses employ people in very different roles. Some never meet a customer but provide essential infrastructure and support. Others meet customers face to face on a day-to-day basis and are an integral part of the customer experience. The purpose of this chapter is to help you understand the importance of and the many challenges associated with managing employees within the service experience. Service businesses need talented managers who can navigate the thin line between the needs of the organization, its employees, and its customers.

The Great Resignation: Employees on the Move¹

Given the interpersonal nature of most services, the importance of hiring and retaining excellent staff is vital. The customer/employee interaction is frequently referred to as a

“critical incident” and/or “moment of truth” and represents the greatest opportunity for gains and losses pertaining to customer relationships. Great business relationships are often based on interpersonal bonds that form between clients and providers. Customers often look forward to interacting with favorite staff members to the point that the interaction itself becomes an added value and differentiating component of the overall service encounter.

Recent macroenvironmental events and subsequent changes in employee motivation have made recruiting and maintaining good employees particularly challenging. Much of the world’s workforce is on the move ... or at least thinking about it. Based on recent data, 41 percent of the global workforce is considering quitting their jobs and 46 percent plan on relocating in the upcoming year. In the United States alone, it is estimated that 48 million employees quit their jobs in 2021, and the rate of future resignations is expected to continue at a similar rate into the foreseeable future.

The vast majority of industries most affected by The Great Resignation (aka: The Great Reshuffle, The Great Attrition, or The Big Quit) are service sector jobs. Sectors struggling the most to find and retain staff ranked by the largest exodus of employees include (1) accommodation and food services; (2) leisure and hospitality; (3) retail trade; (4) trade, transportation, and utilities; and (5) professional and business services. Not only are these sectors losing employees, but they are also losing experienced employees. It is noted that 77 percent of employees on the move have at least five years of work experience. Millennials with more than five years of work experience comprise 55 percent of career changers.

On the surface, one might assume that career changers are on the move to obtain higher salaries; however, higher pay ranks as #7 on a list of the top nine factors causing The Great Resignation. Contributing factors to The Big Quit include: (#1) toxic corporate cultures; (#2) job insecurity and reorganizations; (#3) unwelcomed innovations; (#4) failure to recognize employee performance; (#5) employer's poor response to COVID-19; (#6) searching for a better work-life balance; (#7) higher-pay; (#8) desire to explore a new career path; and (#9) to care for children or other family members during the pandemic. Astute service marketers looking to create positive working environments should take notice and adjust their human resource strategies accordingly.

9-1 Introduction

In a business world full of pro-customer mantras such as “The Customer is King,” and “The Customer is Always Right,” service firms must just as enthusiastically support the employees serving the customers for these mantras to be fully realized. In other words, customers will never be treated like kings, if employees are treated like peasants. Ultimately, employee satisfaction drives customer satisfaction; consequently, the purposeful design and implementation of the service firm's internal service quality (working environment) is paramount.

The public face of a service firm is its contact personnel. Part factory workers, part administrators, part servants, service personnel perform a complex and difficult job.² Despite their importance and the complexity of their activities, service personnel are often the lowest paid and least respected workers in most companies, and often in society. For example, in the healthcare community, the people most responsible for patient care and patient perceptions of service quality are the nurses. Who are the lowest paid and least respected professionals in the healthcare community? The nurses. In the education system, who is most responsible for the day-to-day education of and interaction with students? The classroom teachers. Who in the education system are the lowest paid and least respected individuals? The classroom teachers. The list goes on and on. Consider any service industry and look to the people who are most responsible for

customer interactions and customer perceptions of quality delivered, and you will most likely see the lowest paid and least respected workers in the company. It makes no sense!

It makes no sense from the point of view of the firm, either. Isadore Sharpe, the founder of the Four Seasons Hotel Group, made the argument that “how you treat your employees is how you should expect them to treat the customer.” If service employees are the least respected members of the organization, how will they treat the customer? This has a profound impact on the economics of the firm as expressed in the **service-profit chain** shown in Figure 9-1³

The links in the chain reveal that employee satisfaction and customer satisfaction are directly proportional. Satisfied employees remain with the firm and become more productive. Hence employee satisfaction is linked to increases in the firms' overall productivity and decreases in recruitment and training costs. The scale of recruitment and training costs can be huge for many service businesses.

Employee attitudes and beliefs will in turn influence the way they do their jobs and hence the satisfaction of the service consumers. A large number of studies have shown that customer satisfaction is directly influenced by their perception of the human resources (HR) practices and policies of the service firm and how they influence the service provider.⁴

Customer satisfaction is directly related to customer loyalty, which is demonstrated through repeat purchases and positive word-of-mouth referrals to other customers. The net effects of customer retention are increased revenues and profitability for the firm. For example, various studies have looked at the cost of acquiring new customers versus the cost of retaining an existing one. The ratio quoted by the U.S. Office of Consumer Affairs is five to one, but other authors have cited numbers as high as eight to one.⁵

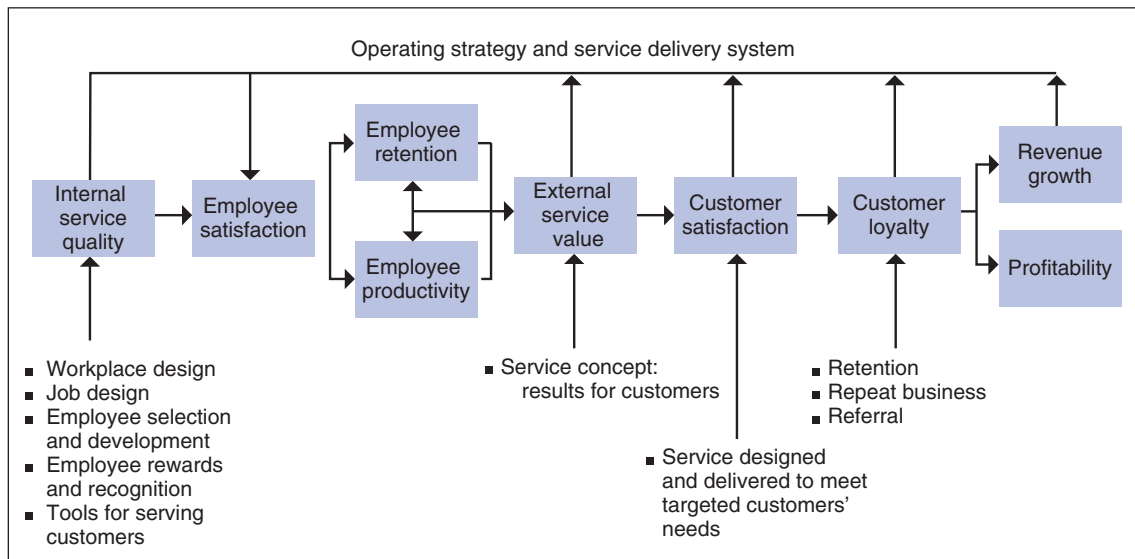
The outcomes associated with employee satisfaction—external service values, customer satisfaction, customer loyalty, revenue growth, and increased profitability—reinforce the company's commitment to continually improving internal service. As the recipients of internal improvements and positive customer responses, employees directly experience the fruits of their efforts. Employee satisfaction is subsequently reinforced, and the integrity of the service-profit chain is maintained.

Strategically, service personnel are an important source of product differentiation. It is often challenging for a service organization to differentiate itself from other similar organizations in the benefit bundle it offers or in its delivery system. For example, one extreme view is that many airlines offer similar bundles of benefits and fly the same types of aircraft from the same airports to the same destinations.

service-profit chain

The logic that demonstrates the relationship between satisfied service employees and the economic performance of the service firm.

Figure 9-1 The Service-Profit Chain



Source: James L. Heskett, Thomas O. Jones, Gary W. Loveman, W. Earl Sasser, Jr., and Leonard A. Schlesinger, "Putting the Service-Profit Chain to Work," *Harvard Business Review* (March–April 1994), 164–174. Reprinted by permission of *Harvard Business Review*. Copyright © 1994 by the President and Fellows of Harvard College.

Their only hope of a competitive advantage is, therefore, from the service level—the way things are done. Some of this differentiation can come from staffing levels or the physical systems designed to support the staff. Often, however, the deciding factor that distinguishes one airline from another is the attitude of the service providers.⁶ Singapore Airlines, for example, enjoys an excellent reputation due in large part to the grace and service orientation of their flight attendants. Other firms that hold a differential advantage over competitors based on personnel include the Ritz Carlton, IBM, Chick-fil-A, and Disney.⁷

This chapter focuses on the first half of the service-profit chain relating to the employee. We will look at the stresses and strains inherent in the service provider role and why it requires careful management if things are not to go very wrong. We go on to focus on how to create a service climate that will reinforce employees' natural desire to give good service. To do this, the tools of human resources management need to be integrated around a clear definition of the specific service provider role the firm has chosen.

are what are called **boundary-spanners**.⁸ They sit on the boundary of the organization, interacting both with the firm's external environment, particularly its customers, and its internal organization and structure. They represent the organization and are required to collect the information from the customer needed to perform the service. They are part of the production process but also represent the customer to the organization.

Individuals who occupy boundary-spanning roles can be classified along a continuum that ranges from **subordinate service roles** to professional service roles.⁹ The subordinate roles are usually subordinate to both the organization and the customer. They are the lowest of the low within the organizational hierarchy. They are also treated as subordinate by customers, and this is often reinforced by signs prominently on display reading "The Customer is Always Right."¹⁰ Most service providers occupy these subordinate service roles.

Such boundary-spanning roles cause different kinds of stress and strains on the individual. Such roles are full

9-2 The Service Provider Role

Employees who choose jobs as front-line service providers do not start with the intention of giving bad service. There is a lot of evidence to suggest that, given a free choice, people migrate to jobs that will motivate them. People are not motivated to give bad service. How can the good intentions of a new service provider often go so badly wrong?

It is important to understand that by the very nature of the job, being a contact service person is not easy. They

boundary-spanners

The various "parts" played by contact personnel who perform dual functions of interacting with the firm's external environment and internal organization.

subordinate service roles

The low-status jobs within service organizations where the employee feels subordinate not only within the organization but also subordinate to the customer.

of ambiguity and conflict. The role they are called upon to play may be in conflict with their self-perception (**person/role conflict**). For example, boundary-spanning personnel often are called upon to suppress their personal feelings and are asked to smile and be helpful while feeling miserable and aggressive. This has been termed emotional labor and can certainly cause stresses on a person.¹¹ For an amusing example, see the Nicoderm advertisement on YouTube showing how a service provider's lack of nicotine destroys customer service.¹²

More problematic yet are the **organization/client conflicts**. A customer asks for an extra bread roll, but company policy is only one per guest. This is often compounded by the application of common sense ("there are no more guests, and the bread will go to waste!"). This is often a fight between organizational efficiency and organizational effectiveness (customer satisfaction) with the contact person in the middle. The bread roll problem appears simple, but what if a bus passenger asks the bus driver to leave the established route and drop her off at home? Even if she is the last passenger on the bus?¹³

In some instances, employees attempting to uphold organizational policies that conflict with customer requests leads to volatile confrontations. McDonald's drive-thru customer Melodi Dushane took measures to the extreme when informed that McDonalds did not sell Chicken McNuggets in the morning. She physically attacked the server and tried to climb into the drive-thru booth by smashing the



Tomas Urbelionis/Shutterstock.com

Employee satisfaction is the key to customer satisfaction. Nothing will drive customers away faster than employees who are unhappy with their job.

Source: <https://nextbridgeconsulting.com/how-unhappy-are-your-employees/>

person/role conflict

A poor fit between a person's self perception and the specific role the person must play in an organization.

organization/client conflicts

Disagreements that arise when a customer requests services from the service provider that violate the rules of the organization.



AP Images/Dima Gavrysh

One of the main sources of conflict in service jobs is person/role conflict. Not everyone can do this job well and not everyone would want to do it! The bottom-line is finding the right fit—the right person for the right job.

window.¹⁴ Additionally, countless incidents involving physical assault occurred as employees attempted to enforce organizational guidelines related to the COVID pandemic such as social distancing and masking requirements.

The employee reaction to this kind of conflict is often related to how subordinate the role is within the organization. A low-level subordinate service role and a lack of understanding of why the rules were written will often mean the contact person will side with the customer against the organization. In contrast, professional service personnel with their higher status and clearer understanding of the purpose of specific rules are more able to control what happens.

Service employees are also called upon to intervene in inter-client conflicts. **Inter-client conflicts** arise because many service delivery systems have multiple clients who share the service encounter and influence one another's experiences. Because different clients are likely to have different needs, they tend to have completely different scripts for themselves, the contact personnel, and other customers. When customers do conflict, it is usually the boundary-spanning personnel who are asked to resolve the confrontation.

For example, it is the front-line staff that is asked to settle disputes between airline passengers, restaurant customers, and deviant group members attempting to complete a school project. Attempts to satisfy all of the clients all of the time can escalate the conflict or bring the boundary-spanning personnel into the battle. For example, a restaurant customer requesting speedy service and receiving it can cause complaints from other tables about the inequitable levels of service.

inter-client conflicts

Disagreements between clients that arise because of the number of clients who influence one another's experience.

Employee reaction and effectiveness in resolving inter-client conflicts appear to be once again related to the employee's role within the organization. Employees in subordinate roles start from the weakest position since they have low status with clients. Clients may simply disregard responses made by subordinate service providers. Professionals may face the same problems; for example, consider the patient in the hospital waiting room, demanding preferential treatment. In a case such as this, however, the professional can invoke their status and expertise to resolve the situation.

9-2a Coping Strategies and Implications for Customers

The consequences of role conflict and stress produce dissatisfaction, frustration, and turnover intentions in personnel (flight attendant Steven Slater, mentioned in the chapter case, demonstrated his frustration and intention to quit in a spectacular way!). When faced with potential conflict and stress in their jobs, employees try a variety of strategies to shield themselves. These manifest themselves as the seven unsavory employee behaviors that irk customers the most and that are mirrored as similar themes across different industries and organizations.¹⁵ These unsavory behaviors include:

1. **Apathy:** What comedian George Carlin referred to as DILLIGAD—Do I look like I give a damn?
2. **Brush-off:** Attempts to get rid of customers by dismissing them completely—the “I want you to go away” syndrome.
3. **Coldness:** Indifferent service providers who could not care less what the customer really wants.
4. **Condescension:** The “you are the client/patient, so you must be stupid” approach.
5. **Robotism:** Where the customers are treated simply as inputs into a system that must be processed.
6. **Rulebook:** Providers who live by the rules of the organization even when those rules do not make good sense.
7. **Runaround:** Passing the customer off to another provider, who will simply pass them off to yet another provider.

These behaviors can be understood as a “fight for control.” As discussed previously, people have a deep-seated need to feel in control of the situation. This is just as true for service providers as for customers. If things go wrong, they can degenerate into a fight for who is in control. The simplest way of avoiding conflict is to avoid the customers. This is exemplified by the waiter who refuses to notice a customer who wishes to place an order. This allows the employee to increase his or her personal sense of control over the encounter. It would be perceived as “apathy,” “brush-off,” “coldness,” or even DILLIGAD. An alternative approach is to move into a people-processing mode,¹⁶ where customers are treated as inanimate objects to be processed rather than as individuals. This would be perceived as “robotism” or “rulebook.” This reduces the requirement of

the boundary-spanning personnel to associate or empathize with someone and hence become conflicted.

Boundary-spanning personnel also employ other strategies to maintain a sense of control of the encounter. Physical symbols and furniture are often used to boost the employee's status and, hence, their sense of control.¹⁷ Hiding behind a desk is one way of coping with the conflict.

The spate of flight attendants choosing to sing the safety announcement may represent another strategy to cope with the tedium and conflict within the role. Southwest encourages their flight attendants to incorporate personality into their interactions with customers. As one attendant tells passengers, “I have done five flights today and another regular announcement will put me to sleep.” He then raps the whole thing accompanied by the passengers.¹⁸

In the extreme case, the role conflict and ambiguity can lead to acts of **service sabotage**.¹⁹ These acts serve to regain control, or a sense of it, for the service provider. In some cases, such sabotage is kept private—such as an individual employee purposely serves smaller portions or expired beer to difficult customers. In other cases, sabotage manifests itself in more public ways with whole teams of service providers playing games and tricks on each other, through the customers or on customers directly. This represents a breakdown in service, but it is much more common than we think. A survey of 182 front-line service personnel found that 90 percent of personnel accepted behaviors with malicious intent to reduce or spoil service. In one incident, whether the pilot describing the firearms that he and his coworkers had with them in the cockpit and cabin were intended to deter terrorist or were to be engaged in service sabotage against difficult passengers, the pilot remained undecided.

An alternative strategy employees use to reduce organization/client conflict is to side completely with the customer. When forced to obey a rule with which they disagree, boundary-spanning personnel will proceed to list for the customer all the other things about the organization with which they disagree. In this way, employees try to reduce stress by seeking sympathy from the customer.

9-2b How Can Marketing Make Things Better or Worse?

Marketing can either cause or reduce role stress. Marketing can, without making major strategic changes, help to reduce service employee stress levels, and it's in marketing's best interest to do so. Clearly, unhappy, frustrated, and disagreeing contact personnel are visible to customers and will ultimately affect customers' perceptions of service quality. Customers obviously do not like being ignored by waiters or

service sabotage

Willful and malicious acts by service providers designed to ruin the service.

treated as if they were inanimate objects. If contact personnel try to maximize their sense of control over their encounters, it will most likely be at the expense of the amount of control felt by customers. In addition, although customers may sympathize with a service provider's explanation that the organization stops them from providing excellent service, customers will still develop negative perceptions about the organization.

Reducing Person/Role Conflicts Marketing can reduce the conflict between the individual and the assigned role by simply being sensitive and by actively seeking input from employees about the issue. A promotional gimmick dreamed up at the head office may look great on paper. For example, a medieval-theme day in the hotel almost certainly will have great public relations value, but how will the staff feel when they are called upon to wear strange and awkward (not to mention uncomfortable) costumes? How will these costumes affect the employees' relationships with customers during the service encounter?

Marketing may recommend a change in operating procedure in order to improve the quality of service. However, it is important to ensure that service providers are well trained in the new script. Should they not be, they may well become extremely embarrassed in the presence of customers. This situation can be aggravated if the new service is advertised in such a way that the customers are more aware of the new script than the staff.

Reducing Organization/Client Conflicts Similarly, marketing can help reduce conflicts between the organization and its clients. It is crucial, for example, that customer expectations be consistent with the capabilities of the service system. Customers should not ask for services the system cannot provide. Advertising is one of the main causes of inflated expectations as the temptation is to exaggerate claims in advertising to maximize the impact. Consider, for example, the real advertisement that depicted a flight attendant reading a young child a story while the plane was in flight. This was designed to show what a friendly and caring airline they really were. A number of passengers interpreted the advertisement literally, either because they believed it or because they could not resist the temptation and called upon the flight attendants to read stories to their children. The result was conflict for the cabin crew and far from the caring image the ad was designed to portray.

Reducing Inter-Client Conflicts Conflicts between clients can be avoided if the clients are relatively homogeneous in their expectations. Due to the inseparability of services, customers often share their service experiences with other customers. Hence, successful service firms recognize the importance of effective segmentation, which minimizes the chances that two or more divergent groups will share the encounter simultaneously. As long as all the clients share the same script and expect the same standard of service, the chances of inter-client conflicts are much reduced. Combining

leisure tourists with business conference attendees in the lunch dining room of a hotel is bound to cause conflicts due to the different time pressures of the different segments.

9-3 Unleashing Service with the Right Climate

The subordinate service provider role does have inherent conflicts within it, but there is no reason that they cannot be resolved, especially since front-line service providers do not start with the intention of giving bad service. Service personnel will, however, be influenced by their shared perception of the practices, procedures, and kinds of behaviors that get rewarded. That shared perception is the **climate for service** of the organization. The important idea is to create a climate that is supportive of giving good service. Often, however, front-line customer contact jobs are designed to be as simple and narrow as possible so that they can be filled by anyone—in other words, “idiot-proof” jobs. Employers place few demands on employees, selection criteria are minimal, and wages are low.

The result is that fewer and less-knowledgeable contact personnel are available, and hence, the customer gets less help and lower-quality help. Customers vent their feelings of impatience and dissatisfaction on the staff, which, in turn, de-motivates the employees, especially the most conscientious ones, since they are already aware of the poor service they are being forced to give. The best staff leave and are replaced with poorly trained recruits, and the vicious cycle of poor service continues.

By comparison, when service commitment is high, the service firm displays a passion for doing things directly related to the provision of service. Consider, for example, employee comments from The Container Store, chosen previously as the Number One Best Place to Work by *Fortune*.²⁰

- “I love this company because ‘Customer Service is #1’!!!...All customers can use our phones at any time.”
- “We grew up with ‘family values,’ and it’s rare to find a company with the same values, philosophy, and foundation principles. Going to work is like going to a family reunion every day.”
- “Working for this company has made me a better person and certainly made the world a better, more organized place.”
- “I miss everyone when I go on vacation.”
- “I will never leave.”

Employees speak often and favorably about the service delivery process and the product offered to customers, as well as about the concern for and/or responsiveness of the firm to customer opinions.

climate for service

The shared perception of the service practices, procedures, and kind of behaviors that get rewarded.

9-3a Creating a Climate for Service

There are three core drivers in creating a climate for service: (1) **work facilitation**; (2) **interdepartmental support**; and (3) human resource practices, all of which must minimize employee role stress and ambiguity and reinforce the provision of good service.²¹ The first two are the basic service foundations that have to be in place. Service personnel have to be given the capability to deliver good service should they want to. The equipment, processes, and increasingly the information technology have to be available to do the job (see *Services for a Better World in Action*). A check-in agent for an airline needs the boarding systems and the boarding card reader to be working. If they are not operational, the first-order effect is that the service suffers, but the second-order effect is that the provider becomes the recipient of complaints and becomes de-motivated, and subsequently the climate for service suffers. No service employee exists in isolation; they are all dependent on the rest of the service

work facilitation

The provision of the basic infrastructure and technology to enable service providers to deliver the desired service.

interdepartmental support

The support provided by other departments in the service organization that allow service providers to do their jobs.

organization. The check-in team can only give service if the plane is available, serviced, fueled, and crewed. Each other department—flight crew, maintenance, and cabin crew—is critical to the service that the check-in team can provide (interdepartmental support).

Having laid the foundations for employees to successfully execute their jobs, the climate can be built in the form of service-oriented HR policies and practices designed to fit the service strategy. If what people get rewarded for is inconsistent with what the managers praise them for, then there will be ambiguity and stress. If the avowed strategy is “superior quality” but internal performance measures are all based on cost management, then it is unlikely that the right climate will ensue. The HR policies and procedures have to be consistent with each other and with the service strategy. The services human resource practices can be broken down into the broad categories shown in Figure 9-2, **The Service HR Wheel**.

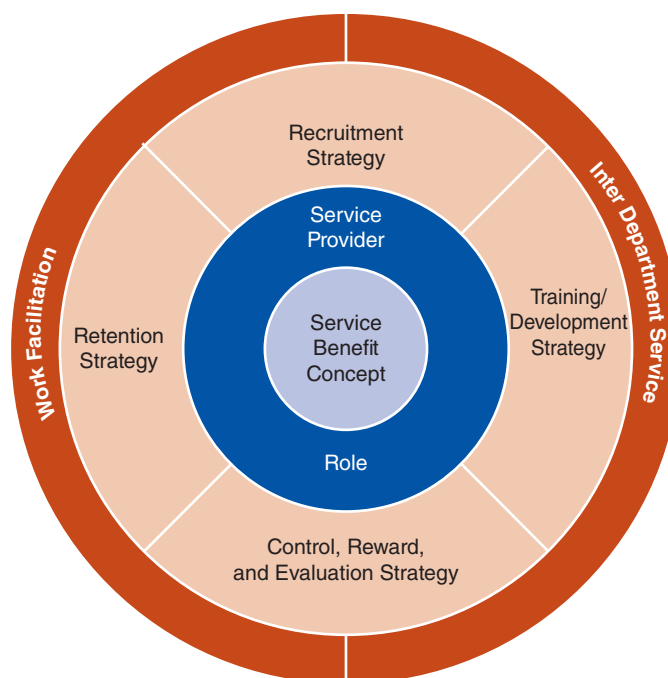
9-3b Defining the Service Provider Role

At the center of the wheel is the service benefit concept the firm is trying to deliver, from which it is possible to define the service provider role. Consider the case of Wegmans,

The Services HR wheel

The HR functions that together support the creation of a climate for service.

Figure 9-2 The Services HR Wheel



Services for a Better World in Action

Is Teleworking the Answer to Improve Work-Life Balance?²²

Teleworking existed well before 2020 but was only available to a lucky few. The COVID-19 crisis and subsequent social distancing guidelines required many firms to pivot to remote work arrangements almost overnight. As the pandemic began to wane, many employees wished to retain their remote work arrangements as it improved employee quality of life and work-life balance. In contrast, employers who have huge investments in office infrastructure and

favor the synergies associated with a face-to-face workforce would like to see employees return to the workplace. For these firms, transitioning employees back to the office is becoming a delicate negotiation between employer desires and recruiting and retaining a talented employee pool. Advantages and disadvantages associated with remote working are provided below:

Advantages	Description
1. Better work-life balance	Based on the advantages listed below, teleworking allows employees to re-balance their work lives along with their personal lives.
2. Improved productivity	Daily commutes to and from work are eliminated and nonproductive (office gossip) conversations are minimized.
3. Time savings	Oversleep, no problem, no lengthy lines for morning coffee, and no traffic jams.
4. Reduced absenteeism	Less likely to call off from work when feeling burned out or not feeling quite up to par.
5. Decreased turnover	Less likely to look for work elsewhere, reinforces commitment with the firm, and employees feel like they are trusted.
6. Cost savings	The firm saves expenses on rent, utilities, and office supplies. The employee saves expenses on fuel, parking fees, and office wardrobe needs.
7. Increased flexibility	Working remotely does not necessarily mean working from home. Employees can work from anywhere and adjust their own schedules for doctor's appointments and childcare responsibilities.
8. Accelerates the adoption of workplace technology	Technologies such as Zoom, Teams, and a variety of cloud-based services are accepted more readily out of necessity.
Disadvantages	Description
1. Loss of work-life balance	Some employees find clocking out at the end of the day challenging while checking emails well into the night. When one lives where they work, it becomes hard to separate the two.
2. Isolation	FOMO: Fear of Missing Out and lack of social interaction with coworkers. In addition, some feel the adage of "out of sight, out of mind" is not conducive for those seeking promotions and increased responsibilities.
3. The distractions of working from home	The distractions of home including children, pets, maintenance workers, neighbors, etc., may lead to an abundance or workplace interruptions.
4. Increased need for meetings	Micromanagers may feel a need for increased meetings to make sure workers are actively working.
5. Cybersecurity concerns	Employees need firewalls, antivirus software, and VPN configurations to protect company information when working from home.
6. Confidentiality concerns	Similar to cybersecurity concerns, confidentiality concerns increase as private documents can be accessed via an employee's home workspace including coffee shops and other popular public Wi-Fi locations.
7. Unstable/inconsistent internet access	Some neighborhoods have higher quality internet access than others and/or share internet access with others which results in slower transmission speeds, buffering, and poor audio and video connections.
8. Inconvenient for new hires	Starting a new job is stressful enough without adding new technology, new job requirements, and little to no new employee socialization.

a privately held supermarket chain that employs over 40,000 employees in its nearly 100 stores in New York, Pennsylvania, New Jersey, Massachusetts, Maryland, and Virginia. Estimated revenues over \$11.2 billion. Newer Wegmans stores boast 130,000 square feet, which makes Wegmans three times larger than the size of a typical supermarket. Wegmans operating margins are typically reported as being double what the “big four” (Albertson’s, Kroger, Safeway, and Ahold USA) earn, and sales per square foot were 50 percent higher than industry averages.

One of the key secrets to Wegmans’ success has been its recognition that the grocery stores of tomorrow must become more than just supermarkets, and they cannot compete solely on price. The biggest challenge for supermarkets today is that there is no compelling reason to shop there anymore. Grocery stores are viewed as commodities—84 percent of customers believe that traditional grocers are all pretty much the same. As a result, nontraditional grocers such as club stores (Sam’s, Costco) and discounters (WalMart and Target) have been able to gain a foothold in the market. Traditional grocers have responded to the onslaught by cutting prices, which has further lowered already miniscule margins.

Wegmans has embraced the idea that in order to compete effectively with the mass merchandisers of the world, grocery shopping should become a compelling experience. Employee comments reflect this notion: “We are taking customers to a place they have not been before.” “Going there is not just shopping, it’s an event.” Creating the Wegmans experience has been the result of a keen combination of goods and services and hiring and retaining great personnel. Each Wegmans store boasts a huge selection of food products, including amazing assortments of beautifully displayed produce, fresh-baked goods, and other specialty items such as a selection of over 500 cheeses. Other offerings within Wegmans include child play centers, a dry cleaner, a photo lab, florist, wine shop, pharmacy, and bookstore.²³ All of this alone is not enough; it has to be combined with a climate for service to create a compelling experience.

Consider two alternative approaches to defining the role of the service provider in the same industry: FedEx and UPS. FedEx was the first service organization to win the coveted Malcolm Baldrige National Quality Award. Behind the blue, white, and red planes and uniforms are self-managed work teams, garnishing plans, and empowered employees seemingly concerned with providing flexible and creative service to customers with varying needs. In contrast, at UPS, we find turned-on people and profits, but we do not find the same levels of empowerment. Instead we find controls, rules, a detailed union contract, and carefully studied work methods. UPS makes no promises that its employees will bend over backward to meet individual customer needs. However, what we do find are rigid operational guidelines, which help guarantee the customer reliable, low-cost service.²⁴ Within both organizations there are motivated employees, doing their best to serve their customers and creating a “climate of service” perceived and appreciated by the customer.

To set the objectives for the human resources practices, therefore, we must define the role of the service providers in terms of the behaviors that should be displayed. A definition of that role starts with the service strategy. Everything begins with the marketing strategy and the benefit concept the organization has chosen as its competitive edge. This determines the system and technology created to support the concept. The technology and the benefit concept define the role of the provider.

A branded service organization that guarantees consistency of product and service across multiple locations will build systems and structure accordingly. McDonald’s restaurants’ processes and systems are built to standardize service delivery. Their pricing and economics determine the type and cost of the service provider. The behaviors required by the role can be derived and are tightly constrained. Overly friendly staff who talk to the customers and customize the orders are incompatible with the consistency and speed promised. The role of the service provider is part of a tightly designed formula.

As the UPS and FedEx story shows, even within the same industry different strategies can lead to different solutions. For another example, consider the hotel industry and the potential role definitions for service providers. The industry has segmented itself along the star rating system. Customers have come to expect a certain level of perceived service from a 3-star hotel and a different one from a 1- or 5-star hotel. Equally, the customers expect the prices to vary accordingly. The service provider role in a 5-star hotel will be defined very differently from a lower-level hotel.

At the heart of the services HR wheel is the role that the service provider has to play. This is the set of behaviors that the provider must display, backed up with the necessary skills. Provided the definition is correct, there should be no ambiguity for the employee about what is expected. Their managers and senior managers should all be aligned with their role since it is based on the agreed-upon strategy. Once the role has been defined, it drives the next layer of the wheel: recruiting the right people; developing competent service employees; controlling, rewarding and evaluating service employees; and retaining service employees.

9-3c Recruiting the Right People

Not everyone is suited to the stress and strains of a boundary-spanning role. Some people, however, thrive on the day-to-day contact and the instant feedback that this brings. Any recruitment strategy should be designed to find the right people for the role as defined. Consider the case of the Neiman Marcus Retail Group. They were already using psychometric assessment to screen and assess candidates for their large volume store roles. However, with the launch of their new Human Resource Information System (HRIS) they wanted to standardize testing across the group, move to remote web-based testing, and have the results integrated into the HRIS. Such assessment approaches are used by blue chip service businesses across the world. Care must be taken to ensure that the test only discriminates between individuals based

on the competence or behaviors required by the job. It is important to note that assessment approaches screening candidates for anything other than attributes related to the job itself is considered discriminatory.

To create the standard test, the SHL Group defined key competencies, attitudes, and behaviors by looking at existing associates who met the criteria of top sales performance and good employment tenure. Following the introduction of a series of screening tests, the results were evaluated by comparing stores before and after the rollout of the new system. Staff turnover was reduced by 18 percent using the new process compared to the old approach and sales per hour per associate increased 15 percent. In the tight labor market of the time, the new process also provided a 24-hour interview-to-hire cycle.²⁵ (To experience these kinds of tests for yourself you can visit the practice site at SHLDirect.com.)

Neiman Marcus recognized that selection is a key part of the recruitment process and that it is possible to find people with the propensity to display the right behaviors or competencies and have the right inclination toward customers. Where the role requires specific abilities, such as the ability to work with numbers as a bank teller, personality tests can be supplemented by ability tests. It is important to realize that selecting the right person for the role has multiple benefits. For the organization, good selection improves the performance of the person in the role and hence productivity and service. Having a person in the right role also reduces the person/role stress suffered by service providers who may not be suited to the job. This increases their well-being and reduces the pathologies caused by role stress for the customer.

Part of the recruitment strategy must also be the creation of a suitable “**employer brand**.” The firm is competing not only for customers but also for talented people. The value proposition to prospective employees must be attractive enough to create a pool of candidates big enough to find enough employees with the right competencies. This is no more or less than the application of marketing to the employee market. The communication, branding, and proposition development skills are the same. Today, more than ever, employees are expecting more from their employers, particular concerns include innovative work environments along with the company’s stance on environmental, social, and governance (ESG) issues ranging from climate change to diversity in the workplace (see Global Services in Action).

9-3d Developing Competent Service Employees

Training is at the heart of creating satisfied employees and satisfied customers. Training is cumulative and expensive, and hence this strategy has to be combined with a strong focus on employee retention. The development strategy covers everything from the onboarding of new employees, to technical training on how to use the infrastructure and technology, to interpersonal training on how to deal with

employer brand

The brand that is created in the market for staff that is analogous to the brand in the customer market.

Global Services in Action

With Regards to ESG Concerns, Global Workers are Demanding More!²⁶

“Companies ignore stakeholders at their own peril—companies that do not earn trust will find it harder and harder to attract customers and talent, especially as young people increasingly expect companies to reflect their values. The more your company can show its purpose in delivering value to its customers, its employees, and its communities, the better able you will be to compete and deliver long-term durable profits for shareholders.”

Larry Fink
Letter to CEOs

Climate change is a fact of life for us all. For all stakeholders, climate risk assumes a central role in ESG discussions. The evidence on climate risk is compelling and it has deepened the public understanding of how climate risk will impact the physical world, present harmful socioeconomic implications, and damage the global system that promotes economic growth.

Workers are demanding more from their employers, pressing companies to develop more innovative work environments and to take a stand on important ESG issues from climate change to diversity in the workplace. When asked “what the primary purpose a business should be, a recent survey by Deloitte found that 63 percent more of millennial workers said ‘improving society’ than said ‘generating profit.’”

Given this formidable challenge, the European Union, China, Japan, South Korea, and the United States have made commitments to achieve net-zero emissions—“achieving a balance between greenhouse gas emissions produced and greenhouse gas emissions taken out of the atmosphere.” In all, 127 governments, representing over 60 percent of global emissions, are evaluating or already implementing initiatives to achieve the net zero emissions goal by 2050.

For experienced business strategists, sustainability is an integral part of value creation. Rather than damaging the bottom line, research shows that, when properly conceived, “sustainability is a mother lode of organizational and technological innovations that yield both bottom-line and top-line returns. Becoming environmentally friendly lowers costs because companies end up reducing the inputs they use. In addition, the process generates additional revenue from better products . . . or from new businesses.” In support, strategists at McKinsey observe: “The overwhelming weight of accumulated research finds that companies that pay attention to environmental, social, and governance concerns do not experience a drag on value creation—in fact, quite the opposite. A strong ESG proposition correlates with higher equity returns.”

customers, to developmental training preparing employees for their next role.

Preparing a new employee to operate in a “production” role, and maintaining and upgrading the skills of existing employees, is the role of **technical training** and the foundation on which everything is built.²⁷ Employees need to know how to use the “technology” provided to them, whether it be a sophisticated customer relationship management system in a call center, a complex point-of-sales terminal in a fast food restaurant, or a pad of paper on which to place orders in a fine dining restaurant. Employees need to know where they fit in the production process and what is required of them to ensure an efficient operation of that process. Using a theatrical analogy, service providers need to know the roles in the play and the script for the production. They also need to understand the role the customer has to play in the production.

Training new workers around a well-developed script is a widely practiced procedure. Take for example the McDonald’s approach, which trains new staff in a specific script that includes:

- Greeting customers
- Asking for the order (with suggestions for additional items)
- Assembling the order (cold drinks first, the hot next, etc.)
- Placing various items on the tray
- Placing the tray where the customer can reach it
- Collecting money and giving change
- Saying “thank you” and “come again”

In most cases, for entry-level subordinate staff the script encompasses much of the *interpersonal training* as well as the technical aspects of the job since it includes training on what to say to the customer. Back of house technical training can



Monkey Business Images/Shutterstock.com

Due to the inseparable nature of service encounters, effective service training involves both technical training and interpersonal training.

Source: <https://javelinlearningsolutions.com/interpersonal-skills-training/>

technical training

Training focused on teaching service providers their operational role in delivering the service.

also be scripted. For an entertaining insight into McDonald’s technical scripting pertaining to the *Speedy System* access the YouTube clip from the movie—*The Founder*.²⁸

Inadequate investment in technical training produces a cycle of failure. Employees are nervous and ill prepared. They do a bad job and it is visible to the customers. The customers complain which elevates stress levels and make things worse for the employee. Eventually, the employee becomes dissatisfied and leaves, wasting all of the investment in training. High turnover costs provoke management to reduce training to try to maintain the profitability.

In comparison to technical training, the more difficult training involves the development of the skills and abilities to handle customers. **Interpersonal training** must be built upon a strong foundation of technical knowledge.²⁹ Employees need to be able to “run the factory,” instinctively saving their energy for dealing with customers. Many methods are used for interpersonal training of subordinate service personnel that were developed for managers. These include sensitivity training, role-playing, and behavioral modeling.

Examples of sensitivity training include having new bus drivers spend their first week on the help desk instead of the bus. Here they can understand the problems and complaints of passengers, sensitizing them before they meet the “real thing.” Store and hotel openings are a classic example of role-playing. On the days before the store is opened to the public, other employees are asked to play the customers’ role. This serves as interpersonal training for all concerned.

Behavioral modeling provides stereotypes with which a person can categorize others and clues on how to handle the different categories of customer interactions. Consider the example in Table 9-1 of how to deal with difficult customers. Customers are not always saints, and disruptive behavior affects not only other customers but service personnel as well.

Five customer profiles have been developed, representing stereotypical examples of the worst that customers have to offer.³⁰ In reality, the worst customer of all is a little of all five types.

When dealing with “customers from hell,” it is difficult for employees not to take these sorts of confrontations personally. Consumer profiles should help employees prepare for the various types of difficult customers and provide strategies for minimizing the amount of conflict that actually occurs. Viewing customers as distinct profile types helps depersonalize the situation for the employee—“Oh, it’s just Edgar again.” This is not to say that each customer shouldn’t be treated as an individual, but simply that customer complaints and behavior shouldn’t be taken overly

interpersonal training

Training focused on teaching service providers how to deal with customers.

behavioral modeling

Categorizing customers to enable providers to more easily process them and remove stress.

Table 9-1 Stereotypical “Customers from Hell” and Strategies to Deal with Them**Egocentric Edgar**

Egocentric Edgar is the guy Carly Simon had in mind when she wrote the song, “You’re So Vain.” Edgar doesn’t believe he should stand in line for any reason. He’ll push his way to the front and demand service on a variety of things that demand little immediate attention. If your company’s creed is “we are here to serve,” Edgar interprets that message as, “Your company exists to serve my needs and my needs alone, and right now!”

Bad-Mouth Betty

Bad-Mouth Betty lets you know in no uncertain terms exactly what she thinks of you, your organization, and the heritage of both. If she cannot be right, she will be loud, vulgar, and insensitive. She is crude not only to service employees but also to other customers who are sharing her unpleasant experience.

Hysterical Harold

Hysterical Harold is a screamer. If he doesn’t get his way, his face will turn colors and veins will literally pop out from his neck. “Harold demonstrates the dark side ... of the child inside all of us. He is the classic tantrum thrower, the adult embodiment of the terrible twos. Only louder. Much louder.”

Dictatorial Dick is claimed to be Egocentric Edgar’s evil twin. Dick likes to tell everyone exactly how they are supposed to do their jobs because he has done it all before. Just so you don’t get confused, Dick will provide you a written copy of his instructions, which is copied to your boss, your boss’s boss, and his lawyer. Dick will most likely make you sign for your copy.

Freeloading Freda

Freeloading Freda wants it all for free. Give her an inch and she’ll take the plates, the silverware, and everything else that’s not nailed down. Freda will push your return policy to the limits. If her kid’s shoes begin to wear out in a year or two, she’ll return them for new ones. In need of a cocktail dress, Freda will buy one on Thursday and return it bright and early Monday morning, punch stains and all. Question her credibility, and Freda will scream bloody murder to anyone and everyone who will listen ... including the news media and the Better Business Bureau.

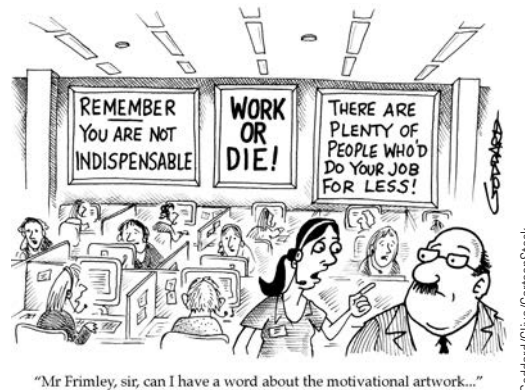
Source: Ron Zemke and Kristen Anderson, “Customers from Hell,” *Training* (February 1990): 25–29.

personally. Many organizations have different profiles besides Freeloading Freda or Egocentric Edgar, but they tend to use company-specific profiles when training staff to handle difficult customers. In closing, one word of warning: Employees who truly master the art of dealing with difficult customers are rewarded by becoming these customers’ favorite providers, the ones they request by name time after time. No good deed goes unpunished!

9-3e Controlling, Rewarding and Evaluating Service Providers

Employees behave as they do for many reasons. Some of the most powerful reasons are that they do what they are told to do, what they are measured against, and what they are rewarded for. Unfortunately, the very nature of services makes it difficult to send the consistent message so important to achieving a climate for service. The intangible nature of services means that performance is difficult for supervisors to monitor directly. Often employees must be trusted to monitor their own performance. The fact that customers are actively involved in the service production process means service providers must be sensitive to clients’ needs and must use the clues to those needs to guide their behaviors. Because of these characteristics of service jobs, service organizations should be more likely than manufacturers to include client input in the performance appraisal process.

Simultaneous production and consumption also means that quality control cannot be achieved by the “inspect and correct” method, typical in manufacturing. Instead, quality control has to occur at the point of delivery, and this changes



Treating employees poorly and then asking them to treat customers like “Kings” is seldom an effective human resource strategy.

the kinds of performance, control, and reward systems an organization can use.

It is important to remember that rewards can be **extrinsic** (e.g., pay) or **intrinsic**, such as enjoying the job itself, receiving

extrinsic rewards

Extrinsic rewards such as pay are only part of the reason that people work.

intrinsic rewards

Intrinsic rewards such as enjoying the job itself, receiving recognition from coworkers and supervisors, or even the satisfaction of meeting goals are often just as powerful as motivators.

recognition from coworkers and supervisors, and/or accomplishing challenging and meaningful goals. Fast food chains, like many service organizations, use intrinsic rewards such as “employee of the month” schemes and “promotion” within the front-line jobs based on the star ranking system. These are predominantly recognition systems, but they are often tied to a small financial reward. All of this is designed to reinforce the desired behaviors, which are articulated in the role definition.

In general, effective reward systems, whether intrinsic or extrinsic, pass the seven tests listed here. Interestingly, in many cases, pay alone does not pass these effectiveness tests.

Availability—Rewards must be available and substantial (relative to the role). Not having enough rewards or large enough rewards is likely to discourage desired behaviors rather than encourage them.

Flexibility—Rewards should be flexible enough that they can be given to anyone at any time. There is lots of evidence to show that behavior is reinforced more if the reward can be given immediately. “See something good and reward it.” Think only of the house points scheme in the Harry Potter movies; that is a classic intrinsic reward scheme.

Reversibility—If rewards are given to the wrong people for the wrong reasons, they should not be lifelong. In cases where salaries are increased for the wrong reasons, bonuses are better than pay increases that become lifetime annuities.

Contingent—Rewards should be directly tied to desired performance criteria—the desired behaviors and not distributed randomly such as a name being pulled from a company raffle. Only in this way are the rewards consistent with the service strategy being followed by the rest of the organization.

Visibility—Rewards should be visible, and their value should be understood by all employees. For example, pay is not visible and is often shrouded in secrecy, whereas recognition schemes are designed to be visible; that is why they work.

Timeliness—Rewards should be given immediately following desired behaviors. If someone has been given a reward, don’t wait until the end of the year to award it; it will have lost its power by then. Bonuses are best given in the form of cash or a check rather than through the payroll system—it takes too long.

Durability—The motivating effects of a reward should last for a long time. The motivational effects of plaques and medallions last longer than the short-term effects of pay.

9-3f Empowering Service Providers: Why and Why Not?

The design of these HR systems is based on the required role that has previously been defined. Let us start with the fast-food model. Employees are given a tightly defined script in their training. As we saw, the script also programs much of the interpersonal interactions. The HR systems are built around this model. For example, evaluation includes mystery shoppers who visit stores as customers. They measure the quality against the same script, these days often using

video via smartphones, and score the outlet on conformance. That score feeds into the performance evaluation system and to the rewards of the manager. Performance reviews for the service personnel are based on the script.

Even within the constraints of the fast-food model, a different kind of intrinsic reward can be given by redesigning the role of the service provider to enrich it. Enrichment comes from increasing the empowerment and enfranchisement of the employee. **Empowerment** means giving discretion to contact personnel or to “turn the front line loose.” Empowerment is the reverse of “doing things by the book.” **Enfranchisement** carries this logic even further by first empowering people and then coupling this with a reward system that recognizes them for their performance. In both cases the role is enriched by adding responsibility and autonomy, which builds an increased sense of accountability in the employee.

Empowerment clearly brings benefits. Empowered employees are more customer focused and are much quicker in responding to customer needs. They will customize the product or remix it in real time.³¹ Empowered employees are more likely to respond in a positive way to service failures and to engage in effective service recovery strategies.

Employees who are empowered tend to feel better about their jobs and themselves. This is automatically reflected in the way they interact with customers. They will be genuinely warmer and friendlier. Empowerment, therefore, not only can reduce unnecessary service recovery costs, but also can improve the quality of the product.

If close to the front line, an empowered employee is in a position that is continuously exposed to both the good and bad aspects of the service delivery system. This employee can be key to new service ideas and can often be a cheaper source of market research than going to the consumer directly.

Levels of Empowerment As evidenced by the UPS and FedEx examples, high levels of empowerment are not for every firm. Firms can indeed be successful without fully empowering their employees. However, empowerment approaches vary by degree and include suggestion involvement, job involvement, and high involvement. These three levels of empowerment fall along a continuum that ranges from control-oriented to involvement-oriented approaches (see Figure 9-3).³²

Suggestion involvement falls near the control-oriented point of the empowerment continuum. Suggestion

empowerment

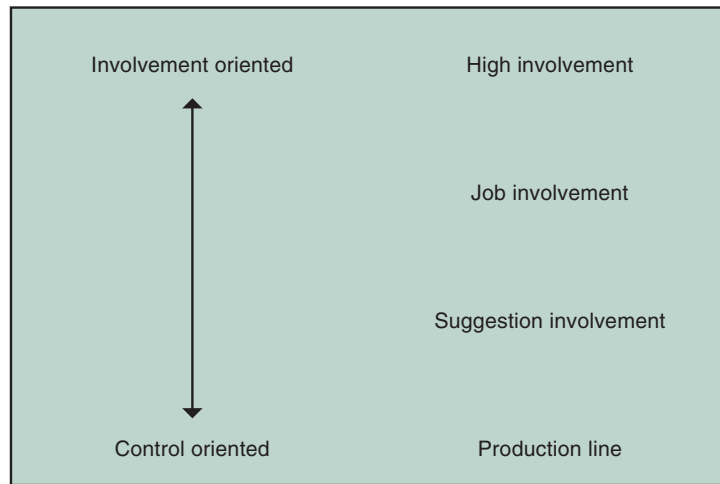
Giving discretion to front-line personnel to meet the needs of customers creatively.

enfranchisement

Empowerment coupled with a performance-based compensation method.

suggestion involvement

Low-level empowerment that allows employees to recommend suggestions for improving the firm’s operations.

Figure 9-3 The Continuum of Empowerment

Source: Adapted from David E. Bowen and Edward E. Lawler III, "The Empowerment of Service Workers: What, Why, How, and When," *Sloan Management Review*, (Spring 1992), pp. 31–39.

involvement empowers employees to recommend suggestions for improving the firm's operations. Employees are not empowered to implement suggestions themselves but are encouraged to suggest improvements for formal review. Firms that utilize suggestion involvement typically maintain formal suggestion programs that proactively solicit employee suggestions. **Quality circles**, which often involve small groups of employees from various departments in the firm, are also used to brainstorm additional suggestions. Typical success stories of suggestion involvement programs include McDonald's, whose employees recommended the development of products such as the Big Mac, Egg McMuffin, and McDLT. Even with narrowly defined roles, such as those in the fast-food industry, this level of empowerment is possible.

Job involvement typically falls in the middle of the empowerment continuum, between control-oriented and involvement-oriented approaches. Job involvement allows employees to examine the content of their own jobs and to define their roles within the organization. Firms engaged in job involvement use teams of employees extensively for the betterment of the firm's service delivery system. In contrast to suggestion involvement, employees engaged in job involvement use a variety of skills, have considerably more freedom, and receive

extensive feedback from management, employees, and customers. However, higher-level decisions and reward allocation decisions remain the responsibility of the firm's upper management.

High involvement falls at the involvement-oriented end of the empowerment continuum. Essentially, the goal of high involvement is to train people to manage themselves. Extensive training is used to develop skills in teamwork, problem solving, and business operations. Moreover, employees control the majority of the reward allocation decisions through profit sharing and employee ownership of the firm. In sum, virtually every aspect of a high-involvement firm is different from those of a control-oriented firm.

When to Empower and Enfranchise Unfortunately, empowerment and enfranchisement do carry costs. Empowerment increases the up-front costs of the organization. A greater investment is needed in remuneration and recruitment to assure that the right people are empowered. A low-cost model of using inexpensive and/or part-time labor cannot cope with empowerment, so the basic labor costs of the organization will be higher. However, the service provided will be higher and the staff turnover lower.

Empowerment programs can quickly turn into disasters if the service providers are not given the appropriate work facilitation and interdepartmental support to do the job. Empowerment must be accompanied by enablement. Technology is a great enabler of empowerment, but it comes

quality circles

Empowerment involving small groups of employees from various departments in the firm who use brainstorming sessions to generate additional improvement suggestions.

job involvement

Allows employees to examine the content of their own jobs and to define their roles within the organization.

high involvement

Allows employees to eventually learn to manage themselves, utilizing extensive training and employee control of the reward allocation decisions.

with a cost. Junior banking staff can be empowered to give out loans but only when supported by sophisticated credit rating systems. These systems have to be integrated with the bank's infrastructure, be real time, and be available all the time.

Marketing implications also arise. By definition, an empowered employee will probably customize the product to a greater extent. This means that the service received will vary from one encounter to the next, depending on the employee. The delivery is also likely to be slower because the service is customized. Moreover, since customers are treated differently, other customers may perceive that some customers are receiving preferential treatment. Empowerment therefore has to be consistent with the service benefit concept.

Empowered employees, when trying to satisfy customers, sometimes give away too much and make bad decisions. For example, a bellman who notices that a businessman forgot his briefcase at the front desk should make every attempt to return the briefcase to its owner. However, tracking the owner to the airport and hopping on the next available flight to the owner's destination is far beyond the call of duty and worlds beyond what is economically feasible. Empowerment must have clearly defined boundaries.

A hidden cost is that a new style of management may be needed. Empowered employees need different kinds of leadership. Theory Y managers, who coach and facilitate rather than control and manipulate, are needed to work with employees who have high growth needs and strong interpersonal skills ... the needs and skills of empowered employees. In contrast, firms governed by Theory X managers believe that employees are working primarily to collect a paycheck. Theory X managers work best with employees who have low growth needs, low social needs, and weak interpersonal skills. Theory X managers fit best with control-oriented organizations.

The balance of empowerment and enfranchisement, therefore, comes down to the benefit concept of the organization and the resultant role definition of the service personnel. An organization that guarantees consistency of product and service dare not fully empower for fear of the "inconsistency" that doing so would produce. An organization that competes on the basis of value driven by a low-cost base cannot afford to empower because of the costs involved. Equally, a high-cost service organization using a nonroutine and complex technology almost certainly has to empower because its ability to use an industrial approach is severely limited. The decision on the degree of empowerment and enfranchisement, like the rest of the service HR strategy, depends upon the broad service strategy, the benefit concept, the technology, the servicescape, and the processes.

9-3g Retaining Service Providers

One of the greatest problems facing service firms is staff turnover, often at levels of 20 percent to as high as 70 percent per year in many low-level subordinate service roles. It is estimated that the costs of replacing an employee range from one-half to double the employee's annual salary. Consequently, a 100-person firm who pays an average salary of \$50,000 per year and faces an annual 27 percent turnover rate could

potentially cost the company \$660,000 to \$2.6 million per year. In addition, 52 percent of employees who voluntarily left their jobs reported that managers or the organization could have done something to keep them from leaving, and 51 percent report in the final three months of their job no one spoke to them about their job satisfaction or future with the company.³³

It should be obvious that there are even larger (but more difficult to quantify) hidden costs than those we have cited to this point. When employees leave, they are not replaced immediately, and when they are, the new people have lower levels of technical and interpersonal competencies. This means that the providers in the team who stay are put under increased pressure. All of this puts the overall service climate under threat.

Retention can be managed directly or indirectly. Direct actions include the provision of benefits that are difficult to replace or even the payment of retention bonuses. However, most of the actions designed to engender a climate for service will have an indirect positive effect on retention. A clearly defined role reduces role conflict and ambiguity. Good recruitment and selection tied to the role demonstrably improves retention. A job that has the correct balance of intrinsic and extrinsic rewards will improve retention.

Wegmans uses many strategies that can improve retention and the service climate at the same time. They systematically cross-train employees for other jobs, meeting multiple objectives. Cross-training increases operational flexibility since staff can cover for one another. It enriches the role of the employee and offers variety. Cross-training also enables employees to better understand the interdependencies in their roles. A service provider is less likely to complain about another department letting them down when they have been trained to do that job and understand their problems.

Wegmans complements this with a series of initiatives to turn "dead-end jobs" into careers. They give people the opportunity to grow as far as they can. Over the past 40 years, Wegmans has invested nearly \$130 million in college scholarships to more than 42,000 full-time and part-time employees. Part-time employees can receive scholarships up to \$2,000 a year for four years (a maximum of \$8,000) and full-time employees including management can receive scholarships up to \$4,000 a year for four years (a maximum of 16,000). There is no limit on how many scholarships are awarded each year and award recipients can pursue any field of study from an accredited college.³⁴

The company promotes from within. Nothing is more de-motivating for front-line staff than to be given a new manager who needs training in the basics. Better to promote from within. There is, of course, one caveat: promotion will often take someone away from customer contact. This may not motivate them, and certainly they have now been selected for a bigger and very different role. Many firms reintroduce a formal selection process using tests and simulations to evaluate against this new role. New stores are populated by the best and the brightest of existing employees. As a result of all these actions, Wegmans is consistently voted one of the Top Ten Best Places to Work in *Fortune* magazine's annual poll of *100 Best Companies to Work For*.

9-4 The Role of Management

The primary focus of this chapter has been on the front-line service personnel. However, these people need to be supported by all levels of management. Starting at the very top, only the senior management can ensure that the foundations are in place. It is they who must invest in the core technology that allows the front-line teams to do their work (see E-Services in Action). Most importantly, it is the senior management that has to ensure that the different functions and departments are aligned behind the service benefit concept and that they do not lose focus on the customer. Senior managers can also have a direct impact on the service climate by “walking the talk.” They must focus on the customers. Many firms formalize this by having specific days when managers return to front-line roles to engage in customer experiences on a continuous basis.

By the very nature of services there is always a day-to-day crisis. Given the simultaneous production and consumption environment and the “people aspect” of services, it is impossible to avoid occasional failures. Middle-management must, however, enable the front-line providers to focus on customers and not be distracted. It is for them to manage the crises and move the roadblocks to good service out of the way. It is for them to relieve pressure by doing some of the front-line work. Any good restaurant manager can be seen clearing tables when things get busy.

9-5 Information Technology and the Service Provider

Technology can be a great enabler for front-line staff, can allow for empowerment, and can free up time to improve the focus on customers. However, some technological innovations have been viewed less favorably. The advent of

customer relationship management (CRM) systems, combined with the rollout of customer service call centers throughout the world, has transformed the role of the service provider in large parts of the service sector. That transformation has come with both benefits and costs, but it poses the same problems in a new setting when managing people. Jobs that deal with providing information, and to some extent sales jobs, will never be the same again. The technology has enabled the industrialization of large branches of services. Automated help lines now require customers to learn new scripts just to get to the correct recorded message. Email and real-time enquiries are answered miraculously from all over the world. It is, however, the call and contact center with its sophisticated call management system that has become the visible symbol of the redesign.

It is now estimated that 2.83 million employees within the U.S. workforce are employed in a call center and 15 million call center workers are employed globally.³⁶ Fortune 500 companies all have at least one call center and there are over 36,000 call centers located in the United States alone.³⁷ Now the trend is to move repetitive calls, such as frequently asked questions (FAQs), to the Web. If a call center employee is fully scripted, that is, has prepared answers for every question, what is the role of the employee? More and more such inquiries are being channeled to self-help pages on the Web or to email, or to autobots. This leaves the call centers to answer more complex, unscripted inquiries. This trend has seen the return of call centers from India.

customer relationship management (CRM)

An approach to managing a company's interactions with current and future customers. It often involves using technology to organize, automate, and synchronize sales, marketing, customer service, and technical support (where appropriate).

E-Services in Action

Technology Trends for the Workplace³⁵

The lasting effects of the pandemic continue to fuel a long list of emerging technological advancements in the workplace. Originally developed to cope with remote work and social distancing, many of these technologies are becoming permanent fixtures for both on-site, hybrid, and remote work scenarios. A sample of workplace technologies that appear to be here for the foreseeable future include:

Virtual Collaboration Tools: Tools such as Zoom, Teams, Asana, Slack, and Basecamp allow a geographically separated workforce to continue to work and socialize collaboratively. More specifically, tools such as instant messaging, video conferencing, screen sharing, and audio conferencing facilitate the firm's communications with its employees. Other tools such as Miro and Stormboard permit remote employees to brainstorm collaboratively.

Space Optimization Software: As more employees work remotely and others spend less time on-site, it has become clear that office space no longer needs to be a sea of desks. As such, office spaces can now be more effectively redesigned to maximize meeting spaces for both

on-site, hybrid, and remote employees. In addition, space management software aids organizations in designing office spaces that allow for socially distant floorplans.

Virtual Onboarding: One of the largest challenges for remote workers new to their companies is how to be effectively socialized into their new organization. Technological tools such as Donut.ai and Icebreaker facilitate social interactions between on-site and remote employees in an entertaining fashion. Some firms are considering the creation of a virtual culture to become a permanent aspect of their overall organizational culture.

Touchless Technologies: Remember when people greeted each other by shaking hands or exchanged hugs ... think of the germs!! Post-COVID workplaces continue to embrace a variety of touchless technologies such as QR code-enabled documents, automated entryways, and touchless shared appliances such as coffee makers, soap dispensers, and paper towel dispensers. Can automated toilet paper dispensers be far behind?

The logic described in the “Service Delivery Process” chapter is amply demonstrated in a call or contact center. By blueprinting the process of handling an inquiry, it is possible to identify the “points of contact” and to realize that different points of contact can and should be handled differently—in person, on the telephone, via email, or through FAQs. This, combined with the emergence of sophisticated CRM systems, has revolutionized the delivery of service and the service provider role within it.

9-5a Customer Relationship Management

The growth of CRM has been driven by the growth of Web usage. The Web has enabled companies to start to assemble huge databases for tracking the purchases and the individual behavior of customers. Consider Tesco, the largest supermarket retailer in the United Kingdom. Through their loyalty card, “Clubcard,” Tesco now tracks the weekly supermarket shopping habits of some 20 million UK shoppers. With their expansion into nonfood Web retail they now include large amounts of Web purchasing as well. Clearly, customer purchasing behavior within Amazon is tracked automatically, but increasingly we are asked to supplement this with preference and rating data.

Whether data comes from our retail transactions, our Web behavior, or our financial history (in the financial services sector), the key is to use this to improve the quality of service with recommendations. Tesco, for example, uses its database to develop individually targeted coupon booklets for each customer. Combine this customer knowledge with profitability information, and firms can target different levels of service depending upon current or potential profitability to the firm. This leads to a disaggregation of customer contact roles.

CRM and Customer Contact Roles The first stage in designing a new contact system is to grade customers based on how profitable their business is. The degree and level of customer contact can then be set up accordingly. The lowest level is FAQs via a website. Next come Web contact services, questions and answers by remote contact system, often based offshore. Even if a customer manages to get through to a call center it is now possible to recognize the inbound telephone number, look up the client, and provide background information and coding to CSRs before the phone has rung three times and answered. The CSRs are instructed to handle customers differently based on their category code

- Charles Schwab Corp.’s top-rated “Signature” clients, consisting of customers who maintain \$100,000 in assets or trade at least 12 times a year, never wait more than 15 seconds to have their calls personally answered by a customer service representative. Ordinary customers can wait up to 10 minutes or more.
- Call this particular electric utility company and, depending on your status, you may have to stay on the line for quite a while. The top 350 business clients are served by six people. The next tier, consisting of the next 700 most profitable customers, is handled by six more people. The next 30,000 customers are served by two customer service

representatives. The final group, consisting of 300,000 customers, is routed to an automated telephone system.

- A United Airlines passenger was shocked when a ticketing agent told him: “Wow, somebody doesn’t like you.” Apparently, the passenger was involved in an argument with another United employee several months earlier. The argument became part of the passenger’s permanent record that follows him wherever he flies with United. The passenger, who is a Premier Executive account holder, feels that the airline has been less than accommodating following the incident.
- Continental Airlines has introduced a Customer Information System where every one of Continental’s 43,000 gate, reservation, and service employees will have access to the history and value of each customer. The system also suggests specific service recovery remedies and perks such as coupons for delays and automatic upgrades. The system is designed to provide more consistent staff behavior and service delivery.

From a customer point of view, there are limitations to CRM practices—finding out that there are different levels of service, and you are not one of the “chosen ones” getting the best service is upsetting. Other customers worry about the privacy issues related to the databases underpinning these service models. Service discrimination also leads to some interesting ethical questions. Should only the wealthy be recipients of quality service?

Here however we should focus on the potential human resources problems. Call centers have been compared to the sweatshops of the late nineteenth century and to the excesses of the Industrial Revolution. Many of the inherent conflicts in the CSR role have been removed by automating which calls CSRs receive and in some cases scripting the conversation on the screen before the call is answered. The clarity, of course, comes with a price: boredom and tedium. However, moving inquiries back to the Web is creating different levels of roles and relieving some of the issues.

The approaches to developing a service climate described in this chapter are just as applicable to call centers as they are to other service settings. Enlightened firms are moving call centers to team working environments and are enriching jobs by providing variety. The rigor of calls-per-hour goals is being tempered with measures of customer satisfaction. Cross training is common, and career paths to supervisory roles are becoming more common. Selection criteria have been tightened, and personality tests can now select workers who are more likely to enjoy the call center environment. Promotion opportunities have been expanded by the disaggregation of roles. Agents can move through the more routine roles to service important customers or work with clientele with more complex problems. Like many service occupations, the importance of creating a climate for service by, (1) defining the service provider role; (2) recruiting the right people; (3) developing service employees, (4) controlling, rewarding, and evaluating service providers, (5) empowering service personnel; and (6) retaining service personnel, is just as appropriate for call centers as it is for any service occupation.

Summary

Successful service firms develop a seamless relationship between marketing, operations, and human resources, all based on the service benefit concept. This chapter has focused on some of the human resource issues that must be considered when marketing services. Much has been written about the fact that, for many service firms, personnel constitute the bulk of their product. It is thus important that the place of personnel within the organization be understood. By drawing on the concepts of organizational behavior and, in particular, the concepts of boundary-spanning roles, creating a climate for service, empowerment, enfranchisement, and reward and recognition, this chapter has provided a solid framework with which to execute the marketing implications of the benefit concept through personnel.

As boundary spanners, service personnel perform the dual functions of interacting with both the firm's external environment and its internal organization and structure. Employees who occupy boundary-spanning roles are by definition placed in situations that produce conflict and

stress. Marketing can help to reduce those stresses or can increase them.

Nobody wants to give bad service. It is therefore necessary to mitigate those stresses and conflicts by creating an appropriate climate for service in order to set the service providers free. To understand how to achieve that climate, it is first necessary to define the role of the service provider in terms of the behaviors that must be displayed. Like a theatrical role, the role of the service provider must define what actions and behaviors take place at which point in the script. That role is based upon the marketing strategy that is embodied in the service benefit concept.

Once the role is defined it can be used to ensure that the firm recruits the right people; develops the competencies of service employees; controls, rewards, and evaluates service employees appropriately; and retains the right people. All of this feeds into ensuring that the firm has the appropriate climate for service.

Key Terms

service-profit chain
boundary-spanners
subordinate service roles
person/role conflict
organization/client conflicts
inter-client conflicts
service sabotage
climate for service
work facilitation

interdepartmental support
The Services HR Wheel
employer brand
technical training
interpersonal training
behavioral modeling
extrinsic rewards
intrinsic rewards
empowerment

enfranchisement
suggestion involvement
quality circles
job involvement
high involvement
customer relationship management (CRM)

Review Questions

1. Service personnel experience a variety of situations that cause conflict. Compare and contrast person/role conflicts with organization/client conflicts.
2. Describe a recent experience of inter-client conflict within a service setting and the role taken by the service provider. Is this the kind of situation for which the organization could create policies and procedures or provide service provider training?
3. Are airline pilots part of the service experience for passengers? How can they use their "professional" status to support cabin attendants?
4. Collect a selection of advertisements that make promises that will be difficult to deliver within the service experience. As a service provider in those businesses, how would you react to them?
5. To what extent do the tightly defined service benefit propositions for such things as fast-food restaurants preclude empowerment and enfranchisement? What kind of job enrichment programs can be used?
6. What are the kinds of costs that you would have to include to calculate the "cost of churn" for service businesses?
7. Discuss the customer types "Freeloading Freda" and "Hysterical Harold." As a manager, what advice could be provided to employees on how to interact with these two customer types?
8. Wegman's is consistently rated as one of the best employers in the United States. What does Wegman's do so well that distinguishes itself from other employers?
9. As an employee, discuss five pros and five cons of working remotely.

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Case 9

That's It, I'm Done

As Jet Blue Flight 1052 from Pittsburgh landed at New York's John F. Kennedy Airport, veteran flight attendant Steven Slater was preparing the flight for arrival. Having previously worked for Delta and TWA, he was used to the routine.

Things became anything but routine immediately afterwards as a passenger tried to remove her belongings from the overhead baggage locker while the plane was still taxiing on the runway. Taking up the microphone, Slater asked her to return to her seat. When that failed, he left his seat and asked her personally to return to her seat and fasten her seat belt in the interests of safety. The woman repeatedly swore at Slater and grabbed her carry-on case anyway, dropping the case on Slater and cutting him on the forehead as he tried to intervene.

After the plane stopped Slater's voice was heard bellowing over the loudspeaker:

"I've had it! To the passenger who called me a mother xxxxxx. Xxxx you! I've been in this business for 28 years and that's it, I'm done!"

Slater then picked up his bag and two cans of beer from the beverage cart. He walked to the door and pulled the emergency exit lever, inflated the emergency chute and jumped.

Having walked from the plane, he returned to the parking lot, collected his car, and returned home. An hour later, he was arrested, and within another hour he was a hero on Facebook and became the star of numerous supportive T-shirts, including "I Slide....For Slater."

Discussion Questions:

1. Are flight attendants boundary spanners? Please explain.
2. Like many service providers, flight attendants are prone to experience person/role conflict, organization/client conflict, and inter-client conflicts. Using information from the case and/or by developing your own examples, please explain each type of conflict from the flight attendant's perspective.
3. Provide an opinion about Steven Slater's actions and the response to his actions.
4. Based on the three levels of empowerment discussed in the chapter, what level of empowerment would you recommend for flight attendants? Please explain?

Sources: YouTube <https://www.youtube.com/watch?v=NBMWhMEGsNw> accessed May 27, 2022; and Business Insights Article link: "Emergency Exit for Angry Air Steward Who Turned the Air Blue." *London Evening Standard* [London, England] 10 Aug. 2010: 3. *Business Insights: Essentials*. Web. 3 Apr. 2015; <https://www.standard.co.uk/hp/front/emergency-exit-for-angry-steward-who-turned-the-air-blue-6501582.html>.

Chapter 10

People as Strategy: Managing Service Customers



B.O'Kane/Alamy Stock Photo

Chapter Objectives

After reading this chapter, you should be able to:

1. Compare and contrast “novice” and “expert” customers in their service production role
2. Explain the power of the theatrical analogy as it pertains to service customer performance.
3. Recognize the importance of customer performance on operational efficiency.
4. Demonstrate the relationship between customer satisfaction and customer performance
5. Identify the steps management must take to manage service customer performance.
6. Recognize the special servicescape design considerations for partial employees
7. Recognize how the inseparability of customers can change the roles of marketing, operations, and HR managers.

Given the unique roles that customers play in the provision of services, this chapter focuses on the strategic implications of customer involvement in the production process. For managers there are two key implications. First is the roles played by customers as they help deliver their own services, and hence become “partial employees.” As such they can influence the operational performance of the firm as well as the satisfaction of the other customers. The second is that the presence of customers as partial employees changes the role to be played by the operations, marketing, and human resources functions.

Feeling The Pressure: The Self-Checkout Brigade

“It had not gone well from the beginning. I had inserted my credit card and was instructed to RETRIEVE FLASHING HANDHELD SCANNER. In the end I had to be helped by one of the ‘self-scanner elite’ who rather condescendingly showed me what to do. It had gotten worse when, after one aisle of shopping, I remembered that I should be scanning as I went along. I had to unpack my cart and start again. I looked at the CCTV cameras and wondered whether I was under suspicion of theft or just being laughed at.

Whoever was watching must have laughed out loud as I tried to learn how to un-scan a jar of peanut butter to change it for a better deal. I was saved again by the elitist who by now had decided that I was worthy of joining the self-checkout brigade and patiently showed me the un-scan sequence.

I was now facing the ultimate test—the checkout. I am wracked with anxiety and guilt. I am tempted to forget the whole thing, leave the scanner on a shelf somewhere, and join a regular line. I half expect to find security waiting for me. Have I forgotten to scan something? Did I scan everything after the disaster of the first aisle?

I shuffle to one on the checkouts and realize, to my horror, that there is no one to help. I am on my own! The machine flashes threateningly and I furtively look to other customers to get clues about what to do next. I scan the bar code as instructed and miraculously my shopping appears on the screen. After that it is easy, I am paying with my credit card like I always do, and life seems a lot simpler.

As I walk out, the security guard smiles at me, and I realize that I have graduated as a member of the self-checkout brigade and cannot help smiling as I stride confidently to the parking lot.”

10-1 Introduction

The purpose of this chapter is to examine the unique role of customers as they play a part in the delivery of their own services. Service customers are not only in the “factory” but have a role as “service workers.”¹ The more proficient they are as service workers, the better the service they will receive. One only has to look at the impact a “novice” (beginner) service customer can have. For example, a foreign tourist in an alien setting knows nothing of the process of which they are part. Their inexperience affects not only their own service but also the service for every other customer.

Take the simple experiences of going to a restaurant or a department store. A European dining experience differs significantly from a Japanese dining experience. In Europe, dining is meant to be a slow-paced conversational event. Courses are deliberately spread out, and if you want your check, you will probably have to ask for it. A waiter who delivers an unrequested check to the table may be implicitly asking you to leave. Not so in Japan, says Misako Kamamoto, chief conductor of the Japan Travel Bureau. “When I take a group of Japanese tourists to a restaurant in Europe for the first time, I make a point to advise them ... you must be resigned to the fact that it takes a good deal of time to have a meal in a European restaurant.” Despite Kamamoto’s warnings, the tourists still complain. “Why are European restaurants so slow in serving us? Please ask them to speed up the service. I don’t want to wait for dessert and coffee. I can’t stand a restaurant that gives such bad service.”

Japanese tourists also feel shabbily treated in France, where Paris retailers do not treat customers like “gods” as they are treated in Japan. Japanese customers are puzzled by the French attitude that they are “allowing the customer to

buy” as opposed to being subservient to the customer. Many Japanese customers feel as though the French are acting like they are doing the customers a favor if the French retailer allows them to purchase merchandise from their shop.²

Customers of services can be involved at different levels and participate to a greater or lesser extent. For example, in providing information to the company delivering their tax returns, customers are a key part of the success of the whole service. In other cases, their presence and conformance to the norms of the setting is all that is required. Watching a movie at the cinema requires little participation, but breaking the rules, for example, talking, texting, or walking about, will destroy the experience for everyone else. Social distancing and mask wearing during the COVID pandemic created a whole new set of “rules” that had to be obeyed if the firm was to operate efficiently.

The level of customer participation in the provision of services is not fixed. Some service firms purposely minimize customer involvement in the name of operational efficiency. In contrast, many other service firms see increasing participation for the “self-service customer” as a way to improve productivity and lower the cost of operations (see E-Services in Action). As the grocery customer in the opening vignette showed, increasing customer participation can increase customer satisfaction but learning a new way to do things can be distressing for shoppers.

Much like an actor in a theatrical production, to be a successful **partial employee** requires customers to learn the script. Customers also must be provided stage props that facilitate their role as partial employees—the correct tools and environment to perform their “job.”

10-2 Expert and Novice Customers as Part of the Production Process

In essence, a service is a performance in which customers are present and active participants. Customers are assigned a specific set of tasks by the service organization, and these tasks have to be performed by them. In restaurants, we queue up when asked to do so, order from a menu when requested, and sometimes participate in the clearing of our own tables. At a doctor’s office, patients provide the information necessary for the diagnosis. **Customer performance**, our participation in the production process, needs to be managed for a service firm to be successful.³

partial employee

Customers who engage in employee-like behaviors and assist in the provision of services received.

customer performance

Individuals’ participation in the production of their own service.

E-Services in Action

Just Walk Out: Customers Rule at Amazon Go Stores⁴

In a world where customers have become accustomed to providing some of their own service, we now have stores where customers provide all of their own service. Amazon has recently introduced cashless, cashier less Amazon Go convenience stores and Amazon Go Grocery store across the United States and now appearing in London, branded as Amazon Fresh.

Positioned as a “just walk out shopping experience,” Amazon Go Store concepts contain no cash registers or cashiers. Customers simply walk in, pick out what they want from store shelves and then walk out. Easy peasy nice and easy! No waiting in line!

Originally enabled via the Amazon Go app (and now enabled via the customer's main Amazon app), the technology identifies the customer as they enter the store. Additional technologies such as the use of cameras and

shelf weight sensors identify the types and quantities of product customers select from store shelves. Customers are then free to leave the store after selections are made. The transaction is then linked to the customers Amazon account for billing purposes.

Utilizing technologies similar to those used in self-driving vehicles such as computer vision, sensor fusion, and deep learning, the technology can sense when products are removed or replaced on shelves and then keeps track of items collected in a virtual shopping cart. Amazon charges customer accounts once they leave the stores and sends the customer a store receipt instantaneously. Amazon hopes to open 2,000 convenience and grocery stores where Amazon Go enthusiasts can purchase coffee mugs which say... “Just Walk Out!”



Maslati/Alamy Stock Photo

The shifting of labor to the customer or increasing the extent of customer performance is increasingly being driven by IT and the web. Self-service check-in at many of the world's busiest airports is a classic example.

Not all customers are equally proficient in terms of performance. A service firm has to contend with **novice performers** and **expert performers**. A novice does not know what to do or how to perform the service. An expert, by comparison, knows how to be part of the production process and the role to play.

novice performer

Not all customers are equally proficient. The novice does not know what to do and how to perform.

expert performer

Not all customers are equally proficient. An expert knows how to be part of the production process.

The impact of having performance expert customers can be profound. In the auto service business, expert customers are cheaper to serve. They tend to call in advance for appointments, are more flexible on scheduling, and are better at describing the problem. In contrast, novice customers tend to drive in off the street at lunchtime, when service bays are already fully utilized, and provide vague descriptions of the problems with the car.

In financial planning, financial analysts log about five times as many hours on a first-year client as they do on a repeat customer. Part of this is due to the time needed to create records and profiles. The rest of the time is taken by the client learning to communicate with the financial planner and the company. This collaborative learning between client and planner can create enormous productivity advantages.

In addition to maximizing the efficiency and effectiveness of the service transaction, a side benefit of expert customers is their impact upon the motivation of contact personnel. Because they are expert, they can recognize good service and praise employees. Equally, because they are expert, they understand the complexity of the system and can be more tolerant of failure.

Expert customer performance should not be confused with the concept of an “**expert customer**,” that is, a person who has expertise in the choice process of buying. Expert customers know how to buy well, but they may be novices when it comes to participating in the process of producing their own service.

expert customers

Individuals who have expertise in the purchase process for a particular good or service. Expert performers, by comparison, are expert in the service production process.

10-3 The Theatrical Analogy

The key to managing customer performance is an understanding of customers' behavior during such service experiences. Such understanding provides insight into how to create experts and how to create systems to cope with novices and experts. A useful metaphor for the service encounter is that of a theatrical drama.⁵ The scene is set by the creation of the physical setting in which the performance is to be played. There are two kinds of actors: employees and customers.⁶

Actors are assigned roles which they must play in the "production." The importance of roles for employees was discussed in the previous chapter, but the same logic can be just as easily applied to customers. The performance is scripted, with each actor receiving instructions (and dialogue), and it (the service encounter) works to the extent that all the actors "know their parts."

Interestingly, psychologists have for a long time suggested that knowledge about familiar, frequent situations of all kinds is stored in our minds as a coherent description of events expected to occur—the script. For example, a banking script assumes the presence of a cashier or teller, a branch, a counter, forms, and other customers. Scripts are very useful. We are continuously bombarded with events that have to be processed. Scripts enable us to recognize situations and categorize them, and to know what to do next.⁷ People have a deep-seated need for control and predictability.⁸ Scripts allow us to face new events and achieve predictability efficiently.

Like a theatrical script, psychologists suggest that scripts can be broken into subsets or scenes. Thus, an internet retailing script may be composed of scenes relevant to logging in, browsing, checking out, and paying. Scripts contain a set of actions related to the event. Researchers have shown that when respondents were asked to describe commonly occurring events, many actions were repeatedly mentioned by the majority of people.⁹ Interestingly, scripts can be so strong that people will "fill in the gaps." Experiments have shown that respondents, when shown on a video a commonly occurring event and then asked to describe it, will often remember having seen actions that were not presented.¹⁰ Experiments have also shown respondents reordering events that were presented to them in a random order to conform with what they could normally expect to find.

10-3a Defining Novices and Experts Using the Script Idea

Psychologists studying scripts for all kinds of settings can provide clues that help us define the expert and novice performance.¹¹ A novice performer is one who uses more general scripts to handle situations that differ in quite significant ways: for example, using a "dining" script to cover both a fine dining and a family restaurant experience. The script will tend to be relatively simple and contain very few "if-then" branches. As a result, a novice is more likely to make mistakes in a specific setting, and less likely to cope with complex situations.

The expert performer, by comparison, will have rich and complicated scripts for the specific service. Having had multiple experiences of the service, they can cope with unexpected changes, and they have plenty of "if-then" branches in their script. They have, for example, a fine dining script and can cope with different service personnel introducing variations or changes such as menu items not being available.

10-4 Customer Performance and Operational Efficiency

For those in charge of the operations of a service business, customers are a source of many of their problems. The apocryphal quote: "If we could just get rid of these customers, we could run a decent service" has been attributed to operations managers in service businesses as diverse as bus companies and hotels. Since customer performance is part of service operations, the diversity and unpredictability of customers are a major source of uncertainty. Novice customers in particular may disrupt the operational processes by failing to comply with procedures.¹²

The dominant constraint on the efficiency of the service system is that the customer is part of the process.¹³ At first sight it would appear logical that the efficiency of a service operation can be improved by limiting the extent of customer performance in services. This approach argues for the **buffering the technical core**, or a decoupling of production from customer disturbance. In manufacturing, raw material stocks are created to ensure a steady flow in



JHP Attractions/Alamy

As an example of the theatrical analogy, Disney completely separates the high contact (on stage) customer experience from the "below park" (off stage) service provider areas. The below park can be run more like a factory free from any customer involvement.

Source: <https://www.disneylists.com/2022/03/7-dos-donts-parade-viewing-magic-kingdom-2/>

buffering the technical core

The operations management concept of ensuring that the core of the production process is able to run as efficiently as possible.

the process. Finished goods stocks are used to separate the manufacturing process from fluctuations in demand. The factory can therefore be isolated and optimized. Such models formed the foundation of modern manufacturing theory until the emergence of the idea of lean manufacturing.¹⁴ Applied to services, this buffering approach argues for the minimization of the dependence on customer performance and the “production-lining” of parts of the operation that can be isolated.¹⁵ Such **low-contact systems** allow for the use of more traditional manufacturing “production line” approaches.

Not all services are suited to such a low-contact approach. In some cases, the customer has to become part of the process, for example, in the case of a hairdresser. In other cases, the firm chooses to differentiate itself from competitors by offering “more personal service,” that is, higher contact. **High-contact systems** can also be used to create sophisticated systems that offer the organization better productivity and customers a better experience. Such approaches depend for their efficiency on the management of the way the customer behaves in terms of their customer performance.

Customer involvement is often viewed as a blessing or a curse. One view is that the customer is the enemy and a source of uncertainty. The alternative views the presence of the customer in service operations as an opportunity to use the customer as a resource—to increase the extent of customer performance. This involves rethinking the provision of service in order to transfer more of the current service production to the customer.¹⁶ The greater the customer performance, the less employee labor input the service company needs to provide. Classic examples of shifting labor to the customer include self-service gasoline stations, and/or the now universal habit of carrying baggage onto aircraft. The introduction of self-scanning in supermarkets, described in the opening vignette, is the logical extension of the moving of work to customers. Customer involvement in grocery stores can be traced back to the early 1900s. This started with the first-ever supermarket, the Piggly Wiggly, in Memphis in 1916. Customers were invited to pick their own purchases from the shelves instead of being served by an employee behind a counter.

Consider the complete transformation of the end-to-end process of taking an airline trip. The old model started with

a retail service experience—a trip to the travel agent, airline office, or airline ticket counter. In the interaction with a service provider, the flight would be booked on a proprietary computer system, and a multi-part ticket printed on a specialized printer. Part of the ticket was removed by the agent and sent back to the airline. At the airport, after queuing, the check-in involved the collection of all or part of the ticket, printing a new document—the boarding pass—and the luggage check-in process.

Consider the model as it exists today. Customers use the Internet to locate a suitable ticket. They might use a web service to identify the best deals and an intermediary to book the ticket. They might go directly to an airline site. They are then issued with an e-ticket. The e-ticket carries the same information as the paper version—it is just that the information is held in the airline’s database. The record contains the date and time of travel, the origin and destination, and the class of travel.

More recently the focus has shifted to the rest of the process. Airlines can still use check-in agents to process e-tickets at the airports. Identification is checked and a boarding pass created. However, most check-ins are now done with self-service kiosks at the airport. Kiosks check identity with machine-readable passports, credit cards, or even frequent flyer cards. They can also print a boarding pass.

Today, even the kiosks are now being superseded. Passengers can print their own boarding passes at home or simply download them to their smartphones, leaving the security check to the gate. Indeed, passengers checking in at the airport are starting to find that the best seats are already gone. Passengers with baggage can now do their own tagging and drop-off. Baggage tags are printed by the kiosks and instructions videos show how to attach them. Finally, the passenger places their own bags on the conveyor.



Markus Mairka/Shutterstock.com

low-contact systems

Service production processes are arranged on a spectrum according to how much the customer is part of the process. In a low-contact system, the customer plays only a small role in the operation or production process.

high-contact systems

Service production processes are arranged on a spectrum according to how much the customer is part of the process. In a high-contact system, the customer has a much larger “partial employee” role to play.

Southwest Airlines is credited with issuing the first e-ticket in 1994. At the end of 2008 International Air Travel Authority (IATA), the regulatory body, phased out the last paper tickets. The switch was therefore very rapid. It would have been completed sooner except for the restrictions imposed after the 9/11 tragedy.

Source: <https://samchui.com/2021/03/29/southwest-orders-100-boeing-737max-planes/#.YqFZzajMJdg>

Without major advances in information technology, this transformation would not have been possible. Airline databases have had to be centralized and made available remotely anywhere in the world. The Internet booking systems have had to be integrated in real-time with the airline systems. The e-ticket databases have to be available to the hundreds of check-in points throughout the world and seamlessly integrated with the boarding card system. Historically, check-in agents retyped data from tickets into the boarding card system. The arrival of digital passports and ID makes security checking easier. Facial recognition used at many immigration barriers will soon automate the whole process (see Global Services in Action).

The benefits to customers are enormous, as they are for the airlines. Automation collapses the need for queuing at ticket agent and check-in desks. E-tickets are impossible to lose, and for that reason hard to steal. All documents, such as itineraries, can be reprinted if necessary. E-tickets make it easier to change routes as journeys evolve due to such things



Morris/John/CaroonStock

"If you hate being on hold and want to get on with your work, press 1 - if you want to be on hold for a long time so you can do the crossword, press 2."

The introduction of information technology to enhance service operations has produced mixed results.

as weather delays. In the latest systems, because records are electronic and linked to cell phones, passengers can be texted automatically when a delay happens. The IATA estimates that the migration to e-tickets alone has saved 50,000 mature trees a year, or the equivalent of three square miles of mature forest per year.

There have been huge productivity benefits for the airlines, as work that used to be done by ticket and check-in agents has moved to customers. For example, a Forrester Research Report on earlier generations of self-service check-in at airports shows the scale of the potential benefits. The report estimated that self-service check-in costs the airline less than 5 percent of the costs of using ticket counter agents. Given that American Airlines, the largest U.S. carrier by passenger numbers, flew 215 million passengers in a single year, the savings to that one airline must have been huge. Increasing customer performance in this way, however, has completely changed the process for the customer, with implications for customer satisfaction.

Customers have had to learn a completely new script every few years. Although customers are doing more work for the airlines, their satisfaction is increasing and they want to do more, as witnessed by a study by the Society for International Telecommunications for Aeronautics (SITA), the organization that provides the check-in technology to most of the world's airlines.¹⁸

10-5 Customer Satisfaction and Customer Performance

If customer performance is to be shifted or reduced or increased, what will be the impact on customer satisfaction with the service? How can customers be transitioned into the role of partial employees (See Table 10-1)?

Global Services in Action

U.S. Customs Adopts Facial Recognition Biometrics¹⁷

Following a directive from Congress's 9/11 Commission to increase border security using biometrics, the U.S. Customs and Border Protection agency (C.B.P.) has set its sights on automating manual processes. Traditionally, processing arriving passengers into the United States can take as little as 10–15 minutes under ideal circumstances and up to 1–2 hours when arrival halls are flooded with passengers arriving simultaneously on multiple flights.

Recently, C.B.P. has announced Simplified Arrival which embraces biometrics to speed up the arrival process while also increasing security. Biometrics considered include iris scans, fingerprints, and facial recognition. Facial recognition was selected over other alternatives due to its simplicity. Facial recognition uses an algorithm to compare the picture that appears on the passenger's passport with a picture taken in person at the port of entry. In addition

to accelerating passenger clearance (a typical facial recognition scan can be verified in 2–3 seconds) and identifying potential imposters, facial recognition processes are also touchless, which limits the spread of pathogens as passengers arrive from a variety of international points of departure.

Passengers with privacy concerns pertaining to the use of their encrypted facial recognition photo are permitted to opt out of the facial recognition process. Signage indicating passenger rights to opt out of the process are posted at all ports of entry. Passengers who opt out are processed using the traditional manual process. Simplified Travel is now available at 99 percent of air entry points, 90 percent of cruise points of entry, and is now being rolled out in pedestrian lanes at land borders.

Table 10-1 Facilitating the Transition to the Partial Employee Experience

As customers are being asked to provide more of their own service needs, service marketers need to carefully manage the transition from full-service to partial service to self-service operations. Guidelines have evolved that help facilitate this transition and avoid insensitivity.

Develop Customer Trust	The firm should provide information to the customer that explains why self-service opportunities are being provided and the potential customer benefits. When it is readily apparent that the only reason the firm is offering self-service options is to benefit the firm, customers will quickly flock to competitive offerings
Promote the Benefits and Stimulate Trial	The typical benefits associated with self-service are convenience, customization, and cost savings to the customer. To promote new self-service options, customers may need an incentive to stimulate trial.
Understand Customer Habits	Part of the problem when transferring from full-service to self-service is that we tend to forget why customers might prefer using full-service options in the first place. Despite the convenience of ATMs, many customers like the personalization and risk reduction of interacting with a particular bank employee.
Pretest New Procedures	All new self-service options should be thoroughly pretested, not only by the firm's employees but particularly by customers (both novice and experts) who do not have the advantage of full information. Pretesting helps in identifying and correcting potential problems before new procedures are fully introduced.
Understand the Determinants of Customer Behavior	When considering customer benefits of self-service alternatives, firms should understand the determinants of customer behavior. Why would a customer use an ATM or mobile app instead of a bank teller? The customer benefits promoted by the firm should be defined by the customer.
Teach Customers How to Use Service Innovations	Many of today's self-service options are technology driven, and in many cases, customers are left to fend for themselves in attempts to use these new alternatives. For customers to be taught, employees must first know how to use the technology themselves. Nothing will turn off customers faster than employees who have no idea how to use the new systems themselves.
Monitor and Evaluate Performance	If a firm's self-service option enjoys an initial success, it should be continuously monitored and evaluated throughout the year. Does demand fluctuate? What are the possible causes? Has demand increased, decreased, or leveled off? What other services do customers want self-service access to?

The simple satisfaction model suggests that customers will be satisfied when what they perceive they have received from the service experience is more than or what they expected. Using the theatrical analogy, the customers have an **expected script**. If they perceive that the experience matches it or exceeds it, they will be satisfied. Moreover, the customer will often have a sense of achievement in successfully navigating a service experience. Achievement is known to be another determinant of satisfaction. (See the opening vignette on self-scanning in supermarkets). Successful performance will also give a customer a sense of control of the situation, which has also been shown to be motivational.¹⁹ Early studies showed that customers valued control in the self-service experience. Customers also value predictability, which increases their sense of control but is seen as separate concept.²⁰

expected script

The script a customer carries into the service setting; what the customer expects to happen and the benchmark against which they will evaluate the experience.

A number of studies have also shown that a lack of customer performance expertise can cause dissatisfaction. In a study of customers' satisfaction with self-service technologies, researchers found that over one-third of incidents that caused dissatisfaction were due to "poor design." However, further interpretation of what respondents were attributing to "poor design" showed what they actually meant was that they were novices and had not yet learned to participate in the service.²¹ Equally, based on the script idea, expert performers have more complex and sophisticated scripts based upon many service encounters. This allows them to feel in control during deviations from the norm.

Performance can also influence satisfaction through **attribution**. There is a proven tendency for people to claim

attribution

The allocation of responsibility to self and other people, or even chance. In the sense of satisfaction or dissatisfaction, customers will allocate the cause of the satisfaction or dissatisfaction, and only in some cases blame the service organization.

more responsibility for success and less responsibility for failure in situations where the outcome is produced with others. The “self-serving bias” has been shown to be applicable to situations of coproduction of service.²² In studying self-service technology, it has also been shown that customers tend to blame the technology when things go wrong but take the credit themselves when the experience is satisfying.²³

10-6 Managing Customer Performance Scripts for Operational Efficiency

If satisfaction comes when expectations are met or exceeded, and if the service experience follows the expected script, then the customer will be satisfied. If the performance unexpectedly exceeds the expectation, then the customer may well be delighted.²⁴ Aligning customers’ scripts with the service operation therefore has the double benefit of improving efficiency and increasing customer satisfaction.

Applying the performance logic would suggest four key tasks for management:

- Audit your customer performance expertise
- Increase your share of expert customers
- Manage script changes carefully
- Create systems to cope with novices and experts (see Figure 10-1).

10-6a Audit Your Customer Performance Expertise

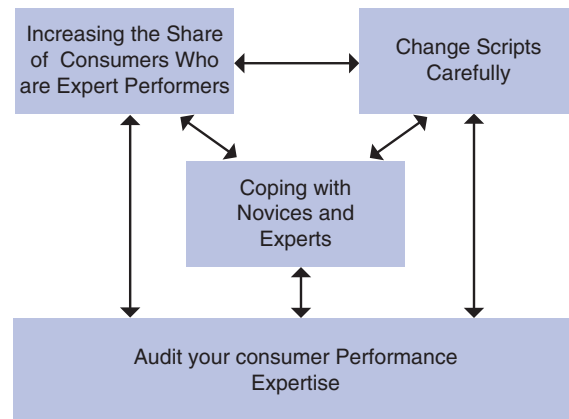
It is important to know what percentage of your customers are expert performers. In addition, it is possible to measure the quality of an individual’s script through market research. This is called **auditing customer performance expertise**. The simplest approaches require people merely to describe their relevant service experience in the form of a script.²⁵ Such an approach has been used in services and proved to be sensitive enough to differentiate between scripts of the same general category, as for example between scripts for a fine dining restaurant and a fast-food restaurant.²⁶ A score can then be computed comparing the company script with the elicited script.

An alternative approach to measure expertise relies on the reordering of events within the script. Respondents are presented with typical events in a jumbled fashion and asked to place them in the correct order. Subjects’ expertise can

auditing customer performance expertise

Measuring the extent to which the customer understands the script that the service system has been designed to deliver.

Figure 10-1 The Four Key Tasks in Managing Customer Performance



then be assessed by comparing their reordering with the correct order and computing a score.²⁷

10-6b Increasing the Share of Customers Who Are Expert Performers

Is it possible to increase the proportion of a firm’s customers who are expert performers? Firms can adopt a number of strategies, together or separately to: attract customers who are more likely to become experts, accelerate the creation of their own experts, and build loyalty to keep the experts they have.

Attract Customers Who Are More Likely to Become Experts

Clearly new customers are novices, but is it possible to attract individuals who are more likely to become experts? Marketing campaigns can only be targeted provided that an addressable profile of potentially expert performers exists, preferably defined in terms of age or socioeconomic group. In the context of e-business, it is possible to measure customer performance directly. By tracking customers’ behaviors on a website, it is possible to categorize them as experts objectively. One study of 20,000 users of a web service used the “speed of use” to define an expert. Analysis showed that experts did vary in terms of age, income, race, family status, and possibly region. More intriguingly, studying the same users over six months showed that expert customers were also more loyal.²⁸

It is also important to remember that service performance for, say, airline travel is not specific to an individual airline. The nature of the script is such that a Star Alliance loyal passenger when faced with a flight on British Airways will use a large proportion of the same script. Consequently, attracting competitors’ experts is a useful way of increasing one’s own expert base.

Accelerating the Creation of Your Own Experts Is it possible to help accelerate the creation of expert customers by teaching them the script? Four different approaches are available that ideally can be used together.

Give Clues about Analogous Services Psychologists suggest that scripts are built up from generalizations about experiences from early beginnings in life. As we grow up, we learn by watching others and being taught how to behave by our parents. We may start off with a specific script for going out to, say, Walmart, but soon learn that this is only part of a higher general experience called “shopping.”

When faced with a service experience that is new, customers adopt a number of strategies. The first thing customers do is to approximate the script using an analogous experience. In a study of customer performance, an Internet banking system was created. Customers were deliberately selected for their lack of experience of such a system. Some of the respondents were asked to move money between accounts and to check balances, without any additional instructions.

Because the system was electronic, it was possible to measure their performance directly by measuring such things as transaction time and number of keystroke errors. Respondents also completed a questionnaire about related service experiences. The results clearly showed that the best prediction of a customer’s performance was previous experience of banking, computers, and automatic teller machines.²⁹ Clearly the customers were drawing on previous experience to create an approximate script. When creating a novel or new service, it is important to *give customers clues about analogous services* so that they can create a script quickly.

Plant Clues within the Service Experience The second thing that customers do is to use the service experience itself to look for clues to a script. Those clues can come from many different sources: from the physical environment, the service providers, or indeed other customers. Take something as ordinary as aircraft lavatories. Customer satisfaction depends upon the occupied signs being lit or unlit so that passengers can see the situation before leaving their seats. It is therefore important for passengers to lock the toilet door, hence triggering the occupied sign. How do the airlines ensure that this happens? They connect the door lock to the light switch. Some clues are less obvious, as in the strategic placement of tray return stands to ensure that customers bus their own tables. Some electrical goods service organizations send all their customers checklists to be prepared before calling in a service report.

Some service businesses take seriously the idea that a customer is a “partial employee.”³⁰ New employees are normally socialized into the organization and, logically, partial employees or customers should be socialized in the same way.³¹ To be successful, new employees require a clear understanding of their role (role clarity), ability, and

motivation. Clearly, the script idea relates heavily to the clarity of the role a customer plays. It is also important, however, that the script customers are asked to perform are within their abilities. If a home Internet banking system requires too high a level of intelligence to be used, it will clearly alienate customers.³² Airports have invested in sophisticated television systems to ensure that new customers understand the “security check” script. Whilst waiting in the queues, passengers have multiple opportunities to learn the script. The airlines themselves have been much less successful at socializing flyers to wait whilst seated until the row number of group is called. Instead, they block the boarding gate entrance for those passengers trying to board correctly. In this case, the novices are getting in the way of the “experts.”

If socialization can be achieved, then customers will understand the policies of the organization and its values, if not the script. **Customer socialization** has been related to positive outcomes for the firm, including customer satisfaction, motivation, and perceived quality.³³

A hotel will provide a directory of services to guests on how to use the hotel. Novel experiences such as health farms or Club Med holidays will offer a formal orientation program at the beginning of the guest’s stay. All are designed to increase the level of expertise of customers’ performance. Other orientation programs are less formal, but just as useful. Service employees can be instructed on how to recognize novice customers and offer instructions. Hotel staff will often ask if you are new to the hotel and, if you are, offer instructions on how to use your room and the different styles of restaurants within the hotel. Airlines will place agents on the self-service check-in kiosks to catch novices and teach them the script.

The Internet banking study described earlier took another sample of customers and allowed them to develop expert scripts by providing written instructions and screen-based practice sessions. The improvement in scripts compared to the novice group could be measured directly. Both the earlier novice group and this expert group were offered a jumbled set of statements describing the Internet banking process and asked to place them in the correct order—in essence to reassemble the script. The expert group scored higher. They then made fewer mistakes when asked to use the system in earnest and were much more satisfied with the experience.

In another study of mammography exam screening, half of respondents received a detailed preview of what

Customer socialization

From a human resources management perspective, employees have to “on-board” successfully into the organization. They must be taught their role, the places and procedures, and most importantly, “how we do things around here.” Customers too need to be “on-boarded.”

would happen and a short video illustrating the entire procedure. The other half of the sample received no such preview. After this, the respondents answered questions about their sense of control, their level of anxiety, and the accuracy of their expectations. The results showed that “teaching the script” through the preview generated more accurate expectations, considerably less anxiety, and higher levels of perceived control. All the women were then presented descriptions of three actual mammography experiences. One followed the preview exactly, one contained blunders by the provider, and the third described an enhanced service. Across all three scenarios, those respondents with a preview were more satisfied with the described scenario.³⁴

Let Customers Watch Each Other The final source of a script can be studying the behavior of the other customers. We learn from early childhood to look for other, expert, customers and emulate their behavior. Our supermarket shopper seeks quick clues by looking at what other shoppers are doing. Tourists often adopt such a strategy. For example, they can be seen loitering outside Swiss banks learning how to use the complex security doors. There is a story, probably untrue, of McDonald’s having trouble when it first launched in the United Kingdom teaching customers to clear their own tables. Their solution, allegedly, was to hire professional burger eaters who ate their food and, with exaggerated displays, emptied their trays into the bins and placed them on top of the receptacle.

Build Loyalty to Keep your Experts An expert requires multiple exposures to a service experience in order to learn the script. Once the expert has been created, it is important for the firm to maintain that person’s loyalty. Expert customers are valuable and must be protected, whether through loyalty incentive programs, such as the airlines’ frequent flyer programs, or through recognition in the service experience.

10-6c Change Scripts Carefully

In the drive for operational efficiency or product differentiation, service businesses are often keen to innovate in the way the service is delivered. To the extent that this involves a change of script, it needs to be managed carefully. Too extreme a change means that your expert customers will have to renew their expertise. Expert customers, with an existing script-based expectation, may see the new service as a service failure and be dissatisfied.

In the opening vignette it was clear that our shopper was desperately trying to assemble a script for the new ways of shopping; a routine experience becomes extremely stressful and full of anxiety and fear of failure. Some customers fail and will attribute their failure to the supermarket.

The revolution in the whole airline experience, described earlier, challenges customers with a profoundly different

role to play in the drama. They are expected to be Internet enabled and to be able to buy tickets electronically. They are expected to print their own itineraries and boarding passes or even more radically to download only an electronic boarding pass to a smartphone. At the airport they must be capable of using the kiosk or knowing that they already have a boarding pass. The script is completely different, the customer performance different, and the competencies required for the role very different.

As customers we value predictability and control. We will therefore, in most cases, migrate toward a service experience where we know the script. We will look for props and signals about the way the stage is set in a service business, to judge whether this is a script with which we are familiar. This was precisely the problem faced by Citibank many years ago when it first introduced automatic teller machines into its New York branches. Regular customers would walk right past the empty ATMs to join the lines for the traditional tellers. In the end, the bank hired receptionists who intercepted clients and persuaded them to use the ATMs.³⁵

The only exception to our desire for predictability seems to be when we deliberately look for something new. Foreign tourism automatically throws us into situations that are new; we become novices again and seem to enjoy the novelty of the experience. We may become exasperated by our inability to do the simplest of things—such as withdrawing money from the bank. We may, however, revert to familiar scripts to refresh ourselves by seeking out a familiar restaurant chain or staying in a branded multinational hotel. Such branded hotel chains offer us the predictability of a familiar script when we are in need of it. A Holiday Inn feels like a Holiday Inn whether it is in Atlanta, London, or Kuala Lumpur.

We do of course like to be experts. Sometimes we like to learn new scripts in order to maintain our sense of being an expert. This also allows us to demonstrate our expertise on social media or in the many “experience sharing” blogs. Some of these blogs can be extremely useful to service firms as they train experts. Unfortunately, sometimes they are trained to a very different script. For example, see the



Fritel Patrick/Getty Images

Foreign tourism automatically throws us into situations that are new; we become novices again and seem to enjoy the novelty of the experience.

multiple sites offering advice on how to use self-scanning to steal from supermarkets.³⁶

10-6d Coping with Novices and Experts

No matter how long a firm has been in operation, it will still have both old and new customers. A firm cannot only have experts because it grows by recruiting new customers, and these are more likely to be novices. A service firm, therefore, will have to learn to manage two different segments at the same time: novices and experts. Operationally, this means that the system has to cope with two very different levels of customer performance.³⁷

Unfortunately, novices and experts do not arrive with labels identifying the level of their customer performance abilities. One of the few places where this does happen is in online retailing. Regular customers, when they log in, can be identified and the service experience customized to them. They receive fewer instructions and are flagged to use the shortcuts within the system. Novice customers, by comparison, receive help boxes and guidance.

In the absence of an indication of performance expertise, all a service business can do is to allow users to self-select. The frequent traveler and user programs in the travel industry are good examples of this. The Hilton Honors check-in desk offers recognition to loyal customers. It also allows them to use their expertise to check in as efficiently as possible. The guests are often more proficient at the check-in script than the receptionists and can be seen anticipating the next question or indeed prompting the receptionists. The same effect is often visible at frequent flyer check-ins,

where expert passengers will answer the security questions even before they are asked.

Unfortunately, coping with experts and novices means that the firm must manage their interaction with each other. Not only can novices with an incomplete script interfere with an expert by virtue of their presence, but the scripts may be in direct conflict with each other. In a study of 330 service incidents, researchers looked at how the presence of others positively or negatively affected the service experience. Nearly half of the incidents described as satisfying or dissatisfying related to what were classified as “protocol.” Many dissatisfying incidents referred to lining up when other customers clearly did not respect the protocol or script of acceptable behavior in a line.³⁸ (For more information on managing customer waits, see *Services for a Better World in Action*).

“At EPCOT there was a couple that was trying to cut in front of us....”

Equally, when there was agreement on the protocol or script, customers were satisfied.

“There was no pushing or breaking in line to get ahead of others.”

Having experts and novices in the same setting can also put the service provider into the position of performing two scripts at the same time, something even the best actor would find difficult. A hotel provides a classic example of the problem. On a given day it can be dealing with many difficult segments: individuals and couples staying in the hotel, groups staying in the hotel, a large conference

Services for a Better World in Action

The Psychology of Waiting Lines: Managing the Hurry Up and Wait!³⁹

Within the service sector, customers are expected to arrive on time or suffer the consequences. In contrast, service providers are not held to the same expectation. Estimates pertaining to the amount of time the average person spends waiting are mind-boggling—the average person spends 6 months of their lives waiting in lines for things. According to a Timex survey, Americans wait on average 32 minutes when visiting a doctor, 28 minutes in security lines when traveling, 20 minutes when waiting for a bus or train, and 43 days of their lives waiting on hold for automated customer services. Globally, it is estimated that humans spend 37 billion hours waiting each year.

Over the years, through trial and error, eight principles of waiting have developed to help service firms effectively manage customer waits. Service firms sensitive to these principles have developed strategies to deal with customer waits and to minimize the negative effects associated with delays. In fact, in some instances, effective management of customer waits has led to increased profit opportunities.

Principle #1: Unoccupied Waits Feel Longer Than Occupied Waits

Waiting around with nothing to do makes every minute seem so much longer. Successful service firms have

learned to manage customer waits by occupying the customer's time. Restaurants can occupy customer waits by offering to let the customer wait in the lounge area, which also increases the profit-making opportunity for the firm. Similarly, golf courses offer driving ranges, and the medical community tends to offer reading materials. Ideally, tactics utilized to occupy customers should be related to the ensuing service encounter.

Principle #2: Preprocess Waits Feel Longer than In-process Waits—Postprocess Waits Feel Longest of All

The waiting period before the service starts feels longer to customers than waiting while the service is in process. Effective techniques to manage preprocess waits include simply acknowledging the customer. For example, wait staff are often too busy to serve customers as soon as they are seated. Phrases such as “I’ll be with you as soon as I can” acknowledges the customer's presence and conveys the message that the service has started. Post process waits feel the longest of all waits. In many instances, the service has been delivered, and now the customer is simply waiting for the check or bill. It’s baffling to customers to be subjected to delays when the customer simply wants to give the service establishment money.

(Continued)

**Principle #3:
Anxiety Makes the Wait Seem Longer**

Have you ever noticed how much longer traffic lights take to change when you are in a hurry? This is because anxiety expands customer perceptions of time. Effective service firms manage the anxiety levels of their customers by attempting to identify and then removing anxiety-producing components of the service encounter. Often, information is one of the most effective tools in relieving customer anxiety. For example, informing delayed airline passengers that connecting flights are being held for them, notifying waiting movie-goers that seats are available, and assisting new students in finding the right lines during registration will remove much of the anxiety felt by these customer groups.

**Principle #4:
Uncertain Waits are Longer than Known,
Finite Waits**

While waiting in a doctor's office, the wait "before" the stated appointment time passes much more quickly than the time spent waiting "beyond" the appointment time. Simply informing customers of how much longer the wait will be reduces the anxiety and frustration associated with undefined waits.

**Principle #5:
Unexplained Waits are Longer than
Explained Waits**

It is human nature to want an explanation. You can almost see the disappointment in people's faces when the slow speed during a traffic jam on the highway resumes its normal pace without an explanation. Customers want to know why they have to wait, and the earlier the information is provided, the more understanding the customer becomes, and the shorter the wait seems to take.

**Principle #6:
Unfair Waits are Longer than Equitable Waits**

Effective customer management should strive to provide a level playing field that is fair for all customers. The majority of customers are not unreasonable. Most

restaurant patrons understand that larger parties will wait longer than smaller parties and that parties with reservations will be seated sooner than those who arrive unannounced. However, probably nothing will ignite a serious confrontation faster than customers who feel they have been passed over by other customers who entered the service experience at a later time under the same set of circumstances.

Lines such as those found at McDonald's and drive-through banks are classic examples of why customers become frustrated. In each instance, the customer must pick the line they think will move fastest. Inevitably, the other lines move faster, and customers who entered the lines later are served first, out of order. From a fairness perspective, methods that form a single line, where customers are served in the order in which they enter the service process are preferable.

**Principle #7:
The More Valuable the Service,
the Longer the Customer Will Wait**

Why else would you wait in a doctor's office for two hours? Is it any wonder that the word patient is a form of the word patience? The amount of time customers are willing to wait is often situational. When the service is considered valuable and few competitive alternatives exist, customers will be willing to wait much longer than if the reverse were true.

**Principle #8:
Solo Waits Are Longer than Group Waits**

It is amusing to consider the amount of customer interaction typically displayed in a grocery store line. Generally, there is none at all, even though customers are standing within inches of one another. However, note what happens when a delay occurs, such as a price check on an item or a customer who takes too long to fill out a check . . . the rest of the line quickly bonds together like old friends! Group waits serve the function of occupying customers' time and reduces the perceived wait. When managing customer waits, the practicality of actively encouraging customers to interact may be considered.

occupying the ballroom, a board meeting in a small conference room, and so on. Pity the staff in the restaurant serving guests with very different scripts from fine dining à la carte, to fixed menu groups, to the conference buffet with a one-and-a-half-hour lunch break. All of the guests in these settings have novice scripts since they do not normally face such situations. Pity the other guests as they interact with their fellow diners who have very different scripts. Managing these multiple and often conflicting segments has been dubbed "**compatibility management**."⁴⁰ Organizations will do their best to keep the different types of customers separate and in homogeneous groups. They

can use separate floors or rooms to do this, or even just simple signage.

Compatibility management must also include training customers in the script or using codes of conduct (e.g., "please do not use the dining room before..."; "Please only use the buffet service"). Finally, service personnel need to be trained and sensitized to watch for and manage the conflict between segments.

10-7 Building the Servicescape for the Partial Employee

As a partial employee our customer may now know the script. The firm needs to create a "work environment" that allow the partial employee to do their job well. We can use

compatibility management

The management of a diverse group of customers with different needs within the same service setting.

the ideas of **ergonomics**, which studies how to fit the working environment to the employee to also provide environments in which customers will thrive. In ergonomics, the capabilities to “do the job” are divided into three: *cognitive*, *psychomotor*, and *perceptual* capabilities.

- *Cognitive capabilities* cover everything from our ability to process information, our working memory capacity, and our ability to give selective attention to a task. Can we comprehend a financial analysis for a finance agreement when at the bank? Can we maintain concentration in a crowded noisy restaurant when we need it to pick our food from a menu or blackboard? We may need longer to check the bill.
- *Psychomotor capabilities* depend upon our physical “fitness” and to an extent to the changes that happen to our body dimensions. As our body changes over our lifetime our ability to walk long distances at airports to the gates may decline. We may not be able to lift our cabin baggage into the overhead locker. At any age our body may change shape. We may find it less and less easy to sit in the aircraft for long periods. Our flexibility declines from middle age. We may not be able to reach the products on the bottom shelves of the supermarket. We may have trouble maneuvering to our table in the restaurant.
- *Perceptual capabilities* cover all our senses and how their functionality changes often with age. From the age of 40 we may become farsighted (hyperopia) and need to wear reading glasses, restricting our ability to read menus in a restaurant. We may start to lose our hearing or our ability to separate sounds from background noise. This is especially the case if we have spent too much time in noisy bars and/or music concert events. We may not hear the “special of the day” as it is described by the Maître D’ or be able to hear the request for our sauce preference to go with our steak. Many modern smart phones allow music to be personalized. The choices are between different age bands reflecting the changes that come from the 30s and 40s onwards. The most sophisticated phones provide a complete hearing test. The frequencies are then adjusted to recreate the sound heard by a 25-year-old. The differences when the setting is toggled on and off can be insightful.

10-7a Customer Ergonomics: An Illustration

Astute services marketers recognize the changing needs of their customer base and adapt their strategies accordingly. For example, consider the restaurant industry which is facing the worldwide ageing of its customer base. If restaurants wish to continue to facilitate the customer’s role as partial employees, changes in ergonomics should be forthcoming.

ergonomics

The science of developing work environments that fit the job and/or task with the physical and mental capabilities of the employee.

Take something as simple as reading the restaurant’s menu. The lenses in customer eyes continue to grow throughout their lives. Lenses are only 3 mm thick when customers are infants but can reach 6.5 mm in old age. As the lenses thicken, they become less flexible. This goes on all our lives. Even at the age of 20 nearly a quarter of people will wear glasses for reading. This jumps to nearly 90 percent by the age of 60. Consequently, menu fonts should be increased to facilitate the ordering process.

As customers age, the amount of light reaching the retina at the back of the eye also drops. The lenses absorb light as they thicken. Reading glasses can correct customer abilities to focus on a menu; however, they cannot increase the amount of light the eye receives. A 60-year-old needs three times as much light to read as the average 20-year-old, and a 40-year-old is somewhere in the middle. According to the American Society of Illuminating Engineers, there are the regulations that define how much light is legally needed in offices.⁴¹ In contrast, there is no such regulation for service firms which require customer participation.

The future restaurant experience will be a brighter one if ageing markets are to find their way around the restaurant successfully. If the illuminating engineers get their way, background ambient light needs to increase significantly. They suggest a minimum of doubling the background light of a typical restaurant. In addition, the “brightness” of paints in dining areas should also increase as markets age. This would imply a big increase in brightness and a change to the overall “feel” of the restaurant.

10-8 Customer Performance and The Role of Marketing, Operations, and Human Resources

In closing, this section addresses the way managers from different functions need to change their thinking because of customer performance.

Strategically, it is important to realize that the greater the extent of customer participation in the production of their own service, the greater is the need to manage customer performance. It is the only way to increase the productivity of high-contact services. Experts and novices are more than just partial employees of the service business. They are employees and customers at the same time.⁴² They can be accountable for their own satisfaction, and their perceived service can be managed.

Marketing managers need to broaden the scope of their thinking. Traditionally, marketing drives value for the business by focusing on how customers make choices and what satisfies them. Understanding the choice process provides the clues to increase the firm’s share of those choices. Satisfied customers can be retained.

When thinking about services, it is clear that the marketing toolkit can now be applied to improve the operational

efficiency of the firm by creating expert performers. Experts can be created, scripts can be taught, and it will be seen as a benefit by the customer. We are all motivated to learn by our need for control in our environment. Increasing the amount of customer performance can, for some of us, increase that sense of predictability and control.

For many of us, once we have learned the script, carrying our own bags onto the airline is an attractive proposition. What we fear is the novice flyer who argues that the locker above their seat is allocated to them! Operations managers need to include the customer in their planning. Starting from a more prescriptive point of view, it is important to be able to define an appropriate customer script, given the nature of the service operation.⁴³ This again touches on the issue of scripts delivered through technology versus through people.

Technology does impose tighter scripts on customers. Service providers can be “empowered.” Empowerment provides for the variation in the script to suit the particular customer. Unfortunately, machines cannot be empowered. They can be programmed through “if-then” branches to categorize customers and provide an appropriate script. Unfortunately, such programs are often self-defeating since they are regarded as tedious and boring by customers. The advent of AI may solve some of this problem. The more “intelligent” the kiosk, tablet, or website, the more it can adapt to specific customers.

The concept of a script can just as easily be applied to service providers.⁴⁴ They, too, have to cope with a frequently

occurring service experience. Indeed, because they perform the script so often, they may be the ultimate experts. How provider and customer scripts interact, what happens when an expert provider meets a novice customer, and vice versa, are all key to designing satisfying experiences for customers.

The human capital management systems need to be constructed to ensure that the service providers know and execute the correct script, which ensures that they are operationally efficient. The script can also influence how the customers perceive the service. Frequently repeated scripts have been shown to produce mindless or robotic performance.⁴⁵ Processes and systems have to be created to balance the needs of the service provider, the customer, and the firm. Service providers must be experts, with scripts that can adapt to different levels of customer performance expertise. Too much expertise may, however, create robot-like service.

Using the theatrical analogy, it is the script that ties together all the different actors in the play. Actors using a different script cannot deliver a successful performance. The service script needs to be learned by all the key players in the service experience. It is also the point on which the different functions in the service firm must converge: *operations*, *marketing*, and *human resource management*. All the functions must be following the same script, and so must the customers. However, in the end it will be the customers’ perception of the script and the experience that will determine their satisfaction and the success of the firm.

Summary

A service can be viewed as an experience in which the customer is an active participant. This inseparability has two consequences for managers. Uniquely to services, customers act to a greater or lesser extent as “... partial employees” of the service firm. This chapter suggests that the best way to understand this customer performance role is through two analogies. The first that of a theatre with actors, roles, and scripts. Customers vary to the extent to which they know the script and therefore to the extent to which they are expert or novice performers. The chapter suggests four steps to managing performances using this expert and novice idea.

The second analogy is that of customers as a “partial employee.” We can apply the tools of ergonomics to the customers when they are doing “their job.” They need a “work environment” suitable to the tasks they have to perform. They need the correct level of light with which to read. They need noise levels conducive to the task.

The customer as a partial employee changes the roles of operations, marketing, and HR managers, making them much more interdependent than in the typical manufacturing company.

Key Terms

partial employee
customer performance
novice performers
expert performers
expert customers

buffering the technical core
low-contact systems
high-contact systems
expected script
attribution

auditing customer performance
expertise
customer socialization
compatibility management
ergonomics

Review Questions

1. Discuss the pros and cons associated with the concept of turning customers into partial employees.
2. Compare and contrast expert performers with expert customers.
3. Give an example of a service experience in which you participated that was poor because of the presence of a novice customer. What was it that the novice did that identified that person as a novice? Describe the consequences for the expert customer in terms of the theatrical analogy.
4. Describe a service environment in which the physical design, signage, or layout makes it easy to understand the script. Describe another where the environment makes it very difficult to understand the role and the script of the customer.
5. Choose an example from your own experience of a service business that “changed the script” for their customer. Suggest why they might have made the change and the problems it created.
6. Based on the Amazon Go stores described in the E-Services in Action box, discuss the pros and cons of this business model.
7. Thinking of the customer as a partial employee, provide examples of servicescapes that are badly designed. When did you feel that you could not follow the script because of the environment and tools you were given?
8. Based on the principles of waiting discussed in the Services for a Better World in Action box, discuss five ways a service marketer could manage customers waits at a restaurant.
9. Based on Table 10-1, discuss five approaches to assist a firm that desires to make the transition from a full-service provider to a partial or self-service operation.
10. Explain why the concept of customer and employee scripts are so important to service marketers.

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Case 10

Managing Uncooperative Customers

Since services are often a “shared experience,” one of the primary challenges is to manage different market segments with different needs within a single service environment. Customers are not always saints, and disruptive behavior impacts not only other customers but service personnel as well.

Few companies ever sit down with employees to discuss how to deal with difficult customers. Despite the importance of the customer as the central theme that runs throughout the field of marketing, little discussion, if any, occurs on how to interact with a real, live customer in most colleges and universities. Here’s your chance to be part of the cutting edge.

Five customer profiles have been developed, representing the worst that customers have to offer.^a By categorizing unreasonable customers into one of the five profiles, contact personnel are more easily able to depersonalize the conflict and handle customer complaints more objectively. In reality, the worst customer of all is a little of all five types. The characteristics of each of the five “customers from hell” and suggestions for ways to deal with them are discussed below.

Egocentric Edgar

Egocentric Edgar is the guy Carly Simon had in mind when she wrote the song, “You’re So Vain.” Edgar doesn’t believe he should stand in line for any reason. He’ll push his way to the front and demand service on a variety of things that demand little immediate attention. If your company’s creed is “we are here to serve,” Edgar interprets that message as, “*Your company exists to serve my needs and my needs alone, and right now!*”

Another of Edgar’s nasty characteristics is that he will walk over front-line employees to get to who he’ll call “*the man in charge*.” Edgar treats front-line employees as well-worn speed bumps that deserve just that much consideration. Once he gets to the top, Edgar uses the chance to belittle upper management and prove he knows how things should be done.

Dealing with Edgar is particularly troublesome for providers who are new on the job, unsure of their own abilities, and easily pushed around. The key to dealing with Edgar is to not let his ego destroy yours, while at the same time appealing to his ego. Because Edgar believes you are incapable of performing any function, take action that demonstrates your ability to solve his problem. This will surprise Edgar. In addition, never talk policy to Edgar. Edgar thinks he is special and that the rules that apply to everyone else

should not apply to him. Policy should still apply to Edgar, but just don’t let him know that you are restating policy. Phrases such as, “*For you Edgar, I can do the following. . .*” where “the following” is simply policy, will appeal to Edgar’s ego while still managing him within the policies of the organization.

Bad-Mouth Betty

Bad-Mouth Betty lets you know in no uncertain terms exactly what she thinks of you, your organization, and the heritage of both. If she cannot be right, she will be loud, vulgar, and insensitive. She is crude not only to service employees but also to other customers who are sharing her unpleasant experience.

Dealing with Betty consists of at least four options. First, since Betty is polluting the service environment with her foul mouth, attempt to move her “offstage” so as to not further contaminate the service environment of your other customers. Once isolated, one option is to ignore her foul language and listen to determine the core of the problem and take appropriate action. This is a difficult option to undertake, particularly if her language is excessively abusive and personal in nature. A second option is to use selective agreement in an attempt to show Betty that you are listening and possibly on her side. Selective agreement involves agreeing with Betty on minor issues such as, “*You’re right, waiting 10 minutes for your Egg McMuffin is a long time.*” However, agreeing with Betty that your boss really is a jerk is not advisable since Betty is likely to use this to her advantage at a later date. The last option that every good service firm should seriously consider is to “force the issue.” In other words, let Betty know that you would be more than willing to help her solve her problem but that you don’t have to listen to her abusive language. If Betty continues to be crude, hang up, walk away, or do whatever is necessary to let her know she is on her own. In most cases, she will return the call, or walk over and apologize, and let you get on with your job.

Hysterical Harold

Hysterical Harold is a screamer. If he doesn’t get his way, his face will turn colors and veins will literally pop out from his neck. “Harold demonstrates the dark side . . . of the child inside all of us. He is the classic tantrum thrower, the adult embodiment of the terrible twos. Only louder. Much louder.”^a

^aSource: Ron Zemke and Kristen Anderson, “Customers from Hell,” Training 26 (February 1990), pp. 25–31.

Dealing with Harold is much like dealing with Betty in many ways. These two occupy the “other customers” slot of the servuction model and negatively affect everyone else’s service experience. Consequently, move Harold offstage and give your other customers a chance to enjoy the remainder of their encounter. When Harold has a problem, Harold has to vent. When offstage, let him vent and get it off his chest. This is when you can finally get to the heart of the matter and begin to take action. Finally, take responsibility for the problem. Do not blame the problem on fellow employees, upper management, or others who may ultimately be responsible. Offer an apology for what has occurred and, more importantly, a solution to Harold’s problem.

Dictatorial Dick

Dictatorial Dick is claimed to be Egocentric Edgar’s evil twin. Dick likes to tell everyone exactly how they are supposed to do their jobs because he has done it all before. Just so you don’t get confused, Dick will provide you a written copy of his instructions, which is copied to your boss, your boss’s boss, and his lawyer. Dick will most likely make you sign for your copy.

If his brilliant instructions do not produce the desired outcome, then it’s your company’s fault, or, more likely, your fault because you were too incompetent to fully understand Dick’s brilliance. Or perhaps Dick’s paranoia will set in, which makes him believe that you deliberately sabotaged his plan to make him look bad. You wouldn’t do that, would you?

Dealing with Dick would test anyone’s patience. The main key is to not let him push you around. Employees should stick to their game plans and provide service in the manner they know is appropriate and equitable for all concerned. Since other customers are likely to be present, employees need to be consistent in how they deal with individual customers. Dick should not be treated as the “squeaky wheel” who always gets the grease. The best strategy for dealing with Dick is to tell him in a straightforward fashion exactly what you can do for him. If reasonable to do so, fulfilling his request will break up Dick’s game plan and resolve the conflict.

Freeloading Freda

Freeloading Freda wants it all for free. Give her an inch and she’ll take the plates, the silverware, and everything else that’s not nailed down. Freda will push your return policy to the limits. If her kid’s shoes begin to wear out in a year or two, she’ll return them for new ones. In need of a cocktail dress, Freda will buy one on Thursday and return it bright and early Monday morning, punch stains and all. Question her credibility, and Freda will scream bloody murder to anyone and everyone who will listen . . . including the news media and the Better Business Bureau.

Dealing with Freda, in many cases, involves biting your tongue and giving her what she wants. Despite popular beliefs, the Fredas of the world probably represent only 1 to 2 percent of your customers, if that. Most customers are honest and believe that they should pay for the goods and services they consume. Another possibility is to track Freda’s actions and suggest possible legal action to persuade her to take her business elsewhere. Managers of competing firms often share information regarding the Fredas of the world to avoid their excessive abuses. Finally, recognize that Freda is the exception and not the common customer. Too often, new policies are developed for the sole purpose of defeating Freda and her comrades. These new policies add to the bureaucratization of the organization and penalize the customers who follow the rules. The filing of lengthy forms to return merchandise or invoke service guarantees is a common example of penalizing the majority of customers by treating them as suspected criminals rather than as valued customers.

Hellish Thoughts

When dealing with “customers from hell,” it is difficult for employees not to take these sorts of confrontations personally. The customer profiles introduced above should help employees prepare for the various types of difficult customers and provide strategies for minimizing the amount of conflict that actually occurs. Viewing customers as distinct profile types helps depersonalize the situation for the employee – “Oh, it’s just Edgar again.” This is not to say that each customer shouldn’t be treated as an individual, but simply that customer complaints and behavior shouldn’t be taken overly personally. In closing, one word of warning: Employees who truly master the art of dealing with difficult customers are rewarded by becoming these customers’ favorite provider, the one they request by name time after time. No good deed goes unpunished!

Discussion Questions

1. Why do so few companies discuss with employees the topic of dealing with difficult customers?
2. What is the value of creating customer profiles like Egocentric Edgar, Freeloading Freda, Hysterical Harold, Bad Mouth Betty, and Dictatorial Dick?
3. Given your own experiences as an employee or customer, develop one additional uncooperative customer profile, describe this individual, and suggest strategies for managing this type of customer.
4. On the flip side, once again based on your own experiences as an employee or customer, develop one additional cooperative (positive) customer profile, describe this individual, and discuss the implications of this customer type upon employees and other customers.

Part 3

Assessing and Implementing Successful Service Strategies



There is a little magic in every successful service strategy.

Chapter 11

Defining and Measuring Customer Satisfaction

Chapter 12

Defining and Measuring Service Quality

Chapter 13

The Art of Service Failure and Recovery Management

Chapter 14

Customer Loyalty and Retention

Chapter 15

Pulling the Pieces Together: Creating a World-Class Service Culture

Part III, Assessing and Implementing Successful Service Strategies, focuses on assessing customer satisfaction and service quality, tracking and recovering from service complaints and minimizing future failures, building customer loyalty and retention, and developing a world-class service culture. Ideally, assessing and improving the service delivery system leads to “seamless” service—a service experience provided without interruption, confusion, or hassle to the customer.

Chapter 11

Defining and Measuring Customer Satisfaction



Chapter Objectives

After reading this chapter, you should be able to:

1. Recognize the importance of customer satisfaction and the benefits associated with satisfied customers
2. Compare the various methods for measuring customer satisfaction and discuss the limitations of customer satisfaction measurements
3. Identify the various factors that may influence customer satisfaction ratings
4. In regard to customer satisfaction investment, explain how good is good enough?
5. Explain when customer satisfaction leads to customer retention
6. List the factors that influence adequate, predicted, and desired customer expectations

The major objectives of this chapter are to introduce the importance and benefits of customer satisfaction, examine the pros and cons associated with different approaches to customer satisfaction measurement, and identify the drivers of customer expectations that can potentially be managed to improve customer satisfaction perceptions.

The American Customer Satisfaction Index (ACSI)¹

The American Customer Satisfaction Index (ACSI) collects customer satisfaction data from approximately 350,000 customers annually. Adopting ACSI methodologies, many other countries are now also involved in collecting customer satisfaction data including India, Saudi Arabia, Singapore,

Dubai, Kuwait, South Africa, Honduras, Puerto Rico, and Columbia.

The ACSI includes a large range of business-to-consumer (B2C) companies which includes goods, services, local government, and federal government services. ACSI results allow individual companies to compare their performance to competitor performance within specific sectors such as hotels, restaurants, automobile manufacturers, cable providers, etc. Research has indicated that companies selected based on high ACSI rankings outperform their competitors in the stock market. Results indicate that firms with the strongest customer satisfaction ratings outperformed the S&P 500 by 518 percent to 31 percent.

Overall, trends within ACSI data indicate that the service sector consistently scores lower than manufacturing when compared to ACSI averages. For example, industries that

score consistently above ACSI averages include soft drinks, beer, automobiles, and consumer electronics. In comparison, service industries which involve more human contact and score consistently below ACSI averages include airlines, telecommunications, and cable television.

Interest in collecting customer satisfaction data did not occur until the early 1990s. Previous to this time, companies were more focused on achieving profits through production efficiencies as opposed to customer satisfaction. As companies began to experience increased profitability along with increases in customer satisfaction and customer retention, a long period of corporate emphasis on customer satisfaction ensued. However, over the past decade, customer satisfaction and economic growth have become flat.

Since 2019, ACSI results indicate a sharp decline in customer satisfaction. As evidence, almost 80 percent of companies included in the ACSI have failed to increase their customer satisfaction scores since 2010. Why the decline? Research indicates that (1) companies are still investing in customer satisfaction as much as ever, and (2) increasing customer expectations do not account for the full decline. The culprit for the decline in customer satisfaction ratings is attributed to the inability of marketers to interpret the vast amount of customer satisfaction data available into meaningful applicable results.

11-1 Introduction

Customer satisfaction is one of the most studied areas in marketing.² From an historical perspective, a great deal of the work in the customer satisfaction area began in the 1970s, when consumerism was on the rise. The rise of the consumer movement was directly related to the decline in service felt by many consumers that could be attributed to a number of sources. First, skyrocketing inflation during the 1970s forced many firms to slash service in the effort to keep prices down. In other industries, deregulation led to fierce competition among firms that had never had to compete before. With no previous experience on how to compete, price competition quickly became the primary attempted means of differentiation, and price wars quickly broke out. Firms once again slashed costs associated with customer service to cut operating expenses.

As time went on, labor shortages also contributed to the decline in customer service. Motivated service workers were difficult to find, and who could blame them? The typical service job included low pay, no career path, no sense of pride, and no training in customer relations. Automation compounded the problem. Replacing human labor with machines (e.g., self-service gas pumps, ATMs, self-check-outs at grocery stores) increased the efficiency of many operations, but often at the expense of distancing customers from the firm and leaving customers to fend for themselves. Finally, over the years, customers have become tougher to please. They are more informed than ever, their expectations

have certainly increased, and they are more particular about where they spend their discretionary dollars. Given recent economic and technological trends, this cycle of events is likely to repeat itself in today's markets.

Customer service is as much of a "hot" issue as ever. A tough economy, poor quality employment opportunities, fewer discretionary dollars, and an increasingly more educated workforce have set expectations for customer service to new levels. Customers believe that surely if they are going to spend their hard-earned dollars during tough economic times, service firms should appreciate the customers' business and deliver on their promises. Unfortunately, the reality is that today's service firms struggle with providing basic customer satisfaction-related activities as much as their predecessors did 50 years ago.

11-2 The Importance of Customer Satisfaction

The importance of customer satisfaction cannot be overstated. Without customers, the service firm has no reason to exist. Every service business needs to proactively define and measure customer satisfaction. Waiting for customers to complain in order to identify problems in the service delivery system or gauging the firm's progress in customer satisfaction based on the number of complaints received is naive. Consider the following figures gathered by the Technical Assistance Research Program (TARP)³ and reaffirmed recently by Queensland Government.⁴

- The average business does not hear from 96 percent of its unhappy customers.
- For every complaint received, 26 customers actually have the same problem.
- The average person with a problem tells nine or 10 people. Thirteen percent will tell more than 20.
- Customers who have their complaints satisfactorily resolved tell an average of five people about the treatment they received.
- Complainers are more likely to do business with you again than noncomplainers: 54 to 70 percent if resolved at all, and 95 percent if handled quickly.

The TARP figures demonstrate that customers do not actively complain to service firms themselves. Instead, customers voice their dissatisfaction with their feet, by defecting to competitors, and with their mouths by telling existing and potential customers exactly how they were mistreated by your firm. Based on the TARP figures, a firm that serves 100 customers per week and boasts a 90 percent customer satisfaction rating will be the object of thousands of negative stories by the end of a year. For example, if 10 dissatisfied customers per week tell 10 of their friends of the poor service received, by the end of the year (52 weeks), 5,200 negative word-of-mouth communications will have been generated.

The TARP figures are not all bad news. Firms that effectively respond to customer complaints generate positive word-of-mouth communications as well. Although positive news travels at half the rate of negative news, the positive stories can ultimately translate into customer loyalty and new customers. Finally, a firm should also learn from the TARP figures that complainers are the firm's friends. Complainers are a free source of market information, and the complaints themselves should be viewed as opportunities for the firm to improve its delivery systems, not as a source of irritation.⁵ For example, one might think that the general managers (GMs) of five-star hotels loathe the fact that hotel guests can log on to TripAdvisor.com and voice their complaints for all to see. Surprisingly, the GMs love guests who voice their complaints, particularly when the guests are still staying in the hotel. This provides the GM and staff the opportunity to contact the guest directly and resolve the guest's issue personally prior to their departure. This type of response often translates into customer retention, customer loyalty, and positive word-of-mouth referrals.

11-2a What Is Customer Satisfaction and Dissatisfaction?

Although a variety of alternative definitions exist, the most popular definition of customer satisfaction and dissatisfaction is that it is a comparison of customer expectations to perceptions about the actual service encounter. Comparing customers' expectations with their perceptions is based on the **expectancy disconfirmation model**. Simply stated, if customer perceptions meet expectations, the expectations are said to be **confirmed** and the customer is satisfied. If perceptions and expectations are not equal, then the expectation is said to be **disconfirmed**.

Although the term *disconfirmation* sounds like a negative experience, it is not necessarily so. There are two types of disconfirmations. If actual perceptions were less than what was expected, the result is a **negative disconfirmation**, which results in customer dissatisfaction and may lead to

expectancy disconfirmation model

Model proposing that comparing customer expectations to their perceptions leads customers to have their expectations confirmed or disconfirmed.

confirmed expectations

Customer expectations that match customer perception, resulting in customer satisfaction.

disconfirmed expectations

Customer expectations that do not match customer perceptions.

negative disconfirmation

Customer perceptions that are lower than customer expectations, resulting in customer dissatisfaction.



James R. Clarke/Alamy Stock Photo

Perceptions that fall short of expectations result in unhappy customers and lost business (not to mention wasted ketchup).

negative word-of-mouth publicity and/or customer defections. In contrast, a **positive disconfirmation** exists when perceptions exceed expectations, thereby resulting in customer delightment, positive word-of-mouth publicity, and customer retention.

Perceptions = Expectations (confirmation) => Satisfaction

Perceptions < Expectations (negative disconfirmation)
=> Dissatisfaction

Perceptions > Expectations (positive disconfirmation)
=> Delightment

Every day, customers use the disconfirmation paradigm by comparing their expectations with perceptions. While dining at a resort restaurant on the west coast of Florida, our waiter not only provided everything we requested but was also very good at anticipating needs. My three-year-old niece had had enough fun and sun for the day and was very tired. She crawled up into a vacant booth located directly behind our table and went to sleep. The waiter, noticing her absence from our table and on his own initiative, placed a clean white tablecloth over her to use as a blanket. This particular incident combined with others throughout the evening led to a positive disconfirmation of our expectations. That evening's great service reinforced the notion that, with so much poor service all around, customers really do notice when the service is excellent.

11-2b The Benefits of Customer Satisfaction

Although some may argue that customers are unreasonable at times, little evidence can be found of extravagant customer expectations.⁶ Consequently, satisfying customers is not an

positive disconfirmation

Customer perceptions that exceed customer expectations, resulting in delighting customers.

impossible task. In fact, meeting and exceeding customer expectations may reap several valuable benefits for the firm. Positive word-of-mouth generated from existing customers often translates into more new customers. For example, consider the positive publicity generated for the firms listed in the Customer Service Hall of Fame provided in Table 11-1.⁷ In comparison, as a potential new customer or employee, would you have any reservations about working for any of the firms listed in the Customer Service Hall of Shame provided in Table 11-2?⁸ Satisfied current customers often purchase more products more often and are less likely to be lost to competitors than are dissatisfied customers. In addition, satisfied customers create more positive work environments for employees.

Companies who command high customer satisfaction ratings also seem to have the ability to insulate themselves from competitive pressures, particularly price competition.



Customer satisfaction is a two-way street — benefiting customers and employees alike.

Source: <https://www.cheatsheet.com/culture/waiters-reveal-things-they-secretly-judge-you-for.html/>

Table 11-1 The Customer Service Hall of Fame

When it comes to providing great service, some companies are just naturals at keeping their customers happy. The following companies are legendary in their treatment of customers:

Company Name	Positive Ratings %: Rated as Excellent/Good	Negative Ratings %: Rated as Fair/Poor
1. Amazon	88	12
2. FedEx	82	18
3. Bed Bath & Beyond	81	19
4. Apple	80	20
5. Uber	80	20
6. AutoZone	80	20
7. Barnes and Noble	80	20
8-14. Google, YouTube, Netflix, UPS, Hilton, Chick-fil-A, Trader Joe's	79	21

Source: "Customer Service Hall of Shame," Zogby Analytics, October 8, 2020: <https://zogbyanalytics.com/news/957-customer-service-hall-of-shame-fame>.

Table 11-2 The Customer Service Hall of Shame

While some companies continuously deliver high levels of customer satisfaction, other firms just can't seem to get it right. Particularly disturbing about this list is that 10 out of 10 of these firms are very service versus goods dominant. When it comes to providing poor service, the following companies lead the pack:

Company Name	Positive Ratings %: Rated as Excellent/Good	Negative Ratings %: Rated as Fair/Poor
1. DISH Network	56	44
2. Wells Fargo Bank	59	41
3. DIRECTV	59	41
4. Spectrum	60	40
5. Sprint Nextel	61	39
6. AT&T U-verse	62	38
7. Super 8 Hotel	63	37
8. Comcast	64	36
9. Days Inn	64	36
10. United Airlines	65	35

Source: "Customer Service Hall of Shame," Zogby Analytics, October 8, 2020: <https://zogbyanalytics.com/news/957-customer-service-hall-of-shame-fame>.

Table 11-3 Nine Key Attributes of Reputation

Attributes	Most Admired Companies
1. Innovativeness	Apple, Google
2. Quality of management	Google, Southwest Airlines
3. People management	Disney, Coca-Cola
4. Financial soundness	Berkshire Hathaway, Starbucks
5. Use of corporate assets	Berkshire Hathaway, American Express
6. Long-term investment value	Apple, Google
7. Social responsibility	Walt Disney, Starbucks
8. Quality of product/services	Apple, Amazon.com
9. Global competition	General Electric, Coca-Cola

Source: <http://fortune.com>.

In fact, customers are often willing to pay more and stay with a firm that meets their needs than to take the risk associated with moving to a lower-priced service offering. Finally, firms that pride themselves on their customer satisfaction efforts generally provide better environments in which to work. Within these positive work environments, organizational cultures develop where employees are challenged to perform and are rewarded for their efforts. Table 11-3 provides an example of the types of attributes that are key in building great corporate reputations and the companies that excel at particular key attributes.

11-2c The Benefits of Customer Satisfaction Surveys

In and of themselves, customer satisfaction surveys provide several worthwhile benefits. Such surveys provide a formal means for customer feedback to the firm, which may identify existing and potential problems. Satisfaction surveys also convey the message to customers that the firm cares about their well-being and values customer input about its operations.⁹ However, the placement of customer feedback forms by some companies, such as airlines who insert their surveys near the back of their in-flight magazines, makes customers wonder if they really want the feedback.

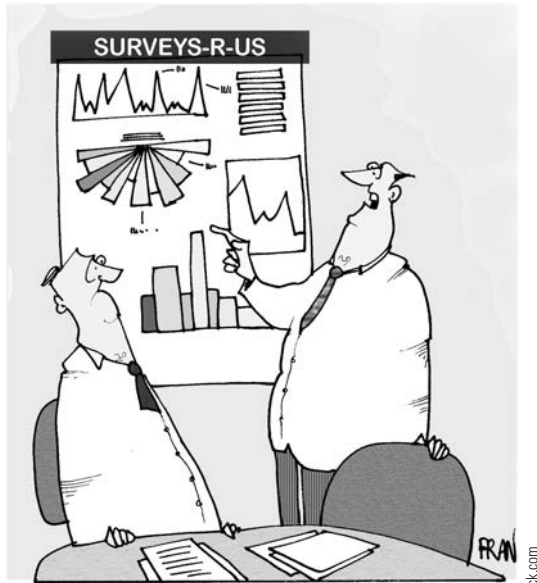
Other benefits are derived directly from the results of the satisfaction surveys. Satisfaction results are often used in evaluating employee performance for merit and compensation reviews and for sales management purposes, such as the development of sales training programs. Survey results are also useful for comparison purposes to determine how the firm stacks up against the competition. When ratings are favorable, many firms utilize the results in their corporate advertising.¹⁰

11-3 Measuring Customer Satisfaction

Measures of customer satisfaction are produced by both indirect and direct measures. **Indirect measures** of customer satisfaction include tracking and monitoring sales records, profits, and customer complaints. Firms that rely solely on indirect measures are taking a passive approach to determining whether customer perceptions are meeting or exceeding customer expectations. Moreover, if the average firm does not hear from 96 percent of its unhappy customers, it is losing a great many customers while waiting for the other 4 percent to speak their minds. In addition, although customer complaints may decrease for a firm, leading to a false sense of firm success, it may simply be that customers have given up complaining and that overall satisfaction is at an all-time low. Moreover, sales and profits may be not only at an all-time high, but this may also mean that the customer has no other feasible alternative (e.g., fuel shortages).

Direct measures of satisfaction are generally obtained with customer satisfaction surveys. However, to say the least, customer satisfaction surveys are not standardized among firms. For example, the scales used to collect the data vary (e.g., 5-point to 100-point scales), questions asked of

indirect measures
Measures of customer satisfaction including tracking and monitoring sales records, profits, and customer complaints.
direct measures
Measures of satisfaction generally obtained directly from customers obtained via customer satisfaction surveys.



87% OF THE 56% WHO COMPLETED MORE THAN 23% OF THE SURVEY THOUGHT IT WAS A WASTE OF TIME

When assessing customer satisfaction, careful consideration should be given to how long it takes the customer to complete the survey.

respondents vary (e.g., general to specific questions), and data collection methods vary (e.g., personal interviews to self-administered questionnaires). The following section focuses on the various approaches to measuring customer satisfaction.

11-3a The Scale of 100 Approach

Some firms ask customers to rate the firm's performance on a 100-point scale. In essence, the firm is asking customers to give the firm a grade. However, the problems with this approach are readily apparent.

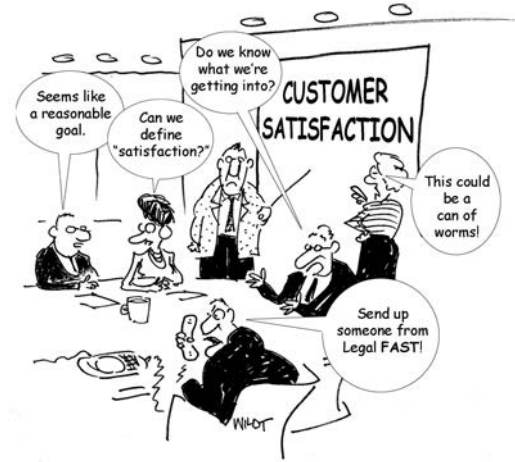
On a scale that ranges from 1–100, how satisfied are you with the service that you received today?

Score: _____

Let's say that the firm scores an average of 83. What does the figure 83 mean—the firm received a B—? Does an 83 mean the same thing to all customers? Not likely. More importantly, what should the firm do to improve its satisfaction rating? Although the score of 83 provides us with some general information, the 83 does not provide specific suggestions for improvements that would lead to an increased customer satisfaction rating.

11-3b Customer Satisfaction Score (CSAT)¹¹

An improvement on the “Scale of 100” approach is the use of CSAT also known as the “extremely dissatisfied/extremely



Measuring customer satisfaction is often more difficult than it first appears.

satisfied” approach. This approach presents customers with a five-point Likert scale, which is typically labeled using the following format:

How satisfied are you with [Firm X's] service?				
Extremely Dissatisfied (1)	Somewhat Dissatisfied (2)	Neither Satisfied nor Dissatisfied (3)	Somewhat Satisfied (4)	Extremely Satisfied (5)

Firms using this format generally combine the percentage of “somewhat satisfied” and “extremely satisfied” responses to arrive at a satisfaction rating. CSAT is normally expressed as a percentage via the formula below:

$$\text{Percentage of Satisfied Customers} = \frac{(\text{Number of satisfied customers (4 and 5)} / \text{Number of survey respondents}) \times 100}{}$$

The positives associated with CSAT scores are (1) it's easy to measure with just one question so management is not bogged down in an effort to construct a customer satisfaction questionnaire; (2) it's easy on your customers in terms of the time it takes to complete the survey; (3) it produces data that is easy to tabulate and analyze; and (4) since CSAT is widely used, it is easily benchmarked against other businesses or used for promotional purposes.

On the flip side, the drawbacks associated with using CSAT scores include: (1) it relies on customer self-reports which are influenced by a number of factors such as mood and biases; (2) CSAT is limited in depth and detail—why exactly are customers happy/unhappy; (3) CSAT is a one-person response and does not reflect the feelings of others involved in the encounter such as a group of restaurant patrons at a single table; and (4) CSAT is subject to response bias—response

rates are typically low and companies typically hear from the customers that are the most happy and the least happy.

11-3c Net Promoter Score (NPS)¹²

Whereas CSAT measures customer satisfaction in the “here and now,” the Net Promoter Score (NPS) measures a wider view of the service experience and measures the customer’s loyalty to the service firm. More specifically, NPS is a 11-point single-question loyalty measure that simply asks, “How likely is it that you would recommend [Firm X] to a friend or colleague?” Customer likely to recommend responses range from “Not at all likely” to “Extremely likely” (see Figure 11-1) Customers who respond from 0–6 are labeled *detractors*, those that respond in the 7–8 range are referred to as *passives*, and those that respond in the 9–10 zone are called *promoters*. NPS scores typically range from –100 to +100 and vary based on cultural differences (See Global Services in Action). The NPS score is calculated using the following formula:

Net Promoter Score (NPS) =
The Percentage of Promoters (9–10) – The Percentage of Detractors (0–6)

Overall, *promoters* are viewed as loyal and enthusiastic customers. They are far more loyal over time and more likely to increase their purchase volumes over time as well. Studies indicate that *promoters* account for more than 80 percent of referrals in most businesses. As an added bonus, employees find interactions with *promoters* to be typically very pleasant. In contrast, *detractors* are typically unhappy customers and account for 80 percent of a company’s negative

word-of-mouth communications. *Detractors* engage in high levels of switching behavior and defections. Moreover, although some *detractors* look positive from a revenue producing standpoint, the harm they do to the firm’s reputation and demotivating interactions with employees offsets their positive revenue streams.

NPS measures have similar pros and cons associated with CSAT measures. It should be noted that while NPS has received a wide variety of acceptance among business executives, subsequent research has indicated (1) NPS is not necessarily a reliable predictor of company growth; and (2) NPS is no better predictor of growth than CSAT and *likelihood to purchases again* measures.

11-3d Customer Effort Score (CES)¹⁴

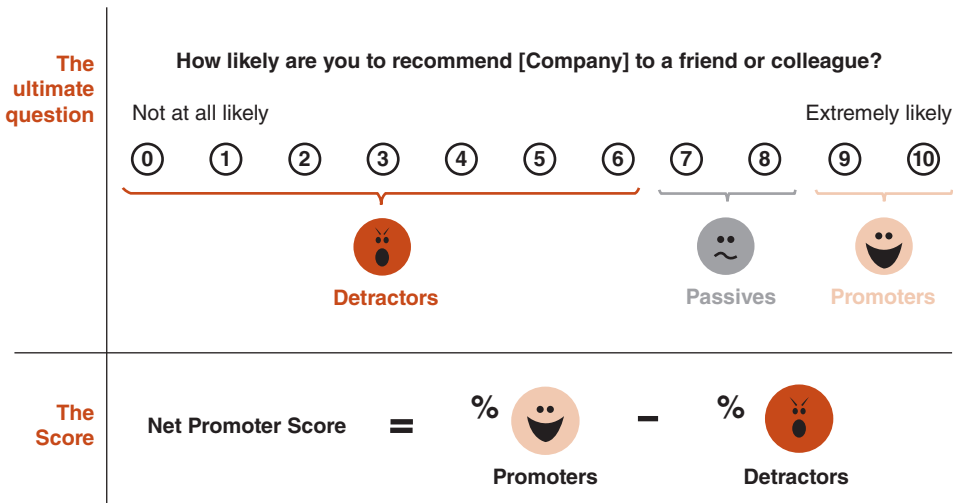
Complimenting CSAT and NPS measures, the Customer Effort Score (CES) is a 7-point single item measure that assesses the amount of effort a customer experienced with a service interaction. More specifically, the CES is typically obtained and calculated via the following format:

[Firm X] made it easy for me to handle my issue.						
Strongly Disagree			Neutral			Strongly Agree
(1)	(2)	(3)	(4)	(5)	(6)	(7)

Customer Effort Score =
Total Sum of Responses/Number of Responses

CES scores greater than 5 are considered good, while those less than 5 are considered not so great. Ironically, a perfect score of 7 would indicate that customers are using

Figure 11-1 Calculating the Net Promoter Score (NPS)



Source: “Measuring Your Net Promoter Score,” Bain & Company, accessed June 21, 2022, <https://www.netpromotersystem.com/about/measuring-your-net-promoter-score/>.

Global Services in Action

Cultural Difference and Net Promoter Scores (NPS)¹³

When multinational companies utilize NPS to assess customer satisfaction, it is fair to compare one country to the next? In short, the answer is no! Evidence shows that cultural differences influence how scores are awarded. In general:

- Americans tend to enthusiastically provide higher ratings.
- Europeans award mid-range scores. However, these scores reflect high levels of satisfaction.
- In Japan, customers tend to rate customer satisfaction lower than other countries.
- In Latin America, customers tend to rate customer satisfaction higher than other countries.
- In the Middle East, customers tend to rate customer satisfaction higher than Europe and/or Asia.

Cultural differences have resulted in average negative NPS results for a variety of industries. For example, in a

survey of NPS results within Australia, 21 of the 39 industries surveyed resulted in negative average NPS scores. The highest NPS score was provided to mechanics (+17) while the lowest NPS was given to real estate agents (–41).

Are some countries just grumpier than others and this is what explains the differences in NPS scores? Part of the answer is due to customers; however, a large part of the difference can be attributed to how the company conducts business in that country. In other words, it is not the customer that's that problem. It is us! Delivering U.S.-style service in a host country may very well exceed the expectations of locals and result in big increases in NPS. In other countries, the overly familiar U.S.-style service may be viewed as totally inappropriate and result in much lower NPS ratings when compared to other countries. Service marketers need to be knowledgeable about local expectations and behaviors and adapt their service strategies accordingly.

customer service representatives to obtain answers to every question as opposed to using other sources of information (e.g., company website) which would be more cost efficient from the company's viewpoint. As a result, the CES scores of 5 and/or 6 are actually preferred.

As with CSAT and NPS approaches, CES is also associated with a number of pros and cons. On the plus side, CES indicates how easy/difficult it is to conduct business with the firm which if difficult clues the company into what to fix fairly quickly. Other pros include: (1) CES is a strong predictor of behavior in terms of future purchase behavior and increased purchase amounts; and (2) high CES has been linked to positive word-of-mouth referrals and vice versa for lower scores. For instance, 81 percent of customers who have indicated they put a lot of effort into completing a transaction also indicate they intend to speak negatively about the brand, company, etc.

In terms of drawbacks, CES scores tend to focus on specific interactions with the firm and not necessarily the overall experience. As such, the customer may experience the ease of using self-checkout options; however, it does not necessarily mean that the customer is satisfied with other aspects of the business. In addition, similar to CSAT and NPS measures, CES measures are useful for benchmarking information but provide little diagnostic information which would provide specific insights into improving the service operation.

11-3e Beyond the 100-Point Scale, CSAT, NPS, and CES: The Combined Approach

In addition to the *quantitative* scores provided by the 100-Point Scale, CSAT, NPS, and CES, firms truly seeking to improve their customer satisfaction should also collect

qualitative information in order to highlight specific areas of improvement. This is exactly the problem FedEx encountered when it established its first customer satisfaction measurement program. Initially, customer satisfaction was measured on a 100-point scale, and transaction success was defined as whether or not the package actually arrived the next day. Upon further qualitative examination, FedEx determined that transaction success as defined by the customer was a much broader concept (see Table 11-4). The company now proactively enhances its customer satisfaction ratings by continually improving upon those activities that were identified by its customer base termed “The Hierarchy of Horrors.”

Table 11-4 FedEx's Hierarchy of Horrors

1.	Wrong Day Delivery (packaged delivered a day later than promised)
2.	Right Day Late Delivery (packaged delivered on the promised day, but after the promised deadline)
3.	Pick-Up Not Made (failure to make a pick-up on the day requested)
4.	Lost Package
5.	Customer Misinformed by Federal Express (mistaken or inaccurate information on rates, schedules, etc.)
6.	Billing and Paperwork Mistakes (invoice errors, overcharges, missed proof of delivery documents)
7.	Employee Performance Failures (courtesy, responsiveness, etc.)
8.	Damaged Packages

Source: AMA Management Briefing, *Blueprints for Service Quality: The Federal Express Approach* (New York: AMA Membership Publications Division, 1991).

E-Services in Action

Using AI to Track What Customers Really Think and Feel¹⁵

Customer Satisfaction Scores (CSAT), Net Promoter Scores (NPS), and Customer Effort Scores (CES) share the benefits of all quantitative measures of satisfaction in that they are easy to deploy, digest, and provide a great source of benchmarking information that can be used to compare future measurements against. However, quantitative measures of customer satisfaction also all share the same shortcomings, they provide little diagnostic information pertaining to the specifics of issues and they fail to capture what customers truly think and feel.

Combining a qualitative open-ended question with a quantitative measure provides the best of both worlds—benchmarks and diagnostic direction. The challenge is how to mine the vast amount of qualitative information when it is provided within the open-ended question format. For example, if a large company surveyed 100,000 customers which yielded a 10 percent response rate, market researchers would need to categorize and interpret 10,000

open-ended responses. This becomes an overwhelming task when involving human labor and as a result, much of the open-ended response data is left unexplored.

Artificial Intelligence (AI) is now being used to process qualitative responses. Utilizing algorithms and natural language processing (NLP) to capture keywords in customer responses that describe the customer experience, AI can be codified and automated to track what customers really think and feel in real time. Market researchers suggest that utilizing AI to sort through customer responses allows companies to gain a better understanding of what customers really want; provides human resources direction where employee training is really needed; identifies not only problems but also the root causes of problems, captures customers emotional and cognitive responses in real time; alerts firms to potential decreases in sales; and prioritizes the actions that need to be taken to yield the largest returns.

The combined approach uses the quantitative scores obtained by the “extremely dissatisfied/extremely satisfied” approach and adds a qualitative analysis of feedback obtained from respondents who indicated that they were less than “extremely satisfied.” Customers who indicate that they are less than “extremely satisfied” are informing the firm that the delivery system is performing at levels lower than expected. By prompting customers to suggest how the firm could perform better, the firm can then categorize and prioritize the suggestions for continuous improvement efforts.

How satisfied are you with [Firm X's] service?				
Extremely Dissatisfied (1)	Somewhat Dissatisfied (2)	Neither Satisfied nor Dissatisfied (3)	Somewhat Satisfied (4)	Extremely Satisfied (5)

If less than extremely satisfied, what could [Firm X] do better?

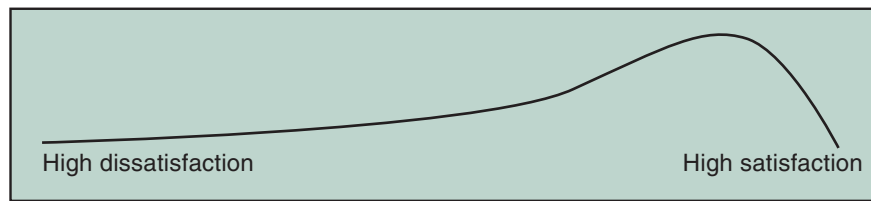
The combined approach provides two valuable pieces of information. The quantitative satisfaction rating provides a *benchmark* against which future satisfaction surveys should be compared. In addition, the quantitative rating provides the means of comparing the firm’s performance against its competition. Complementing the quantitative benchmark, the qualitative data provides *diagnostic information* that pinpoints specific areas for improvement. Combining the

qualitative and quantitative data outperforms either approach used alone. Although collecting qualitative information is very useful in regard to obtaining specific insights leading to service operation improvements, the amount of human labor needed to read, decipher, and suggests actionable plans is intensive. As a result, a great deal of qualitative information collected is often unanalyzed. Artificial Intelligence (AI) is now beginning to be utilized to assist in screening qualitative data via the use of natural language processing (NLP) (see E-Services in Action).

11-4 Understanding Customer Satisfaction Ratings

After a consultant conducted a customer satisfaction survey for a regional engineering firm, results revealed to upper management that the firm commanded an 85 percent customer satisfaction rating. Immediately, upper management pondered whether 85 percent was a “good” satisfaction rating or not. To effectively interpret and utilize customer satisfaction ratings, it is necessary to understand the factors that may influence customer responses.

Despite the lack of standardization among data collection procedures and measures used for satisfaction studies, they share one common characteristic. “Virtually all self-reports of customer satisfaction possess a distribution in which a majority of the responses indicate that customers are satisfied and the distribution itself is negatively skewed”¹⁶ (see Figure 11-2). Repeated findings such as these have led some researchers to conclude that “to feel above average is normal.” A sample of customer satisfaction results across various industries reveals it is not unusual to see results in the 80 to 90 percent range.

Figure 11-2 Distribution of Satisfaction Measurements

Source: Robert A. Peterson and William R. Wilson, "Measuring Customer Satisfaction: Fact and Artifact," *Journal of the Academy of Marketing Science* 20, 1, (1992), p. 61.

11-4a Factors Influencing Customer Satisfaction Ratings

Satisfaction ratings may be influenced by many factors that occur during the data collection process. The following section provides explanations for inflated satisfaction results and reinforces the notion that obtaining accurate measures of customer satisfaction is not an easily accomplished task.

Customers Are Genuinely Satisfied One possible reason for high satisfaction scores is simply that customers are satisfied with the goods and services they typically purchase and consume—that's why they buy products from specific firms in the first place! For example, it is expected that companies, such as Amazon, that work to enhance the customer's online service experience would have truly satisfied customers. Intuitively, this makes good sense. If the majority of customers were neutral or dissatisfied, they would most likely defect to competitive offerings. Of course, this explanation assumes that competitors in the market are better at providing goods and services than the original provider.



Personal methods of customer satisfaction data collection are likely to yield higher customer satisfaction ratings when compared to nonpersonal data collection methods.

Source: <https://roicallcentersolutions.com/customerservice/what-is-customer-perception-why-is-it-important/>

Response Bias Another possible explanation for inflated satisfaction results may be **response bias**. Some experts argue that the reason ratings are so high is that companies hear from only satisfied customers. In contrast, dissatisfied customers do not believe that the firm's survey will do them any good or is worth their time to complete; therefore, the questionnaire is discarded.

Other experts discount this explanation. Their argument is that it makes more sense for highly dissatisfied customers to express their opinion than it does for highly satisfied customers to do so. This position is supported by prior research, which indicates that dissatisfaction itself is more action oriented and emotionally intense than satisfaction.¹⁷ Others argue that it is possible that highly dissatisfied customers and highly satisfied customers are more likely to respond than are those who are more neutral. Although these additional explanations are intriguing, they fail to explain the traditional, negatively skewed response distribution depicted in Figure 11-2.

Data Collection Method A third explanation for inflated satisfaction scores is the data collection method used to obtain results. Prior research suggests that higher levels of satisfaction are obtained by personal interviews and phone surveys compared with results from mail/online questionnaires and/or self-administered interviews. In fact, studies indicate that as much as a 10 percent difference exists between questionnaires administered orally and self-administered questionnaires. The reason is that respondents to personal interviews and phone surveys may feel awkward expressing negative statements to other "live" individuals as opposed to expressing them anonymously on a self-administered questionnaire.

Research on data collection modes' influence on satisfaction ratings has produced some interesting results. The data

response bias

A bias in survey results because of responses being received from only a limited group among the total survey participants.

Table 11-5 Customer Satisfaction Responses by Question Form

Response Category	"Satisfied"	"Dissatisfied"
Very satisfied	57.4%	53.4%
Somewhat satisfied	33.6%	28.7%
Somewhat dissatisfied	5.0%	8.5%
Very dissatisfied	4.0%	9.4%

Source: Robert A. Peterson and William R. Wilson, "Measuring Customer Satisfaction: Fact and Artifact," *Journal of the Academy of Marketing Science* 20, 1, (1992), p. 65.

collection mode does indeed appear to influence the level of reported satisfaction; however, the negatively skewed distribution of the satisfaction ratings remains unchanged, regardless of the data collection mode.

Question Form The way the question is asked on the questionnaire, or the **question form**, has also been posited as a possible explanation for inflated satisfaction ratings. It does appear that asking the question in positive form ("How satisfied are you?") as opposed to negative form ("How dissatisfied are you?") does have an impact on satisfaction ratings. Asking a question in the positive form appears to lead to greater reported levels of satisfaction than does posing the question in a negative form.

Table 11-5 presents results from a study examining the effects of stating the same question in two forms. In one version, the question asked respondents "how satisfied" they were, and in the other version, the question asked "how dissatisfied" they were. Results revealed that 91 percent of respondents reported feeling "very" or "somewhat satisfied" when the question was stated in its positive form but only 82 percent when stated in the negative form. Similarly, 9 percent of respondents expressed that they were "somewhat dissatisfied" or "very dissatisfied" when asked in the positive form, compared with nearly 18 percent when asked in the negative form.

Context of the Question The **question context** may also affect the satisfaction rating. Question context effects pertain to the ordering of questions and whether questions asked earlier in a questionnaire influence answers to subsequent questions. For example, in a study concerning satisfaction with kitchen appliances, asking a general satisfaction question (e.g., "In general, how satisfied are you

with the products in your house?") prior to a specific appliance satisfaction question (e.g., "How satisfied are you with your dishwasher?") increased the tendency toward a "very satisfied" response for the specific question.

Timing of the Question Satisfaction ratings may also be influenced by the **question timing** relative to the date of purchase. Customer satisfaction appears to be highest immediately after a purchase and then begins to decrease over time. Regarding automobile purchases, researchers have noted a 20 percent decline in satisfaction ratings over a 60-day period. It is not clear whether the initial ratings are inflated to compensate for feelings of cognitive dissonance or the latter ratings are deflated. Some consideration has been given to the idea that there may be different types of satisfaction measured at different points in time.

Another possible explanation is that satisfaction rates may decay over time as customers reflect upon their purchase decisions. Prior research indicates that the influence of negative events, which are more memorable than positive events, carries more weight in satisfaction evaluations over time. Consequently, satisfaction surveys distributed longer after purchases provide respondents the opportunity to take retribution as they recall such negative events.

Social Desirability Bias **Social desirability bias** describes a respondent's tendency to provide information that the respondent believes is socially appropriate. For example, in some cultures children are taught by their parents the general rule of thumb, "If you don't have anything nice to say then don't say anything at all." Consequently, with respect to satisfaction surveys, some researchers argue that respondents tend to withhold critical judgment because

question form

The way a question is phrased, i.e., positively or negatively.

question context

The placement of general and specific questions relative to one another within a questionnaire.

question timing

The length of time after the date of purchase that questionnaire is distributed.

social desirability bias

A bias in survey results because of respondents' tendencies to provide information they believe is socially appropriate.

to do otherwise would be socially inappropriate. This would explain high satisfaction ratings and the shape of the distribution of results. Although the explanation is intriguing, widespread empirical support is lacking.

Mood One final factor that could possibly influence customer satisfaction ratings is the mood of the customer while completing the survey. An abundance of research demonstrates the influence of positive mood states toward prosocial (positive) behaviors.¹⁸ More specifically, prior research has shown that respondents in positive mood states make more positive judgments, rate products they own more favorably, tend to see the brighter side of things, and are more likely to rate strangers favorably. Hence, consumers in positive moods should give higher marks to service personnel and service firms than their neutral- or negative-mood counterparts. Firms that can positively influence the moods of customers through the creation of inviting servicescapes and friendly contact personnel may benefit in terms of higher customer satisfaction ratings.

11-4b Are Customer Satisfaction Surveys Worth It?

Given the number of factors that may distort the “true” customer satisfaction ratings, one may wonder whether it’s worth spending the time and money to measure satisfaction at all. Customer satisfaction ratings may fall under the category of the *Hawthorne effect*; that is, in and of themselves, satisfaction surveys might increase customer satisfaction regardless of the good or service being evaluated. Furthermore, due to the already high levels of customer satisfaction that already exist for most firms, it may not make sense to try to increase satisfaction levels across the board. However, two areas of satisfaction that do deserve special attention are (1) company attempts to maintain satisfaction over time to counter the decay effect (satisfaction tends to decline over time), and (2) concentration on the tail of the satisfaction distribution—those customers who are dissatisfied. In and of themselves, satisfaction ratings cannot be interpreted with much meaning. Consequently, **benchmarking** with past satisfaction measures and comparisons with competition provide more meaningful feedback to companies.

All in all, despite all the possible complications and given the benefits derived from customer satisfaction, when firms use satisfaction surveys in conjunction with other measures, such as those described later in this chapter, the information provided is invaluable.

benchmarking

Setting standards against which to compare future data collected.

11-5 Customer Satisfaction: How Good Is Good Enough?

How much satisfaction is enough? At 98 percent, a company that completes 1,000 transactions per week upsets 20 customers per week, who tell nine or 10 of their friends. Given this scenario, the bottom line translates into 200 negative stories per week and 10,400 negative stories per year. Although these numbers provide support for continuous improvements that enhance customer satisfaction ratings, we tend to forget that for every percentage of satisfaction improvement, very real investment costs are involved.

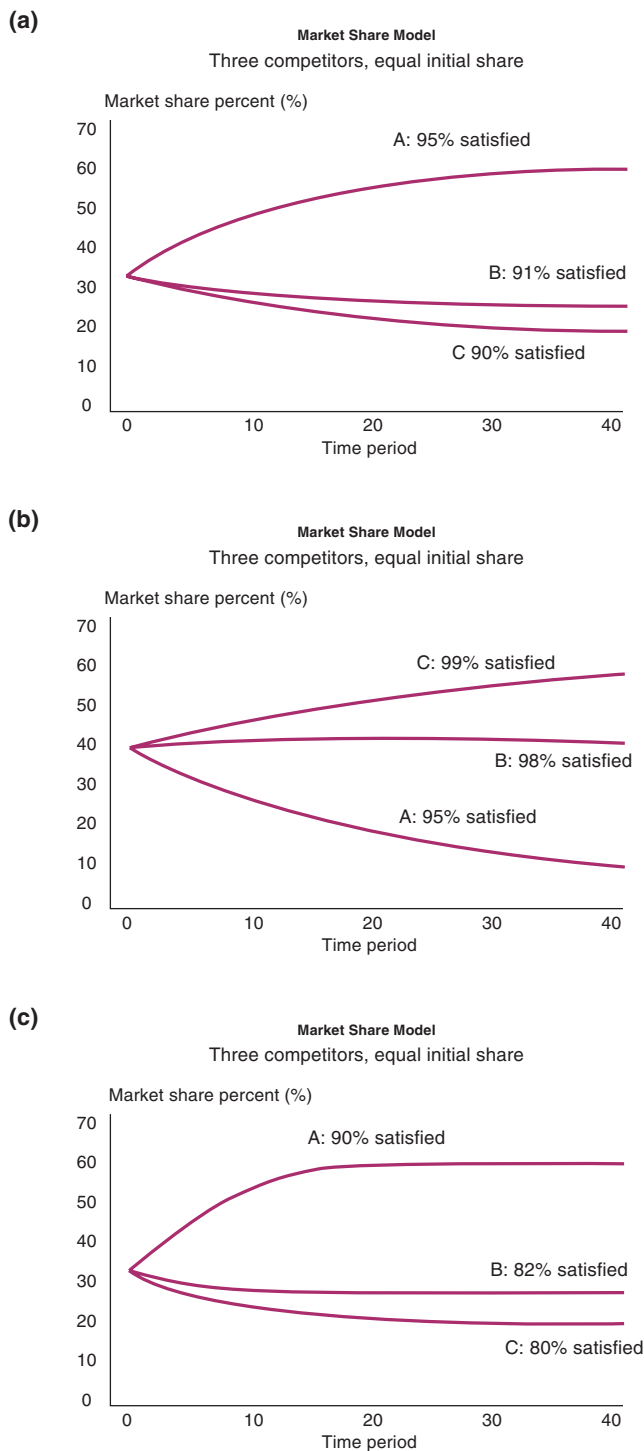
For example, if a firm currently boasts a 95 percent customer satisfaction rating, is it worth a \$100,000 investment to improve satisfaction to 98 percent?¹⁹ The answer is, “*It depends!*” Pete Babich, the quality manager for the San Diego division of Hewlett-Packard, was faced with this exact question. Hewlett-Packard defines customer satisfaction as the customer’s willingness to refer Hewlett-Packard products to friends. Hewlett-Packard has found that 70 percent of its purchases are made because of previous positive experiences with the product or referrals from others.

Although Babich found an abundance of anecdotal evidence that retaining customers was much less expensive than seeking out new customers, this information failed to answer his original question: Is it worth a \$100,000 investment to improve satisfaction to 98 percent? As a result, Babich proceeded to develop a customer satisfaction model that would predict market share changes over time as they related to customer satisfaction ratings.

The Babich model is based on an algorithm that can easily be converted into a spreadsheet and is built upon a number of assumptions. First, in the example depicted in Figure 11-3, the model assumes a closed market of three firms that begin at period zero with equal market shares (i.e., 33.3 percent). The three firms offer comparable products and prices and compete for a growing customer base. Next, the model assumes that satisfied customers will continue to buy from the same firm and that dissatisfied customers will defect to other firms in the market. For example, dissatisfied customers of Firm A will buy at Firm B or Firm C during the next time period. The length of the time period varies, depending on the product (e.g., eye exam versus lawn care).

The direction of customer defection depends upon the firm’s market share. In other words, if Firm C’s market share is higher than Firm B’s market share, Firm C will obtain a higher share of Firm A’s dissatisfied customers. This logic is based on the premise that dissatisfied customers will be more particular the next time around and will conduct more research and seek out referrals from others. In this case, due to Firm C’s higher market share, Firm C would be the beneficiary of more positive referrals.

Results generated from the customer satisfaction model when given three different scenarios are also presented in Figure 11-3. Panel (a) illustrates the scenario of how a firm with a 95 percent customer satisfaction rating would stack up against firms commanding 91 percent and 90 percent

Figure 11-3 Customer Satisfaction Model: Three Scenarios

Source: Adapted from Peter Babich, "Customer Satisfaction: How Good Is Good Enough?" *Quality Progress* (December 1992), pp. 65–67.

customer satisfaction ratings. Clearly, the firm with 95 percent satisfaction dominates the market after 12 time periods. Panel (b) of the figure illustrates how that same firm with a 95 percent satisfaction rating would compete with firms commanding 98 percent and 99 percent ratings. In this

scenario, the 95 percent firm controls less than 10 percent of the market after 24 time periods. This scenario dramatically illustrates the impact of the competition's satisfaction ratings.

Finally, panel (c) illustrates the effect of customer satisfaction on market share at lower customer satisfaction levels. In this scenario, Firms A, B, and C command satisfaction ratings of 90 percent, 82 percent, and 80 percent, respectively. In essence, this panel illustrates the effect of increasing the dissatisfaction levels of panel (a) by 2. In this scenario, Firm A once again achieves market dominance, but at a much faster rate.

What does Peter Babich's customer satisfaction model tell us? First, firms with higher customer satisfaction ratings make the firm more resistant to competitors' efforts to improve their market share. Secondly, if the firm knows what a 1 percent improvement in market share does for its bottom line, then comparing the 1 percent increase in market share to the investment needed to improve customer satisfaction provides the firm the necessary information to make a business decision. Finally, the model points out the necessity of knowing not only your own firm's satisfaction rating, but also your competitors'.

So, should a firm invest \$100,000 to improve customer satisfaction ratings from 95 percent to 98 percent? It depends upon:

- the satisfaction ratings of the firm's competitors
- the dollar investment necessary to increase customer satisfaction relative to the impact of increasing the firm's market share
- the number of time periods required to recoup the investment
- the opportunity costs associated with other uses of the \$100,000

11-6 Does Customer Satisfaction Translate into Customer Retention?

High satisfaction ratings do not necessarily mean that a firm is going to retain a customer forever.²⁰ In fact, according to one group of consultants, on average, 65 to 85 percent of customers who defect to competitors say they were "satisfied" or "very satisfied" with their former providers. Why is this so? Five criticisms of customer satisfaction research as they relate to customer retention provide insights into why firms with high satisfaction ratings may potentially lose customers. First, satisfaction research focuses on whether current needs are being met but fails to investigate customers' future needs. As customers' needs change, they will seek out a firm that best satisfies this new set of needs. Consequently, the progressive service firm must proactively engage in assessing its customers' future needs.

A second criticism of customer satisfaction research is that it tends to focus on registered complaints. According

to the TARP figures presented earlier, many customers who defect never relay their complaints to an employee or the firm's management. Consequently, satisfaction research that examines only registered complaints overlooks a great deal of information. In addition, limiting research to only registered complaints most likely also overlooks many of the problems that need to be remedied in order to lower defection rates.

A third criticism is that customer satisfaction research tends to focus on global attributes and ignores operational elements. For example, firms often phrase questions in their customer satisfaction questionnaires using broad, global statements such as, "The firm provides good service" and "The firm has good employees." Global statements such

as these overlook the operational elements that make up these statements. Examples of operational elements that measure employee performance may include such things as interpersonal skills, product knowledge, courteous actions, and credibility. Operational elements pertaining to good service might include the amount of time it takes to check in and check out at a hotel, the cleanliness of the facility, and the hours of operation. Utilizing global attributes instead of operational elements in surveys fails to provide the company with the information it needs for developing effective solutions to problems. Consider, for example, the operational usefulness of the Sheraton Hotels and Resorts Guest Satisfaction Survey conducted by J.D. Power and Associates, presented in Figure 11-4.

Figure 11-4 Hotels and Resorts Guest Satisfaction Survey

HOTELS & RESORTS GUEST SATISFACTION SURVEY									
MAKE YOUR ANSWERS COUNT! Correct Mark ☐ ☒									
		Very Likely	Somewhat Likely	Somewhat Unlikely	Very Unlikely				
1. How likely are you to...									
Return to this hotel if you are in the same area again?		☐	☐	☐	☐				
Recommend this hotel to a friend or colleague planning to visit the area?		☐	☐	☐	☐				
Stay at a hotel again?		☐	☐	☐	☐				
2. How satisfied were you with...		Outstanding							Unacceptable
Your overall experience as a guest in this hotel		☐	☐	☐	☐	☐	☐	☐	☐
The value for the price paid		☐	☐	☐	☐	☐	☐	☐	☐
Cleanliness and maintenance of hotel		☐	☐	☐	☐	☐	☐	☐	☐
Responsiveness of staff to your needs		☐	☐	☐	☐	☐	☐	☐	☐
Knowledge of staff		☐	☐	☐	☐	☐	☐	☐	☐
Check-in									
Accuracy of reservation		☐	☐	☐	☐	☐	☐	☐	☐
Speed/efficiency of check-in		☐	☐	☐	☐	☐	☐	☐	☐
Staff friendliness at check-in		☐	☐	☐	☐	☐	☐	☐	☐
Guest Room									
Size of room		☐	☐	☐	☐	☐	☐	☐	☐
Comfort of bed		☐	☐	☐	☐	☐	☐	☐	☐
Room décor/furnishings		☐	☐	☐	☐	☐	☐	☐	☐
Ability to work in guest room		☐	☐	☐	☐	☐	☐	☐	☐
Cleanliness of guest room		☐	☐	☐	☐	☐	☐	☐	☐
Maintenance of guest room		☐	☐	☐	☐	☐	☐	☐	☐
Cleanliness of bathroom		☐	☐	☐	☐	☐	☐	☐	☐
Bath/shower water pressure		☐	☐	☐	☐	☐	☐	☐	☐
Hotel Services (If Used)									
Helpfulness of bell staff		☐	☐	☐	☐	☐	☐	☐	☐ N/A
Hotel safety/security		☐	☐	☐	☐	☐	☐	☐	☐ N/A
Food and Dining (If Used)									
Food quality		☐	☐	☐	☐	☐	☐	☐	☐ N/A
Speed/efficiency of service		☐	☐	☐	☐	☐	☐	☐	☐ N/A
Room service speed/efficiency		☐	☐	☐	☐	☐	☐	☐	☐ N/A
Check-Out									
Speed/efficiency of check-out process		☐	☐	☐	☐	☐	☐	☐	☐
Accuracy of billing		☐	☐	☐	☐	☐	☐	☐	☐
3. Please rate...									
Delivery of promise "I'll take care of you"		☐	☐	☐	☐	☐	☐	☐	☐
This experience compared to other hotels		☐	☐	☐	☐	☐	☐	☐	☐
4. Please mark any problem you experienced during your stay. (MARK ALL THAT APPLY)									
☐ Airconditioned/heater		☐ Hotel maintenance	☐ Reservation date	☐ Room maintenance					
☐ Bathroom cleanliness		☐ Noise	☐ Reservation rate	☐ Room readiness					
☐ Check-in		☐ No reservation	☐ Responsiveness of staff	☐ Sink/tub/toilet					
☐ Guest room cleanliness		☐ Number of towels	☐ Room assignment	☐ Other					
5. Did you contact anyone in the hotel to resolve the problem?		☐ Yes	☐ No						
6. Was the problem resolved to your satisfaction?		☐ Yes	☐ No						
7. Which of the following best describes the reason for you stay?		☐ Business	☐ Both Business/Leisure						
8. Your gender:		☐ Female	☐ Male	☐ Leisure	☐ Meeting/Conference				
Please write in your e-mail address:									
Additional comments:									

Source: J.D. Power and Associates, Agoura Hills, CA 91301.

A fourth criticism of customer satisfaction research is that it often excludes the firm's employees from the survey process. Employee satisfaction drives customer satisfaction with drives customer loyalty. Employees' perceptions of the service delivery system need to be compared with customers' perceptions. This process provides feedback to employees about the firm's performance and assists in ensuring that employees and customers are on the same page. As internal customers, employees often contribute valuable suggestions for improving the firm's operations.

Finally, a fifth criticism is that some firms are convinced that customers may not know what they want and that sometimes ignoring the customer is the best strategy to follow, particularly when it comes to new product innovation.²¹ Some believe that firms can go overboard listening to customers, thereby becoming totally fixated on demographics, market research, and focus groups. In fact, listening to customers often does discourage truly innovative products. As evidence, 90 percent of so-called new products are simply line extensions of existing products (e.g., coke, diet coke, caffeine-free coke).

Listening to customers does have its faults. Customers often focus on current needs and have a difficult time projecting their needs into the future. In addition, customers sometimes pick up cues from the person asking questions and try to answer questions in a direction that will please the interviewer. Other problems include the customer's being in a hurry; not fully understanding what is being asked; not wanting to be rude and so cheerfully agreeing with whatever is being asked; and most importantly, not making decisions using real money.

The list of products customers initially rejected that went on to be huge successes is impressive. Products such as the Chrysler minivan, fax machines, VCRs, FedEx, CNN, Compaq PC servers, cellular phones, personal digital assistants, microwave ovens, and even Birds Eye frozen foods were all rejected by customers during initial survey attempts. In contrast, products that surveyed customers indicated would be great successes, such as the McDonald's McLean, KFC's skinless fried chicken, Pizza Hut's low-calorie pizza, and New Coke, among others, turned out to be flops.²²

The problem is not so much listening to what customers have to say as it is management feeling paralyzed to make strategic moves without strong customer support. Of course, customers should not be completely ignored. However, some marketers argue that the best customer information is obtained through detached observation rather than through traditional survey techniques: "Ignore what your customers say; pay attention to what they do."²³

11-7 Customer Satisfaction: A Closer Look at Sources of Customer Expectations

So far, this chapter has provided a broad overview of customer satisfaction. The following section takes a closer look at customer expectations and how they relate to customer satisfaction and service quality assessments. This section of

the chapter further defines the facets of customer satisfaction more specifically and provides the transition into the next chapter, which focuses solely on service quality issues.

11-7a Types of Customer Expectations

At first glance, comparing expectations with perceptions when developing customer satisfaction evaluations sounds fairly straightforward. Expectations serve as benchmarks against which present and future service encounters are compared. However, this relatively simple scenario becomes a bit more complicated when one realizes that there exist at least three different types of expectations.²⁴

Predicted service is a probability expectation that reflects the level of service customers believe is likely to occur. For example, bank customers tend to conduct their banking business at the same location. Customers become accustomed to dealing with the same bank personnel and, over time, begin to anticipate certain performance levels. It is generally agreed that customer satisfaction evaluations are developed by comparing predicted service to perceived service received.

In contrast, **desired service** is an ideal expectation that reflects what customers actually want compared with predicted service, which is what is likely to occur. Hence, in most instances, desired service reflects a higher expectation than predicted service. For example, our bank customer's desired service is that they not only receive their predicted service but that the tellers call them by their first name and enthusiastically greet them as they enter the bank.

Finally, **adequate service** is a minimum tolerable expectation and reflects the level of service the customer is willing to accept. Adequate service is based on experiences or norms that develop over time. For example, most adult customers have dined at hundreds, if not thousands, of restaurants throughout their lives. Through these experiences, norms develop that customers expect to occur. Hence, one factor that influences adequate service is predicted service. Encounters that fall below expected norms fall below adequate service expectations.

11-7b The Zone of Tolerance

Due to the heterogeneity of services provided, customers learn to expect variation in service delivery from one location to the next and even in the same provider from one day to the next. Customers who accept this variation develop a

predicted service

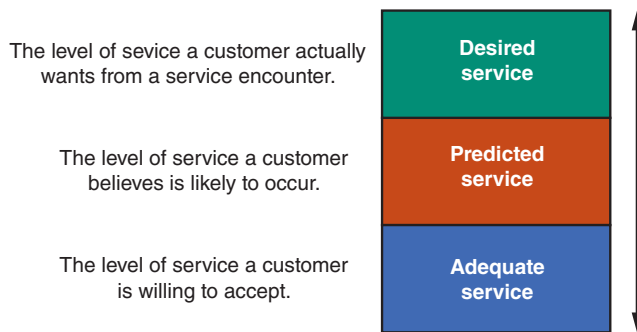
The level of service a customer believes is likely to occur.

desired service

The level of service a customer actually wants from a service encounter.

adequate service

The level of service a customer is willing to accept.

Figure 11-5 The Zone of Tolerance

Source: Adapted from Valerie A. Zeithaml, Leonard L. Berry, and A. Parasuraman, "The Nature and Determinants of Customer Expectations of Service," *Journal of the Academy of Marketing Science*, 21, 1, (1993), pp. 1–12.

zone of tolerance, which reflects the difference between desired service and adequate service (see Figure 11-5). The zone of tolerance expands and contracts across customers and within the same customer depending on the service and the conditions under which the service is provided. Other factors, such as price, for example, may influence the zone of tolerance. Typically, as the price increases, the customer's zone of tolerance decreases as desired service needs begin to dominate, and the customer becomes less forgiving of sloppy service.

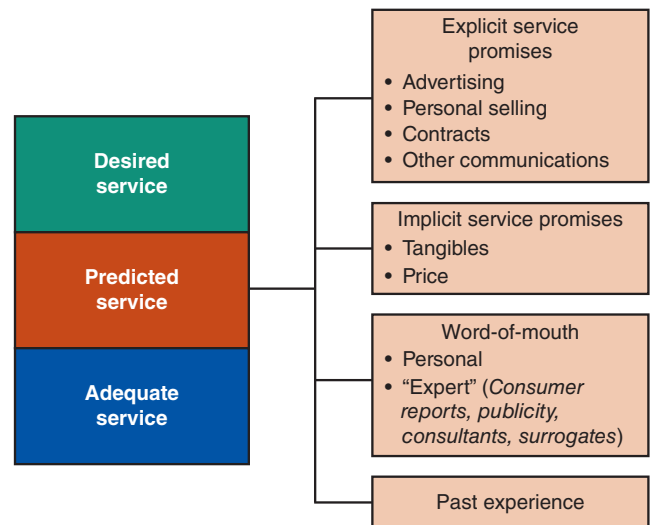
Another interesting characteristic of the zone of tolerance is that desired service is less subject to change than adequate service. A useful analogy to picture the zone of tolerance is to compare it with a projection screen located at the top of a blackboard. The metal canister bolted to the wall that holds the screen represents the desired service level. The desired service level represents what the customer believes the ideal service firm should provide to its customers. Because it is bolted to the wall, the metal canister's movement is less subject to change than the rest of the screen. The screen itself represents the zone of tolerance, and the metal piece with the handle at the bottom of the screen represents the adequate service level. Adequate service fluctuates based on circumstances surrounding the service delivery process and changes the size of the zone of tolerance accordingly.

11-7c Factors Influencing Predicted Service Expectations

Customer satisfaction evaluations can be increased via the effective management of customer expectations. In regard to predicted service expectations, the four factors that influence

zone of tolerance

Level of quality ranging from high to low and reflecting the difference between desired service and adequate service; expands and contracts across customers and within the same customer, depending on the service and the conditions under which it is provided.

Figure 11-6 Factors Impacting Predicted Service Expectations

Source: Adapted from Valerie A. Zeithaml, Leonard L. Berry, and A. Parasuraman, "The Nature and Determinants of Customer Expectations of Service," *Journal of the Academy of Marketing Science*, 21, 1, (1993), pp. 1–12.

expectations include (1) explicit service promises, (2) implicit service promises, (3) word-of-mouth communications, and (4) past experience (see Figure 11-6).

Explicit service promises encompass the firm's advertising, personal selling, contracts, and other forms of communication. Due to the lack of a tangible product, customers of services base their evaluations of the service on various forms of information available. The more ambiguous the service, the more customers rely on the firm's advertising when forming expectations. If a hotel stresses modern and clean rooms, customers expect the rooms to be exactly the way they were pictured in the advertisement. Similarly, if a builder states that a customer's new house will be completed in December, the customer takes this as the builder's promise, and the standard is established on which the customer will base subsequent evaluations.

Implicit service promises also influence desired service and predicted service. The tangibles surrounding the service and the price of the service are common types of implicit service promises. As the price increases, customers expect the firm to deliver higher-quality services. In the absence of

explicit service promises

Obligations to which the firm commits itself through its advertising, personal selling, contracts, and other forms of communication.

implicit service promises

Obligations to which the firm commits itself by means of the tangibles surrounding the service and the price of the service.

Services for a Better World in Action

Balancing Customer Satisfaction with Employee Safety Concerns²⁵

Consistent with the “services for a better world” mantra, Starbucks has purposely philosophically positioned itself as the “third place” in the minds of customers. The customer’s home is the “first place,” and the workplace is the “second place.” What does it mean to be the “third place?” Starbucks intentionally opened its stores to everyone—both paying and nonpaying customers. Need a place to relax, visit with friends, work while on the road, need an internet connection, use a clean restroom ... Starbucks opened its facilities to all that would wander in. Indeed, Starbucks has publicly stated that “any customer is welcome to use Starbucks spaces, including our restrooms, cafes and patios, regardless of whether they make a purchase.” Starbucks’ CEO, Howard Schultz, is now reconsidering

this position. Citing a growing concern over an increase in mental health issues, Schultz is now saying, “We have to harden our stores and provide safety for our people.” Changing Starbucks stance on its “third place” positioning strategy will be accompanied by many challenges. How does one train Starbucks employees to police restrooms or to request purchases be made by nonpaying occupants of store facilities? How does the company not “turn off” regular paying customers who need a restroom and are now told they have to make a purchase first? Finally, how should the company roll out a strategy that both protects employees while at the same time does not alienate potential customers? Clearly, challenges lie ahead.

a tangible product, the price becomes an indicator of quality to most customers. For example, customers would probably have higher expectations for service at a higher-priced hair salon than they would for “Cheap Charley’s Barber Shop.” Similarly, if the tangibles surrounding a service are luxurious, customers interpret those tangibles as a sign of quality. In general, the nicer the furnishings of the service establishment, the higher customer expectations become.

Word-of-mouth communications also play an important role in forming customer expectations. Customers tend to rely more on personal than nonpersonal sources of information when choosing among service alternatives. Since services cannot be evaluated fully before purchase, customers view word-of-mouth information as unbiased information from someone who has been through the service experience. Sources of word-of-mouth information range from friends and family to consultants to online reviews.

Finally, **past experience** also contributes to customer expectations of predicted service. Service evaluations are often based on comparing the current service encounter to other encounters with the same provider, other providers in the industry, and other providers in other industries. When a company begins changes its policies, such as Starbucks policy stating, “Any customer is welcome to use Starbucks spaces, including our restrooms, cafes and patios, regardless of whether they make a purchase,” and no longer delivers the same experience that customers have become accustomed to, based on their past experiences, customer dissatisfaction

is likely to result. Providing customers information about why the company must change previous policies typically assists in moderating customer dissatisfaction (see Services for a Better World in Action).

11-7d Factors Influencing Service Expectations: Desired Service

Desired service expectations are developed as a result of the four factors that also comprise predicted service plus two additional factors (see Figure 11-7). The first additional factor, **enduring service intensifiers**, are personal factors that are stable over time and increase a customer’s sensitivity to how the service should be best provided. Two types of enduring service intensifiers include the customer’s **derived expectations** and **personal service philosophies**. Derived expectations are created from the expectations of others. For example, if your boss requests that you find someone to paint the office building, your expectations of the painter performing the job will most likely be higher than if you had hired the painter on your own initiative. In the attempt to satisfy your boss’s expectations, your sensitivity to the caliber of service significantly increases.

enduring service intensifiers

Personal factors that are stable over time and increase a customer’s sensitivity to how a service should be best provided.

derived expectations

Expectations appropriated from and based on the expectations of others.

personal service philosophies

A customer’s own internal views of the meaning of service and the manner in which service providers should conduct themselves.

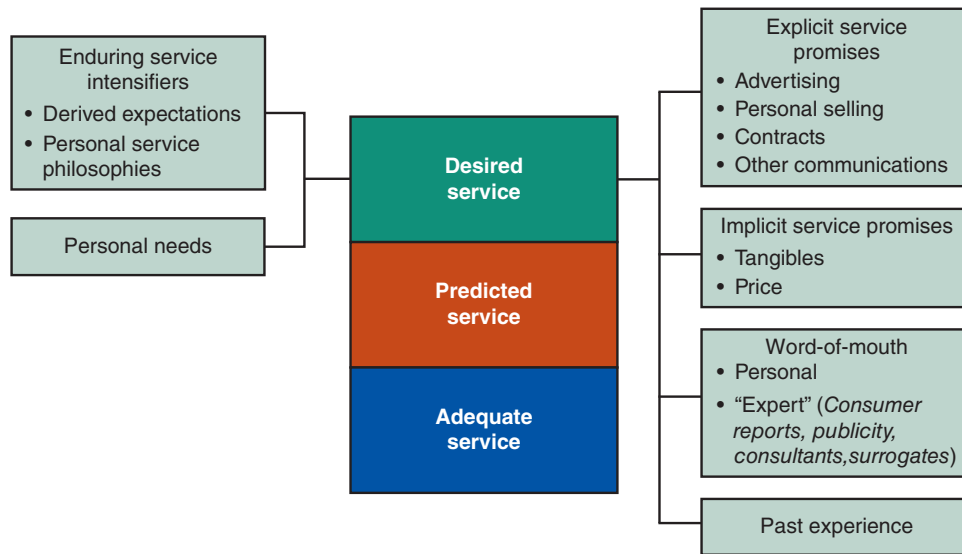
word-of-mouth communications

Unbiased information from someone who has been through the service experience, such as friends, family, consultants and/or online reviews.

past experience

The previous service encounters a consumer has had with a service provider.

Figure 11-7 Factors Impacting Desired Service Expectations



Source: Adapted from Valerie A. Zeithaml, Leonard L. Berry, and A. Parasuraman, "The Nature and Determinants of Customer Expectations of Service," *Journal of the Academy of Marketing Science*, 21, 1, (1993), pp. 1–12.

Similarly, the customer's personal service philosophies, or personal views of the meaning of service and the manner in which service providers should conduct themselves, will also heighten their sensitivities. Customers who work in the service sector are particularly sensitive to the caliber of service provided. These customers hold their own views about exactly how service should be provided—they want to be treated the way they believe they treat their customers.

The second additional factor influencing desired service expectations is the customer's own **personal needs**, including physical, social, and psychological needs. Simply stated, some customers have more needs and are "higher maintenance" than others. Some customers are very particular about where they are seated in a restaurant, while others are happy to sit nearly anywhere. In a hotel, some customers are very interested in the hotel's amenities, such as the pool, sauna, dining room, and other forms of available entertainment, while others are simply looking for a clean room. This is one of the reasons that managing a service firm is particularly challenging. Customers have a variety of needs, and no two customers are alike in every way.

11-7e Factors Influencing Service Expectations: Adequate Service

Adequate service reflects the level of service the customer is willing to accept. Similar to desired service, adequate service expectations are influenced by the four foundational

predicted service factors plus four additional factors: (1) transitory service intensifiers; (2) perceived service alternatives; (3) customer self-perceived service roles; and (4) situation factors (see Figure 11-8).

Transitory Service Intensifiers In contrast to enduring service intensifiers, **transitory service intensifiers** are individualized, short-term factors that heighten the customer's sensitivity to service. For example, customers who have had service problems in the past with specific types of providers are more sensitive to the quality of service delivered during subsequent encounters. Another example is the need for service under personal emergency situations. Typically, customers are willing to wait their turn to see a physician. However, under personal emergency conditions, customers are less willing to be patient and expect a higher level of service in a shorter period of time. Hence, the level of adequate service increases, and the zone of tolerance becomes narrower.

Perceived Service Alternatives The level of adequate service is also affected by the customer's **perceived service alternatives**. The larger the number of perceived service alternatives, the higher the level of adequate service

personal needs

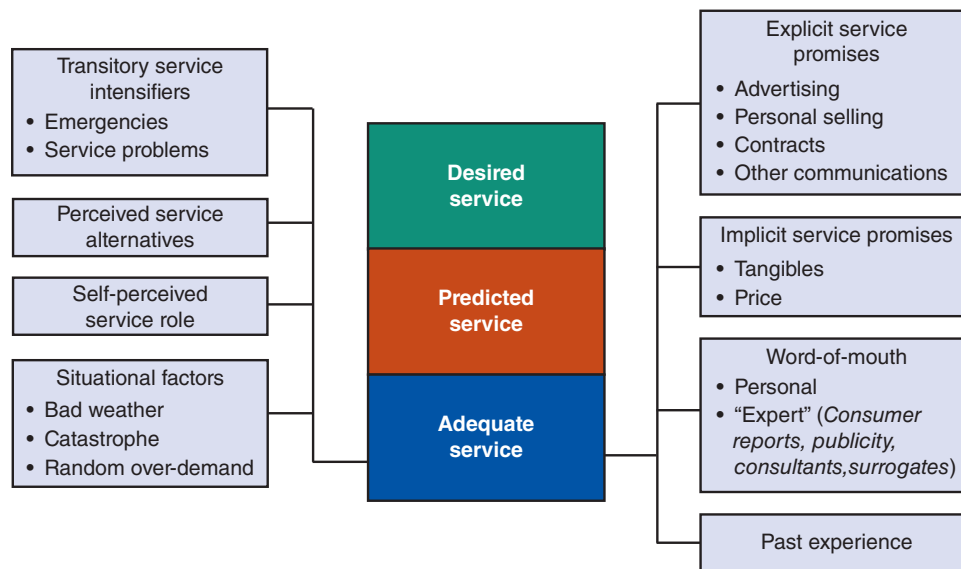
A customer's physical, social, and psychological needs.

transitory service intensifiers

Personal, short-term factors that heighten a customer's sensitivity to service.

perceived service alternatives

Comparable services customers believe they can obtain elsewhere and/or produce themselves.

Figure 11-8 Factors Impacting Adequate Service Expectations

Source: Adapted from Valerie A. Zeithaml, Leonard L. Berry, and A. Parasuraman, "The Nature and Determinants of Customer Expectations of Service," *Journal of the Academy of Marketing Science*, 21, 1, (1993), pp. 1–12.

expectations, and the more narrow is the zone of tolerance. Customers who believe that they can obtain comparable services elsewhere and/or that they can produce the service themselves expect higher levels of adequate service than those customers who believe they cannot receive sufficiently better service from another provider.

Self-Perceived Service Role As has been discussed on many occasions, the service customer is often involved in the production process and can directly influence the outcome of the service delivery system. When customers have a strong **self-perceived service role**, that is, when they believe that they are doing their part, their adequate service expectations are increased. However, if customers willingly admit that they have failed to complete forms or provide the necessary contribution to produce a superior service outcome, then their adequate service expectations decrease, and the zone of tolerance increases.

Situational Factors As a group, customers are not unreasonable. They understand that from time-to-time **situational factors** beyond the control of the service provider will lower the quality of service. If the power goes

self-perceived service role

The input a customer believes he or she is required to present in order to produce a satisfactory service encounter.

situational factors

Circumstances that lower the service quality but that are beyond the control of the service provider.

out in one part of town around dinner time, restaurants in other parts of town will be overrun by hungry patrons. As a result, lengthy waits will develop as the service delivery system becomes backed up. Similarly, after a hurricane, tornado, or other natural disaster occurs, insurance agents may not be as responsive as they would under normal circumstances. When circumstances occur beyond the control of the provider and the customer has knowledge of those circumstances, adequate service expectations are lowered, and the zone of tolerance becomes wider.

11-7f The Link between Customer Expectations and Customer Satisfaction

As discussed earlier, customer satisfaction is traditionally measured by comparing customer perceptions to customer expectations. As a result, customer satisfaction enhancements can be achieved by either by (1) enhancing perceptions; or (2) managing expectations. To effectively manage expectations, service marketers need to understand the sources of customer expectations. The fundamental sources of all three types of customer expectations (predicted, desired, and adequate) are implicit and explicit service promises, word-of-mouth communications, and past experiences. As such, service marketers must purposely manage these drivers of customer expectations in pursuit of improving customer satisfaction. Moreover, service marketer must also recognize that markets can be segmented by expectation level: predicted, desired, and adequate. Understanding the reasons why customers occupy and/or move among the three segments also provides important insights into managing the customer experience in pursuit of customer satisfaction objectives and goals.

Summary

Customer satisfaction research is one of the fastest growing areas in market research today. Defined as a comparison of perceptions and predicted service expectations, customer satisfaction has been associated with such benefits as repeat sales, more frequent sales, increased sales per transaction, positive word-of-mouth communications, insulation from price competition, and pleasant work environments for employees. Customer satisfaction questionnaires send the signal to consumers that the firm cares about its customers and wants their input. In addition, data collected from questionnaires facilitates the development of employee training programs, identifies strengths and weaknesses in the firm's service delivery process, and provides information to be used in employee performance reviews and compensation decisions.

Firms use a variety of methods to track customer satisfaction. Moreover, a number of factors can dramatically increase or decrease the firm's satisfaction ratings. The main lessons to be learned are that (1) customer satisfaction surveys that collect qualitative and quantitative data are better than those that collect either qualitative or quantitative data alone; and (2) regardless of the methods used, such as the

timing of the questions, the context of the questions, the data collection method, and a variety of other research issues, the service firm must be consistent in its approach in order to make benchmark comparisons over time meaningful. Overall, customer satisfaction ratings tend to be negatively skewed, indicating that above-average performance tends to be the norm.

Despite its challenges, the assessment of customer satisfaction is a valuable management exercise. However, firms should not try to increase their satisfaction ratings without carefully considering (1) the satisfaction ratings of competing firms; (2) the cost of an investment in increasing market share relative to the impact on the firm's bottom line; (3) the number of time periods it takes to recoup such an investment; and (4) the opportunity costs associated with the use of the firm's funds. Finally, among the key driving forces behind customer satisfaction are customer expectations. Three types of expectations and the factors influencing each type were presented. The three types of expectations form the bases for customer satisfaction and must be effectively managed.

Key Terms

expectancy disconfirmation model
confirmed expectations
disconfirmed expectations
negative disconfirmation
positive disconfirmation
indirect measures
direct measures
response bias
question form
question context

question timing
social desirability bias
benchmarking
predicted service
desired service
adequate service
zone of tolerance
explicit service promises
implicit service promises
word-of-mouth communications

past experience
enduring service intensifiers
derived expectations
personal service philosophies
personal needs
transitory service intensifiers
perceived service alternatives
self-perceived service role
situational factors

Review Questions

1. Discuss the differences between a confirmation, a positive disconfirmation, and a negative disconfirmation.
2. What is meant by the description that most satisfaction scores are negatively skewed? Why does this score distribution occur?
3. Discuss how the form of a question may influence satisfaction scores.
4. Should a company always try to achieve 100 percent customer satisfaction? Please explain.
5. Discuss the relationship between customer satisfaction and customer retention.
6. Explain the pros and cons associated with CSAT, NPS, and CES measurement scales.
7. What are the drawbacks of listening to customers and assessing customer satisfaction?
8. Define and explain the relevance of the *zone of tolerance*.
9. What are the major factors that influence customer expectations for *adequate service*?
10. What are the major factors that influence customer expectations for *desired service*?

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Case 11

The Bluegrass Inn

Sunny Zhang moved from Boston, Massachusetts, to take over as the general manager of the Bluegrass Inn, located in Lexington, Kentucky. Before taking the job at the Bluegrass Inn, Sunny had been the assistant general manager of a large chain hotel in downtown Boston. She had grown tired of the harsh winters and fast pace of the Northeast, and she felt it would be a welcome change to move to a warmer climate and a much more relaxed atmosphere. Sunny had worked for the large chain for several years, starting in the management training program and working her way up eventually to assistant general manager, before taking her new position as general manager of the inn.

The Bluegrass Inn is one of the oldest properties in the area, but it has been renovated periodically over the years. The inn is owned by a group of independent investors and has 116 rooms with basic amenities. There is no restaurant or pool, but there are some restaurants in the local area. The inn's room rate is at the low end for the market, which consists mainly of upscale properties. The Bluegrass Inn's primary strategic advantages include its price and its location, which is convenient to local horse racing venues.

Upon starting her new position as general manager, Sunny realized that there were major differences between working for a large chain and working at a small, independent motel. The large chain hotels had sophisticated computer systems for reservations, sales, catering, and revenue management. In addition, customer information was systematically gathered through surveys and comment cards. The surveys and comment cards provided managers with valuable information that could be used to make important decisions about hotels rates and services. Unfortunately, the Bluegrass Inn had a very simple reservations system and no additional information except for some historical figures on past rates and occupancy. As Sunny took over as general manager, the average room rate was \$100 and the occupancy rate was around 70 percent.

Sunny understood the value of gathering customer information, and she personally developed a comment card to be placed in every room. Customers were asked to complete the comment card and leave it in the room for housekeeping to collect. The purpose of the comment card was to determine how guests staying at the motel felt about the property and its services. Sunny wanted to make sure that all her guests were satisfied. At the end of the first year, she received a total of 169 completed comment cards.

After compiling the information contained on the comment cards, Sunny looked at guest responses pertaining to their overall customer satisfaction:

Which of the following best describes your experience at the Bluegrass Inn?

The motel exceeded my expectations.	18.7 percent
The motel met my expectations.	56.8 percent
The motel failed to meet my expectations.	24.5 percent

The percentages indicate the guests' responses to the question – nearly 75 percent of guests indicated that the inn met or exceeded their expectations. Sunny was pleased that this year's results could serve as a benchmark for future years, but she was concerned that the Bluegrass Inn failed to meet the expectations of approximately one-fourth of its guests. Next, Sunny looked at the guests' ratings of the motel's facilities and services on a five-point scale (1 = poor, 2 = fair, 3 = neutral, 4 = good, and 5 = excellent).

Hotel Services	Mean
Reservations	4.46
Front desk/check-in	4.52
Front desk/checkout	4.34
Front desk/guest service	4.50
Guest Room	
Comfort	4.18
Bedroom lighting	3.90
Cleanliness	4.31
Furnishings	4.10
Adequacy of supplies	4.21
Heating/air-conditioning	3.89
Overall quality	4.15
Price/room rate	4.12

Discussion Questions

1. Discuss the pros and cons of Sunny's development of the comment card.
2. Describe the potential problems associated with involving the housekeeping staff in collecting the comment cards.

3. With regard to the three expectation questions that address the guests' experience: (1) What information can Sunny learn from these three questions; (2) what additional information would be helpful to improve the level of service provided by the hotel; and (3) how can this additional information be collected?
4. Sunny also collected information about to the hotel's services and guest rooms. (1) What information can Sunny learn from these questions; (2) what additional information would be helpful to improve the level of service provided by the hotel; and (3) how can this additional information be collected?

Chapter 12

Defining and Measuring Service Quality



dpa picture alliance/Alamy Stock Photo

Source: <https://www.latimes.com/travel/la-tr-cruises-viking-adults-only-policy-20180904-story.html>

Chapter Objectives

After reading this chapter, you should be able to:

1. Compare and contrast service quality and customer satisfaction
2. Identify the five service quality gaps and the factors that influence the size of each of gaps
3. Explain the basic concepts of the SERVQUAL measurement scale and how “gap scores” are calculated
4. List the variety of customer and noncustomer research approaches a service firm can use to construct a service quality information system

The major objectives of this chapter are to introduce you to the concepts of service quality, service quality measurement, and service quality information systems.

Establishing Service Expectations: What Viking Cruise Line is Not

Operationally headquartered in Basel, Switzerland with marketing headquarters in Los Angeles, California, award-winning Viking cruise line consists of the three divisions: Viking River Cruises, Viking Ocean Cruises, and Viking Expeditions. Since its beginning, the company has been very good about conveying expectations to potential passengers in terms of “what to” and “what not to” expect.

Viking delivers a very focused experience and purposely communicates that their services are not for everyone. “We do not try to be all things to all people. Instead, we focus

on delivering meaningful experiences to you.”¹ Contained within highly visible marketing materials, Viking explains The Viking Difference in terms of “What Viking is Not:”

- No casinos
- No charge for use of launderettes
- No children under 18
- No entrance fee for the Spa
- No umbrella drinks
- No spa sales pressure
- No photography sales
- No inside staterooms
- No art auctions
- No smoking
- No charge for beer and wine with lunch and dinner
- No waiting in lines
- No charge for alternative restaurants
- No formal nights, butlers or white gloves
- No charge for Wi-Fi
- No nickel and diming

Despite “What Viking is Not,” Viking “is” the recipient of many highly distinguished travel-related awards from 19 different organizations. Some of the most notable awards include Conde’ Nest Traveler Readers’ Choice Awards (16 years of recognition), Travel + Leisure World’s Best Awards (17 years of recognition), USA Today 10 Best (include spacing) Reader’s Choice Awards (six-time winner), and Money Magazine Best in Travel. Cruise Critic Editors’ Picks Awards (nine years of recognition) specifically recognizes Viking for “Best River Cruise Line,” “Best River Cruise Itineraries,” “Best Enrichment,” “Best Shore Excursions,” and “Best for First-Timers.”

12-1 Introduction

One of the few issues on which service quality researchers agree is that service quality is an elusive and abstract concept that is difficult to define and measure.² This poses a challenge for academicians and practitioners alike. Case in point: traditional measures of productivity such as gross domestic product (GDP) do not account for increases in service quality delivered. In fact, providing poor quality can actually increase the country’s GDP!³ For example, if a mail-order company sends the wrong product, the dollars spent on phone calls and return mailings to correct the mistake will actually add to the country’s GDP.

Other governmental institutions, such as the Bureau of Labor Statistics (BLS), have tried to account for increases in quality by adjusting the Consumer Price Index. For example, if a car costs more this year than last but includes quality improvements such as an safety standards, better gas mileage, and cleaner emissions, the BLS will subtract the estimated retail value of the improvements before calculating the Consumer Price Index. However, the BLS does this for only a few industries and without the help of customers—the true evaluators of quality improvements. Efficiency measures are also no help. A retail store, which stocks lots

of merchandise, may please more customers and make more money while decreasing the firm’s efficiency rating.

As further evidence of the complexities involved in measuring service quality enhancements, the productivity of education and government services is notoriously difficult to measure. Increases in quality, such as improving the quality of education and training governmental employees to be more pleasant throughout their daily interactions with the public, do not show up in productivity measures. Moreover, a university can increase the quality of its faculty and educational instruction. However, at the end of the day it is the number of graduates (high quality or not) that often defines the university’s performance. Despite its elusiveness, it is readily apparent that increases in quality can have a significant impact on a firm’s or industry’s survival. As evidence, Japan and Korea did not simply bulldoze its way into U.S. auto and technology markets by offering lower prices alone—superior quality relative to the competition at that time ultimately won customers over (see Global Services in Action).

To date, there have been over 100 Baldrige Award recipients including firms as large as Motorola, Xerox, IBM, and FedEx to smaller firms and nonprofits such as Jenks Public Schools in Jenks, Oklahoma, Don Chalmers Ford of Rio Rancho, New Mexico, and the City of Fort Collins, Fort Collins, Colorado. Among the recipients are seven two-time award winners including The Ritz-Carlton Hotel Company. Does quality pay? Performance results pertaining to two-time Baldrige Award winners would indicate that quality is linked to performance with a resounding YES! Median revenue growth for this group is 92 percent and median job growth is 63 percent (compared to an industry average of 2.5 percent for the same time period).

Today, countries throughout the world have initiated quality awards and/or adopted the Baldrige Core Values in pursuit of quality excellence.⁶ For example, the Deming Prize is offered in Japan, the Prime Minister’s Quality Award is given in Malaysia, and the Premio Nacional a la Calidad is awarded in Columbia, Argentina, Chile, and Mexico.

Global Services in Action

In Pursuit of Excellence: Global National Quality Awards

Prompted by the arrival of fierce global competition, many U.S. industry and government leaders saw a critical need for a renewed emphasis on quality. As a result, the Malcolm Baldrige National Quality Award was created to enhance the global competitiveness of U.S. businesses. The award is the nation’s highest presidential honor for performance excellence. Every year, 18 National Quality Awards are given across six categories: manufacturing, service, small business, education, health care, and nonprofit organizations.⁴

Baldrige Core Values for business include:⁵

- Visionary leadership
- Organizational and personal learning

- Focus on the future
- Valuing workforce members and partners
- Managing for innovation
- Management by fact
- Focus on results and creating value
- Agility
- Societal responsibility
- Systems perspective
- Customer-driven excellence.

12-2 What Is Service Quality?

Perhaps the best way to begin a discussion of service quality is to attempt first to distinguish **service quality** from customer satisfaction. Most experts agree that customer satisfaction is a short term, transaction-specific measure, whereas service quality is an attitude formed by a long term, overall evaluation of a performance.

Without a doubt, the two concepts of customer satisfaction and service quality are intertwined. However, the relationship between these two concepts is unclear. Some believe that customer satisfaction leads to perceived service quality, while others believe that service quality leads to customer satisfaction. In addition, the way these two concepts relate to purchasing behavior, remains largely unexplained.⁷

One plausible explanation is that satisfaction assists customers in revising service quality perceptions. The logic for this position consists of the following:

1. Customer perceptions of the service quality of a firm with which they have no prior experience is based on the customer's expectations.
2. Subsequent encounters with the firm lead the customer through the disconfirmation process (where perceptions and expectations are compared), and revised perceptions of service quality are formed.
3. Each additional encounter with the firm further revises or reinforces service quality perceptions. In other words, if we added up a customer's satisfaction over time with a single firm, this would equate to the customer's service quality perception (e.g., $Sat_1 + Sat_2 + Sat_3 + Sat_4 + Sat_n = \text{Service Quality}$).
4. In turn, revised service quality perceptions modify future customer purchase intentions toward the firm.

To deliver a consistent set of satisfying experiences that can build into an evaluation of high quality requires the entire organization to be focused on the task. The needs of the customer must be understood in detail, as must the constraints under which the service firm operates. Service providers must be focused on quality, and the system must be designed to support that mission by being controlled correctly and delivering services as it was designed to do.

12-2a The Difference in Quality Perspectives between Goods and Services

Service quality offers a way of achieving success among competing services.⁸ This is especially true where a small

number of firms that offer nearly identical services are competing within a small area (e.g., a dry cleaner, local banks, restaurants, insurance agents). In fact, establishing service quality may be the only way of differentiating oneself. Service quality differentiation can generate increased market share and can ultimately mean the difference between financial success and failure.

Ample evidence suggests that the provision of quality can deliver repeat purchases as well as new customers. Repeat customers yield many benefits to the service organization. The cost of marketing to them is lower than that of marketing to new customers. Once customers have become regulars of the service, they know the appropriate behavioral script from previous interactions with the firm, and they are efficient users of existing service systems (e.g., a customer using an airlines check-in kiosk for the 10th time). As they gain trust in the organization, the customers' level of perceived risk is reduced, and they are more likely to consolidate their business with the firm. For example, insurance customers tend to move existing policies to and purchase new policies from the one provider they feel best serves their needs, whether those needs are financial or emotional.

Goods manufacturers have already learned this lesson over the past several decades, and they have made producing quality goods a priority issue. Improving the quality of manufactured goods has become a major strategy for both establishing efficient, smoothly running operations and increasing market share in an atmosphere in which customers are consistently demanding higher and higher quality. Goods quality improvement measures have focused largely on the quality of the products themselves, and specifically on eliminating product failure. Initially, these measures were based on rigorous checking of all finished products before they came into contact with the customer. More recently, quality control has focused on the principle of ensuring quality during the manufacturing process, on "getting it right the first time," and on reducing end-of-production-line failures to zero. The final evolution in goods manufacturing has been to define quality as delivering the right product to the right customer at the right time, thus extending quality beyond the good itself and using external as well as internal measures to assess overall quality.

However, service quality cannot be understood in quite the same way. The service firm depends on the customer as a participant in the production process, and normal quality control measures that depend on eliminating defects before the customer sees the product are not available. Consequently, service quality is not a specific goal or program that can be achieved or completed but must be an ongoing part of all management and service production on a daily basis. In the end, service quality is as much an art as it is science.

service quality

An attitude formed by a long term, overall evaluation of a firm's performance.

12-3 Diagnosing Failure Gaps in Service Quality

Implementing and evaluating service quality is a difficult task. First, perceptions of quality tend to rely on a repeated comparison of the customer's expectation about a particular service. If a service, no matter how good, fails repeatedly to meet a customer's expectations, the customer will perceive the service to be of poor quality. Second, unlike goods marketing, where customers evaluate the finished product alone, service customers evaluate the process of the service as well as its outcome. A patient visiting a physician, for example, will evaluate service not only on the basis of whether they experienced a positive outcome (e.g., feeling better), but also on whether the physician was friendly, competent, and caring (process attributes).

In the hopes of better understanding how a firm can improve its overall service quality, the service quality process can be examined in terms of five gaps between expectations and perceptions on the part of management, employees, and customers (see Figure 12-1).⁹ The most important gap, the **service gap** (for our purposes also known as Gap 5), describes the distance between customers' expectations of service and their perception of the service actually delivered. Ultimately, the goal of the service firm is to close the service gap, or at least narrow it as much as possible. Consequently, examining service quality gaps is much like the disconfirmation of expectations model discussed earlier.

However, remember that service quality focuses on the customer's cumulative satisfaction toward the firm, which is collected by the customer from a number of successful or unsuccessful service experiences.

Before the firm can close the service gap, it must close or try to narrow four other gaps:

Gap 1: The **knowledge gap**—the difference between what customers expect of a service and what management perceives that customers expect.

Gap 2: The **standards gap**—the difference between what management perceives customers expect and the quality specifications set for service delivery.

service gap

The distance between a customer's expectation of a service and perception of the service actually delivered.

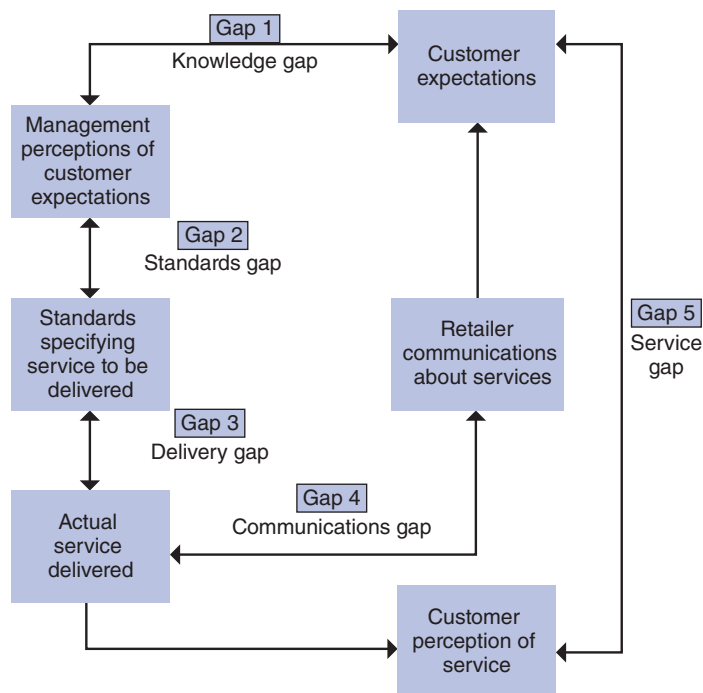
knowledge gap

The difference between what customers expect of a service and what management perceives customers to expect.

standards gap

The difference between what management perceives customers to expect and the quality specifications set for service delivery.

Figure 12-1 Conceptual Model of Service Quality



Source: Adapted from A. Parasuraman, Valerie Zeithaml, and Leonard Berry, "A Conceptual Model of Service Quality and Its Implications for Service Quality Research," *Journal of Marketing*, 49, (Fall 1985), pp. 41–50. Copyright ©1985 Used with permission of SAGE PUBLICATIONS, INC. permission conveyed through Copyright Clearance Center, Inc.

Gap 3: The **delivery gap**—the difference between the quality specifications set for service delivery and the actual quality of service delivered. For example, do employees perform the service as they were trained?

Gap 4: The **communications gap**—the difference between the actual quality of service delivered and the quality of service described in the firm's external communications (e.g., advertising, point-of-purchase materials, and personal selling efforts).

Hence, the service gap is a function of the knowledge gap, the specifications gap, the delivery gap, and the communications gap. In other words, $\text{Gap 5} = f(\text{Gap 1} + \text{Gap 2} + \text{Gap 3} + \text{Gap 4})$. As each of these gaps increase or decrease, the service gap responds in a similar manner. A summary description of each of the service quality gaps as well as factors that influence the size of each gap are provided in Table 12-1.

delivery gap

The difference between the quality standards set for service delivery and the actual quality of service delivery.

communications gap

The difference between the actual quality of service delivered and the quality of service described in the firm's external communications.

12-3a The Knowledge Gap (Gap 1)

The most immediate and obvious service quality gap is usually between what customers want and what managers think customers want. Briefly, many managers think they know what their customers want but are, in fact, sometimes mistaken. For example, airlines might mistakenly believe that customers around the world all have the same expectations and perceptions about airline travel. As another example, banking customers may prefer security to a good interest rate. Some restaurant customers may prefer the quality and taste of food over an attractive arrangement of the tables or a good view from the window. A hotel may feel that its customers prefer comfortable rooms, when, in fact, the majority of them spend little time in their rooms and are more interested in on-site amenities, such as the exercise facilities, pools, and spa.

When a knowledge gap occurs, a variety of other mistakes tend to follow. The wrong facilities may be provided, the wrong staff may be hired, and the wrong training may be undertaken. Services may be provided that customers have no use for, while the services they do want are not offered. Closing this gap requires minutely detailed knowledge of what customers want, and then building that response into the service operating system.

Factors Influencing the Knowledge Gap Three main factors influence the size of the knowledge gap. First, the

Table 12-1 Factors that Influence the Size of Service Quality Gaps

Service Quality Gap	Gap Defined	Factors Influencing the Size of the Service Quality Gap
1. Knowledge Gap	The difference between what customers expect of a service and what management perceives customers expect.	• Research orientation • Upward communication • Levels of management
2. Standards Gap	The difference between what management perceives customers expect and the quality specifications set for service delivery.	• Perceptions of feasibility • Desire to meet customer needs • Cost reduction goals • No culture for service quality • No goal setting for service quality
3. Delivery Gap	The difference between the quality specifications set for service delivery and the actual quality of service delivered. For example, do employees perform the service as they were trained?	• Willingness to perform • Employee-job fit • Role conflict • Role ambiguity • Dispersion of control • Learned helplessness • Inadequate support
4. Communication Gap	The difference between the actual quality of service delivered and the quality of service described in the firm's external communications (e.g., advertising, point-of-purchase materials, and personal selling efforts).	• Propensity to overpromise • Lack of horizontal communication
5. Service Gap	The difference between customer perceptions and customer expectations.	As the knowledge, standards, delivery and communications gaps increase/decrease in size, the size of the service gap responds accordingly

firm's **research orientation**, which reflects its attitude toward conducting customer research, can dramatically influence the size of the gap. Information obtained from customer research defines customer expectations. As the firm's research orientation increases, and the firm learns more about the needs and wants of its customers, the size of the knowledge gap should decrease. The amount of **upward communication** is a second factor that influences the size of the knowledge gap. Upward communication refers to the flow of information from front-line personnel to upper levels of the organization. In other words, does upper management listen and value the feedback provided by its front-line personnel? Front-line personnel interact with customers on a frequent basis, so they are often more in touch with customer needs than top management. Consequently, as the flow of upward communication increases through the organization, the knowledge gap should become smaller. Finally, the **levels of management** in the organization can also influence the size of the knowledge gap. As the organizational hierarchy becomes more complex and more levels of management are added, higher levels of management tend to become more distant from customers and the day-to-day activities of the organization. As a result, when the levels of management increase, the size of the knowledge gap tends to increase.

12-3b The Standards Gap (Gap 2)

Even if customer expectations have been accurately determined, a standards gap may open between management's perception of customer expectations and the actual standards set for service delivery. A simple analogy would be to consider an exchange of ideas between an architect and a home buyer. The home buyer communicates ideas to the architect for the construction of their dream home; moreover, let's assume that the architect clearly understands the home buyer's wishes. In this case, a knowledge gap does not exist. Once the architect understands the home buyer's wishes, blueprints are created that set the exact specifications for a builder to follow. If the architect cannot convert the home buyer's wishes to blueprint specifications, a standards gap is created.

When developing standards, the firm should use a flow-chart of its operations to identify all points of contact between the firm and its customers. Detailed standards can be written

research orientation

A firm's attitude toward conducting customer research.

upward communication

The flow of information from front-line personnel to upper levels of the organization.

levels of management

The complexity of the organizational hierarchy and the number of levels between top management and the customers.

for: (1) the way the system should operate and (2) the behavior of contact personnel at each point in the system. For example, specifications can be written for restaurant wait staff to greet customers, provide glasses of water, take drink orders for those wanting something other than water, deliver drinks, take food orders, and deliver food all within specific time frames. Essentially, specifications provide a guidebook for employees to follow with the goal of meeting or exceeding customer expectations.

Factors Influencing the Standards Gap In many cases, management does not believe it can or should meet customer requirements for service. For example, overnight delivery of mail used to be thought of as an absurd possibility before Fred Smith and FedEx proved that, in fact, it could be done. Another factor that influences the size of the standards gap is management's commitment to the delivery of service quality. Corporate leadership may set other priorities that interfere with setting standards that lead to good service. For example, a company's orientation toward implementing *cost-reduction strategies* that maximize short-term profits is often cited as a misguided priority that impedes the firm's progress in delivering quality services. Companies whose automated customer service hotlines reduce the number of customer service representatives employed are typical examples. In some cases, customers in need of service have been forced to remain on hold for hours before they could actually speak to a "real person." Hotlines were originally named to reflect the speed with which the customer could talk to the provider. Now the name more appropriately reflects the customer's temper by the time they talk to someone who can provide assistance.

Other factors influencing the size of the standards gap include: (1) sometimes there is simply *no culture for service quality*, and management genuinely fails to understand the issues involved; (2) management may wish to meet customer requirements but feels hampered by *insufficient methods of measuring quality or by converting those measurements into standards*; and (3) because of the *difficulties in attempting to write specifications for particular employee behaviors*, some managers feel that quality measurement is not worth the effort.

12-3c The Delivery Gap (Gap 3)

The delivery gap occurs between the actual performance of a service and the standards set by management. The existence of the delivery gap depends on both the willingness and the ability of employees to provide the service according to specification. Continuing our home buyer analogy, if the home builder does not follow the standards set by the architect's blueprints, a delivery gap is created. Similarly, if a restaurant's wait staff does not execute the standards developed in their training manual, a delivery gap is formed.

Factors Influencing the Delivery Gap One factor that influences the size of the delivery gap is the employee's



When employees follow the standards set by management to deliver excellent service, the delivery gap is nonexistent.

Source: <https://www.experiencecolumbus.com/meetings/attendee-experience/food-scene/>

willingness to perform the service. Obviously, employees' willingness to provide a service can vary greatly from employee to employee and in the same employee over time. Many employees who start off working to their full potential often become less willing to do so over time because of frustration and dissatisfaction with the organization. Furthermore, a considerable range exists between what the employee is actually capable of accomplishing and the minimum the employee must do in order to keep their job. Most service managers find it difficult to keep employees working at their full potential all the time.

Other employees, no matter how willing, may simply not be able to perform the service to specification. Hence, a second factor that influences the size of the delivery gap is the **employee–job fit**. Individuals may have been hired for jobs they are not qualified to handle or to which they are temperamentally unsuited, or they may not have been provided with sufficient training for the roles expected of them. For example, not everyone can fulfill the role of Mickey Mouse! Generally, employees who are not capable of performing assigned roles are less willing to keep trying. Can you imagine Mickey slinking around Disney World trying to avoid the kids?

Another common factor influencing the size of the delivery gap is **role conflict**. Whether or not the knowledge gap has been closed, service providers may still see an inconsistency

between what the service manager expects employees to provide and the service their customers actually want. A waiter who is expected to promote various items on the menu may alienate some customers who prefer to make their own choices undisturbed. In more formal settings, persistent waiters may find customers retaliating by not leaving a tip. In other cases, the service provider may be expected to do too many kinds of work, such as simultaneously answering telephones and dealing with customers face-to-face in a busy office. If this kind of conflict continues to occur, employees become frustrated, gradually lose their commitment to providing the best service they can, and/or simply quit altogether.

Yet another cause of the delivery gap is **role ambiguity**. Role ambiguity results when employees, due to poor employee–job fit or inadequate training, do not understand the roles of their jobs or what their jobs are intended to accomplish. Sometimes they are even unfamiliar with the service firm and its goals. Consequently, as role ambiguity increases, the delivery gap widens.

A further complication for employees is the **dispersion of control**, the situation in which control over the nature of the service being provided is removed from employees' hands. When employees are not allowed to make independent decisions about customer requests without first conferring with a manager, they may feel marginalized, alienated from the service firm, and less committed to their jobs. Furthermore, when control over certain aspects of the service is moved to a different location, such as control over credit being removed from individual bank branches, employee alienation is bound to increase. Eventually, employees experience **learned helplessness** and feel unable to respond to customer requests for help. Consequently, as the dispersion of control increases, the delivery gap becomes wider.

Finally, the delivery gap may also suffer due to **inadequate support**, such as not receiving personal training and/or technological and other resources necessary for employees to perform their jobs in the best possible manner. Even the best employees can be discouraged if they are forced to work with out-of-date or faulty equipment, especially if the

role ambiguity

Uncertainty of employees' roles in their jobs and poor understanding of the purpose of their jobs.

dispersion of control

The situation in which control over the nature of the service being provided is removed from employees' hands.

learned helplessness

The condition of employees who, through repeated dispersion of control, feel themselves unable to perform a service adequately.

inadequate support

A management failure to provide employees personal training and/or technological and other resources necessary for them to perform their jobs in the best possible manner.

willingness to perform

An employee's desire to perform to his or her full potential in a service encounter.

employee–job fit

The degree to which employees are able to perform a service to specifications.

role conflict

An inconsistency in service providers' minds between what the service manager expects them to provide and the service they think their customers actually want.

employees of competing firms have superior resources and are able to provide the same or superior levels of service with far less effort. Failure to properly support employees leads to a lot of wasted effort, poor employee productivity, dissatisfied customers, and an increase in the size of the delivery gap.

12-3d The Communications Gap (Gap 4)

The communications gap is the difference between the service the firm promises it will deliver through its external communications and the service it actually delivers to its customers. If advertising or sales promotions promise one kind of service and the customer receives a different kind of service, the communications gap becomes wider and wider. Firms need to understand that external communications are essentially promises the firm makes to its customers, thereby increasing customer expectations. When the communications gap is wide, the firm has broken its promises, resulting in a lack of future customer trust. A customer who orders a bottle of wine from a menu only to be told it is out of stock may feel that the offer held out on the menu has not been fulfilled. A customer who is promised delivery in three days who then must wait three weeks will perceive service quality to be far lower than expected.

Factors Influencing the Communications Gap The communications gap is influenced primarily by two factors. The first, the propensity of the firm to **overpromise**, occurs in highly competitive business environments as firms try to outdo one another in the name of recruiting new customers. The second factor pertains to the flow of **horizontal communication** within the firm. In other words, “Does the left hand know what the right hand is doing?” All too often, communications are developed at the firm’s headquarters without conferring with decentralized regional and local service operations in the field. In some instances, new service programs are announced to the public by corporate headquarters before the local service firms are aware that the new programs exist. A lack of horizontal communication places an unsuspecting service provider in an awkward position when a customer requests the service promised, and the provider has no idea what the customer is talking about.

12-4 Measuring Service Quality: The SERVQUAL Measurement Scale

Although measurements of customer satisfaction and service quality are both obtained by comparing perceptions to

expectations, differences between the two concepts are seen in their operational definitions. While satisfaction compares customer perceptions to what customers *would* normally expect, service quality compares perceptions to what a customer *should* expect from a firm that delivers high-quality services. Given these definitions, service quality appears to measure a *higher standard* of service delivery.

A frequently used and popular measure of service quality is the **SERVQUAL** scale.¹⁰ According to its developers, SERVQUAL is a diagnostic tool that uncovers a firm’s broad weaknesses and strengths in the area of service quality. The SERVQUAL measurement scale is based on five service quality dimensions that were obtained through extensive focus group interviews with customers. The five dimensions include *tangibles*, *reliability*, *responsiveness*, *assurance*, and *empathy*, and they provide the basic skeletal framework underlying service quality.

The SERVQUAL measurement scale consists of two sections of questions. The first section is comprised of 22 questions that ask respondents to record their *expectations* of excellent firms in the specific service industry. The second section of questions is comprised of 22 matching questions that assess consumer *perceptions* of a particular company in that service industry. For example, the tangibles dimension of SERVQUAL is addressed by comparing the mean of four expectation questions to the mean of four perception questions. When the mean expectation score is subtracted from the mean perception score (e.g., $P_{\text{Mean}} - E_{\text{Mean}}$), a “gap score” is created. Positive gap scores reflect situations where perceptions exceed expectations and customers are happy. Negative gap scores exist where perceptions that are less than expectations reflect unsatisfactory situations and customer unhappiness. When the gap score equals zero, customer perceptions have met customer expectations, and customers are satisfied. The purpose of the SERVQUAL measurement scale is to compare mean perceptions and mean expectations to arrive at gap scores for each of the five dimensions.

Customer expectations are measured on a seven-point scale with the anchor labels of “not at all essential” and “absolutely essential.”¹¹ Similarly, customer perceptions are measured on another seven-point scale with anchor labels of “strongly agree” and “strongly disagree.” Hence, SERVQUAL is a 44-item scale that measures customer expectations and perceptions regarding five service quality dimensions. The remainder of this section of the chapter discusses each of the five SERVQUAL dimensions, as well as some final thoughts about the SERVQUAL measurement instrument itself.

12-4a The Tangibles Dimension

Because of the absence of a physical product, customers often rely on the tangible evidence that surrounds the service

overpromising

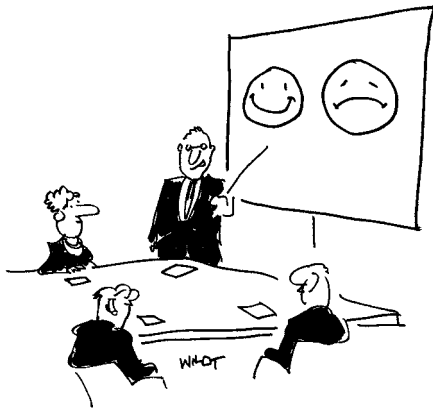
A firm’s promise of more than it can deliver.

horizontal communication

The flow of internal communication between a firm’s headquarters and its service firms in the field.

SERVQUAL

A 44-item scale that measures customer expectations and perceptions regarding five service quality dimensions.



"Sure, we can spend all day nitpicking specifics but aren't sweeping generalities so much more satisfying?"

The five SERVQUAL dimensions allow companies to take a much more in-depth look at what is driving customer satisfaction and dissatisfaction.

in forming evaluations. The **tangibles dimension** of SERVQUAL compares customer expectations to customer perceptions about the firm's ability to manage its tangibles. A firm's tangibles consist of a wide variety of objects such as architecture, design, layout, flooring, desks, lighting, wall colors, brochures, daily correspondence, and the appearance of the firm's personnel. Consequently, the tangibles component in SERVQUAL is two-dimensional: one dimension focuses on *equipment and facilities*, the other dimension focuses on *personnel and communications materials*.

The tangibles dimension of SERVQUAL is assessed via four expectations questions (E1–E4) and four perception questions (P1–P4). Keep in mind that the expectation questions apply to excellent firms within a particular industry, while the perception questions apply to the specific firm under investigation. Comparing the mean perception score to the mean expectation score provides a numerical variable that indicates the tangibles gap. The smaller the number, the smaller the gap, and the closer customer perceptions are to their expectations. The questions that pertain to the tangibles dimension are as follows:¹²

Tangibles Expectations:

- E1. Excellent companies will have modern-looking equipment.
- E2. The physical facilities at excellent companies will be visually appealing.
- E3. Employees of excellent companies will be neat in appearance.

tangibles dimension

The SERVQUAL assessment of a firm's ability to manage its tangibles including equipment, facilities, personnel, and communication materials.

E4. Materials associated with the service (such as pamphlets or statements) will be visually appealing in an excellent company.

Tangibles Perceptions

(XYZ is replaced with the name of the firm under evaluation):

- P1. XYZ has modern-looking equipment.
- P2. XYZ's physical facilities are visually appealing.
- P3. XYZ's employees are neat in appearance.
- P4. Materials associated with the service (such as pamphlets or statements) are visually appealing at XYZ.

12-4b The Reliability Dimension

In general, the **reliability dimension** reflects the consistency and dependability of a firm's performance. Does the firm provide the same level of service time after time, or does quality vary dramatically with each encounter? Does the firm keep its promises, bill its customers accurately, keep accurate records, and perform the service correctly the first time? Nothing can be more frustrating for customers than unreliable service providers.

The number of businesses that fail to keep their promises is disturbing. In many instances, the customer is ready to spend money if only the service provider will show up and conduct the transaction as promised. As students, you may have experienced the reliability gap while attempting to have the local cable company install its services in your new apartment. Based on the findings of many studies that have used SERVQUAL, customers typically rate reliability as the most important of the five SERVQUAL dimensions. Ultimately, little else matters if the service is unreliable. The questions used to assess the reliability gap are as follows:

Reliability Expectations:

- E5. When excellent companies promise to do something by a certain time, they will do so.
- E6. When customers have a problem, excellent companies will show a sincere interest in solving it.
- E7. Excellent companies will perform the service right the first time.
- E8. Excellent companies will provide their services at the time they promise to do so.
- E9. Excellent companies will insist on error-free records.

Reliability Perceptions:

- P5. When XYZ promises to do something by a certain time, it does so.
- P6. When you have a problem, XYZ shows a sincere interest in solving it.

reliability dimension

The SERVQUAL assessment of a firm's consistency and dependability in service performance.



wavebreakmedia/Shutterstock.com

Little else matters when the service is unreliable.

Source: <https://intradiem.com/frontline-blog/customer-service-wait-time-cost/>

P7. XYZ performs the service right the first time.

P8. XYZ provides its services at THE time it promises to do so.

P9. XYZ insists on error-free records.

12-4c The Responsiveness Dimension

Responsiveness reflects a service firm's commitment to provide its services in a timely manner. As such, the **responsiveness dimension** of SERVQUAL concerns the willingness and/or readiness of employees to provide a service. Occasionally, customers may encounter a situation in which employees are engaged in their own conversations with one another while ignoring the needs of the customer. Obviously, this is an example of unresponsiveness.

Responsiveness also reflects the preparedness of the firm to provide the service. Typically, new restaurants do not advertise their "opening night" so that the service delivery system can be fine-tuned and prepared to handle larger crowds, thereby maximizing responsiveness and minimizing service failures and subsequent customer complaints. The SERVQUAL expectation and perception items that address the responsiveness gap are as follows:

Responsiveness Expectations:

E10. Employees of excellent companies will tell customers exactly when services will be performed.

E11. Employees of excellent companies will give prompt service to customers.

E12. Employees of excellent companies will always be willing to help customers.

E13. Employees of excellent companies will never be too busy to respond to customer requests.

responsiveness dimension

The SERVQUAL assessment of a firm's commitment to providing its services in a timely manner.

Responsiveness Perceptions:

P10. Employees of XYZ tell you exactly when service will be performed.

P11. Employees of XYZ give you prompt service.

P12. Employees of XYZ are always willing to help you.

P13. Employees of XYZ are never too busy to respond to your requests.

12-4d The Assurance Dimension

SERVQUAL's **assurance dimension** addresses the competence of the firm, the courtesy it extends to its customers, and the security of its operations. Competence pertains to the firm's knowledge and skill in performing its service. Does the firm possess the required skills to complete the service on a professional basis?

Courtesy refers to how the firm's personnel interact with the customer and the customer's possessions. As such, courtesy reflects politeness, friendliness, and consideration for the customer's property (e.g., an auto mechanic who places protective floor mats in a customer's car to avoid soiling the car's carpet).

Security is also an important component of the assurance dimension. Security reflects a customer's feelings that they are free from danger, risk, and doubt. In addition to physical danger, the security component of the assurance dimension also reflects financial risk issues (e.g., Will the bank fail?) and confidentiality issues (e.g., Are my medical records at the pharmacy kept private?). The SERVQUAL items utilized to address the assurance gap are as follows:

Assurance Expectations:

E14. The behavior of employees of excellent companies will instill confidence in customers.

E15. Customers of excellent companies will feel safe in their transactions.

E16. Employees of excellent companies will be consistently courteous with customers.

E17. Employees of excellent companies will have the knowledge to answer customer questions.

Assurance Perceptions:

P14. The behavior of employees of XYZ instills confidence in customers.

P15. You feel safe in your transactions with XYZ.

P16. Employees of XYZ are consistently courteous with you.

P17. Employees of XYZ have the knowledge to answer your questions.

assurance dimension

The SERVQUAL assessment of a firm's competence, courtesy to its customers, and security of its operations.

12-4e The Empathy Dimension

Empathy is the ability to experience another's feelings as one's own. Empathetic firms have not lost touch of what it is like to be customers of their own firms. As such, empathetic firms understand their customers' needs and make their services accessible to their customers. In contrast, firms that do not provide their customers individualized attention when requested and offer operating hours convenient for the firm and not its customers, fail to demonstrate empathetic behaviors. The SERVQUAL **empathy dimension** addresses the empathy gap as follows:

Empathy Expectations:

- E18. Excellent companies will give customers individual attention.
- E19. Excellent companies will have operating hours convenient for all their customers.
- E20. Excellent companies will have employees who give customers personal attention.
- E21. Excellent companies will have the customer's best interest at heart.
- E22. The employees of excellent companies will understand the specific needs of their customers.

Empathy Perceptions:

- P18. XYZ gives you individual attention.
- P19. XYZ has operating hours convenient to all its customers.
- P20. XYZ has employees who give you personal attention.
- P21. XYZ has your best interests at heart.
- P22. Employees of XYZ understand your specific needs.

12-4f Determining the Importance of Each of the Five Dimensions

Managers of service firms who utilize SERVQUAL to assess gaps in service quality should also understand the importance that customers place on each of the service quality dimensions. This information is important in prioritizing where the firm should allocate its resources when faced with service quality improvements. For example, if a manager calculates identical gap scores for a firm's tangibles and empathy, which dimension should receive the firm's most immediate attention?

An easy method to ascertain customer perceptions of each dimension's importance is to simply ask SERVQUAL respondents to allocate 100 points among each of the five dimensions. For example, a typical allocation of 100 points may look like the following:

Reliability	30
Responsiveness	20
Tangibles	10
Assurance	20
Empathy	20
	100

The mean importance rating for each dimension can then be determined, providing management with additional insight into customer needs and wants and the resulting guidance for resource allocation decisions. As discussed earlier, the reliability dimension is consistently reported to be the most important of the five dimensions. In contrast, the tangibles dimension is consistently reported to be the least important. This does not mean that tangibles are unimportant; it simply indicates that, of the five SERVQUAL dimensions, customers believe that the other dimensions are more pressing. Consequently, a service firm that is preparing to devote significant resources to the construction of a new facility may first want to look at how it is performing on the other service quality dimensions. A nice new facility that provides unreliable service will likely soon become a nice new facility for someone else's business venture!

12-4g Criticisms of SERVQUAL

The SERVQUAL instrument has received its share of criticism.¹³ The major criticisms of the instrument involve the length of the questionnaire and the validity of the five service quality dimensions. The following discussion focuses on each of these issues and their respective importance to interpreting SERVQUAL results.

Length of the Questionnaire Combining the expectation and perception items of SERVQUAL results in a 44-item survey instrument. Critics of the SERVQUAL instrument argue that the 44 items are highly repetitive and unnecessarily increase the questionnaire's length. These critics further argue that the expectations section of the instrument is of no real value, and that the perceptions (actual performance) section should be utilized alone to assess service quality.

In response, the developers of SERVQUAL effectively argue that including the expectations section enhances the managerial usefulness of the scale as a diagnostic tool due to the gap scores developed for each dimension. Perception scores alone merely rate whether the respondent agrees or disagrees with each question. For example, Table 12-2 provides a set of perception scores and SERVQUAL scores for a hypothetical firm. Using this information for diagnostic purposes, perception scores alone would suggest placing an equal emphasis on improving the reliability and empathy dimensions. Incorporating expectations into the SERVQUAL score indicates that improving the reliability dimension should be the firm's top priority. Given that implementing service quality improvements requires a financial investment from the firm, maintaining the expectation section becomes valuable.

Creative suggestions have been made for maintaining the expectations component while simultaneously reducing the

empathy dimension

The SERVQUAL assessment of a firm's ability to put itself in its customers' place.

Table 12-2 The Diagnostic Advantage of SERVQUAL Scores

Dimension	Perception Scores	SERVQUAL Scores
Tangibles	5.3	0.0
Reliability	4.8	−1.7
Responsiveness	5.1	−1.0
Assurance	5.4	−1.5
Empathy	4.8	−1.1

questionnaire’s length by 22 questions. Three approaches have been suggested: (1) On a single scale, ask respondents where they would rate a high-quality company, and then where they would rate the firm under investigation; (2) utilize the scale’s midpoint as the expected level of service from a high-quality company, and then rate the specific firm in relation to the midpoint-above expectation or below; and (3) utilize the end point (e.g., 7 on a 7-point scale) as the expected level of a high-quality company, and rate the specific company relative to the high-quality company on the same scale. All three approaches provide alternatives for assessing customer perceptions and expectations while reducing the questionnaire’s length.

The Validity of the Five Dimensions Another frequent criticism of the SERVQUAL instrument is that the five proposed dimensions of service quality—reliability, responsiveness, assurance, empathy, and tangibles—do not hold up under statistical scrutiny. Consequently, critics of SERVQUAL question the validity of the specific dimensions in the measurement instrument.

SERVQUAL’s developers argue that although the five dimensions represent conceptually distinct facets of service quality, they are interrelated. Hence, some overlap may exist (as measured by correlations) among items that measure specific dimensions. In particular, the distinction among the responsiveness, assurance, and reliability dimensions tends to blur under statistical scrutiny. However, when respondents are asked to assign importance weights to each dimension, results indicate that customers do indeed distinguish among the five dimensions, as exhibited in Table 12-3. This ranking provides additional evidence of the dimensions’ distinctiveness. For the statistical enthusiast, a variety of articles offering additional evidence and rationale supporting the viability of the five-dimensional framework is cited in the Notes section at the end of this chapter.¹⁴

12-4h **SERVQUAL: Some Final Thoughts**

The Importance of Contact Personnel SERVQUAL highlights several points that service providers should consider when examining service quality. First, customer perceptions of service are heavily dependent on the attitudes and performance of contact personnel. Of the five dimensions

Table 12-3 Relative Importance of SERVQUAL Dimensions as Reported by Consumers

SERVQUAL Dimension	Importance (%)*
Reliability	32
Responsiveness	22
Assurance	19
Empathy	16
Tangibles	11

*Customers were asked to allocate 100 points among the five dimensions. The Importance (%) reflects the mean point allocation for each dimension.

Source: Leonard L. Berry, A. Parasuraman, and Valerie A. Zeithaml, “Improving Service Quality in America: Lessons Learned,” *Academy of Management Executive*, 8, 2, (1994): 32–52.

measured, responsiveness, empathy, and assurance directly reflect the interaction between customers and staff. Even the assessment of the tangibles dimension depends partly on service staff.

Process Is as Important as Outcome The manner in which customers judge a service depends as much on the service *process* as on the *outcome*. How the service is delivered is as important as the frequency and nature of the service. Consequently, customer satisfaction depends on the production of services as well as their consumption.

Viewing services as processes raises considerable difficulties for management when trying to construct service quality standards. Standards can be examined either from the perspective of the customer or from that of the operating system. For example, a specification can be written based on customers’ ratings of the responsiveness of the organization. Unfortunately, although this is a quantitative measure, it does little to guide the behavior of operations managers and contact personnel.

Customer Perceptions Are Unpredictable Ratings of service quality dimensions may be influenced by factors that are outside the organization’s control and may not be readily apparent to managers. For example, customer moods, attitudes and biases may influence ratings (see Services for a Better World in Action). Studies have shown that, when rating services, customers use a diverse variety of clues. A recent study shows that, even if a service firm generates a negative outcome for a customer, the firm may not be judged as delivering a poor level of satisfaction. Since they are part of the process, customers may attribute failures to themselves or to factors outside the firm’s control. Such attributions are shown to depend on the physical characteristics of the service firm. For example, a tidy office setting leads negative attributions for poor service away from the firm, toward other factors beyond the firm’s control. On the other hand, a messy office generates attributions

of dissatisfaction toward the firm regardless of where the real blame should fall.¹⁵

Assessing the Criticisms of SERVQUAL Despite its critics, SERVQUAL remains an often-used instrument to assess service quality, and it is currently being modified to address AI chatbot service quality issues in e-business (see E-Services in Action). From the beginning, its developers have claimed that SERVQUAL is a useful starting point for measuring service quality and was never presented as the final answer. The developers of SERVQUAL further contend that when used in conjunction with other forms of measurement, both quantitative and qualitative, SERVQUAL is a valuable diagnostic tool for evaluating the firm's service quality performance. Overall, as was the case with satisfaction measures, SERVQUAL is most valuable when compared with a firm's own past service quality trends and measures of competitive service quality performance.

12-5 Constructing a Service Quality Information Systems

Firms that are serious about improving their service quality use a number of approaches that combine to form a **service quality information system**. A service quality information system is a continuous process that provides relevant

data on a timely basis to managers, who then use the data for decision-making purposes.²⁰ More specifically, service quality information systems use service quality and customer satisfaction measures in conjunction with other measures obtained at various points to assess the firm's overall performance. Components of a service quality information system include:

1. Solicitation of customer complaints
2. After-sales surveys
3. Customer focus group interviews
4. Mystery shopping results
5. Employee surveys
6. Total market service quality surveys

In general, service quality information systems focus on two types of research: customer research and noncustomer research. **Customer research** examines the customer's perspective of a firm's strengths and weaknesses and includes such measures as customer complaints, after-sales

service quality information system

An ongoing research process that provides relevant data on a timely basis to managers, who use the data in decision making.

customer research

Research that examines the customer's perspective of a firm's strengths and weaknesses and includes such measures as customer complaints, after-sales surveys, focus group interviews, and total market service quality surveys.

Services for a Better World in Action

Black-owned Businesses and Critical Success Factors

A negative stigma exists that black-owned businesses provide poor customer service. Although this is not true for most black-owned businesses, black business owners suggest that they need to pay special attention to critical success factors including customer service, quality, prices, etc. In essence, black business owners feel that due to the negative stigma, they are held to a higher standard than white-owned businesses and must excel at customer service and quality to effectively compete.¹⁶

Why support a black-owned business? Customer support of black-owned business provides profitability to the business. In turn, this fuels economic prosperity in the surrounding community, provides jobs for community members, and provides the motivation for others to join in entrepreneurship ventures. Increased incomes provide a bridge to higher standards of living which can be used toward higher education and/or job skills training in the community. Ultimately, supporting black-owned business assists in closing the racial wealth gap and celebrates diverse cultures.¹⁷

It is estimated that 4.3 percent of the 22.2 million businesses that exist within the United States are black-owned and less than 1 percent generate a median profit

margin greater than 20 percent. During the COVID pandemic, 41 percent of black-owned businesses shut down compared to 17 percent of white-owned businesses. Eight out of 10 black-owned businesses fail within the first 18 months. This is in sharp contrast to figures which estimate that 20 percent of small businesses fail in the first year, 50 percent of the remainder make it to the five-year mark, and 62 percent of businesses remaining survive for a decade or more.¹⁸

How to support a black-owned business?¹⁹ Business owners suggest the following:

- Find and support black-owned businesses in your community
- Promote black-owned businesses on social media
- Allocate a certain budget amount every month to support local small BIPOC (Black, Indigenous, People of Color) businesses
- Write and post reviews of great black-owned shops
- Offer mentorship and resources when appropriate and where possible

E-Services in Action

AI Chatbots and Service Quality

Customers are interacting with AI-enabled chatbots more than ever. “A chatbot system uses conversational artificial intelligence (AI) technology to simulate a discussion (or a chat) with a user in natural language via messaging applications, websites, mobile apps or the telephone.”²¹ Chatbots have experienced a 92 percent growth rate as a brand communication channel over the last few years. Observers estimate that 75 to 90 percent of all health care and banking queries are now handled by chatbots. In addition, it is estimated that chatbots were used by 67 percent of global consumers in the past year.

As one might expect, forming service quality evaluations pertaining to AI chatbot interactions as compared to traditional face-to-face customer service interactions are quite different. As a result, researchers have developed an alternative to SERVQUAL for chatbots referred to as AICSQ (Artificial Intelligence Chatbot Service Quality).²²

In comparison to SERVQUAL’s five dimensions of service quality, AICSQ is comprised of seven dimensions:

Semantic Understanding

- Ability to understand queries
- Ability to understand emotional expression

Close Human-AI Collaboration

- Accessibility
- Easy to transfer to human contact
- Memorability

Human-Like

- Ability to be attentive to social cues
- Ability to exhibit a human-like personality
- Ability to experience human-like empathy

Continuous Improvement

- Ability of the AI chatbot to learn
- Systems updates that improve AI chatbot performance

Personalization

- Ability to identify customers
- Personalized response
- Personalized recommendation

Cultural Adaptation

- Nonlanguage barriers
- Cultural understanding

Efficiency

- Always available
- Responsiveness
- Provides a simplified process

All seven AICSQ dimensions have been linked to “the customer perceived value of” and “satisfaction with” the AI chatbot as well as with “customers intention of continuous use.” Service marketers looking to increase the use of AI chatbots within their organizations should take notice and include the seven dimensions of AICSQ to improve their AI chatbot service quality.

surveys, focus group interviews, and total market service quality surveys. In contrast, **noncustomer research** focuses on employee perspectives of the firm’s strengths and weaknesses and employee performance (e.g., employee surveys and mystery shopping). In addition, noncustomer research examines how competitors perform on service aspects (via total market service quality surveys) and serves as a basis for comparison.

12-5a Solicitation of Customer Complaints

The primary objectives of soliciting customer complaints are twofold. First, customer complaints identify unhappy customers. The firm’s follow-up efforts may enable it to retain many of these customers before they defect to competitors. The second objective of soliciting customer complaints is to identify weaknesses in the firm’s service delivery system and take the corrective actions necessary to minimize future

occurrences of the same problem. Customer complaints should be solicited on a continuous basis.

The value of continuous customer feedback cannot be overstated. Unfortunately, many firms address one complaint at a time and fail to analyze the content of the complaints as a group. The Chicago Marriott took 15 years to figure out that 66 percent of the calls to its customer service line concerned requests for an iron and/or ironing board.²³ As a result of learning this, the hotel redesignated \$20,000 that had been earmarked for televisions in guest bathrooms to purchase irons and ironing boards for the hotel.

12-5b After-Sales Surveys

As part of the service quality information system, **after-sales surveys** should also be conducted on a continuous basis. Since after-sales surveys pertain to discrete transactions, they are a type of satisfaction survey and, as such, are subject to the advantages and disadvantages of all customer

noncustomer research

Research that focuses on employee perspectives of the firm’s strengths and weaknesses and employee performance (e.g., employee surveys and mystery shopping).

after-sales surveys

A type of satisfaction survey that addresses customer satisfaction while the service encounter is still fresh in the customer’s mind.

satisfaction surveys. For example, after-sales surveys address customer satisfaction while the service encounter is still fresh in the customer's mind. Consequently, the information reflects the firm's recent performance but may be biased by the customer's inadvertent attempt to minimize cognitive dissonance.

Although after-sales surveys can also identify areas for improvement, after-sales surveys are a more proactive approach to assessing customer satisfaction than soliciting customer complaints. Many firms wait for customers to complain and then take action based on those complaints. Given the average customer's reluctance to complain, waiting for customer complaints does not provide the firm a "true" picture of its performance. The after-sales survey attempts to contact every customer and take corrective action if a customer is less than satisfied with their purchase decision.

12-5c Customer Focus Group Interviews

Another important component of the service quality information system involves customer **focus group interviews**.²⁴ Focus group interviews are informal discussions with customers guided by a trained moderator. Participants in the group are encouraged to express their views and comment on the suggestions made by others in the group. Because of the group interaction, customers tend to feel more comfortable, which motivates them to talk more openly and honestly. Consequently, researchers feel that the information obtained in focus group interviews is richer than data that reflects the opinions of a single person.



Monkey Business Images/Shutterstock.com

One of the major benefits of utilizing focus groups to assess service quality is that the thoughts of others in the group often spark new ideas that were never considered before.

Source: <https://www.hmc.edu/hcsed/2019/06/16/sustainability-focus-groups/>

focus group interviews

Informal discussions with customers that are usually guided by a trained moderator; used to identify areas of information to be collected in subsequent survey research.

Focus groups are probably the most widely used market research method. However, their primary purpose is to identify areas of information to be collected in subsequent survey research. Although the information provided by the group is considered very valuable, other forms of research are generally necessary to confirm that the groups' ideas reflect the feelings of the broader segment of customers. Advocates of service quality information systems believe that customer focus groups should be conducted on a monthly basis.

12-5d Mystery Shopping

Mystery shopping is a form of noncustomer research that measures individual employee service behavior.²⁵ As the name indicates, mystery shoppers are generally trained personnel who pose as customers and shop at the firm unannounced. The idea is to evaluate an employee during an actual service encounter. Mystery shoppers evaluate employees on a number of characteristics, such as: the time it takes for the employee to acknowledge the customer, eye contact, appearance, and many other specific customer service and sales techniques promoted by the firm.

Mystery shopping is a form of observation research that is recommended to be conducted on a quarterly basis. Results obtained from mystery shoppers are used as constructive employee feedback. Consequently, mystery shopping aids the firm in coaching, training, evaluating, and formally recognizing its employees. For example, wait staff at the Texas Roadhouse, a popular restaurant in the United States, are rewarded with a \$100 bonus every time they receive a perfect evaluation from a mystery shopper. The bonus not only rewards the employee, but it also reinforces the positive service behaviors desired by management in the process.

12-5e Employee Surveys

Another vital component of the service quality information system is employee research.²⁶ When the product is a performance, it is essential that the company listen to the performers. Too often, employees are forgotten in the quest for customer satisfaction. However, the reality is that employee satisfaction with the firm directly corresponds with customer satisfaction. Hence, the lesson to be learned by service firms is that if they want the needs of their customers to come first, they cannot place the needs of their employees last.

Conducted quarterly, **employee surveys** provide an internal measure of employee morale, attitudes, and perceived

mystery shopping

A form of noncustomer research that consists of trained personnel who pose as customers, shop at the firm unannounced, and evaluate employees.

employee surveys

Internal measures of service quality concerning employee morale, attitudes, and perceived obstacles to the provision of quality services.

obstacles to the provision of quality services. Often employees would like to provide a higher level of quality service, but they feel that their hands are tied by internal regulations and policies. Employee surveys provide the means to uncover these obstacles so that they can be removed when appropriate. Moreover, employees are customers of internal services, and they assess internal service quality daily. Because of their direct involvement in providing service delivery, employee complaints serve as an early warning system; that is, employees often see the system breaking down before customers do.

12-5f Total Market Service Quality Surveys

Total market service quality surveys not only measure the service quality of the firm sponsoring the survey but also assess the perceived service quality of the firm's competitors. When service quality measures such as SERVQUAL are used in conjunction with other measures, a firm can evaluate its own performance compared with previous time periods and with its competitors. Service quality surveys provide a firm with information about needed improvements in the service delivery system and measure the progress the firm has been making in previously identified areas of need.

Advocates of the service quality information system recommend that total market service quality surveys be conducted three times a year. However, as is the case with all the components of the service quality information system, the recommended frequencies depend on the size of the customer base. Too frequent contact with the same customers can annoy them. On the other hand, conducting surveys too infrequently may ultimately cost the business its existence.

12-5g Additional Keys to Success

Overall, the service quality information system provides a comprehensive look at the firm's performance and overcomes many of the shortcomings of individual measures used in isolation. As with all measures, the information system's true value lies in the information it gives managers and front-line employees to help in their decision making. The measures should serve as a support system for decisions but should not be the only inputs into the decision process. Managerial expertise and intuition remain critical components of every business decision. Ultimately, the key components that need to be built into every service quality system include:²⁷

Listening: Quality is defined by the customer. Conformance to company specifications is not quality; conformance to

customers' specifications is. Spending wisely to improve service comes from continuous learning about expectations and perceptions of customers. However, spending and quality are not necessarily related. Although adequate resource support is directly related to the successful implementation of service delivery systems, providing support without direction can be a huge waste of resources. For example, the United States leads the world in health care expenditures per capita at \$11,945 which is more than double that of the comparable country average of \$5,736.²⁸ Yet, despite all the spending, the United States ranks 30th in terms of the quality of care provided to its citizens. In another study that compared Australia, Canada, Germany, the Netherlands, New Zealand, the United Kingdom, and the United States, the U.S. health care system ranked last or next to last on the dimensions of quality, access, efficiency, equity, and healthy lives.²⁹ Research analysts indicate that the relationship between health care cost and quality of care is inconsistent. "Most studies have found that the association between cost and quality is small to moderate, regardless of whether the direction is positive or negative."³⁰

Reliability: Reliability is the core of service quality. Little else matters to a customer when the service is unreliable.

Basic Service: Forget the frills if you cannot deliver the basics. American service customers want the basics; they expect fundamentals, not fanciness, performance, or empty promises.

Service Design: Reliably delivering the basic service that customers expect depends, in part, on how well various elements function together in a service system. Design flaws in any part of a service system can reduce the perception of quality.

Recovery: Research shows that companies consistently receive the most unfavorable service quality scores from customers whose problems were not resolved satisfactorily. In effect, companies that do not respond effectively to customer complaints compound the service failure, thereby failing twice.

Surprising Customers: Exceeding customers' expectations requires the element of surprise. If service organizations can not only be reliable in output, but also surprise the customer in how the service is delivered, then they are truly excellent.

Fair Play: Customers expect service companies to treat them fairly, and they will become resentful and mistrustful when they perceive they are being treated otherwise.

Teamwork: The presence of "teammates" is an important dynamic in sustaining a server's motivation to serve. Service team building should not be left to chance.

Employee Research: Employee research is as important to service improvement as customer research.

Servant Leadership: Delivering excellent service requires a special form of leadership. Leadership must serve the servers—inspiring, coaching, and enabling them to achieve.

total market service quality surveys

Surveys that measure the service quality of the firm sponsoring the survey and the service quality of the firm's competitors.

Summary

This chapter has focused on defining and measuring service quality. The concepts of service quality and customer satisfaction are intertwined. In general, customer satisfaction can be defined as a short term, transaction specific measure. In turn, service quality is a long term, overall measure. Another difference is that satisfaction compares perceptions to what customers would normally expect. In comparison, service quality compares perceptions to what customers should expect from a high-quality firm. Customer satisfaction and service quality assessments complement each other. Satisfaction evaluations made after each service transaction help revise customers' overall service quality evaluations of the firm's performance.

Firms that excel in service quality do so by avoiding potential quality gaps in their delivery systems. Service quality gaps discussed in this chapter include knowledge, standards, delivery, and communications. Numerous managerial, marketing, and operational factors influence the size of each of these gaps. Ultimately, the goal of every firm is to minimize the service gap—the difference between customer perceptions and expectations. The service gap is a function of the knowledge, standards, delivery, and communications gaps.

One popular method for assessing service quality is the SERVQUAL measurement scale. The original SERVQUAL survey instrument consists of 44 questions that compare

customers' expectations to perceptions along five service quality dimensions—tangibles, responsiveness, reliability, assurance, and empathy. Gap scores for each of the five dimensions can be calculated by comparing customers' mean expectations and mean perception ratings. The SERVQUAL gaps indicate specific areas in need of improvement and assist the service firm in its continuous improvement efforts.

SERVQUAL is only one method to assess a firm's service quality. A service quality information system utilizes a variety of continuous measures to assess the firm's overall performance. The major components of such a system collect information about both customer and noncustomer research. Customer research methods include analyzing customer complaints, after-sales surveys, focus group interviews, and total market service quality surveys. Noncustomer research methods include employee surveys and mystery shopping.

In closing, service quality offers a means of achieving success among competing firms that offer similar products. The potential benefits associated with service quality include increases in market share, repeat purchases, and improved profitability. Ultimately, the keys to delivering service quality include a detailed understanding of the needs of the customer, service providers who are focused on providing quality, and service delivery systems that are designed to support the firm's overall quality mission.

Key Terms

service quality
service gap
knowledge gap
standards gap
delivery gap
communications gap
research orientation
upward communication
levels of management
willingness to perform

employee-job fit
role conflict
role ambiguity
dispersion of control
learned helplessness
inadequate support
overpromising
horizontal communication
SERVQUAL
tangibles dimension
reliability dimension

responsiveness dimension
assurance dimension
empathy dimension
service quality information system
customer research
noncustomer research
after-sales surveys
focus group interviews
mystery shopping
employee surveys
total market service quality surveys

Review Questions

1. What are the basic differences between customer satisfaction and service quality?
2. Explain how a manager might use the conceptual model of service quality to improve the quality of their firm.
3. Discuss the knowledge gap and what factors contribute to the size of the knowledge gap.
4. Interview a member of a restaurant's wait staff. Provide five standards that are provided to them by management pertaining to greeting and serving their customers.
5. How does the communications gap relate to success in e-business (see E-Services in Action)?
6. Discuss the basics of the SERVQUAL measurement instrument in terms of how gap scores are calculated for each of the five service quality dimensions.
7. Why would a manager want to know the importance customers place on each of the five service quality dimensions?
8. Discuss the most and least important of the five service quality dimensions. Why do you believe that most customers rank these two service quality dimensions in this particular order?

9. What are the criticisms of SERVQUAL? What is the limitation of only using the 22 perception questions?
10. You have been hired by a firm to develop the firm's service quality information system. What are the components of this system?

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Case 12

Service Quality at Secrets Rivera Resort

Day One

Rafael (Rafa) Romero had recently transferred to the Secrets Rivera Resort in Cancun, Mexico to improve the level of service quality. Rafa had been with the company for five years and had been quite successful in improving the level of service quality at the two previous resort locations operated by the same parent company. Rafa knew that this particular resort was going to be a real challenge. The mix of business was 60 percent individual transient guests and 40 percent group business. Of this group business, about one-third consisted of motor coach tour groups.

On Rafa's first day on the job, the lobby was quite a sight. There was a line of about 20 guests waiting to check in when two motor coaches arrived, and more than 80 additional guests and guides walked into the lobby to check in. Needless to say, the two front desk agents had a look of terror in their eyes as they worked diligently to process the registrations for those waiting to check in. Some 40 minutes later, everyone had been checked in, but the general manager said to Rafa, "I'm glad that you are here; we need to work out a better system. Let's meet for lunch tomorrow to discuss your initial ideas."

Rafa sat down with his tablet to start brainstorming ideas to present to the general manager when a guest approached the desk. "Hello, my name is Britt Spencer, and I stayed at your hotel last night with my family. We really did not have a good experience, and I want to tell you about it. I want to make sure that this does not happen again, to me or anyone else." Mr. Spencer then proceeded to tell Rafa their account of the events. "I was traveling with my wife and our son, who is four years old. Our connecting flight was delayed, so we did not arrive at our final destination until 10:00 p.m. The Secrets Rivera Resort had an advertised check-in facility at the airport, and I assumed that I would be able to secure my room while waiting for the luggage. When I approached the employee at the hotel's airport facility, I was told that check-in service was not available at that time of the day. I found this to be surprising, since this was the very type of situation in which an airport facility would be beneficial.

"Next, my family took a shuttle van from the airport to the hotel, where we were given directions to the front desk. Two front desk clerks were on duty when the passengers from the airport shuttle arrived a little before 11:00 p.m. However, one of the front desk clerks was apparently going off duty at 11:00, and they proceeded to close their drawer at that exact moment. This left a line of approximately 10

or 12 guests to be checked in by one clerk. Needless to say, it took some time to process all of the guests, and we had to wait 20 or 30 minutes for our turn. We were assigned to a room, but at this point we had a few bags and our son was fast asleep and had to be carried. When I asked for assistance with our luggage, I was told that no one was available at that time of night. The hotel was large, having over 1,000 rooms, and the rooms were spread out among several adjacent buildings. Our room was two buildings away from the lobby area. My wife and I struggled to carry the luggage and our son to the room. We arrived there about 11:30 and tried to enter the room. The key unlocked the door, but the door would not open. After a couple of attempts, we heard a woman's voice in the room. Obviously, the room had been double-booked and the woman woken from her sleep. I used the house phone to call the front desk and explain the predicament. The front desk manager offered a quick apology and said that she would send someone with a key to a nearby room. About 10 minutes later, a housekeeper happened to be going through the hallway, and they let my family into the room that I had been given over the phone. However, the housekeeper had no idea what was going on and took my word. After we had been in the room for 10 minutes, the phone rang, and I spoke with the front desk manager. The front desk manager acted as though they had sent the housekeeper to open the room, but they still needed to send someone with the room keys. The front desk manager apologized one last time and told me to call the front desk if I had any other problems." Rafa went home that night and began to think about all the challenges the resort was currently facing.

Day Two

When meeting with the general manager the next day, Rafa was presented with a set of service quality data that was collected earlier in the year. Hotel guests participating in the survey were asked to record their perceptions of the hotel's service quality on all five service quality dimensions. Respondents were asked to rate the hotel on a 1 to 7 Likert scale ranging from 1 (strongly disagree) to 7 (strongly agree). Typically, the higher the number guests recorded, the more favorable the perception of the hotel's service quality on each dimension. Guests were asked to rate the hotel on their perception of the hotel's tangibles (rooms, dining facilities, lounges, etc.), reliability, responsiveness, empathy, and assurance. Results were presented as follows:

	Customer Perceptions
Tangibles	6.2
Reliability	5.8
Responsiveness	6.1
Empathy	5.3
Assurance	5.0

Discussion Questions

- 1. Based on Rafa’s Day 1 observations and conversation with Brit Spencer, provide examples of the service quality gaps (e.g., knowledge, standards, delivery, communications, and service) that are evident at the Secrets Rivera Resort.
- 2. Given the customer perception information that was provided by the general manager on Day 2, which

one dimension of service quality should Rafa try to improve first? Please explain your answer.

- 3. After further reviewing files left by their predecessor, Rafa found that customer expectation data was also collected and yielded the following information. How does this affect the decision you made in answering question #2?

	Customer Expectations
Tangibles	6.4
Reliability	6.5
Responsiveness	6.8
Empathy	5.5
Assurance	5.0

- 4. What other piece of information does Rafa need to make sure that efforts to improve the service quality of the resort have started in the right direction?

Chapter 13

The Art of Service Failure and Recovery Management



Stockbyte/Jupiterimages/Getty Images

Chapter Objectives

After reading this chapter, you should be able to:

1. Explain the psychology of complaining behavior including the types of complainers and the types of complaints.
2. Identify the six steps of a service recovery management program
3. List the basic rules of thumb of successful service recovery practices

The major objectives of this chapter are to introduce the concepts pertaining to complaint and service recovery management.

Cancellations and Delays: Troubles in The Skies Above¹

The Covid pandemic and its subsequent effects on just about everything else has led to strained relationships between struggling businesses and frustrated customers. Nowhere is this more evident than the problems that have plagued the worldwide airline industry. For example, throughout the July 4, 2022 holiday weekend, over 3,000 U.S. flights were canceled and thousands of more flights were delayed due to issues associated with the overscheduled airlines, staff shortages, gate availability for arriving passengers, and security checkpoint delays for departing passengers.² Airports in Lisbon, Frankfurt, Dublin, and Amsterdam experienced similar problems to the point that

the Netherlands stop selling any additional tickets through the remainder of the month. The situation has become so problematic that governments are now stepping in to protect passenger rights.

Case in point, the U.S. Department of Transportation (DOT) has now proposed stricter rules for airline refunds after a surge in passenger complaints. At the start of the pandemic, the DOT received 102,560 complaints of which 87 percent of complaints pertained to airline refunds. In the following year, registered complaints to the DOT fell to 49,958 but the majority of complaints (60 percent) continued to focus on airline refund policies. In 2022, the DOT proposed that passengers are “entitled to a refund if their flights are cancelled or “significantly” changed or delayed and they choose not to travel.” Significant changes include delayed departure/arrival times that exceed three hours on domestic flights and six hours for international flights, routing changes, alternative flight arrangements that include additional connections, and changes in aircraft that result in a “significant downgrade” in amenities or other features. In

addition, the DOT proposal insists that airlines that provide flight credits or vouchers do so without expiration dates for passengers impacted by the COVID-19 pandemic, including lockdowns, travel restrictions or personal health reasons.

13-1 Introduction

Despite a service firm's best efforts, unhappy customers are inevitable. Airlines are sometimes late, restaurant meals are not always cooked to perfection, and hotel employees are occasionally inattentive. On the flip side, some customers are just plain unreasonable and will never be pleased. Don't give up! Developing an indifferent attitude or accepting unhappy customers as a part of everyday business can be "the kiss of death." Customers are quick to reward with their loyalty companies that genuinely care about their concerns, and they are equally quick to punish unresponsive companies. Given the availability of YouTube, Facebook, Twitter, Instagram, texting, and email, customers can spread the news of their discontent. This can snowball quickly as other unhappy customers join in and publicly voice their unhappiness with the offending firm. Ultimately, the secrets to win over unhappy customers are to take a proactive stance to reduce the occurrence of **service failures** and to equip employees with a set of effective **service recovery** tools to repair the service experience when failures do occur.

The reasons failures are inherent in the service encounter are directly related to the unique characteristics that distinguish services from goods. Due to intangibility, customer comparison of perceptions to expectations is highly subjective; consequently, not all customers are going to be satisfied given their individual expectations and the individual perceptions of the world around them. Due to heterogeneity, variations in the service delivery process are going to occur, and not every service encounter is going to be identical to the last. As a result, customers openly wonder why their past experiences with a firm are not quite the same as their current experiences. The unique service characteristic of perishability provides another source of potential problems. Due to perishability, supply and demand problems are a common occurrence within service firms, which in turn causes customers to wait for service. When the wait becomes excessive, customers become unhappy. Finally, the unique service characteristic of inseparability often places the service provider in a face-to-face interaction with the customer, which provides a Pandora's Box of service failure possibilities. In

fact, service providers' face-to-face contacts with customers has been termed "critical incidents" or "moments of truth," highlighting the importance of the possible gains and losses that may result due to this interaction. Research indicates that nearly two-thirds of all customers who defect from a service firm do so because of an interaction gone wrong with one of the firm's employees.³

13-2 The Psychology of Customer Complaining Behavior

In a striking example of the impact of service failures, customers were asked: "Have you ever been so upset at an employee or firm that you said, 'I'll never go into that store or buy that brand again, and you haven't?'" Researchers found that they had to limit respondents to relaying only three incidents to keep the interview time reasonable. The oldest incident had happened more than 25 years ago, and 86 percent of the incidents were more than five years old. Apparently, customers are not prone to "forgive and forget" when it comes to customer service failures!

The consequences of service failures can be substantial. The vast majority of respondents in the survey (87 percent) indicated that they were still somewhat or very emotionally upset and were more upset about the treatment they received from employees than about the store or product performance. More than three-quarters of respondents indicated that they had engaged in negative word-of-mouth communications regarding the incident (46 percent claimed that they had told "lots of people"). Finally, true to form in what is typical customer complaint behavior today, only 53 percent had voiced their complaint to the store, even though 100 percent defected to other firms.⁴

Most companies cringe at the thought of customers who complain, while other companies look at complaints as a necessary evil in conducting business. The truth of the matter is that every company should encourage its customers to complain. Complainers are telling the firm that it has operational or managerial problems that need to be corrected. Hence, complainers are offering the company a free gift; that is, they act as consultants and diagnose the firm's problems—at no fee.⁵ Moreover, complainers provide the firm with the chance to reestablish a customer's satisfaction. Most importantly, complainers are more likely to do business with the firm again than are noncomplainers. Consequently, successful firms view complaints as an opportunity to satisfy unhappy customers and prevent defections as well as unfavorable word-of-mouth communications.⁶

It's not the complainers the company should worry about, it's the noncomplainers! Customers who do not express their complaints to the service firm are already gone or ready to leave for the competition at any moment. In fact, 63 percent of dissatisfied customers who do not complain and who have purchased goods or services costing \$1 to \$5 will defect to a

service failures

Breakdowns in the delivery of service; service that does not meet customer expectations.

service recovery

A firm's reaction to a complaint that results in customer satisfaction and goodwill.

competitor. Even more disturbing, as purchases exceed \$100, the defection rate approaches 91 percent.⁷ Of the countless books and articles that have been written about handling customer complaints (a recent Google search yielded over 86,000,000 results), the common theme of actively soliciting customer complaints becomes of paramount importance. Although many customers may complain to friends, family, and other acquaintances, complaining directly to the offending business happens far less often than one would think. Furthermore, customer complaining behavior and recovery expectations may differ depending on the customer's culture, as is the case with Chinese customers who are seeking *junzi* while maintaining the states of *lian* and *mianzi* (see Global Services in Action).

13-2a Types of Complaints

In general, complaining is often defined as “expressing discontent, dissatisfaction, protest, resentment, or regret.”⁸ Complaining is different from criticism. Complaining expresses a dissatisfaction within the complainer, while criticism may be an objective and dispassionate observation about a person or object. Based on past research in consumer psychology, it becomes quickly apparent that not all complaints are created equal. For example, complaints can be instrumental or noninstrumental.⁹ **Instrumental complaints** are expressed for the purpose of altering an undesirable state of affairs. For instance, complaining to a waiter about an undercooked steak is an instrumental complaint. In such a case, the complainer fully expects the waiter to take action in order to correct the situation. Interestingly, and perhaps sadly, research indicates that instrumental complaints make up only a very small number of the millions of complaints that are voiced every day.

In contrast, **noninstrumental complaints** are voiced without any expectation that the undesirable state will be altered. These kinds of complaints are voiced much more often than are instrumental complaints. For example, complaints about the weather such as, “It’s too hot!” are voiced without any real expectation that conditions will change. Another type of noninstrumental complaint is an instrumental complaint that is voiced to a second party, and not to the offending source. For example, complaining to a friend about the poor condition of a hotel room is a noninstrumental complaint. The friend is most likely not going to take it upon him/herself to fix the condition of the room, nor does the person who voiced the complaint expect the friend to do so.

instrumental complaints

Complaints expressed for the purpose of altering an undesirable state of affairs.

noninstrumental complaints

Complaints expressed without expectation that an undesirable state will be altered.

Types of complaints also vary based on who the complainer believes is the source of the problem. Accordingly, complaints can be categorized as ostensive or reflexive. **Ostensive complaints** are directed at someone or something outside the realm of the complainer. “The chef overcooked this steak!” In other words, the source of the problem is perceived as someone other than the complainer. In contrast, **reflexive complaints** are directed at some inner aspect of the complainer. “I wasn’t clear about how I wanted my steak to be prepared.” In contrast to ostensive complainers, reflexive complainers blame themselves as the primary source of the problem. Perhaps not surprisingly, most customers voice ostensive complaints. Research indicates that this phenomenon occurs for two reasons. First, people generally avoid making negative comments about themselves so as not to reinforce negative self-esteem. Second, people seldom want to convey negative attributes about themselves to others. Stew Leonard of Stew Leonard’s Dairy learned this lesson long ago when he first opened his legendary grocery store. The store has been deemed by Ripley’s Believe It or Not to be “The World’s Largest Dairy,” and *Fortune Magazine* has selected the business as one of the top “100 Businesses to Work For.” Customers entering the store see a large three-ton boulder just outside the store engraved with two simple rules: Rule #1: The Customer is Always Right! and Rule #2: If the Customer is Ever Wrong, Reread Rule #1. Stew Leonard learned that when customers are unhappy about a situation (even if the customer is mistaken) what really matters is who the customer perceives is the source of the problem. The bottom line is that most complainers live in an ostensive world,



A customer voicing a complaint to an employee is most likely making an ostensive and instrumental complaint.

Source: <https://afrotech.com/7-complaints-about-black-businesses-from-black-consumers-and-how-you-can-avoid-them>

ostensive complaints

Complaints directed at someone or something outside the realm of the complainer.

reflexive complaints

Complaints directed at some inner aspect of the complainer.

Global Services in Action

Service Failures and Recovery Strategies: A Chinese Perspective¹⁰

Effective service failure and recovery management practices need to be culturally relevant. This is particularly true in the hospitality sector where there is a high level of human interaction among hotel staff and guests with diverse cultural backgrounds. Ultimately, effective service recovery involves restoring the balance between customer expectations and perceptions. Consequently, understanding the influence of cultural background on expectations and perceptions is vital. Past studies have reported cultural differences in evaluating service quality, complaint behavior, and perceptions of service failure and service recovery effectiveness.

The Chinese are a prime example of how cultural differences affect expectations and perceptions about service failures and recovery strategies. For example, people in many eastern cultures (including China) may attribute the cause of a service failure to external forces such as luck or fate rather than accuse a service provider directly. Such an attribution would maintain a harmonious relationship and avoid conflict. More specifically, the Chinese appear to rely on five key value themes when evaluating the effectiveness of service recovery strategies.

1. **Face Protection**—the protection of one's own or other people's reputations. Face protection is comprised of *lian* (an individual's moral reputation) and *mianzi* (honor individuals may claim from their achievements and success). The value theme of face protection illustrates the heightened importance of interactional justice for Chinese customers. Service firms need to address negative situations in a very sensitive manner.
2. **Equity**—the desire to be treated fairly. Similar to western cultures, the Chinese compare the service received

with the costs involved. If there is an imbalance, customers expect to be compensated for their loss. The value theme of equity illustrates the importance of distributive justice.

3. **Valued Customers**—to be respected as valued customers in service exchange relationships. A valued customer feels accepted, regardless of racial and economic background. When failures occur, valued customers receive an apology, providers are polite and courteous, and providers expend effort to recover. In addition, customers are made to feel they have a genuine concern, are treated with honesty, and their rights are respected.
4. ***Junzi* Aspiration**—to strive to live with the values of compassion, kindness, and other benevolent qualities. For example, a customer with a *junzi* behavior believes that “respect is gained by not being too aggressive toward others.” In other words, in service failure situations, Chinese customers may behave in a nonconfrontational manner in order to preserve their *junzi* image.
5. **Social Harmony**—the desire to relate in a harmonious manner when disputes occur. Harmony is obtained by both sides of a dispute displaying goodwill, diplomacy, patience, understanding, and tolerance toward one another.

When the five values are considered together, four of the five demonstrate the importance of interactional justice to the Chinese culture. Hospitality firms that serve Chinese clientele should emphasize the interactional component of service recovery when service failures occur.

and service providers should be grateful when customers voice instrumental complaints!

13-2b Types of Complainers

Before we launch into a discussion about “Why Do” and “Why Don’t” customers complain, it is worthwhile to understand that there are different types of complainers in the world. According to one of the most recent reviews on the topic, at least five types of complainers can be identified.¹¹

- **The Meek Customer**—a customer who generally never complains. The primary strategy for responding to meek customers is to actively solicit comments from the customer and act appropriately to resolve the complaint. The customer may not be saying anything negative, but trained service providers typically can recognize the non-verbal signs of dissatisfaction when something is wrong.
- **The Aggressive Customer**—the alter ego of the meek customer. This customer complains on a regular basis, often at length and often loudly enough for everyone else to hear. Response recommendations for this customer include listening completely to everything they have to say, agreeing that indeed a problem does exist, providing

no excuses, indicating what will be done to resolve the problem and when it will be resolved, and asking “what else?” This indicates that the firm is ready to go the extra mile to satisfy the customer. Given the loudness factor of the aggressive customer, providers may also consider inviting aggressive customers “off stage” away from other customers to avoid negatively affecting the experience of others.

- **The High-Roller Customer**—a customer who expects the best and is willing to pay for it. Unless this customer is a hybrid of the aggressive customer with money, high-roller customers typically complain in a reasonable manner. The appropriate responses to the complaints of a high-roller are very similar to the response recommendations for the aggressive customer—listen carefully, no excuses, ask questions to determine the real cause of the problem, and respond appropriately. There is typically no need to isolate this customer from others since this customer complains in a reasonable manner.
- **The Rip-Off Customer**—a customer who wants more than they are entitled to receive. The rip-off customer typically can be quickly identified with a constant and repetitive response of “not good enough” for any solution that the service firm offers to resolve the problem.

Appropriate responses for this customer can range from letting the customer walk away unhappy to allowing the customer to dictate the appropriate recovery effort. Simply asking the customer, “What can we do to make things right?” places the recovery solution in their hands.

- **The Chronic Complainer Customer**—a customer who is never satisfied yet continues to return. Chronic complainer customers will test the patience of any service provider, but they should not be ignored. The chronic complainer will accept an apology and appreciate any efforts to correct the situation. Chronic complainers are often looking for a sympathetic ear and will spread positive word-of-mouth referrals when problems are resolved.

The types of complainers listed here are general in nature and may very well cut across the various service sectors. However, some industries have created their own “Types of Complainers.” For example, the hotel industry has identified seven types of complainers, including “People with Ruined Dreams,” “Face-savers,” “Freebie-lovers,” “Wounded-warriors,” “Martyrs/passive-aggressives,” “The Loyal Customers,” and “The Truly Injured.”¹² It should also be noted at this time that customers should not always be kept happy regardless of the cost. Truly, some customers are more important than others, and the service firm needs to decide which customers should be retained and which should be allowed to take their business elsewhere.

13-2c Why Do Customers Complain?

The reasons customers complain are directly related to the type of complaint voiced. In the case of the instrumental complaint, the reason a customer complains is pretty clear. The complainer wants the undesirable situation to be corrected. In contrast, the reasons customers complain are not as obvious when it comes to noninstrumental complaints. Psychological experts believe that noninstrumental complaints occur for several reasons. First, complaining serves a function much like the release of a pressure valve—it provides the complainer an emotional release from frustration. In essence, complaints provide people with a mechanism for venting their feelings.

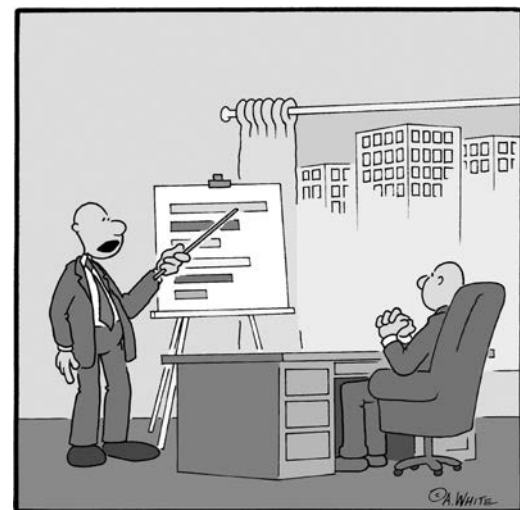
Complaining behavior is also seen as related to control. More specifically, complaining serves as a mechanism for the complainer’s desire to regain some measure of control. Control is reestablished if the complainer can influence other people’s evaluations of the source of the complaint. For example, negative word of mouth spread by the complainer for the purpose of taking revenge on an offending business provides the complainer some measure of control through indirect retribution.

A third and fourth reason people complain to others (non-instrumental complaints) is to solicit sympathy and test for consensus on the complaint, thereby validating the complainer’s subjective evaluation of the events that led to the complaint in the first place. In other words, the complainer wants to know whether others would feel the same way under similar circumstances. If they would, the complainer then feels justified in having voiced the complaint.

Finally, complainers may complain simply to create an impression. As strange as it may seem, complainers are often considered to be more intelligent and discerning than noncomplainers (e.g., Simon Cowell, the most critical judge on *American Idol* and *America’s Got Talent*).¹³ The implication is that the complainer’s standards and expectations are higher than those of noncomplainers. For example, most of us have friends who are particularly prone to complain more than others. Although, we may grow weary of their constant complaining behavior, we do take notice when these chronic complainers actually voice happiness with a service provider or firm. As a result, the recommendations of chronic complainers tend to carry more weight than the average person. Service firms may actively solicit complaints from chronic complainers given the value of the word-of-mouth these people may generate.

13-2d Why Don’t Customers Complain?

We know that a great percentage of customers never complain to the offending party, but why is this so? Moreover, service customers are less likely to complain than customers of goods. A greater percentage of services’ problems than goods’ problems are not voiced “because potential complainers do not know what to do or think that it wouldn’t do any good.”¹⁴ This situation is directly attributable to the intangibility and inseparability inherent in the provision of services. Due to intangibility, evaluation of the service delivery process is primarily subjective. Consequently, customers often lack the security of making an objective observation and may doubt their own subjective evaluations. For example, customers of home remodeling services often have a difficult time assessing the competence and quality of work completed by service providers such as painters, electricians, and hardwood floor installers.



"Contrary to popular opinion, most people's opinions aren't so popular."

Although a firm may never hear from unhappy customers and may foolishly believe everything is fine, a great number of customers may actually be unhappy.

Due to inseparability, customers often provide inputs into the process. Hence, given an undesirable outcome, customers may place much of the blame upon themselves for failing to convey to the service provider a satisfactory description of the level and type of service desired. In addition, inseparability encompasses the often face-to-face interaction between the customer and the service provider, where the customer may feel uncomfortable about complaining because of the physical presence of the provider. A classic example would involve the interaction between a customer and a hair stylist. The customer tried to convey directions to the new hair stylist, but in the end the customer was not happy with the result. The customer may blame himself for not accurately articulating their needs and wants, and they may shy away from having a direct confrontation with the stylist.

Finally, many services are technical and specialized. Customers may not feel adequately qualified to voice a complaint for fear that they lack the expertise to evaluate the quality of the service. For example, most customers feel they lack the technical expertise to evaluate the competence of their physicians, accountants, lawyers, and/or auto mechanics. A summary of why customers “Do” and “Don’t” complain is provided in Table 13-1.

13-2e Complaining Outcomes

In general, complaining behavior results in three outcomes: voice, exit, and retaliation.¹⁵ **Voice** refers to an outcome in which the customer verbally communicates dissatisfaction with a specific service provider or providing firm. *High voice* means that the communication is expressed to the manager or someone higher in the organizational hierarchy than the actual provider. *Medium voice* occurs when the customer communicates the problem to the person providing the service. *Low voice* occurs when the customer does not communicate the problem to anyone associated with the providing firm, but may be relaying the problem to others—a classic case of noninstrumental complaining.

voice

A complaining outcome in which the customer verbally communicates dissatisfaction.

Exit, the second type of complaining outcome, describes the degree to which a customer stops patronizing the service firm. *High exit* occurs when the customer makes a conscious decision never to purchase from the firm again. *Medium exit* reflects a customer’s conscious decision to try not to use the service firm again if at all possible. In other words, customers will seek out and purchase from alternative providers whenever available. *Low exit* means that the customer does not change their purchasing behavior and continues to purchase the firm’s services as usual.

The third type of complaint outcome is **retaliation**, the situation in which a customer takes action deliberately designed to either damage the physical operation or hurt future business. *High retaliation* involves the situation where the customer physically injures the service provider or damages the firm or goes out of their way to communicate negative aspects about the business to others. In *medium retaliation*, the customer creates minor inconveniences for the firm or perhaps tells only a few people about the incident. *Low retaliation* involves no retaliation at all against the provider or firm, and perhaps consists of only minor negative word of mouth.

Interestingly, the three complaining outcomes are not mutually exclusive and can be considered to be three aspects of one behavior that may occur simultaneously. Experiencing high levels of all three outcomes simultaneously can result in explosive behavior. For example, in one high-high-high example, the customer shouted his dissatisfaction at the clerk and the store manager, vowed never to buy at the store again, went out of the store, got in his car, and crashed through the front doors of the store, through the checkout counter and between two lines of shelving, destroying everything in its

exit

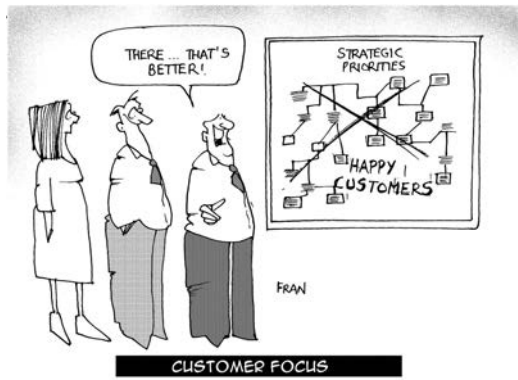
A complaining outcome in which the customer stops patronizing the store or using the product.

retaliation

A complaining outcome in which the customer takes action deliberately designed to damage the physical operation or hurt future business.

Table 13-1 Why Customers “Do” and “Don’t” Complain

Why Customers “Do” Complain	Why Customers “Don’t” Complain
To correct an undesirable situation	Don’t think it will change anything
An emotional release from frustration	Don’t know who to complain to
To regain some measure of control	May accept part of the blame themselves
Solicit sympathy	Doubt their own subjective evaluation
Test for consensus	May lack technical or specialized expertise
To create an impression of being more intelligent or discerning	May feel uncomfortable about complaining in a face-to-face exchange



An effective service recovery management program focuses the organization's strategic priorities on reestablishing customer satisfaction once a failure has occurred.

path.¹⁶ In contrast, a customer who displays high-voice, low-exit, and low-retaliation behavior would typify the chronic complainer who nevertheless continues to purchase from the firm as usual.

13-3 Developing a Service Recovery Management Program

Service managers and personnel are facing intensive customer service pressures now more than ever. Customers are

more informed, their expectations for quality service are high, and the state of the economy has heightened their sensitivity to poor service. When a service failure does occur, the service provider's reaction can either reinforce a strong customer bond or change a seemingly minor distraction into a major incident. Consequently, it is imperative that managers have an established service recovery management program in place to overcome possible service failures.

By formalizing a service recovery management program (see Figure 13-1) firms can develop a step-by-step process consisting of both “**mechanistic**” and “**organic**” components that assist the firm in efficiently and effectively recovering from service failures.¹⁷ Mechanistic approaches to service recovery pertain to formalized step-by-step processes that are developed to facilitate the firm's failure analysis and service recovery efforts. In contrast, organic approaches to service recovery are informal sets of values and beliefs that comprise the firm's service recovery culture.

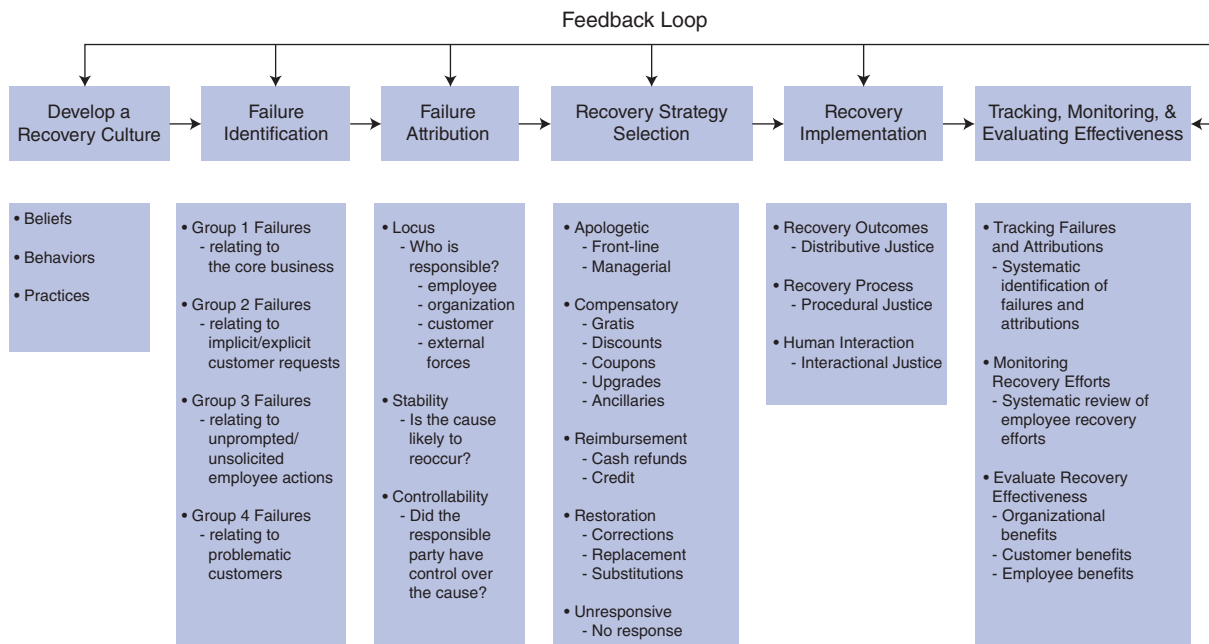
mechanistic processes

Formalized step-by-step processes that are developed to facilitate the firm's failure analysis and service recovery efforts.

organic processes

Informal sets of values and beliefs that comprise the firm's service recovery culture.

Figure 13-1 Developing a Service Recovery Management Program



13-3a Step 1: Developing a Positive Internal Recovery Culture

The first step in developing an effective service recovery management program is instilling a **service recovery culture** throughout the firm.¹⁸ Developing a recovery culture can be described as an organic approach to service recovery. Organic recovery cultures are not formalized or systematized, they are simply an informal set of beliefs, behaviors, and practices that set the tone for how the firm wishes to address customer complaints. A positive internal recovery culture reflects the supportiveness of the firm's internal environment with respect to complaint handling. A negative recovery culture dooms service recovery efforts before they ever get off the ground. Case in point, Japan's Mitsubishi Motors. For decades, Mitsubishi employees have apparently been going to great lengths to hide customer complaints. Letters had been hidden in boxes, in changing rooms, behind lockers, and stashed in secret computer files. The primary reason for the cover-up appears to be cultural. Eventually, the company's president stood before the world press, took a deep sigh and an even deeper bow of apology as he confessed to the company's systematic and deliberate attempts to avoid the recall of over 800,000 of its defective vehicles. "We were ashamed of reporting recalls," said the company's president, Katsuhiko Kawasoe. The cost of the recall to the company was estimated to be in the tens of millions; however, the damage to its reputation and brand name was much worse.¹⁹

service recovery culture

An informal set of beliefs, behaviors, and practices that set the tone for how the firm wishes to address customer complaints.

Great service recovery cultures start at the top with the firm's upper management. The firm's leadership must "walk the talk" and facilitate as opposed to hinder the firm's service recovery efforts. A positive recovery culture consists of top managers recognizing that service failures do occasionally occur, providing the training and tools necessary for service personnel to recover effectively from service failures, and making service recovery a top priority for the firm. Traditionally, new employee training programs focus on how to deliver service right the first time. It's almost as if the trainers believe that "failure is not an option." Service firms need to recognize that the occasional service failure is a distinct possibility, and that simply ignoring this fact is likely to make failure situations even worse. Firms that develop a positive internal recovery culture recognize the need to openly discuss the possibility of service failures and the company's desire to retain customers through effective service recovery strategies.

13-3b Step 2: Service Failure Identification

Service firms with positive internal recovery cultures (organic approach) are likely to develop formalized processes (mechanistic approach) for analyzing and learning from past service failures to minimize their future occurrence. Consequently, the second step in implementing a service recovery management program is failure identification. Although a firm may receive hundreds/thousands of customer complaints about perceived service failures throughout a year, ultimately these complaints can be systematically categorized into employee responses to one of four main groups: (1) core service delivery system failures, (2) failures relating to customer needs and requests, (3) failures relating to unprompted and unsolicited employee actions, and (4) failures relating to problematic customers (see Table 13-2).²⁰

Table 13-2 The Four Types of Service Failure Identification

Primary Failure Type	Failure Subgroups
Service Delivery System Failures	Unavailable Service Unreasonably Slow Service Other Core Service Failures
Customer Needs and Requests	"Special Needs" Customers Customer Preferences Admitted Customer Error Disruptive Others
Unprompted/Unsolicited Employee Actions	Level of Attention Unusual Action Cultural Norms Gestalt
Problematic Customers	Drunkenness Verbal and Physical Abuse Breaking Company Policies Uncooperative Customers

Sources: Adapted from Mary Jo Bitner, Bernard H. Booms, and Mary Stanfield Tetreault, "The Service Encounter: Diagnosing Favorable and Unfavorable Incidents," *Journal of Marketing*, (January 1990): 71–84; Mary Jo Bitner, Bernard H. Booms and Lois A. Mohr, "Critical Service Encounters: The Employee's Viewpoint," *Journal of Marketing*, 58, (October 1994): 95–106.

Core Service Delivery System Failures **Core service failures** are failures that relate directly to the fundamental service offering. For example, airlines that do not depart on time, hotels that do not adequately clean their guest rooms, and insurance firms that do not process their claims in a timely manner are all guilty of core service delivery system failures. In general, core service delivery system failures consist of employee responses to three types of failures: (1) unavailable service, (2) unreasonably slow service, and (3) other core service failures. *Unavailable service* refers to services normally available that are lacking or absent. *Unreasonably slow service* concerns services or employees that customers perceive as being extraordinarily slow in fulfilling their function. Finally, *other core service failures* encompass all other core service failures. This category is deliberately broad to reflect the various core services offered by different industries, such as financial services, health care, insurance, travel and tourism, retail, and so on. Each industry contains its own unique set of core service issues. For example, core service failures that pertain to the “other” category relating to the restaurant industry may include cooking issues, facility problems, unclear company policies, and out-of-stock conditions.

Failures Relating to Customer Needs and Requests

The second type of failure category, **customer needs and requests**, pertains to employee responses to individual customer needs and special requests. Customer needs can be implicit or explicit. *Implicit needs* are not requested. For example, a customer with disabilities seated in a wheelchair should not be led to an elevated booth in a restaurant. In contrast, *explicit requests* are overtly requested. A customer who asks for their steak to be cooked medium-rare and who would like to substitute mashed potatoes for the baked potato listed on the menu is making explicit requests.

In general, customer needs and requests consist of employee responses to four types of possible failures: (1) special needs, (2) customer preferences, (3) customer errors, and (4) disruptive others. Employee responses to *special needs* involve complying with requests based on a customer’s special medical, dietary, psychological, language, or sociological difficulties. Preparing a meal for a vegetarian would fulfill a “special request.” Employee responses to *customer preferences* require the employee to modify the service delivery system in some way that meets the preferred needs of the customer. A customer request for a substitution

at a restaurant is a typical example of a customer preference. An employee response to a *customer error* involves a scenario in which the failure is initiated by an admitted customer mistake (e.g., lost tickets, lost hotel key, forgot to tell the waitress to “hold the tomato”). Finally, employee responses to *disruptive others* require employees to settle disputes between customers, such as requesting patrons to be quiet in movie theaters or asking that smoking customers not smoke in nonsmoking designated areas.

Unprompted/Unsolicited Employee Actions The third type of service failure, **unprompted and unsolicited employee actions**, pertains to events and employee behaviors that are totally unexpected by the customer. These actions are not initiated by the customer via a request, nor are they part of the core delivery system. Subcategories in this group include: (1) level of attention, (2) unusual action, (3) cultural norms, (4) gestalt, and (5) adverse condition.

Within the failure group of unprompted or unsolicited employee action, the subcategory of *level of attention* refers to employees who have poor attitudes, employees who ignore a customer, and employees who exhibit behaviors consistent with an indifferent attitude. Level of attention failures can also occur when employees pay too much attention to the customer to the point that the customer feels uncomfortable. Examples of too much attention might include an employee who flirts with the customer or an employee who “stalks” a customer, mistakenly believing that customer is a potential shoplifter.

The *unusual action* subcategory can also reflect positive and negative events. For example, a Domino’s employee happened to see a family searching through the burnt-out remains of their house while making a delivery to another customer in the area. The employee reported the event to the manager, and the two immediately prepared and delivered pizzas for the family free of charge. The family was stunned by the action and never forgot the kindness that was extended toward them during their time of need. Unfortunately, an unusual action can also be a negative event. Employee actions such as rudeness, abusiveness, and inappropriate physical contact would qualify equally as unusual actions.

The *cultural norms* subcategory refers to actions that either positively reinforce cultural norms such as equality, fairness, and honesty, or violate the cultural norms of society. Violations would include discriminatory behavior, acts of dishonesty such as lying, cheating, and stealing, and other activities considered unfair by customers. Infringing on a customer’s personal space as a result of cultural norms would also qualify.

core service failures

Failures in the core service offering of the firm, including unavailable service, unreasonably slow service, and other core service failures.

failures relating to customer needs and requests

Service failures relating to the implicit and explicit needs of customers, including special needs, customer preferences, customer errors, and disruptive others.

failures relating to unprompted/unsolicited employee actions

Failures relating to level of attention, unusual employee actions, violations of cultural norms, gestalt, and responses to adverse conditions.

The *gestalt* subcategory refers to customer evaluations that are made holistically; that is, the customer does not describe the service encounter as discrete events but uses general phrases such as “the whole experience was terrible.” A comment such as, “It is almost unbelievable how poorly we were treated by the employees of your airline, almost a perfect negative case study in customer service,” would be a classic example of a *gestalt* failure.

Finally, the *adverse conditions* subcategory covers positive and negative employee actions under stressful conditions. If an employee takes effective control of a situation when all others around him or her are “losing their heads,” customers are impressed by the employee’s performance under those adverse conditions. In contrast, if the captain and crew of a sinking ship board the lifeboats before the passengers, this obviously would be remembered as a negative action under adverse conditions.

Problematic Customers The fourth and final service failure type involves instances where neither the employee nor the service firm is at fault for the service failure. In these situations, the cause of the service failure lies with the customer’s own misbehavior. Service failures involving **problematic customers** include: (1) drunkenness, (2) verbal and physical abuse, (3) breaking company policies, and (4) uncooperative customers. Problematic customer behavior involving *drunkenness* occurs when the intoxicated customer’s behavior adversely affects other customers, service employees, or the service environment in general. In one incident, numerous members of a company sales group became intoxicated while drinking on the plane. The captain quickly cut off liquor sales, but the group continued to drink by opening their own personal bottles of liquor that they had purchased at the duty-free shop before boarding.²¹ *Verbal and physical abuse* causes problems when the customer verbally or physically abuses either the employee or other customers. For example, if a lovers’ quarrel breaks out in the middle of a restaurant and the couple begins screaming and/or striking one another, this situation would qualify as verbal and physical abuse. A customer who *breaks company policies* refuses to comply with policies employees are trying to enforce. For example, a queuing policy or a no-substitution policy that is ignored by a customer would create a problematic situation. Finally, an *uncooperative customer* is one who is generally rude, uncooperative, and unreasonably demanding. Regardless of how the service employee tries to appease this customer, the effort is typically futile. The customer simply will not be pleased.

Failures relating to problematic customers

Failures relating to the customer’s own misbehavior, including drunkenness, verbal and physical abuse, violations of company policies, and uncooperative customers.

13-3c Step 3: Service Failure Attribution

The third step in developing a service recovery management program is failure attribution. In order to learn more from the types of failures identified, service firms that excel at recovery efforts also systematically determine the source or attribution of the failure. Hence, failure attribution becomes our second mechanistic approach to service recovery. Understanding customer attributions of failures assists the firm in tracking the perceived sources of failures and facilitates subsequent steps in the service recovery management program such as what to offer customers and how to offer it to them. Attributions for failure situations are typically broken down into locus, stability, and controllability assessments.

- **Locus**—Who is responsible for the failure? Is the source of the failure the service provider, the service firm, the customer, or some external force?
- **Stability**—Is the cause of the failure likely to recur? Is this a one-time incident (unstable), or is the cause of the failure likely to recur (stable)?
- **Controllability**—Did the responsible party have control over the cause of the failure?

Locus pertains directly to the source of the failure. For example, typical sources for service failures may include the service provider (e.g., rude, apathetic, incompetent), the service firm itself (e.g., unfriendly policies, negative internal recovery culture), the customer (e.g., failed to make a reservation, failed to follow directions) or external forces (e.g., natural forces such as bad weather, or economic forces such as a recession). It should be noted that the service firm’s locus of a failure situation may be quite different from the customer’s perceived locus of the problem. The firm’s own diagnosis of the problem helps the firm to minimize future occurrences of the problem if possible. Ultimately, the customer’s perception of who’s to blame dictates their reaction to the failure and sets their recovery expectations. For example, online customers are more likely to attribute the source of the problem to their own performance, whereas customers of “brick and mortar” stores are more likely to blame the store or employees for their service problems. Research reports that customers who perceive that contact personnel are the source of the failure increase their registered complaints to the firm, engage in negative word-of-mouth about the firm to others, suffer from decreased customer satisfaction, and maintain higher recovery expectations.²²

Stability attributions pertain to the likelihood that the service failure will reoccur. From the firm’s point of view, if

locus

A service failure attribution pertaining to the possible source of the failure including the service provider, the firm, the customer, or external forces.

stability

A service failure attribution pertaining to the likelihood the service failure will recur.

the service failure is diagnosed as a rare event, the firm is not likely to invest a lot of time and resources to fix the source of the problem. On the other hand, service failures that are likely to reoccur often should receive immediate attention. From the customer's perspective, the perceived stability of the failure situation influences their recovery expectations. In cases where the customer believes the cause of the failure is likely to reoccur, customers prefer refunds rather than exchanges, believing that accepting an exchange will just result in another failure. When they believe the failure is a random one-time event, customers readily accept an exchange as a solution to the failure situation in anticipation of future satisfaction.²³

Controllability attributions address whether the firm had control over the cause of the failure situation. Much like stability assessments, the time and effort the firm is willing to invest in correcting the source of the failure is based on whether the firm believes it can control future outcomes. For example, if the cause of the failure situation was a weather event that caused a power outage in a restaurant on a busy night, there may be little the restaurant can do to ensure that the situation never happens again. Once again, customer perceptions of the controllability issue may differ from the firm's assessment. Customers who experience a service failure that they believe is preventable (controllable) tend to be angrier, have lower repurchase intentions, and have a greater desire to actively voice their dissatisfaction.²⁴ Customer attributions of failures greatly influence their recovery expectations. Service recovery training should highlight the importance of understanding customer attributions along the three principal dimensions of locus, stability, and controllability and their relevance to recovery strategy selection and implementation.

13-3d Step 4: Recovery Strategy Selection

The fourth step in developing a service recovery management program pertains to recovery strategy selection.²⁵ Service firms that systematically track the attributions of service failures are also likely to identify formally the types of recovery strategies that are available to the service organization. As a result, recovery strategy selection is another mechanistic approach to a firm's recovery efforts, along with the steps of service failure identification and failure attribution. Recovery strategies involve the actions service providers take in response to failure situations. For example, a restaurant may quickly replace a customer's meal if the original meal was cooked incorrectly, or a bank may recoup service charges for ATM withdrawals if the customer was misinformed. Recovery tactics generally fall within five broad recovery strategy categories—compensatory, restoration, apologetic, replacement, and unresponsive.

controllability

A service failure attribution pertaining to whether or not the firm had control over the cause of the failure.

Although each tactic contains subtle differences from the next, customer evaluations of the effectiveness of the tactic may vary widely (see *Services for a Better World in Action*). For example, compensatory and restoration recovery tactics tend to solve the customer's original product need. In contrast, apologetic, reimbursement, and unresponsive tactics result in the original customer's need remaining unfulfilled. It is also important to note that recovery tactics can be used in isolation or in combination. A listing and description of each type of recovery strategy and tactic follows:

Compensatory strategies compensate the customer to offset the costs (e.g., emotional, monetary, time lost) of the service failure. Typically, customers get to keep the good or service provided, and/or the compensation provides added value.

- *Gratis* (e.g., customer is provided with free good/service)
- *Discount* (e.g., customer receives an immediate discount)
- *Coupon* (e.g., coupon is redeemable at a later date and tied to a future purchase)
- *Free upgrade* (e.g., upgrade from economy rental car to luxury rental car to compensate for a failure)
- *Free ancillary product* (e.g., free dinner to compensate a hotel guest for problems associated with their room)

Restoration strategies are offered to customers to offset the current failure situation by providing a new identical product, making corrections to the original product, or offering a substitute product.



Offering an airline customer a free upgrade from coach class to business class is often a welcome compensation to recover from a service failure.

compensatory strategies

A set of recovery strategies that compensate the customers to offset the costs of the service failure.

restoration strategies

A set of recovery strategies offered to offset the current failure situation by providing an identical offering, corrections to the original offering, or by offering a substitute.

- *Total replacement* (e.g., defective product is replaced with new product)
- *Correction* (e.g., defective product is repaired and returned to customer)
- *Substitution* (e.g., defective product is unwanted/unavailable and a substitute product is provided)

Apologetic strategies indicate to the customer that the firm is truly sorry for the service failure. Apologies can come from front-line providers and/or managers. Front-line apologies are typically a faster response to the failure situation; however, managerial responses are more valued by customers. When apologies are made from managers, customers feel that their complaints have been heard by personnel of importance and are justified.

- *Front-line apology* (e.g., service provider apologizes to customer)
- *Upper-management apology* (e.g., upper management apologizes to customer)

Reimbursement strategies differ from compensatory strategies in that customers typically return the product provided (if possible) and receive restitution in the form of refunds or store credits. As a result of the return requirement, the customer's original needs and/or wants remain unfulfilled. The customer must then restart their search for another provider.

apologetic strategies

A set of verbal recovery strategies involving apologies from front-line providers and/or upper-level management.

reimbursement strategies

A set of recovery strategies that provide the customer with a refund or store credit.

- *Refund* (e.g., customer is refunded the purchase price of product in cash/credit card)
- *Store credit* (e.g., customer is refunded the purchase price of product in store credit)

Unresponsive strategies describe the situation where the providing firm simply does not respond to customer complaints about service failures. Perhaps the firm has no internal service recovery culture and/or has decided that the firm has a constant stream of new customers to offset the losses of unhappy customers.

- *No response* (e.g., no response to customer complaint)

Formal training efforts pertaining to recovery strategy selection should involve discussion about the broad differences among the five recovery strategies and the subtle but significant differences among recovery tactics within each recovery strategy category. Additional training should include the service firm's preference for which recovery tactics are acceptable to both the firm and the customer. Further discussion might include whether certain recovery tactics are more applicable to certain types of failure situations and/or certain types of customers. Clearly, the idea here is that the firm doesn't always have to give away their goods or services for free. There are many other viable options that exist that not only meet or exceed the customer's recovery expectation, but also allow the firm to maintain its profit margins.²⁶

13-3e Step 5: Recovery Strategy Implementation

Once an appropriate recovery strategy has been selected, the fifth step of an effective service recovery management

unresponsive strategy

A recovery strategy in which the firm purposely decides not to respond to customer complaints.

Services for a Better World in Action

Matching Recovery Options with Customer Preferences

Ideally, service recovery tactics should match or exceed customer expectations for recovery while at the same time be linked to eventual profitable outcomes for the firm. However, research indicates the firm's service recovery efforts and customer recovery preferences are often mismatched.²⁷ Research suggests that factors such as race, gender, the length of customer/provider relationship and socio-cultural heritage influence customer recovery preferences. For example, racial differences/similarities between customers and providers moderate the perceived severity of the service failure, the emotional response, and the service recovery effort needed to successfully recover.²⁸ Moreover, compared to men, women are more satisfied with service recovery efforts when they are given the

choice among service recovery alternatives and are given the opportunity to voice their concerns during the service recovery process.²⁹

One feasible solution to match recovery efforts with customer preferences is to have the customer and the firm coproduce the service recovery solution. Research indicates that customer participation in cocreated service recovery results in higher levels of satisfaction and future purchase intentions. Coproduced recovery solutions have been found to be particularly beneficial for customers who have had an extended relationship with the firm. However, it should be noted that when coproduction of recovery efforts is viewed as extra work by the customer, coproduced recovery efforts can actually have a negative impact.³⁰

program involves the systematic (mechanistic) delivery of the service recovery strategy to the customer. Firms that formally acknowledge the service recovery strategies that are available to them also address the manner in which they are presented to the customer. Ultimately, regaining customer satisfaction is about reestablishing the balance between customer inputs and outputs and making customers feel that they have received some form of justice.³¹ Typical customer inputs into the failure situation include costs such as monetary, time, and energy. The outputs the customer receives include the value the customer places on the recovery strategy itself, the process the customer experiences to receive the recovery, and the interpersonal nature of the service recovery exchange. Accordingly, **perceived justice** consists of three components: distributive justice, procedural justice, and interactional justice.

Distributive justice focuses on the specific outcome of the firm's recovery effort. In other words, what specifically did the offending firm offer the customer to recover from the service failure, and did this outcome (output) offset the costs (inputs) of the service failure? Distributive outcomes consist

of the five recovery strategies—*compensatory, restoration, apologetic, replacement, and unresponsive*.

Procedural justice examines the process that is undertaken to arrive at the final outcome. Hence, even though a customer may be satisfied with the type of recovery strategy offered, recovery evaluation may be poor due to the process endured to obtain the recovery outcome (see E-Services in Action). For example, research has indicated that when implementing identical recovery strategies, those that are implemented “promptly” are much more likely to be associated with higher recovery effectiveness ratings and retention rates than their “delayed” counterparts.

Interactional justice refers to the interpersonal manner in which the service recovery process is implemented and how recovery outcomes are presented. In other words, interactional justice involves the courtesy and politeness exhibited by personnel, empathy extended, and effort observed in resolving the situation. Customers are frustrated by service failures; consequently, the interpersonal nature in which the

perceived justice

The process in which customers weigh their inputs against their outputs when forming recovery evaluations.

distributive justice

A component of perceived justice that refers to the outcomes (e.g., compensation) associated with the service recovery process.

procedural justice

A component of perceived justice that refers to the process (e.g., time) the customer endures during the service recovery process.

interactional justice

A component of perceived justice that refers to human content (e.g., empathy, friendliness) that is demonstrated by service personnel during the service recovery process.

E-Services in Action

United Smartphone App: Pushing Recovery Options to Passengers³²

United Airlines latest smartphone app developed by its own in-house digital team took over a year to develop. The app evolved through a series of seven different beta releases and included eight months and thousands of customer and employee trials. The final version enables United to push flight information directly to passengers including boarding passes, flight status, boarding information, gate changes, flight delay announcements, flight delay explanations, and other updates. United also pushes ConnectionSaver announcements which instruct passengers with tight connections to hurry to their next gate and provides step by step directions, so they don't get lost.

Flight delays and cancellations are particularly frustrating for passengers as it impacts other aspects of passenger travel plans such as transportation and hotel reservations at their planned destinations. Adding insult to injury, passengers of cancelled and delayed flights are often directed to the airlines customer service desk to obtain alternative travel arrangements, and/or hotel and food vouchers. At this point, the recovery process itself is a nightmare for passengers and customer service employees alike. Typically, lines at the customer service desk are long and customer

patience is short as customer service reps are overrun by a plane full of passengers often numbering into the hundreds.

In a creative attempt to resolve the complications and negativity associated with the recovery process, United now has the capability to push recovery options directly to passenger smartphones. Passengers are able to select from menu options such as alternative flight suggestions, prepaid hotel accommodations and QR code-enabled food vouchers. Pushing recovery options directly to passengers eliminates or at least minimizes the queue at the customer service desk benefitting passengers and employees alike and provides yet another example of how e-services can be effectively utilized to improve the customer experience.

Ironically, not all passengers are fans of push notifications and note United's failure to stop pushing messages when specifically requested to do so. A passenger has filed a class action lawsuit against United Airlines claiming that the push notifications excessively drain his cell phone battery and invade his privacy. This serves as an important reminder that passenger permissions to opt-in and opt-out must be effectively managed.

failure is addressed makes a big impact on how the firm's service recovery efforts are received.

The three components of distributed, procedural, and interactional justice must be taken into consideration when formulating effective service recovery strategies. Deploying recovery efforts that satisfy distributive justice needs without consideration of customer procedural and interactional justice needs may still result in customer defections. Service firms that are truly committed to the recovery process and retaining customers for life formally address all three aspects of justice dimensions into their service recovery management programs.

13-3f Step 6: Providing Feedback to Employees

Most service providers are not naturals at service recovery. When faced with service failures, many employees feel trapped between the customer's expectations for service and the company's goals of cost containment. Effective recovery strategies often require service personnel to make decisions and to occasionally break company rules—the types of behaviors that many firms prohibit their employees from initiating. The end result is a classic case of **role conflict** where employees are frustrated by company rules and regulations that tie their hands and often prevent them from effectively addressing customer needs. Moreover, due to the lack of training in recovery efforts exhibited by most firms, many employees simply do not know how to recover from service failures, resulting in **role ambiguity**. Given this scenario, the likely outcome is a poor response or no response at all to customer complaints.

Providing formalized feedback to employees about the types of service failures and failure attributions that are likely to happen prepares employees for failure situations before they actually occur. This type of feedback sensitizes employees, so they are not caught off guard when faced with unhappy customers. Similarly, providing feedback to employees about the types of recovery strategies available to them and the manner in which they should be offered should reduce the stressfulness and ambiguous nature of the situation. The value of providing feedback to employees cannot be overstated. Recent studies suggest that nearly half the responses to customer complaints actually reinforce a customer's negative feeling toward a firm.³³ Finally, providing feedback to employees should reinforce the firm's

role conflict

A situation in which the employee is caught between the opposing wishes of the firm's customers and the firm's management.

role ambiguity

A situation in which the employee does not know how to perform his or her job.

positive service recovery culture. By providing constructive feedback, the firm's leadership is symbolically signaling to employees that service recovery is a valued and important dimension of the firm's overall culture.

13-4 Successful Service Recovery Practices: Basic Rules of Thumb

While some companies are great at delivering service until something goes wrong, other companies thrive on recovering from service failures and impressing customers in the process. Customers of service organizations often allow the firm one mistake.³⁴ Consequently, when a failure occurs, the customer generally provides the business with an opportunity to make amends. Unfortunately, many companies still drop the ball and further aggravate the customer by failing to take the opportunity to recover.

When the service delivery system fails, it is the responsibility of contact personnel to react to the complaint. The content and form of the contact personnel's response determine the customer's perceived satisfaction or dissatisfaction with the service encounter.³⁵ Ironically, customers will remember a service encounter favorably if the contact personnel respond in a positive manner to the service failure. Hence, even though the service encounter included a service failure, the customer recalls the encounter as a positive event. In fact, a customer may rate a service performance higher if a failure occurs and the employee successfully recovers from the failure than if the service were delivered correctly the first time. This phenomenon has been termed the **service recovery paradox**. As firms seek to improve their service recovery efforts, the following rules of thumb should be considered.

13-4a Measure the Costs

The costs of losing and the benefits of keeping existing customers as opposed to chasing new customers are substantial. In short, the costs of obtaining new customers are three to five times greater than those of keeping existing customers. Current customers are more receptive to the firm's marketing efforts and are, therefore, an important source of profit for the firm. In addition, existing customers ask fewer questions, are more familiar with the firm's procedures and employees, and are willing to pay more for services.

service recovery paradox

A situation in which the customer rates performance higher if a failure occurs and the contact personnel successfully recover from it than if the service had been delivered correctly the first time.

13-4b Actively Encourage Complaints

Experts assert that actively encouraging complaints is a good way to “break the silence.” Remember that complainers who actually voice their complaints to the source of the problem are the exception—most customers do not speak up. In fact, research indicates that the average company does not hear from 96 percent of its unhappy customers.³⁶ This doesn’t mean that customers don’t complain—only that they complain to friends and family rather than to the offending firm. The average unhappy customer voices displeasure with a firm to 11 other people. If these 11 tell five other people, the firm has potentially lost 67 customers.³⁷ Strategies to encourage complaints include customer surveys, focus groups, and actively monitoring the service delivery process to ensure customer satisfaction throughout the encounter—before a customer leaves the premises.

13-4c Anticipate Needs for Recovery

Every service encounter is made up of a series of critical incidents, the contact points in the system where the customer and the firm interact. Firms that are effective in service recovery anticipate in advance the areas in their service delivery process where failures are most likely to occur. Of course, these firms take every step possible to minimize the occurrence of the failure in the first place, but they are prepared for recovery if delivery goes awry. Experts believe that firms should pay special attention to areas in which employee turnover is high. Many high-turnover positions are low-paying customer contact positions, and employees often lack motivation and/or are inexperienced in effective recovery techniques.

13-4d Train Employees

Expecting employees to be naturals at service recovery is unrealistic. Most employees don’t know what to do when a failure occurs, and many others find making on-the-spot decisions a difficult task. Employee training in service recovery should take place on two levels. First, the firm must work at creating employee awareness of customer concerns. Placing an employee in the shoes of the customer is often enlightening for an employee who has forgotten what it’s like to be a customer of their own firm. For training purposes, hospitals have requested interns and staff to adorn hospital gowns and wait lying down on gurneys to experience some of the hospitals’ processes firsthand.

The second level of employee training, beyond developing an appreciation for customer needs, is defining management’s expectation about recovery efforts. What are acceptable recovery strategies from management’s perspective? Effective recovery often means that management has to let go and allow employees to take risks, a transition that often leads to the empowerment of front-line employees.

13-4e Empower the Front Line

Effective recovery often means that the employee has to bend the firm’s rules and regulations—the exact type of activity that employees are often trained not to do at any cost. Often the rules and regulations of the firm tie the hands of employees when it comes to effective recovery efforts, particularly in the area of prompt response. In many cases, firms require managerial approval before any effort to compensate a customer is undertaken. However, the manager is often engaged in other duties, which delays the response and adds to frustration for both the customer and employee. For example, Ritz Carlton employees are empowered to spend up to \$2,000 on recovery efforts when necessary.³⁸

13-4f Respond Quickly

When a service failure does occur, the faster the company responds, the more likely that the recovery effort will result in a successful outcome. In fact, past studies have indicated that if the complaint is handled promptly, the company will retain 95 percent of its unhappy customers. In contrast, if the complaint is resolved at all, the firm retains only 64 percent of unhappy customers.³⁹ Time is of the essence. The faster the firm responds to the problem, the better the message the firm sends to customers about the value it places on pleasing them. Why not give customers what they want, when they want it? Is it really worth it to the firm for employees to actively argue with customers?

One firm that learned this lesson the hard way was a bank in Spokane, Washington. A customer who had millions of dollars in the bank’s checking, investment, and trust accounts was denied having his parking validated because he “only” cashed a check as opposed to making a deposit. The customer was at a branch of the bank that was not his normal branch. After explaining the situation to the teller, who was unimpressed, and more loudly voicing his opinion to the branch manager, the customer drove to his usual branch of the bank and threatened to close his accounts if he did not receive a response from the bank’s upper management by the end of the day. As incredible as it may seem, the call never came, and the customer withdrew \$1 million the first thing next morning. This action did get the bank’s attention, and the bank has been trying to recover ever since.⁴⁰

13-4g Close the Loop

Finally, one of the most important activities in service recovery is providing feedback to the customer about how that customer’s complaint made a difference. Customer-oriented firms that have a sound recovery strategy solve the customer’s problem. However, firms that excel at recovery go the extra mile and reestablish contact with customers for the purpose of informing them how their complaints made a difference. Incorporating the customer’s complaint during a training session or developing new procedures to minimize future occurrences of the failure based on the customer’s complaint closes the loop and wins a customer for life!

Summary

Many of today's service firms are great businesses as long as their service delivery systems are operating smoothly. However, once cracks develop in the systems, many firms are unprepared to face unhappy customers who are looking for solutions to their problems. As evidence, nearly half the responses to customer complaints reinforce customers' negative feelings toward a firm. Consequently, firms that truly excel in customer service equip employees with a set of recovery tools to repair the service encounter when failures occur, and customer complaints are voiced.

Customer complaints should be viewed as opportunities to improve the service delivery system and ensure that the customer is satisfied before the service encounter ends. This chapter discussed five types of complainers and four broad types of complaints—instrumental, noninstrumental, ostensive, and reflexive. Customers voice complaints for a number of reasons, including: to have the problem resolved; to gain an emotional release from frustration; to regain some measure of control by influencing other people's evaluation of the source of the complaint; to solicit sympathy or test the consensus of the complaint; or to create an impression of intelligence.

However, it's not the complainers about whom service firms should worry; it's the people who leave without saying a word, who never intend returning, and who inform others, thereby generating negative word-of-mouth information. A number of reasons explain why many customers do not complain. Most simply, customers of services often do not know to whom they should complain and/or do not think complaining will do any good. Other reasons customers

fail to complain are: (1) customer evaluation of services is highly subjective; (2) customers tend to shift some of the blame to themselves for not clearly specifying to the service provider their exact needs; (3) many services are technical and specialized, so many customers do not feel qualified to voice their complaints; and (4) due to the inseparability of services, customers may feel that a complaint is too confrontational. Regardless of whether the customer openly complains or not, the outcomes associated with poor customer experiences include voice, exit, and retaliation.

Firms that excel at service recovery often have a formalized service recovery management program consisting of a positive internal service recovery culture, failure identification, failure attribution, recovery strategy selection, recovery strategy implementation, and providing feedback to employees. Service recovery management programs consist of organic and mechanistic components. Mechanistic approaches to service recovery pertain to formal step-by-step processes that are developed to facilitate the firm's failure analysis and service recovery efforts. In contrast, organic approaches to service recovery are informal sets of values and beliefs that comprise the firm's service recovery culture.

Finally, in practical terms, firms that excel at service recovery measure the cost, actively encourage customers to complain, anticipate the need for service recovery, train employees, empower the front line, respond quickly, and close the loop. Successful service recovery efforts such as these play an important role in developing customer loyalty and retention—the featured topic of the next chapter.

Key Terms

service failures	failures relating to customer needs	unresponsive strategy
service recovery	and requests	perceived justice
instrumental complaints	failures relating to unprompted/	distributive justice
noninstrumental complaints	unsolicited employee actions	procedural justice
ostensive complaints	failures relating to problematic	interactional justice
reflexive complaints	customers	role conflict
voice	locus	role ambiguity
exit	stability	service recovery paradox
retaliation	controllability	
mechanistic processes	compensatory strategies	
organic processes	restoration strategies	
service recovery culture	apologetic strategies	
core service failures	reimbursement strategies	

Review Questions

1. Discuss the following types of complaints: instrumental, noninstrumental, ostensive, and reflexive. Which types of complaints are voiced the most?
2. Previous research has found that 96 percent of unhappy customers do not complain. Why is this so?
3. Which type of company is more likely to hear from unhappy customers—a company that produces goods or a company that provides services? Please explain.
4. Discuss the following types of failure outcomes: voice, exit, and retaliation.
5. Describe the basic differences between organic and mechanistic approaches to service recovery.
6. A national restaurant chain has hired you to categorize customer complaints. Discuss the basic differences between the four main failure identification categories and provide restaurant-related examples of each.
7. Define and discuss the subclass failures associated with the implicit/explicit request failure category.
8. What is the service recovery paradox? What should managers learn from the service recovery paradox?
9. Define perceived justice. How is perceived justice used to evaluate a firm's service recovery efforts?
10. After a customer voices a complaint to an employee or a manager, what does it mean to "close the loop?" Why is this particular step important in handling complaints?

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Case 13

Part I: Is This Any Way to Run an Airline?

The following letters are detailed accounts of an actual service encounter that involved numerous service failures and the company's response. Read Part I of the letter first, which presents the customer's letter to the airlines. Answer the discussion questions listed at the end of Part I. Next, read Part II, the airline's response, and address the questions at the end of Part II.

July 23, 2022

Dear Customer Service Manager:

Through the Carolina Motor Club, my wife and I booked round-trip, first-class and clipper-class seats on the following World Airlines flights on the dates indicated:

- 1 July World Airlines 3072 Charlotte to Kennedy
- 1 July World Airlines 86 Kennedy to Munich
- 21 July World Airlines 87 Munich to Kennedy
- 21 July World Airlines 3073 Kennedy to Charlotte

We additionally booked connecting flights to and from Wilmington, N.C. and Charlotte, N.C. on Trans Air flights 263 (on July 1) and 2208 (on July 21).

The outbound flights 3072 and 86 seemed pleasant enough, especially since World Airlines had upgraded our clipper-class seats on flight 86 to first class. However, mid-flight on 86 we discovered that we had been food poisoned on flight 3072, apparently by the seafood salad that was served in first class that day (it seemed warm to us and we hesitated to eat it, but unfortunately did so anyway). My wife was so ill that, trying to get to the restroom to throw up, she passed out cold, hitting her head, and, we discovered over the next few days, apparently damaging her back. The flight attendants were very concerned and immediately tried to help her, but there was nothing they could do except help her clean herself up and get the food off her from the food trays she hit. In addition to the nausea and diarrhea, she had a large knot on her head and headaches for several days. Her lower back has been in constant pain ever since. I, too, was very ill for several days. A nice start for a vacation! But it gets worse.

During the long layover between flights at Kennedy, there was a tremendous rainstorm, and our baggage apparently was left out in it; a situation that we discovered when we arrived at our first night's lodging and discovered ALL of our clothing was literally wringing wet. In addition, four art prints we were bringing as gifts for friends were ruined.

The return flights were better only in that we did not get poisoned; instead we did not get fed! Flight 87 out of Munich was apparently shorthanded and, due to our seating location, the flight attendant who had to do double duty

always got to us last. We had to ask for drinks; there were no hot towels left for us; the meals ran out and we were given no choice but an overdone piece of gray meat with tomato sauce on it. We tasted it, but it was odd tasting and, given our experience on flight 3072, we were afraid to eat it.

Flight 87 was delayed in boarding due to the slowness in cleaning the aircraft (according to an announcement made) and also due to the late arrival of the crew. In addition, the flight was further delayed due to a heavy rainstorm, which backed up traffic for takeoff. However, had the flight boarded on time it would not have lost its takeoff priority and could likely have taken off two hours sooner than it did. We might have been able to make our connection in Charlotte. Onboard the flight, the plane was the dirtiest and in the most disrepair of any aircraft I have ever flown on—peeling wall coverings, litter on the floor, overhead bins taped shut with duct tape, etc. As a first-class passenger I asked for some cold beer while we were waiting for the rest of the passengers to board; it was warm. We were quite hungry, having not eaten much in the past 12 hours, and asked for some peanuts; there were none—the plane had not been stocked. I asked for a pillow and blanket for my wife—there was none. What a great first-class section! There were only three flight attendants for the whole plane, and I felt sorry for the pregnant one who had to do double duty in first class and the rear cabin. She was very sympathetic to the poor conditions. I don't see how you keep employees when they are treated like that.

Due to the excess delay at Kennedy, Flight 87 was very late and we could not make our connection from Charlotte to Wilmington. As it turned out, we would have barely been able to make it if the flight had been on time, because World Airlines had changed not only the flight numbers, but also the flight times on the Kennedy-Charlotte leg of our journey—AND WE WERE NEVER NOTIFIED OF THIS CHANGE UNTIL WE ARRIVED AT THE AIRPORT! I deplaned in Raleigh to try to alert the people meeting us in Wilmington that we would not be in that night; however, it was too late and they had already gone to the airport. The gate attendant at Raleigh assured me that World Airlines would put us up for the night in Charlotte, so I returned to the plane. However, when we arrived in Charlotte, the World Airlines representative refused to take care of us, stating that, since we had not booked the Wilmington-Charlotte portion of our trip through World Airlines, "it is not our problem." Furthermore, he tried to wash his hands of it, saying we had an "illegal connection" due to the times between flights, and that he wouldn't provide lodging and meals. After I pointed

out to him at least three times that the connection was not illegal when booked and World Airlines changed its flight times without notifying us, and further made it clear that not only was I not going to go away, but that there was going to be a lot more said about the matter, he finally capitulated and gave us a voucher.

After traveling for 24 hours, receiving lousy service, poor food, no amenities, it is a real pleasure to run into an argumentative SOB like your agent in Charlotte. He should be fired!!! As first-class passengers we have been treated like cattle! But, it does not end here.

Upon arriving in Wilmington the next morning, only two of our four bags arrived with us. We had to initiate a baggage trace action. Our missing bags were finally delivered to our house around 3 p.m. on July 23. And, SURPRISE, they were left out in the rain at Kennedy again and EVERYTHING was so wet that water poured out of the pockets. I poured water out of the hairdryer. All of our paper purchases, maps, guidebooks, photos, souvenir brochures, etc., are ruined. I don't know yet if the dryer, radio, electric toothbrush, voltage converters, etc., will work—they are drying out as this is being written. In addition, my brand new bag now has a hole in the bottom of a corner where it was obvious that World Airline baggage handlers dragged it on the tarmac (obviously a water-logged duffle bag-size piece of luggage is too heavy to lift).

As near as I can figure, we have lost at least a roll of color prints (irreplaceable); approximately \$100 in travel guides and tour books, many souvenir booklets, brochures, menus, etc.; \$100 in art prints; \$50 in damage to luggage; an unknown amount in electronics that may not work; a lot of enjoyment due to pain and suffering resulting from illness and injury (bill for x-rays enclosed); and all sense of humor and patience for such inexcusable treatment by an airline.

If there is to be any compensation for what we have suffered, it should be in monetary form. There is no recapturing the lost time and pleasure on the vacation. The art, books, etc. (except for the photos) can be replaced...assuming we should make such a trip again. But if we do, you can be assured we would not choose World Airlines.

In closing, I am particularly angry and adamant about this whole fiasco as we wanted this vacation to be special and treated ourselves to the luxury of first-class treatment, which we got everywhere except on World Airlines...it is almost unbelievable how poorly we were treated by your airline, almost a perfect negative case study in customer service. I have purposely tried to mention every little nitpicky thing I can recall because I want you to realize just how totally bad this whole experience has been!

In disgust,
J. Q. Customer

Part I: Discussion Questions

1. In general, is the preceding complaint letter: (1) instrumental or noninstrumental; and (2) ostensive or reflexive? Please explain your answer.
2. Identify the service failures that occurred and classify each failure according to the four main failure categories presented in Figure 13-1.
3. Select three of the service failures identified in question 2 and discuss the possible attributions for these failures in terms of locus, stability, and controllability.
4. Discuss the recovery strategy or strategies you would recommend to offset the customer's complaint.

Part II: World Airline's Response

The following is World Airline's actual response to the customer's letter. The first letter was written by the claims manager, and the second by the customer relations manager.

September 25, 2022

Dear Mr. and Mrs. Customer:

This letter confirms the settlement agreed upon during our phone conversation just concluded.

Accordingly, we have prepared and enclosed (in duplicate) a General Release for \$2,000. Both you and your wife should sign in the presence of a Notary Public, have your signatures notarized, and return the Original to this office, keeping the copy for your records. As soon as we receive the notarized Release, we will forward our draft for \$2,000.

Again, our sincerest apologies to Mrs. Customer. It will be most helpful for our Customer Relations staff if you included with the Release copies of all available travel documents.

Very truly yours,
Claims Manager

October 12, 2022

Dear Mr. Customer:

Let me begin by apologizing for this delayed response and all of the unfortunate incidents that you described in your letter. Although we try to make our flights as enjoyable as possible, we obviously failed on this occasion.

Our claims manager informs me that you have worked out a potential settlement for the matter regarding the food poisoning. We regret you were not able to enjoy the food service on the other flights on your itinerary because of it. I assure you that such incidents are a rare occurrence, and that much time and effort is expended to ensure that our catering is of the finest quality.

Fewer things can be more irritating than faulty baggage handling. Only in an ideal world could we say that baggage will never again be damaged. Still, we are striving to ensure baggage is handled in such a way that if damage should occur, it will be minimized.

Flight disruptions caused by weather conditions can be particularly frustrating since, despite advanced technology,

accurate forecasts for resumption of full operations cannot always be obtained as rapidly as one would wish. These disruptions are, of course, beyond the airlines' control. Safety is paramount in such situations and we sincerely regret the inconvenience caused.

We make every reasonable effort to lessen the inconvenience to passengers who are affected by schedule changes. Our practice is, in fact, to advise passengers of such changes when we have a local contact for them and time permits. We also try to obtain satisfactory alternative reservations. We are reviewing our schedule change requirements with all personnel concerned and will take whatever corrective measures are necessary to ensure that a similar problem does not arise in the future.

You made it clear in your letter that the interior of our aircraft was not attractive. We know that aircraft appearance is a reflection of our professionalism. We regret that our airplane did not measure up to our standards, since we place great emphasis on cabin maintenance and cleanliness. Please be assured that this particular matter is being investigated by the responsible management, and corrective action will be taken.

As tangible evidence of our concern over your unpleasant trip, I have enclosed two travel vouchers, which may be exchanged for two first-class tickets anywhere that World Airlines flies. Once again, please accept our humble apology. We hope for the opportunity to restore your faith in World Airlines by providing you with completely carefree travel.

Sincerely,
Customer Relations Manager

Part II: Discussion Questions

1. Describe the recovery strategies that were offered by the company to offset the customer's complaint. Classify the recovery strategies based on the recovery strategy categories provided in this chapter.
2. Discuss the adequacy of the recovery strategies offered in terms of meeting the customer's distributive, procedural, and interactional justice needs.
3. Explain what the company and its employees can learn from this complaint letter.

Source: Richard A. Engdahl and K. Douglas Hoffman, "World Airlines: A Customer Service Air Disaster," in Carol A. Anderson, ed., *Retailing: Concepts, Strategy, and Information* (Minneapolis/St. Paul: West, 1993, updated August 4, 2022) 215–218.

Chapter 14

Customer Loyalty and Retention



Source: <https://customerloyaltyapp.com/>

Chapter Objectives

After reading this chapter, you should be able to:

1. Explain the differences between the service marketing concepts of loyalty and retention and the relationship between the two
2. Identify the rationale why the concept of customer loyalty has become increasingly important
3. Outline the types of customer loyalty programs
4. Differentiate between a zero defects and zero defection culture

This chapter focuses on the important service concepts of customer loyalty, retention, and defection management.

Customer Loyalty Programs: The Best of the Best¹

Customer loyalty programs have been around for quite some time. Perhaps the most popular of the earliest customer loyalty programs was S&H Green Stamps. Introduced in 1896 and particularly successful between 1960–1980, Sperry & Hutchinson (S&H) created a program where customers of supermarkets, department stores, and gas stations would receive “green stamps” for their purchases. Customers would literally lick the back of the green stamps and paste the stamps into booklets. The stamp booklets could then be

exchanged for merchandise available in the S&H catalog—once known as the largest publication in the United States!

Today it seems that nearly every business has some type of customer loyalty program that is used to attract new customers, increase repeat sales, engage customers, and generate referrals. Research indicates that more than 90 percent of companies have some type of loyalty program, 84 percent of customers are more likely to shop at a business with a loyalty program, and 66 percent of customers indicate that loyalty programs actually change their shopping behavior.² The “Best of the Best” include:

- Designer Shoe Warehouse (DSW): DSW’s VIP loyalty program is best known for the ease in which it operates, the deals that it offers its loyal customers, and its personalized email communications.

- Sephora: Sephora's Beauty Insider is wildly popular with over 25 million loyalty members worldwide. The strength of Sephora's program is based on its flexibility. Customers are permitted to choose how reward points are used which ultimately lowers the price of desired products without cheapening the product's perceived value.
- Starbucks: Starbucks has been consistently ranked as having one of the best customer loyalty programs. The company has nearly 25 million Starbucks Rewards' members which now represents 53 percent of store sales. Starbucks Rewards is also best known for its convenient and effective mobile app.
- Amazon Prime: Amazon Prime Members pay a membership fee which unlocks perks such as unlimited free two-day shipping, Amazon's streaming service, and Prime Day sales. The program is designed to convince customers to purchase exclusively through Amazon. Prime members spend four times more than other Amazon customers. The upfront investment encourages customers to validate their membership by purchasing more items and purchasing more frequently.
- REI Co-op: For \$20, customers can become a lifetime REI-Co-op member and enjoy the benefits of 10 percent back on all purchases, discounted "garage sales," and discounts on experiences like adventure classes. The success of REI's loyalty program lies in the program's ability to create value for customers. The program is not about convincing customers to spend more money or buying more expensive products. The program focuses on providing customers a monetary return on products purchased that can then be used to increase the value of future purchases.

Overall, the best loyalty programs focus on providing value to the customer while at the same time help to achieve company goals. Customer value does not always have to be achieved by discounting products but can also be gained by creating a sense of community, a sense of purpose, and an emotional attachment to the firm.

14-1 Introduction

Customer loyalty and retention are key strategies in today's leading-edge service firms as both concepts reflect a more futuristic outlook than does the concept of customer satisfaction. Customer satisfaction measures assess the customer's current state of evaluation but fail to tap into the customer's set of changing needs. Consequently, additional measures that assess the customer's commitment to the service firm, evolving customer expectations, the probability of future purchases with the firm, and the customer's willingness to conduct business with competitive firms are necessary in order to truly assess the firm's customer loyalty and retention efforts.

14-2 What Is Customer Loyalty and Retention?³

Although many business people may use the terms *loyalty* and *retention* interchangeably, for our purposes **customer retention** refers to focusing the firm's marketing efforts toward the existing customer base. More specifically, in contrast to seeking new customers, firms engaged in customer retention efforts work to satisfy existing customers with the intent of developing long-term relationships between the firm and its current clientele for the purpose of growing its business. In comparison, **customer loyalty** reflects an emotional attachment as well as a business attachment to the service firm. As one Harvard service guru explains, "It's not enough to have [customer satisfaction]. You need the hearts and minds of the customer to close the loyalty gap."⁴ In essence, customer loyalty represents a deeper level of attachment to the firm than customer retention and results in greater results for customers and the firm alike.

When a service firm has no competition, loyalty and retention matters less since customers have nowhere else to go. However, as competition enters the marketplace, establishing and maintaining customer loyalty is essential to keeping customers from defecting to the competition.

Ultimately, customer loyalty is a deeper conviction to the firm than pure retention alone.⁵ It is intuitively appealing to believe that customer satisfaction leads to customer loyalty which leads to customer retention. The truth is that without loyalty, customer satisfaction may or may not lead to customer retention and retained customers may not be loyal customers. The bottom line is that the service firm cannot simply assume that retained customers are loyal customers. Consequently, service firms wishing to build their business and nurture strong customer relationships need to understand the added strategic value of customer loyalty over customer retention.

14-2a You're Great, but It's Over!

Although intuitively higher levels of customer satisfaction would be expected to be associated with higher levels of customer retention, the relationship does not always necessarily exist.⁶ Based on a survey of 767 business executives who purchase pensions and health insurance products for their firms, customer satisfaction is not necessarily the

customer retention

Focusing the firm's marketing efforts toward the existing customer base.

customer loyalty

Reflects an emotional attachment as well as a business attachment to the service firm.

“holy grail” of customer retention. Although 75 percent of the executives claimed to be satisfied with their current financial service supplier, 66 percent reported that they were planning to find an alternative source for their financial services needs. According to industry experts, what seems to be lacking are the personal relationships that bind providers and customers. Other clues indicating that a breakup may be imminent include that only 49 percent of purchasers thought their suppliers were highly ethical, and only 28 percent believed that the supplier treated their own customers well. Even among their own members, less than 50 percent of financial service companies claimed to be loyal to their providers.

The shaky link between customer satisfaction and customer retention also exists in business-to-consumer (B2C) markets. Consider the following cases where: (1) customers are not satisfied, yet they are retained; and (2) customers are satisfied, yet they defect to competitive offerings.

Low Satisfaction/High Retention

- Regulated monopoly or few substitutes (e.g., hospitals, airlines)
- Dominant brand equity (e.g., Microsoft)
- High cost of switching (e.g., physicians, financial institutions)
- Proprietary technology (e.g., Microsoft)

High Satisfaction/Low Retention

- Commodity products or little or no differentiation (e.g., rental cars)
- Consumer indifference (low involvement) (e.g., car wash, drycleaner)



"My family? Hell no,
those are my clients!"

Eales, Stan/CartoonStock.com

Although many business people may use the terms *loyalty* and *retention* interchangeably, customer loyalty reflects an emotional attachment as well as a business attachment to the firm.

- Many substitutes (e.g., lawn care service)
- Low costs of switching (e.g., trash collection services)

14-2b Moving Beyond the Conquest Marketing Mentality

Today's market is totally different than the ones global marketers have experienced in the past. Competition is intense, and differentiation among competitors is minimal. Let's face it, there is no great deal of difference today among many services, be they insurance companies, banks, or eye exams. Due to the relative parity among brand choices, the customer's risk associated with switching brands has been drastically minimized. Consequently, many customers have forgone brand loyalty and selected the product that offers the best value—the best product at the best price.

Unfortunately, the majority of marketers today have reacted to this new environment of “brand parity” and “nonbrand loyalty” by constantly chasing new customers. Firms that are constantly seeking new customers are engaged in **conquest marketing**.⁷ Typical conquest marketing techniques include offering discounts and markdowns and developing promotions that encourage new business. Results obtained from conquest marketing are generally successful in the short run due to customers' lack of brand loyalty. The firm engaged in conquest marketing may even get a repeat purchase or two. However, as soon as the competition offers another “discount special,” the firm loses many of these new customers to the next conquest marketer.

To this day, many companies spend the bulk of their marketing efforts on attracting new customers instead of building relationships with existing customers. If you find this hard to believe, consider how many promotional pieces of mail you receive from financial institutions pertaining to credit cards. Who do you hear from more—your current bank, or new banks that want your business? If you are like many of us, new banks are constantly filling your mailbox with promotional offers. The long-term profitability of firms that solely rely on conquest marketing techniques is highly questionable. When one considers the cost of a sales promotion to attract customers, along with the financial incentives to lure in new business, profits are minimal.

Even when conquest marketing techniques are successful, they sometimes lead to the demise of the firm. All too often, businesses are tempted to grow as fast as they can in order to increase their sales volume. However, because of the inseparability inherent in services, extensive growth of many service firms is commonly associated with a decrease in the quality of service provided.

conquest marketing

A marketing strategy focused on constantly seeking new customers by offering discounts and markdowns and developing promotions that encourage new business.

Considering the costs associated with winning new customers, the only way to make a profit and avoid the continuous cycle of price discounts is to increase the lifetime spending of existing customers. Customer loyalty and retention is, therefore, far more important than customer attraction. Given today's marketing environment, cultivating relationships with existing clients makes good economic sense.

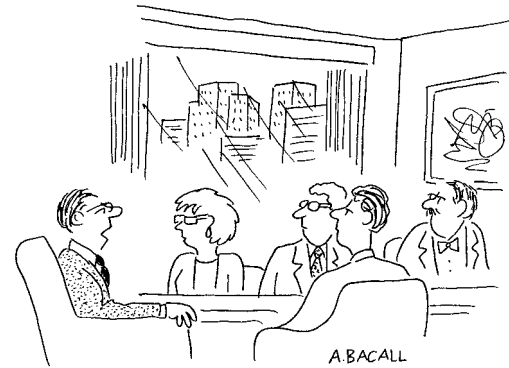
14-3 The Importance of Customer Loyalty⁸

Customer loyalty has become increasingly important because of several changes in the marketing environment. First, many consumer markets throughout the world are stagnant. The once vibrant global economy now advances disproportionately (see Global Services in Action). Throughout the world, population growth has slowed. Consequently, there are not as many new customers as there once were, and those customers who do exist are in many cases spending less.

Another reason customer loyalty has become important to today's marketers is the increase in competition. Factors contributing to increased competition include the relative parity and lack of differential advantage of goods and services on the market; deregulated industries that now must compete for customers in an open market; the growth of online alternatives; and accessible market information that is available to more firms, thereby minimizing informational

advantages among competing firms. As a result of the increase in competition and the predominant use of conquest marketing techniques, firms are finding that retaining their current customer base is now more challenging than ever.

Customer loyalty is also becoming increasingly important because of the rising costs of marketing. In particular, the cost of mass marketing advertising, the primary tool of conquest marketers, has substantially increased. For example, the cost of a 30-second television spot in 1965 was \$19,700. In contrast, the current average cost of producing a



"We have to develop a new way to build our customer base. Antispam software has put a dent in our marketing strategy."

Bacall/Aaron/CaroonStock.com

As conquest marketing techniques have become more expensive and more complicated to deploy, marketing activities aimed at retaining customers have become increasingly important.

Global Services in Action

Global Trends in Customer Loyalty Programs⁹

As business conditions and cultures vary throughout the globe, loyalty marketers must study regional customer loyalty success stories as they develop their own long-term engagement strategies. Ironically, in much of the world, point-of-sale terminals are scarce but mobile penetration is high. As a result, even in developing countries, customer loyalty programs delivered via mobile apps are the road to success. In countries experiencing poor economic conditions, customer loyalty rewards are often provided in the form of discounts which encourages transactional behavior (i.e., the customer only makes purchases when products and services are on sale) which runs counter to the idea behind building customer loyalty. Since customer profitability varies across a global customer base, loyalty programs should be segmented and developed to offer the appropriate value to the correct segment. When margins are constrained, the loyalty program should be constrained. When margins are lucrative, the loyalty program can offer higher-level rewards. Other global trends pertaining to customer loyalty include:¹⁰

- The COVID-19 pandemic led to unprecedented growth in the e-commerce industry due to nationwide lockdowns and social distancing restrictions. The shift toward digital

channels has led to a data bonanza for resellers and has had a very positive impact on the loyalty market.

- The global loyalty program market had an estimated value of nearly \$200 billion in 2022.
- Leading mature loyalty program markets include Europe, North America, and parts of APAC (Asia/Pacific Region) including Australia, Japan, Hong Kong and Singapore.
- Future growth markets for loyalty program include the remainder of APAC and parts of Latin America.
- Global growth in online purchasing culture combined with a high rate of adoption of mobile and smartphone technologies has created a very attractive climate for loyalty programs.
- Artificial Intelligence (AI) and Machine Learning (ML) technologies provide predictive analysis and help business provide relevant promotions aimed at improving the global customer experience (CX).

Ultimately, in-depth data analysis and customer segmentation has aided business in understanding global customer spending, behavior, and market conditions which in turn have led to developing effective customer loyalty programs that deliver relevant and impactful rewards and offers.

30-second national television commercial is approximately \$104,000.¹¹ For those that want their advertisements to appear during the Superbowl, the latest cost for a 30 second spot was \$5.6 million.¹² Coupled with the increased cost of advertising has been the loss of the advertiser's "share of voice." Due to the shorter time period now allotted for individual commercials (the average length of commercials has decreased from 60 seconds, to 30 seconds, to 15 seconds), the number of commercials has increased by approximately 25 percent over the past 10 years. Hence, firms are competing for attention in a medium that is constantly expanding. Adding to the problem, cable and satellite providers support hundreds of new channels, and streaming services have enabled customers to skip advertisements completely. In addition, online advertising continues to evolve among outlets such as Facebook, YouTube, Twitter, Instagram, and Snapchat; consequently, consumer markets have become more fragmented, which further dilutes the chances of an advertiser's message reaching its intended target audience.

Changes in the channels of distribution used in today's markets are also having an impact on customer loyalty. In many cases, the physical distance between producer and consumer is increasing. The continued growth of ecommerce is a prime example of how the physical distance between the provider of products and the customer is changing. Firms engaged in customer loyalty efforts should be aware of the old adage, "Out of sight, out of mind," and realize that separation from the customer does not diminish their obligation to the customer. In response, marketers are currently utilizing gamification, data analytics, and machine learning technologies to engage their customer base with great success (see E-services in Action).

Another change in the channel of distribution is the increasing use of market intermediaries, or third parties, that assist in the transaction between provider and customer (e.g., Amazon, Walmart, and Costco). In this scenario, the marketing intermediary becomes a surrogate provider and, as such, represents the service firm that produces the product. Although the use of third parties and other market intermediaries increases the firm's market coverage, it can also adversely affect customer loyalty rates. For example, a travel agent who sells an airline's service may accidentally misrepresent the airline (e.g., flight times, seating arrangements, and so on) and damage the relationship between the customer and the airline. Again, firms engaged in customer loyalty efforts must recognize that the physical distance between themselves and their customers does not minimize their responsibility.

Customer loyalty has also become increasingly important to firms because today's customers have changed. Typical customers today compared with past generations are more informed about purchasing decisions, command more discretionary income, and are increasingly skeptical about the average firm's concern for their business. Consequently, firms that engage in customer loyalty practices are usually noticed by today's customers and rewarded for their efforts via repeat sales, increased purchase activity, and generating referrals.

14-3a The Benefits of Customer Loyalty¹⁵

Some experts believe that customer loyalty has a more powerful effect on profits than market share, scale economies, and other variables commonly associated with competitive

E-Services in Action

Gamification: Incentivizing Your Customer Loyalty Program¹³

Traditionally, customers of loyalty programs were required to keep track of past purchases on punch cards that would often deteriorate and/or were misplaced and lost. Today, utilizing a customer loyalty app has made life much easier for customers and has provided a wealth of data for businesses. To earn points, customers must use the app to place orders or make purchases which enables the app to track customer preferences and behavior. In turn, the business can offer more personalized perks and communications to its customers.

Gamification takes online loyalty apps to the next level.¹⁴ Gamification refers to the practice of encouraging engagement in exchange for a reward for what traditionally would be a non-game activity. Brands that leverage gamification experience growth rates of 6 percent to 10 percent. For example, Starbucks awards customer purchases with stars. Once customers collect enough stars, they are rewarded with free beverages or products. Starbucks also offers its Starbucks Rewards members with free drinks on

their birthdays, bonus rewards on double star days, and exclusive access to games and offers.

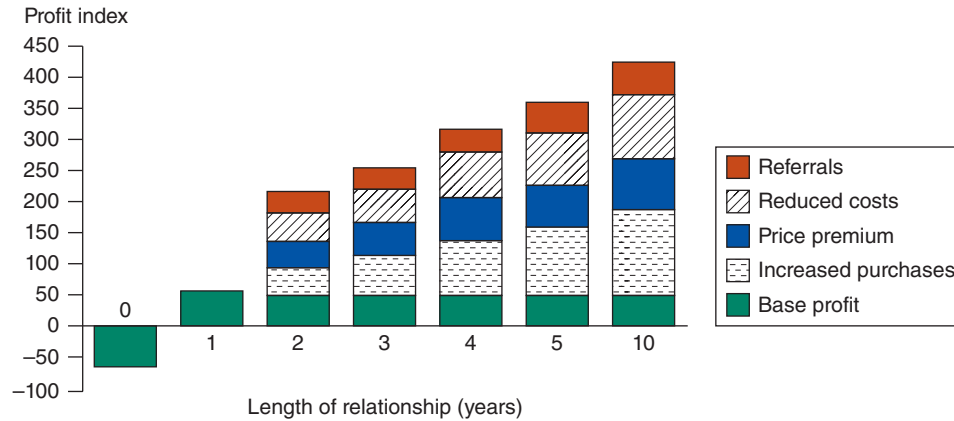
For example, Starbucks encourages its customers to participate in the firm's 'menu challenge' where specific menu items are tied to bonus stars which can be redeemed for food, drink orders, and Starbucks' merchandise. Starbucks incentivizes customer participation via gamification by linking the challenge to badges and points that can be earned within a limited time frame. The menu challenge encourages customers to explore menu items and sample what may become future favorites and grow the customer's overall spend on subsequent visits.

The more the customer engages with Starbucks, the more Starbucks learns about the customer which enables Starbucks to interact with each customer on a personal level. The potential payoff is substantial. According to the Boston Consulting Group, redirecting 25 percent of a firm's mass promotion spending to personalized offers increases the return on investment (ROI) by 200 percent.

advantage. In fact, studies have indicated that as much as 95 percent of profits come from long-term customers via profits derived from sales, referrals, and reduced operating costs (see Figure 14-1).¹⁶

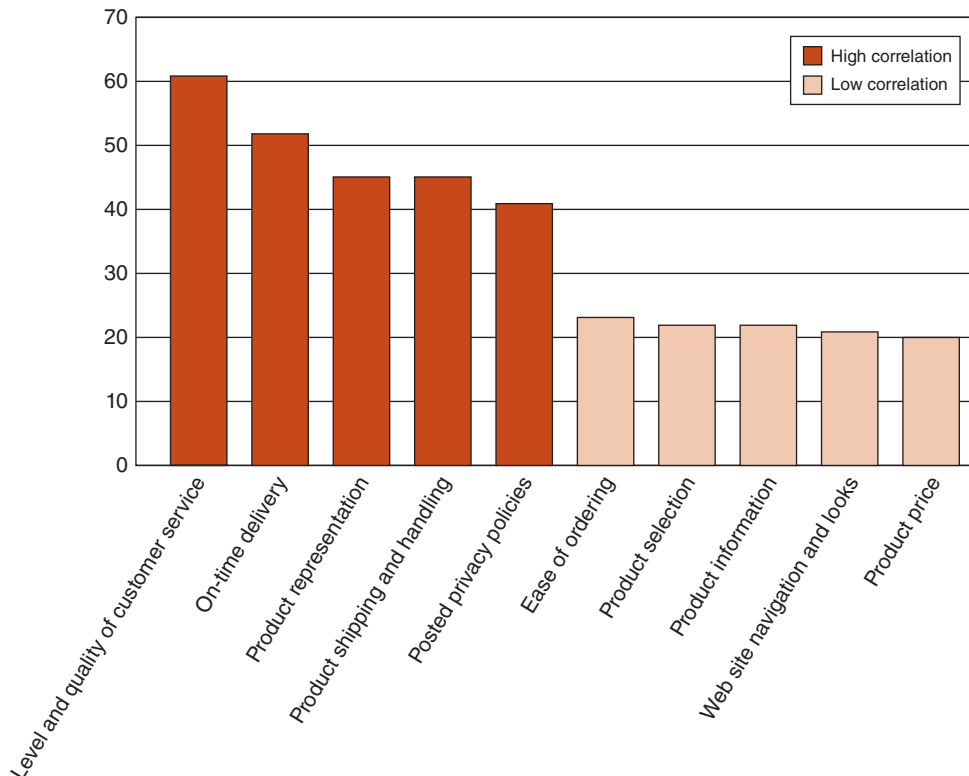
Profits Derived from Sales One of the key benefits of customer retention is repeat sales (see Figure 14-2). In addition to the base profit derived from sales, profits are also acquired from increased purchase frequency

Figure 14-1 Why Customers Are More Profitable Over Time



Source: Adapted from Frederick F. Reichheld and W. Earl Sasser, Jr., "Zero Defections: Quality Comes to Services," *Harvard Business Review*, (September-October 1990), p. 108.

Figure 14-2 Why E-Shoppers Come Back



Source: BizRate.Com

and interest rates applied to higher balances on charge accounts (for firms that offer credit services). An added bonus of retaining existing customers is that existing customers are willing to pay more for a firm's offerings. This occurs because customers become accustomed to the firm, its employees, and the manner in which the service is delivered. Subsequently, a relationship develops that lowers the customer's risk. In essence, repeat customers are willing to pay more for purchases and to purchase more often in situations where the uncertainty of the outcome is lessened or removed. For example, credit card companies encourage their existing customers to use their credit cards when shopping online and protect them from fraud in the process.

Increasing customer retention rates can have a profound effect on a firm's profitability. For example, past studies have shown that a 5 percent increase in retention rate can translate into 85 percent higher profits for a branch bank, 50 percent higher profits for an insurance broker, and 30 percent higher profits for an auto-service chain.¹⁷

Profits from Reduced Operating Costs Past research has indicated that it costs three to five times less to keep a customer than to get a new one.¹⁸ The trusting relationship that develops between customers and the firm makes existing customers more receptive to the firm's marketing efforts and, therefore, easier to sell new services to. This, in turn, lowers the cost of the firm's marketing efforts.

Overall, long-term customers tend to have lower maintenance costs. Existing customers become accustomed to the company, employees, and procedures; therefore, they ask fewer questions and have fewer problems and require less attention. Over the years, price wars presented a few unintended consequences for the airlines. On one hand, the lower prices achieved their desired effect-increasing sales. Many of these sales, however, were to passengers who had never or rarely flown before, and who were unfamiliar with ticketing practices, check-in processes, baggage restrictions and handling, and typical airline behavior. Even common services such as complimentary beverages had to be explained to new passengers who were unfamiliar with the term "complimentary." In one particularly disturbing instance, a passenger requested instructions on how to "roll down the window." The end result of adding new customers to the mix was stressed-out and overworked flight attendants and lower than average quality service to existing customers.

Profits from Referrals Another major benefit of customer retention is the positive word-of-mouth advertising generated by satisfied customers. Existing customers are necessary for a firm to develop a reputation that attracts new business. Satisfied customers often refer businesses to their friends and family, which, in turn, reinforces their own decision. Personal sources of information are particularly important to service consumers because of

intangibility and the perception of increased risk associated with service purchases. New business attributed to current customer referrals can be substantial. For example, one leading home builder in the United States has found that 60 percent of its business is based on referrals from past customers.¹⁹

14-3b Clarifying the Benefits of Customer Loyalty

It seems like a company's best customers would be its most loyal customers, but are they really the best?²⁰ Evaluating the worth of a customer has been traditionally measured through techniques such as RFM, which stands for recency, frequency, and monetary value. Recency captures the time period since the last purchase, such as within the last three months, in the past three to six months, or between six months and one year ago. Customers who have made more recent purchases are given a higher score. Frequency measures the number of times a customer has made a purchase within each of these time periods (e.g., once, twice, four purchases). The higher the frequency of customer purchases, the higher the score assigned to the customer. Scores obtained from recency and frequency assessments are then added together, and the monetary value of these purchases is taken into consideration. This research indicates that companies must look beyond customer loyalty and retention percentages alone and link retention to profitability to determine which customers are truly the best.

14-3c Calculating the Lifetime Value of a Customer

Another useful method for determining the real value of customer loyalty and retention is to determine the average **lifetime value (LTV) of a customer**. The idea is that a customer is worth much more than a onetime purchase.²¹ As the firm's customers return time after time, the LTV of its customer base increases. Consequently, the true value of customers is the value of all the purchases they have made plus the value of all the purchases they are likely to make in the future (discounted to the present). Service firms wishing to calculate the LTV can do so by multiplying their average sales by the average number of times that customers return to make a purchase.

Hence, to estimate the lifetime value of an average customer:

$$\text{Average Lifetime Value} = (\text{Average Sale}) \times (\text{Estimated Number of Times Customers Reorder})$$

lifetime value (LTV) of a customer

The average dollar amount per sale multiplied by the average number of times customers reorder (discounted to the present).

Firms wishing to determine how much they can spend to acquire customers can do so by first calculating the average **lifetime profit (LTP) of a customer**. To determine LTP, average profit per sale is multiplied by the estimated number of times customers reorder. Ultimately, LTP provides the average amount of profit the firm expects to receive from each customer.

$$\text{Average Lifetime Profit} = (\text{Average Profit Per Sale}) \times (\text{Estimated Number of Times Customers Reorder})$$

Once the firm's LTP has been calculated, it can then be used to determine how much money a firm can spend to acquire customers and still make profits in the long run. This figure is simply calculated by adding the average customer acquisition cost to the LTP figure. In other words:

$$\begin{aligned} &\text{Break-Even Customer Acquisition Cost} \\ &= (\text{Average Lifetime Profit}) \\ &+ (\text{Average Customer Acquisition Cost}) \end{aligned}$$

The end result is how much money the firm can spend to acquire each new customer and break even. Firms that spend less than this amount to acquire each new customer will turn a profit. The lesson to learn here is that firms can spend more than LTP to acquire each new customer, and they should spend less than LTP plus the average **customer acquisition cost** to make a profit. Students wishing for a more in-depth description of LTV and LTP, particularly with respect to discounting present values, can find a multitude of examples on the Internet.

14-4 Types of Customer Loyalty Programs²²

Services firms wishing to engage customers with customer loyalty programs have a variety of approaches to do so.

14-4a Points-based Programs

Points-based programs are the most common and popular of the various types of customer loyalty programs. Customers collect points based on purchases and then redeem points to discount future purchases or giveaways. The benefits of using a points program include: customer acceptance,

lifetime profit (LTP) of a customer

The average profit per sale multiplied by the average number of times customers reorder (discounted to the present).

customer acquisition cost

The monetary amount spent on marketing and other activities to acquire a new customer.

trackability, and ease of use. Marriott's Bonvoy Benefits program is a prime example of a points-based loyalty program where customers redeem points for free hotel nights, dining discounts, car rentals and flights. Moreover, Marriott Bonvoy Benefits members can share their points with friends and family.

14-4b Tier-based Programs

Tier-based loyalty programs motivate customers to increase their spending to achieve increasing tiers of loyalty levels which unlock higher levels of discounts and rewards. Typical examples include service firms that utilize silver, gold, and platinum loyalty tiers. Higher tiers receive access to exclusive pricing, products, and events. DSW's VIP tier-based customer loyalty program motivates customers at lower levels to spend more to obtain the status and access to exclusive deals enjoyed by top tier loyalty members.

14-4c Refer a Friend Programs

The primary objective of a refer a friend loyalty program is to stimulate word-of-mouth referrals by turning current customers into brand advocates. In return, the existing customer receives benefits as does the new customer. Freshly, a New York based meal delivery company, rewards existing customers with \$40 worth of discounts for every new customer they refer, and the new customer receives \$40 worth of discounts as well.

14-4d Spend-based Programs

In some instances, firms are switching their points-based loyalty programs to spend-based loyalty programs. Points-based programs reward customers whether they are making low-margin discounted purchases or high-margin premium purchases. In contrast, spend-based programs are based on expenditures where purchases associated with higher profit margins receive higher-level rewards. Airlines, in particular, are switching from points-based programs to spend-based



Peter Titmus/Alamy Stock Photo

Many airlines are changing their points-based loyalty programs to spend-based loyalty programs.

programs to limit the number of passengers who fly deep discounted “mileage grab” flights for the sole purpose of earning airline miles.

14-4e Mission-driven Programs

Mission-driven loyalty programs are particularly effective for businesses that embrace a social mission. In lieu of discounts and tier-status, mission-driven loyalty members direct their loyalty rewards toward the social causes that share the same values as the customers and the company. Mission-driven programs are particularly effective when companies partner with nonprofit organizations that form a strong connection between the company’s mission and the shared values of its customer base (see *Services for a Better World in Action*).

14-4f Additional Strategies for Cultivating Customer Loyalty²⁵

Many examples of successfully cultivating customer loyalty are based on the firm’s ability to redefine its existing business. Companies are challenging themselves, now more than ever before, to look at what their goods and services really provide to their customers. Understanding customer uses of goods and services and the steps required by customers to obtain the product often leads to ideas that assist the firm in differentiating itself from its competition. Providing value-added services to the customer reshapes the traditional and often confrontational supplier-customer relationship into more of a partnership.

After rethinking its business, British Airways no longer viewed itself solely as a provider of air transportation.²⁶ As a result, the airline has revised its focus on first-class transatlantic customers to include improved services on the ground, as well as in the air. Realizing that many of its customers would like to sleep through the night rather than eat huge

meals followed by lavish desserts, accompanied with an endless supply of alcohol and bad movies, British Airways now provides its first-class passengers with the option of having dinner on the ground in its first-class lounge. Once on board, passengers are provided British Airways pajamas, real pillows, and a duvet to curl up in.

Once the plane has landed, and after a good night’s sleep, passengers are provided with breakfast on the ground, as well as a shower and dressing room so that they can be fresh for the day’s events. British Airways will even have passengers’ clothes pressed while they are enjoying their breakfasts. With value-added services such as these, it is not surprising to learn that British Airways’ profits have steadily increased.

There is an old adage that states “It’s just the little touches after the average person would quit, that makes the master’s fame.”²⁷ These are well chosen words that reflect the relational aspects that can be cultivated with both customers and employees that enhance customer loyalty. The services marketing literature is full of suggestions to build customer loyalty. These common themes include:

- **Reducing Customer Effort**—An effective means of driving customer loyalty is to lower customer effort. Offering omnichannel support to be available 24/7, providing a seamless user experience, and making the purchasing process an easy one yields customer loyalty. Does it get any easier than one-click shopping at Amazon?
- **Developing a Proper Perspective**—Managers and employees of service firms need to remember that the company exists to meet the needs and wants of its customers. Processing customers like raw materials on an assembly line or being rude to customers is incredibly shortsighted. Customer-focused firms employ slogans such as, “*Make a customer, not a sale,*” Credos such as this influence customer expectations and reinforce

Services for a Better World in Action

Mission-Driven Loyalty Programs²³

Loyalty programs do not always have to be about collecting points and earning rewards such as airline mileage programs or discounts at restaurants. Mission-driven loyalty programs align customer loyalty with charitable causes that support the social mission of the business. Mission-driven loyalty programs are particularly effective when customers share the same values as the business. Research indicates that 89 percent of customers are loyal to companies that share their values. The net result is an increase in repeat sales, more customer engagement, and funding for the social mission being targeted.

Examples of mission-driven loyalty programs include Ben & Jerry’s ice cream, DSW (Designer Shoe Warehouse), Lush—a natural bath and body product company, and United Airlines.²⁴ Ben & Jerry’s, dedicated to its linked

mission of economic prosperity that leads to benefiting the social good, has long been known for donating partial or full profits of specific ice cream flavors to charitable causes. DSW has partnered with “Soles4Souls” which allows DSW VIP members to earn points for donating used shoes that are then distributed to people in need around the world. Lush customers can purchase the firm’s Charity Pot Lotion where proceeds from the sale support animal welfare, environmental sustainability, and other social causes. Finally, United Airlines Mileage Plus members can make airline point donations to the American Red Cross through United’s Mileage Plus charity program. Mission-driven customer loyalty programs make customers feel that their purchases, big and small, are contributing to positive social outcomes, and so, they work!

to employees exactly where the firm's priorities lie. Interacting with the public is not an easy task, and, unfortunately, employees occasionally fail to maintain the proper perspective. Customer questions may have to be asked over and over, and not every customer is polite. Maintaining the proper perspective involves a customer-oriented frame of mind and an attitude for service. Employees need to remember that every customer has their own personal set of needs, and that the customer's, not the employee's, expectations define performance.

- **Staying in Touch**—Contacting customers between service encounters is a useful approach in building relationships with the service firm. The key is making customer contact sincere and personal. Typical approaches include sending birthday cards; writing personal notes congratulating customers for their personal successes; and keeping in touch with customers concerning the performance of past services rendered and offering assistance if necessary. The goal of this tactic is to communicate to customers that the firm genuinely cares for their well-being.
- **Providing Discretionary Effort**—Discretionary effort is behavior beyond the call of duty. It is the Proctor & Gamble salesperson who voluntarily bags groceries at the grand opening of a new grocery store. It is the hotel that sends items misplaced by its customers to their homes at no charge. It is the utility company that recognizes the special needs of its customers during difficult times such as a natural disaster. Discretionary effort involves countless personal touches—the little things that distinguish a discrete business transaction from an ongoing relationship.
- **Leading through Top-down Loyalty**—Upper management that is loyal to its employees creates a service culture where employees pass that loyalty on to their customers. Employee loyalty drives customer loyalty.
- **Training and Empowering Employees**—Convey to employees the expectation for great service delivery and provide them with the tools, training, and autonomy necessary to deliver it.
- **Providing Incentives**—Although you may already have the hearts and minds of your customers, they love you more when you love them back. Incentives are a nice value-added feature that both cultivate and maintain loyalty.
- **Remembering your Customers' Purchases**—A good memory about past customer purchases signals to customers that they are important as individuals and not as part of a mass known only as “the customer.” Remembering past purchases not only builds loyalty, but also helps sell goods and services that complement their original purchase.
- **Building Trust through Reliability**—*Trust* is defined as a firm belief or confidence in the honesty, integrity, and reliability of another person. In the service environment, three major components of trust are: (1) the service provider's expertise, (2) the service provider's reliability,

and (3) the service provider's concern for the customer. Generally speaking, strategies for building trust include:

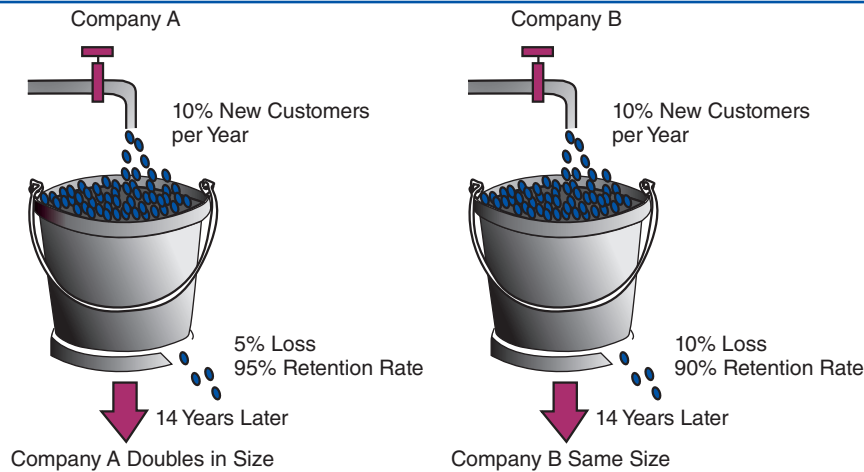
- Protecting confidential information;
 - Telling customers the truth, even when it hurts;
 - Providing customers with full information—the pros and the cons; and
 - Being dependable, courteous, and considerate with customers.
- **Flexibility**—Nothing depersonalizes a service faster than referring to a company policy. “*Excuses—such as ‘That’s our policy’—will lose more customers than setting the store on fire.*”²⁸
 - **Balancing High Tech with High Touch**—“*Your call is important to us!*” voiced by an automated telephone system does little to cultivate customer loyalty. For many, technology is viewed as yet another tactic the firm implements to distance itself from its customers.
 - **Personalize the Experience**—Nothing personalizes a relationship faster than calling the customer by name. Great service hotels, such as The Fullerton in Singapore, have mastered the art of greeting the customer by name, even if the customer has never been there before. Employees know who is checking in each day, and the use of the Web often provides staff information and photos of guests before they arrive—talk about going the extra distance and making a great first impression! Research indicates that 90 percent of customers spend more with companies that provide personalized experiences and 68 percent of customer indicate they expect all experiences to be personalized.²⁹
 - **Being Available When Needed the Most**—When a customer has a problem, this is not the time to crawl under a rock and hide. Every service firm should stand behind what it sells and ensure that every transaction is handled to the customer's satisfaction. Most customers are realistic and understanding. Many times customers are simply looking for advice and alternative solutions to problems, and they are not looking for someone to blame. Expressing a sincere concern for the customer's situation reinforces the firm's customer retention efforts.

Ultimately, customer loyalty leads to customer retention and all of its associated benefits. Service firms can keep existing customers via customer loyalty programs and/or by proactively engaging in defection management practices.

14-5 Defection Management: Developing a Zero Defection Culture

Increasing customer loyalty and retention rates can also be achieved by reducing customer defections also known as customer churn. Store-based retailers typically experience an annual 25 percent defection (churn) rate while online retailers experience a 21 percent rate. Other industries

Figure 14-3 Cost of New vs. Old Customers: The Leaky Bucket The leaky bucket depicted here portrays two companies. Each company is working hard to generate new customers each year and has managed to generate 10 percent more new customers per year, perhaps by developing new services or targeting new segments. However, not all of the customers acquired by the firm in a given year stay with the firm. The retention rate is not 100 percent; there is a “hole in the bucket.” For Company A, the “hole” is small, and the company loses only 5 percent of its customers each year. As a result, after 14 years, Company A has doubled the number of its customers. Company B has a bigger problem, because retention is 90 percent and the “hole in the bucket” is 10 percent. As a result, Company B loses and gains customers at the same rate.



Source: Adapted from Frederick F. Reichheld and W. Earl Sasser, Jr., “Zero Defections: Quality Comes to Services,” *Harvard Business Review* (September–October 1990), pp. 106–107.

experience similar rates of defections.³⁰ The concept of defection management has its roots in the total quality management (TQM) movement. **Defection management** is a systematic process that actively attempts to retain customers before they defect. Defection management involves tracking the reasons that customers defect and using this information to continuously improve the service delivery system. The motivation for establishing an effective defection management program is clear—cutting defections in half doubles the average company’s growth rate (see Figure 14-3). Moreover, reducing the defection rate by even 5 percent can boost profits 25 percent to 85 percent, depending on the industry (see Figure 14-4).³¹

14-5a Zero Defects versus Zero Defections

Since the adoption of total quality management by the manufacturing sector, the mantra to follow has been the **zero defects model**. Although appropriate within the manufacturing sector, where specifications can be identified well

ahead of production, the zero defects model does not work well in the service sector.³²

Service customers carry specifications in their minds and can only approximate their desires to a service provider. For example, customers often show hairstylists pictures of a desired hairstyle and request a similar style for themselves. The picture is an approximation of a desired result—it does not specify exact lengths to be cut nor specific degree of curve for curls.

Another obstacle to applying the zero defects model in the service sector is that each customer has their own set of expectations and corresponding specifications. As one hairstylist stated, “They [some customers] come in here with two spoonfuls of hair and expect to leave here looking like Diana Ross!” Consequently, specifications that are available in the service sector often cannot be standardized for all customers. As a result, the service provider must be able to adapt to each set of expectations on the spot.

Because of the unique properties of the service delivery system, namely the unique service characteristic of heterogeneity, the zero defects model used in the manufacturing sector is out of touch with the realities of the service sector. A more appropriate philosophy for service firms to pursue is the concept of **zero defections**. In contrast to the “defect

defection management

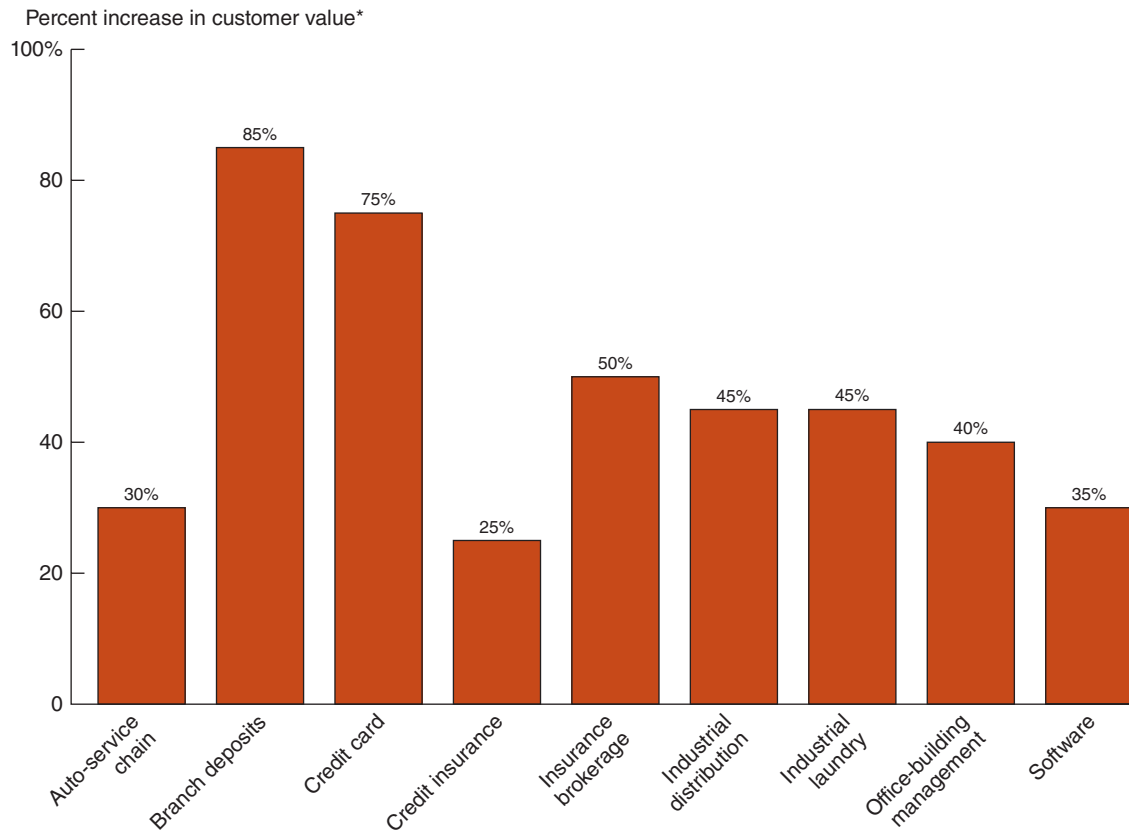
A systematic process that actively attempts to retain customers before they defect.

zero defects model

A model used in manufacturing that strives for zero defects in goods produced.

zero defections

A model used by service providers that strives for zero customer defections to competitors.

Figure 14-4 Reducing Defections 5 Percent Boosts Profits 25 Percent to 85 Percent

*Calculated by comparing the net present values of the profit streams for the average customer life at current defection rates with the net present values of the profit streams for the average customer life at 5% lower defection rates.

Source: Frederick F. Reichheld and W. Earl Sasser, Jr., "Zero Defections: Quality Comes to Services," *Harvard Business Review* (September-October 1990), p. 110.

pile" of unsellable goods for the manufacturing sector, the "defect pile" in the service sector consists of customers who will likely never come back.

14-5b The Importance of Defection Management

Businesses commonly lose 15 percent to 25 percent of their customers each year.³³ In some industries, the rate is much higher. For example, the cable television industry loses in excess of 50 percent each year,³⁴ and the cellular phone industry experiences turnover at a rate of 30 percent to 45 percent per year.³⁵ Reducing customer defections is associated with immediate payoffs. In the credit card industry, for example, a 2 percent decrease in defections has the same net effect on the bottom line as a 10 percent decrease in cost (see Figure 14-5).³⁶

Another reason that monitoring customer defections is important is the disturbing findings discussed earlier that customer defection rates are not necessarily directly associated with customer satisfaction ratings. One would think that satisfied customers would be easily retained. Although

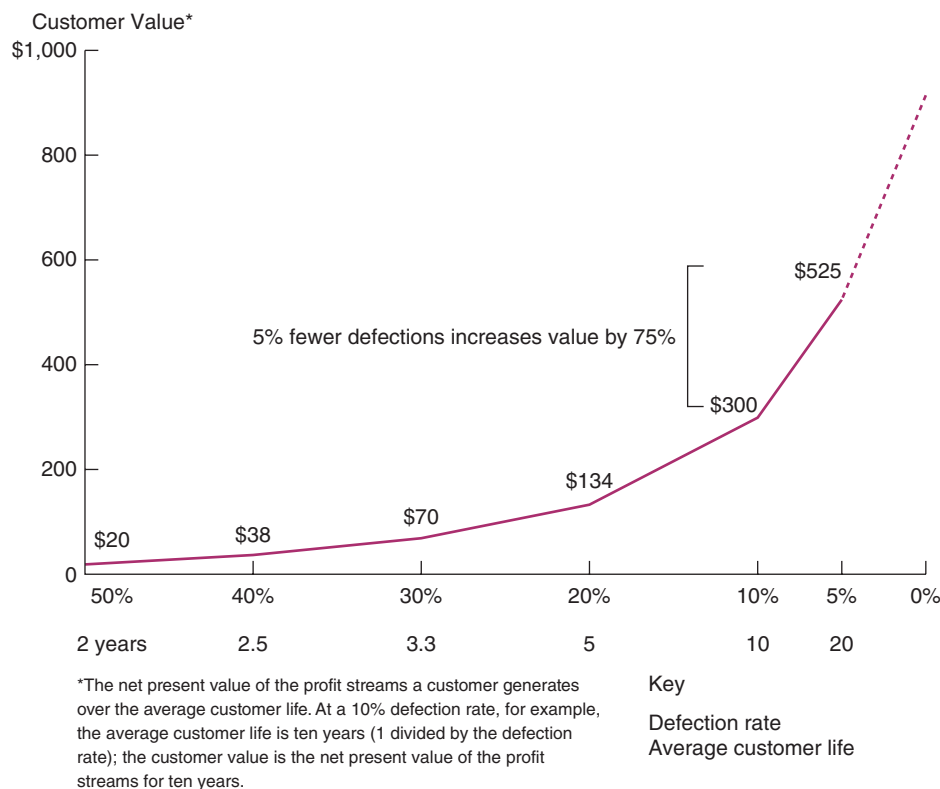
the idea is intuitively appealing, receiving high satisfaction marks from current customers does not necessarily translate into undying customer loyalty. On average, 65 percent to 85 percent of defectors say they were satisfied or very satisfied with their former provider.³⁷ Why, then, do customers defect?

14-5c Defector Types

Customers defect for a variety of reasons.³⁸ **Price defectors** switch to competitors for lower-priced goods and services and are probably the least loyal of any customer type. Many businesses that pursue a customer retention philosophy are willing to sacrifice price defectors to avoid constantly discounting their own products and services. In particular, firms that differentiate themselves from competitors based

price defectors

Customers who switch to competitors for lower-priced goods and services.

Figure 14-5 A Credit Card Company's Defection Curve

Source: Frederick F. Reichheld and W. Earl Sasser, Jr., "Zero Defections: Quality Comes to Services," *Harvard Business Review* (September-October 1990), p. 109.

on factors such as reliability, responsiveness, empathy, assurance, and the effective management of the tangible evidence that surrounds the service are generally able to retain customers without constantly discounting their products.

Product defectors switch to competitors who offer superior goods and services. As such, product defectors are the most difficult to bring back to the fold once they leave. For example, it is difficult to imagine returning to a provider of inferior service once a superior provider is found. The secret to minimizing product defectors is to not become complacent with today's successes and ignore the changing needs of customers. Innovations and continuous improvement are critical in the battle of retaining product defectors.

Service defectors defect because of poor customer service. Unlike the case with other defector types, firms that are plagued by service defectors are actually providing existing customers with reasons to take their business elsewhere. Inadequately informed personnel, unfulfilled

promises, and unacceptable employee behavior are typical reasons customers flee to the competition. Service failures like these combined with inadequate employee responses to those failures can lead to service defections. While other defector types are primarily externally driven, service defectors leave as a result of problems within the internal operations of the firm.

Market defectors exit the market for relocation or business failure reasons. Customers, both individuals and businesses, who move out of the market area would be considered market defectors. Similarly, companies that go out of business and are no longer in the market for goods and services are market defectors.

Technological defectors switch to products outside the industry. Typical examples of technological defections include the switch from lamp oil to electricity and from rail to air transportation. As is the case with product defections, technological defections may occur due to the complacency

product defectors

Customers who switch to competitors who offer superior goods and services.

service defectors

Customers who defect due to poor customer service.

market defectors

Customers who exit the market due to relocation or business failure.

technological defectors

Customers who switch to products outside the industry.

of the firm. Successful firms are often lulled into a false sense of security and fail to react to technological developments outside their own industry. For example, the manufacturers of vinyl albums who were caught off guard by the development and customer acceptance of the compact disc lost much of their business through technological defections. Of course, compact disc (CD) sales were replaced by online downloads of music and streaming services, as technological innovations continue to transform traditional industry models.

Organizational defectors result from political considerations inside the firm. In some cases, organizational defections will occur due to contractual buying arrangements. For example, a university employee may be required to switch travel providers to a new travel agency that is approved by state government contracts. In other cases, organizational defections may occur as the result of friendships or business relationships that develop through civic clubs, country clubs, and a variety of other social and business gatherings. The consequences of these new relationships may lead to organizational policy changes and new preferred supplier status, which in turn, may leave the original suppliers behind.

14-5d The Defection Management Process

Although customer defections are frustrating for many firms, defection rates are measurable and manageable.³⁹ Defections indicate where profits are heading as well as specific reasons that customers are leaving. Information obtained by analyzing defections can assist firms in reaching the goal of continuous improvement.

The key to defection management is the creation of a zero defections culture within the firm. Everyone in the firm must understand that zero defection is a primary goal of the organization. To establish this goal, the firm's first step in

the defection management process is communicating to its employees the importance of retaining current customers and the benefits obtained by reducing defections. The earlier discussions in this chapter outline the importance and benefits of customer loyalty and retention that should be conveyed to all employees. The zero defections goal communicated to employees must have supporters at all levels, starting at the top of the organization. It is critical that upper management lead by example and managers “walk the talk.” Managers who talk about the need for and importance of customer service in employee meetings and then bad-mouth customers behind-the-scenes will never successfully implement a zero defections culture within their firm.

The second step in creating a zero defections culture is to train employees in defection management. Defection management involves:

1. Gathering customer information—who are our customers, what do they purchase, how much do they purchase, and how often do they place orders?
2. Providing specific instructions to employees about what to do with the information—acknowledge the customer by name, cross-sell other goods and services, and recognize the importance of the customer to the long-run success of the firm.
3. Instruct employees in how to react to the information—not all customers are created equal, and some get more special treatment than others.
4. Encourage employees to respond to the information.

The third and perhaps most critical step in the defection management process is to tie incentives to defection rates. Simply stated, if the firm truly values reducing defections, the reward structure should reinforce customer retention efforts. Firms such as MBNA, now Bank of America, are dedicated to customer retention and developed reward systems consistent with their customer retention efforts. It was MBNA's policy to talk with every customer who wishes to drop its services. MBNA's employees earned up to 20 percent of their salaries in bonuses associated with customer retention efforts. As a result of the reward structure and these extra communication efforts with customers, MBNA retained 50 percent of customers who called intending to end the relationship.⁴⁰ How did MBNA's customer retention efforts affect the bottom line? MBNA's overall customer retention rate was 95 percent, and MBNA kept its customers twice as long as industry averages. In fact, MBNA's retention rate of profitable customers—those who revolve their balances—was 98 percent. In addition, MBNA's credit losses due to bad debt were one-third to one-half lower than those of other companies. Moreover, MBNA customers used their cards more often and maintained higher balances—\$2,500 compared with the industry average of \$1,600.

Finally, firms successful in defection management also carefully consider creating switching barriers that discourage defections.⁴¹ Customers switching banks are subjected to the time-consuming task of closing one account at the old bank, opening a new account at the new bank, and

organizational defectors

Customers who leave due to political considerations inside the firm, such as reciprocal buying arrangements—if you buy from us, we will buy from you.



Two-thirds of customers who defect from companies do so due to the unhelpfulness of service employees.

switching all of their automatic drafts from one bank to the other. Switching to a new dentist may require the cost of new X-rays and switching to a new physician may translate into completing extensive patient information forms and enduring an extensive physical exam. The key to successfully implementing switching barriers is to develop low entry barriers and nonmanipulative, yet high exit barriers.

Overall, the key to defection management is the realization that customer defections are measurable and manageable. Too often, firms simply write off customers who no longer request their services. Defection management focuses on retaining customers before they defect and determining the reasons for defections when they do occur. In sum, defectors are a valuable source of information about the firm's operations, its employees, and its future.

14-5e Is It Always Worthwhile to Keep a Customer?⁴²

Although saving every customer at any cost is a controversial topic and opinions are divided, many experts now believe that not every customer is worth retaining.

In fact, it is totally acceptable in some instances to “fire” the customer. Guidelines for severing relationships with customers include the following conditions:

- The account is no longer profitable.
- Conditions specified in the business contract are no longer being met.
- Customers are abusive to the point that it lowers employee morale.
- Customer demands are beyond reasonable and fulfilling those demands would result in poor service for the remaining customer base.
- The customer's reputation is so poor that associating with the customer tarnishes the image and reputation of the selling firm.

Other experts believe that, although these criteria are valid, a more appropriate strategy is to retreat but keep the lines of communication open. Overall, retention efforts should focus on retaining the most profitable customers. Although zero defections to competitors is an admirable goal worth pursuing, the investment in customer loyalty, retention, and defection management programs may not be economically justified in every case. Moreover, it is argued that focusing too heavily on customer loyalty and retention efforts can harm the firm in the long run if customer acquisition costs and development efforts are completely overlooked in the process.

Summary

Due to stagnant markets, increased competition, the rising costs of marketing, changes in channels of distribution, and the ever-changing needs of customers, the concepts of customer loyalty and retention have increased in importance. Customer loyalty reflects attempts by the service firm to build an emotional attachment as well as a business attachment to the service firm. Customers who are retained by the service firm may be loyal customers or customers who simply continue to patronize the firm for other reasons, such as high switching costs that constrain their attempts to leave or a lack of substitutes.

Strategies for cultivating loyalty include: reducing customer effort, ongoing communications, providing great customer service, leaders who lead by example, training and empowering employees, remembering past customer purchases, focusing on reliability, flexibility in dealings with customers, balancing technology with high-touch, and personalizing the service.

Ultimately, customer loyalty and retention refer to focusing the firm's marketing efforts toward its existing customer base. Firms engaged in customer loyalty and retention efforts work to satisfy existing customers in the hope of further developing the customer-provider relationship. Customer loyalty and retention is associated with a wide variety of benefits, including the profits derived from initial and repeat sales, the profits from reduced operating costs, and the profits from referrals. Typically, existing customers

make more efficient use of the supply of service available, and they often prefer to stay with one provider over long periods of time to reduce the risk associated with service purchases.

In addition to attracting customers and building loyalty, service firms also benefit by proactively developing a defection management program. The motivation for establishing an effective defection management program is clear—cutting defections in half doubles the average company's growth rate. Customers defect to competitors for a number of reasons and can be described by defector type—price, product, service, market, technology, and organizational. The key to building an effective defection management program is instituting a zero defections culture throughout the firm. This is accomplished by employing leadership that lead by example, training employees in defection management, tying incentives to defection rates, and developing nonmanipulative switching barriers that discourage customer defections.

Despite the importance of customer loyalty, retention, and defection management, not all customers may be worth keeping. Service firms should seriously consider releasing customers who are no longer profitable, do not follow contract conditions, are abusive to employees, make unreasonable demands, and have developed such a poor reputation that it tarnishes the reputation of those that conduct business with them.

Key Terms

customer retention	customer acquisition cost	product defectors
customer loyalty	defection management	service defectors
conquest marketing	zero defects model	market defectors
lifetime value (LTV) of a customer	zero defections	technological defectors
lifetime profit (LTP) of a customer	price defectors	organizational defectors

Review Questions

1. Define the concepts and explain the relationship between customer loyalty and customer retention.
2. Why has conquest marketing become an acceptable form of business for many of today's firms?
3. Discuss the problems associated with conquest marketing.
4. Describe the types of customer loyalty programs and discuss how they differ from one another.
5. Provide a list of benefits associated with customer loyalty.
6. What is gamification and how has Starbucks used gamification to its advantage in developing its customer loyalty program (Hint: See E-Services in Action)?
7. How have changes within service distribution channels had an impact on customer retention?
8. Discuss the distinction between zero defects and zero defections.
9. How do service defectors differ from other defector types?
10. Is it always worthwhile to retain a customer?

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Case 14

Loyalty Considerations for Woodhouse Spa

Woodhouse Spa Fort Collins is a member of the full-service high luxury Woodhouse Spa franchise group, operating many such spas throughout the United States. The franchisor stipulates specific spa design features, equipment and products used to provide the guest experiences, and protocols for each spa service. The services include many types of massage and facials, as well as nail care and other body care services. The spas are all designed to offer experiences beyond what is typically available in most retail spas, and the brand is positioned to be unique in its level of luxury and breadth of services. For example, guests are encouraged to arrive for services early and stay later in quiet rooms where light snacks and all types of beverages (including alcohol) are served complementary to each customer.

The franchisor gives the individual franchisees a great deal of latitude with regard to local marketing and loyalty programs. As an example, Woodhouse Spa Fort Collins knows that many of its guests are very active in outdoor activities, such as hiking, climbing, and skiing, and use the spa to help address body and skin challenges that are created by engaging in these activities. Marketing targets these sort of guests with appropriate messaging, through both social media and traditional media channels.

There are about 35 percent of the spa customers who consider personal care, such as regular massages or facials to be a regular part of their lifestyle. This group is very important for the spa to develop loyal relationships. Another 30 percent of the spa guests are those who use a visit to the spa as a way to regularly celebrate “special occasions.” Birthdays, engagements, and weddings are popular events that drive customers to the spa, as do winter holidays, Valentine’s Day, and Mother’s Day. Another emerging market is the couples’ market, where partners share the spa experiences in rooms designed for two. The idea of the spa experience as a date or friendship experience has been gaining traction for a number of years. Clearly, a very important factor in the long-term success of the spa is to engender customer loyalty amongst each of these groups.

A few other market facts about the spa guests are important to remember as marketing and loyal programs are considered.

- Currently, about 82 percent of spa guests are female.
- Demand for spa services tends to be strongest Thursday through Sunday and can be very inconsistent Monday through Wednesday.
- The spa carries an extensive line of retail skin care and personal care products that support customer needs between spa treatments
- There are other businesses nearby, such as hotels, top restaurants, and event centers that have proposed partnerships/collaborations.
- Many customers are not currently loyal to any one area spa services provider.
- About 20 percent of guests want to have multiple spa services on a single visit.

Discussion Questions:

1. Discuss the benefits of creating a customer loyalty program.
2. Describe the possible obstacles when developing a customer loyalty program.
3. As a consultant for the spa, please provide possible recommendations for each type of customer loyalty program listed below:
 - a. Points program
 - b. Tier-based program
 - c. Refer a friend program
 - d. Spend-based program
 - e. Mission-driven program
4. Based on the alternative customer loyalty programs listed above, which one or two programs would receive your final recommendation? Please explain.

Chapter 15

Pulling the Pieces Together: Creating a World-Class Service Culture



iStock.com/Prostock-Studio

Source: <https://www.istockphoto.com/photos/company-culture>

Chapter Objectives

After reading this chapter, you should be able to:

1. Recognize the differences among the four types of traditional corporate cultures
2. Identify the primary obstacles to creating a world-class service culture
3. Compare the industrial management versus market-focused management models
4. Explain observational and indirect/direct questioning approaches for assessing an organization's current culture
5. Differentiate the four fundamental strategies that facilitate cultural change

A crucial component of developing and implementing an effective service delivery system is cultivating and nurturing a service culture. The goal of developing an effective service culture is delivering a seamless service experience that provides services without interruption, confusion, or hassle to the customer.

Healthy Corporate Cultures

A positive workplace culture provides an environment that attracts and retains top employees, stimulates employee and customer engagement, encourages higher levels of performance, and impacts happiness and satisfaction.¹ As such, firms that are known for having excellent corporate cultures share a consistent list of characteristics. Specific corporations known for having the best workplace cultures

include Microsoft (technology), IBM (technology), Google (technology), HubSpot (technology), and Elsevier (publishing).² Best practices include:³

- Respect and fair treatment of every employee
- Acceptance and appreciation of diversity
- A shared sense of pride and enthusiasm for the work accomplished
- The creation of a work environment where everyone can reach their full potential
- Open and honest communications with all employees at all levels regarding company policies and issues
- Strong leadership that has a sense of direction, purpose, and the ability to set priorities
- Competitive strengths in the areas of innovation, customer service, and value creation
- High employee retention rates compared to industry averages

- Investments in employee development via access to higher education, corporate training, and on-the-job mentorships
- Competitive compensation and benefits
- An emphasis on work-life balance

In contrast, firms with toxic cultures experience low morale at work, a lack of communication, a workforce that is intimidated by its leadership, an environment where policy decisions take priority over employee welfare, high employee turnover, cliques and groups that promote office drama, and middle managers that have little to no power or authority.⁴ Due to the inseparable nature of service experience, positive work cultures clearly provide better environments for customers, employees, and employers alike.

15-1 Introduction

In order to provide service excellence, the individual components of the service firm must act in unison to create a “seamless” service **culture**. Creating a **seamless service** organization means providing services without interruption, confusion, or hassle to the customer.⁵ Seamless service firms manage to simultaneously provide reliable, responsive, competent, and empathetic services, and have the personnel, facilities, and resources necessary to get the job done. Seamlessness thrives on tightly connected interrelated parts within the service delivery system that foster a service culture throughout the organization.

Firms with great service cultures support the employees who support the customer. For example, the Ritz-Carlton’s Gold Standards clearly articulate the Ritz-Carlton’s dedication not only to its guests, but also to its own personnel.

The Employee Promise

At The Ritz-Carlton, our Ladies and Gentlemen are the most important resource in our service commitment to our guests.

By applying the principles of trust, honesty, respect, integrity and commitment, we nurture and maximize talent to the benefit of each individual and the company.

The Ritz-Carlton fosters a work environment where diversity is valued, quality of life is enhanced, individual aspirations are fulfilled, and The Ritz-Carlton Mystique is strengthened.⁶

culture

The shared values and beliefs that drive an organization’s overall service philosophy.

seamless service

Services that occur without interruption, confusion, or hassle to the customer.

Before an organization can change its culture, it must first understand its current culture. By assessing the firm’s current culture, a seamless service culture is fostered as personnel throughout the organization come to appreciate the challenges faced and the contributions made by everyone involved in the firm’s final effort to deliver world-class service.

15-2 Traditional Types of Corporate Cultures

Corporate cultures vary throughout the business world and are effective to varying degrees due to the type of industry, the type of people employed, the company’s core values, and country-of-origin (see Global Services in Action). In general, although corporate cultures may be referred to by many names, the four main types of corporate culture include adhocracy culture, market culture, hierarchy culture and clan culture.⁷ Research indicates that “nearly 90 percent of organizations worldwide can be categorized as having one or more of these culture types dominate in their organization.”⁸

15-2a Adhocracy Culture

The primary focus of an adhocracy culture is innovation and risk-taking. Adhocracy cultures constantly push the boundaries of traditional thought and are constantly looking for “the next big thing.” Typically found in small entrepreneurial technology-based start-ups, some large corporations are purposely creating adhocracy sub-cultures within their traditional more conservative corporate culture to spur innovation.

Adhocracy cultures promote a high risk/high reward environment and encourage employees to use their creativity and to not be afraid of taking risks. Employees are more likely to enjoy a learning environment via professional development opportunities and feel encouraged and supported to pursue unconventional ideas that would never be supported in a more conservative workplace. On the downside, adhocracy cultures may promote a cutthroat work environment where employees feel the pressure to be the one with the next big idea. As the company moves from one idea to the next, employees may feel the company is unstable, without direction, and may fold if new ideas do not take hold in the marketplace. Additionally, adhocracy cultures thrive on confident and aggressive employees which may provide an uncomfortable socialization experience for new employees.

15-2b Market Culture

Bottom-line results are the primary focus of a market culture. Often, the only measuring stick for decision-making in a market culture is profitability and every other consideration is secondary. Leadership in market cultures tends to be demanding and expects that employees will perform in a high-pressure environment in pursuit of quotas and targets.

Those that thrive in market cultures are typically highly competitive and are driven to “win.”

Market cultures promote a “work hard/play hard” environment in which employees willingly work to reach company profitability goals. Market cultures that share the rewards that are reaped with employees enjoy the benefits of a motivated and enthusiastic workforce. When market cultures are effective and provide the desired results, the outcome is a successful and profitable company. Disadvantages of market cultures include the prioritization of outcome-based results that override the importance of the behaviors that are utilized to achieve the results. Constant competition and pressure may lead to a toxic work environment characterized by high employee turnover. Finally, employees may never feel they are able to rest. The expectation is to constantly climb, perform, and produce results.

15-2c Hierarchy Culture

The primary focus of hierarchy cultures is to establish stability and reliability. Hierarchy cultures tend to be more conservative, contain clear chains of command, and utilize vertical (tall) hierarchical structures that separate executives from front-line employees. Traditional norms dictate that the firm has a specific way of doing things which may also include dress codes and fixed work hours.

Employees of hierarchy cultures enjoy the stability of the work environment, clearly defined roles, processes, and career paths, and the predictability of their daily work activities. Disadvantages include the rigidity of the organization which prioritizes process over people, little attention is paid to employee engagement, creative suggestions for improvement may be quickly interpreted as unconventional and too controversial, and the firm is likely to be slow to react to changes in the marketplace.

15-2d Clan Culture

The mantra for a clan culture could easily be “All for one, and one for all!” As such, the primary focus of a clan culture is on teamwork, relationships, and company morale. Also known as a collaborative culture, managers are not viewed as cops, bosses or dictators but as enablers, facilitators, and coaches. Organizational hierarchies in clan cultures tend to be horizontal (flat) and every effort is made to remove the barriers between upper management and front-line employees. Additionally, clan cultures are built specifically for flexibility, thrive in change environments, and are quick to adapt.

The advantages of clan culture surround the notion of a collaborative effort. Employees are more likely to be engaged in workplace activities, enjoy working with coworkers, and thrive in an environment of open communication among all levels of the organization. On the downside, clan cultures are often found in newer or smaller companies as the clan culture is difficult to maintain as the company grows. Due to the horizontal hierarchy, career paths may be unclear for those that seek growth opportunities. Finally, too much collaboration may lead to reduced productivity and the inability to make difficult decisions which may negatively impact some members of the team.

Clan Culture Illustrated⁹ Since employee morale is an important objective, employees of clan cultures may enjoy benefits that others do not. Although Google, Inc., is not a small company, the company attempts its best to create and maintain a clan culture among its employees. Google management works hard to maintain Google’s core values—sustaining a flat organization and facilitating a collaborative work environment. Hiring the right employees that are Google-y is the key to maintaining and growing the company’s culture. Google-y employees are described as flexible, adaptable, not focused on job titles and hierarchy, and able to get stuff done. Consequently, beyond skill sets, academic background, experience, and credentials, potential new hires are screened for their fit with the company’s culture and collaborative work ethic.

Employee perks set the tone for Google’s culture and differentiate the company from its competition. Results from employee happiness surveys revealed that employee happiness is not based on salary and stock options alone. As a result, the company has spent a great deal of effort on developing programs and activities centered around employee career development and growth. In addition, although Google facilities around the world differ in their offerings, employees fortunate enough to work at Google’s world headquarters known as the “Googleplex” located in Mountain View, California, enjoy a multitude of unique benefits.

The Googleplex lobby consists of a piano, lava lamps, and live information pertaining to search queries from around the world. Throughout the building, bicycles and large rubber exercise balls are readily available for anyone feeling the need to work off a little steam. Bulletin boards, located virtually everywhere throughout the facility, exhibit Google-related press clippings from around the world. Offices are purposely cohabitated with three to four employees and furnished with couches to improve information flow, save on heating bills, and improve server setup effectiveness. Dogs are welcome guests in the Googleplex. Recreation facilities within the Googleplex offer workout rooms equipped with exercise equipment, locker rooms complete with washers and dryers, a massage room, video games, foosball, pool table, ping pong, and a baby grand piano. Roller hockey is even available twice a week in the parking lot.

One of the most valued employee perks is food. Employees don’t have to leave the Google campus to eat; the food provided is great, and employees have the option of healthy food selections. Stations within the Google Café include “Vegheads,” “Back to Albuquerque,” “East Meets West,” and “Charlie’s Grill.” Snack Rooms stocked with cereal, Gummi bears, M&Ms, nuts, yogurt, fresh fruit and a variety of other choices are common in every Google facility. Drinks are also available, including sodas, fresh juice, and a make-your-own-cappuccino station.

Ultimately, a firm’s culture is based on its values and beliefs. Google not only instills its core values through employee selection and training, but the company also uses its servicescape to reinforce the firm’s culture through the use of physical evidence. Space allocation, office composition and location, bulletin boards and displays, and cafés

and snack rooms all reinforce Google's core values of a flat organization, a lack of hierarchy, and working within a collaborative environment. Organizations that provide excellent service set themselves up for success, and Google is a prime example of a company that takes its culture seriously.

15-3 Obstacles to World-Class Service: Departmentalization and Functionalism

Traditional management models based on the foundations of **functionalism** and **departmentalization** kill seamlessness. For example, consider the following three memos sent to a young manager of a branch bank on the same day:¹¹

functionalism

The belief that the function of something rather than the experience it creates should determine its design.

departmentalization

The act of dividing an organization into departments that focus on their own set of activities.

From the marketing department:

We shortly will be launching a new advertising campaign based on the friendliness of our staff. This is in direct response to the increasingly competitive marketplace we face. Please ensure that your staff members deliver on the promises we are making.

From the operations department:

As you are aware, we are facing an increasingly competitive marketplace and, as a result, our profits have come under pressure. It is crucial, therefore, that we minimize waste to keep our costs under control. From today, therefore, no recruitment whatsoever will be allowed.

From the personnel department:

Our staff members are becoming increasingly militant. This is due, in large part, to the availability of alternative employment with our new competitors. We currently are involved in a particularly delicate set of negotiations and would be grateful if you could minimize any disruptions at the local level.

These instructions from the three different departments obviously conflict with one another. To obey the operations

Global Services in Action

Corporate Culture Differences Around the Globe¹⁰

Corporate cultures not only differ from organization to organization but also tend to align with cultural differences around the globe. Harvard researchers launched an online survey that allowed *Harvard Business Review* readers to provide input about their own organizational cultures. The survey collected over 12,800 responses with 43 percent of respondents from outside of North America. Overall, respondents listed the most important attributes of their organizational culture which resulted in eight styles of company cultures. Listed in order of most important cultural attribute overall, the eight styles included:

1. Caring	5. Safety
2. Results	6. Order
3. Purpose	7. Authority
4. Learning	8. Enjoyment

Regional cultural differences consistently stressed different styles depending on the corporate location. For example:

The Willingness to Respond to Change

- Organizations in Africa exhibited the most flexibility and also scored highly in learning and purpose reflecting an openness toward change, agility, and an appreciation for diversity.
- In contrast, corporations in Eastern Europe and the Middle East seek a strong degree of stability and

emphasize safety reflecting the need for preparedness and continuity.

- Firms in the Middle East also emphasize authority.

How People Interact: Independence vs. Interdependence

- Corporations in Western Europe, North America, and South America emphasize independence.
- Western Europe and North America also place a strong emphasis on results, goal-orientation, and achievement.
- South America, compared to other countries, stresses enjoyment meaning work should be fun, exciting, and light-hearted.
- Firms in Asia, Australia, and New Zealand stress interdependence and are more likely to adopt cultures that embraced caring and safety.
- Firms in Asia also emphasize order and embrace cultures that tend to be cooperative, respectful, and rule-abiding.

Recognizing the influence of regional differences on corporate cultures is important for employees and managers alike. Employees experiencing international work transfers and/or telecommuting with fellow employees abroad will need to be sensitive to and adapt to cultural differences. In addition, managers of global expansion efforts will need to consider independent vs. interdependent work styles, employee expectations for hierarchy and structure, and attitudes toward change to manage effectively.

department means no recruitment and, therefore, an increase in the workload for contact personnel. The increased workload will most likely be a hot topic during labor negotiations and could be disastrous for the personnel department. Finally, the increased workload, in all probability, will have a negative effect on staff morale. Given the inseparability of the service, the staff's low morale will be visible to customers and negatively affect subsequent customer satisfaction levels.

If this particular branch bank is marketing-oriented, the young manager will try to trade off the three sets of instructions, giving added weight to the marketing department's instructions. It should be stressed that, in service firms, it is nearly impossible to be totally marketing oriented. Customers cannot be given everything they want because of the constraints imposed by the firm's service delivery system. For example, in a restaurant setting, every customer cannot be seated by the window with the scenic view and served immediately upon arrival due to seating and available service (personnel) constraints.

If this branch is operations-oriented, added weight will be given to the operations department's set of instructions. The young manager may relay marketing's request to the vice president of operations and ask for clarification. The operations vice president, in turn, may fire off an abusive memo to their counterpart in marketing. The memo may ask why marketing was sending memos directly to the branches at all and suggest that, in the future, all other requests made by marketing should be cleared by operations.

Firms that continue to cling to functional and departmental mindsets are often besieged by internal conflict as departments compete against one another for resources instead of pulling together to provide exceptional service. The conflict that often occurs between marketing, operations, and human resources is not personal.¹² It is a result of the different cultures that are functions of each department's goals, planning horizons, departmental structure, people-management systems, and the specific individuals in each department.

15-3a Overcoming the Silo Mentality: Understanding Internal Logics

One of the primary challenges of creating a service culture that embraces a seamless service experience is to join the various departments within the firm to work with one common goal in mind—serving the customer. Before trying to integrate the various departments of the firm, it is important to understand that each is driven by its own **internal logic**—implicit and explicit principles that drive organizational performance.¹³ Each department's logic is internally focused on its own departmental needs and creates seams in the service delivery process. This silo mentality isolates the department from the rest of the organization as it pursues self-interested goals in the forms of departmentalization and functionalism. For example, consider the logic

behind each of the following functions that drive the service experience: operations management, marketing, and human resources.

Operations logic is driven by the goal of reducing or containing costs through mass production or the use of advanced technologies. Operations and marketing are often in conflict with each other, which creates seams in service delivery. While marketing is concerned with identifying and understanding customer needs and providing goods and services that meet those needs, operations is concerned with how these goods and services will be produced and delivered. In essence, marketing is concerned with the management of demand, while operations is concerned with the management of supply. Marketing tries to focus on meeting demand in the most effective manner in terms of product form, location, price, and promotions, while operations is primarily concerned with meeting demand in the most cost-effective manner. Typical goals of operations management and marketing concerns regarding these goals are displayed in Table 15-1.

The major challenge for operations in a service setting is the involvement of customers in the production process. Compared with raw materials in a pure manufacturing setting, customers are unpredictable and decrease the efficiency of the delivery system. Operations would like to remove the customer from the production process as much as possible, while marketing promotes the importance of the customer in the production process. Consequently, operations and marketing must establish a point of equilibrium between the variety and depth of goods and services that marketing would like to offer and the cost effectiveness of meeting that demand through efficient operations.

While operations management is internally focused, marketing focuses externally on meeting the expectations and needs of customers. Ideally, the **marketing logic** is to provide customers with options that better enable the product offering to meet individual customer needs. Although ideal for customers, providing numerous options leads to serious cost inefficiencies in a firm's operations.

In addition to often being in conflict with operations, marketing may also find itself in conflict with human

internal logic

Implicit and explicit principles of individual departments that drive organizational performance.

operations logic

The reasoning that stresses cost containment/reduction through mass production.

marketing logic

The reasoning that stresses providing customers with options that better enable the service offering to meet individual needs.

Table 15-1 Operations and Marketing Perspectives on Operational Issues

Operational Issues	Typical Operation Goals	Common Marketing Concerns
Productivity improvement	Reduce unit cost of production.	Strategies may cause decline in service quality.
Make-versus-buy decisions	Trade off control against comparative advantage and cost savings.	“Make” decisions may result in lower quality and lack of market coverage; “buy” decisions may transfer control to unresponsive suppliers and hurt the firm’s image.
Facilities location	Reduce costs; provide convenient access for suppliers and employees.	Customers may find location unattractive and inaccessible.
Standardization	Keep costs low and quality consistent; simplify operations tasks; recruit low-cost employees.	Consumers may seek variety, prefer customization to match segmented needs.
Batch-versus-unit processing	Seek economies of scale, consistency, efficient use of capacity.	Customers may be forced to wait, feel “one of a crowd,” be turned off by other customers.
Facilities layout and design	Control costs; improve efficiency by ensuring proximity of operationally related tasks; enhance safety and security.	Customers may be confused, shunted around unnecessarily, find facility unattractive and inconvenient.
Job design	Minimize error, waste, and fraud; make efficient use of technology; simplify tasks for standardization.	Operationally oriented employees with narrow roles may be unresponsive to customer needs.
Learning curves	Apply experience to reduce time and costs per unit of output.	Faster service is not necessarily better service; cost saving may not be passed on as lower prices.
Management of capacity	Keep costs down by avoiding wasteful under-utilization of resources.	Service may be unavailable when needed; quality may be compromised during high-demand periods.
Quality control	Ensure that service execution conforms to predefined standards.	Operational definitions of quality may not reflect customer needs, preferences.
Management of queues	Optimize use of available capacity by planning for average throughput; maintain customer order, discipline.	Customers may be bored and frustrated during wait, see firm as unresponsive.

Source: ©1989 by Christopher H. Lovelock. Reprinted with permission from Christopher H. Lovelock. Christopher H. Lovelock, “Managing Interactions between Operations and Marketing and Their Impact on Customers,” Bowen et al., eds., *Service Management Effectiveness* (San Francisco: Jossey Bass, 1990), 362.

resources, creating additional seams in service delivery. For example, marketing would like to staff all personnel positions with individuals who, in addition to being technically competent, have strong interpersonal skills that enable the organization to better communicate with its customers. Marketing would argue that hiring personnel who have well-developed interpersonal skills (in addition to being technically competent) is free. In contrast, human resources would argue that obtaining and keeping highly trained and personable personnel is much more expensive than hiring people who simply perform their roles adequately in the organization. Furthermore,

human resources will point out that certain market segments can be served by personnel who are simply civil with customers and who perform their duties adequately. This point is valid. Does the customer really want a restaurant’s wait staff employee to engage the customer in a lengthy conversation about the weather, community happenings, and family matters, or would the customer rather have a civil employee take the order and deliver the food in an efficient manner? Moreover, the food is more likely to be less expensive when provided by adequate as opposed to superior personnel because of the savings in labor costs.

In contrast to the logics of the marketing and operations departments, **human resources logic** is to recruit personnel and develop training that enhances the performance of existing personnel. Admittedly, there is no such person as the perfect service employee. Characteristics of the “right employee” depend on the characteristics of the job in question. Some employees will need to be people oriented, while others will need to be more task oriented to process “things” instead of “people.”

The importance of service firm personnel as they interact with customers throughout the service delivery process highlights the link between human resources and marketing. Within a service firm, the human resources team is one of the few sources of quality control. Consequently, the hiring, training, and reward structures developed by human resources will ultimately play a major role in how employees interact with each other as well as the firm’s customers. Today’s face-to-face, work-from-home, and hybrid work

environments depend on human resource guidance now more than ever (see E-Services in Action).

Despite the opportunity to make major contributions to the firm’s overall service effort, human resources departments are often stuck in their own production-oriented silo mentality. Human resources’ production-oriented activities include mistakes such as: using the same employee evaluation forms for everyone in the firm, even though the jobs may be very different; conducting canned employee training programs that never change from year to year; and utilizing generic employee selection procedures for a variety of jobs that actually require different skill sets. In contrast, service-oriented human resources programs would be co-designed and co-taught with relevant managers, and evaluation forms would be thought of as coaching and evaluating devices rather than as rating forms used solely for compensation decisions. Overall, the service-oriented human resources department would work much more closely with its customers—the firm’s employees—and form an ongoing, interactive, long-term relationship in pursuit of supporting those who serve the firm’s customers.

In the service encounter, operations, marketing, and human resources are inextricably linked. Figure 15-1 depicts the link between marketing, operations, and human resources. When all three departments are on equal footing resulting in an

human resources logic

The reasoning that stresses recruiting personnel and developing training to enhance the performance of existing personnel.

E-Services in Action

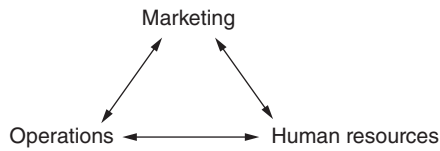
Developing a Remote Workforce Culture¹⁴

Throughout the Covid-19 pandemic, many companies shifted to a remote work strategy to adapt to government-mandated social distancing requirements. As the pandemic subsided, many corporations returned to work with a hybrid workforce comprised of both work-from-home (WFH) and face-to-face employees. As employees continue to work remotely, managers are faced with the challenge of how to create and maintain a positive remote workforce culture. Suggestions include:

- **Understanding the value of a remote workforce:** The key benefits of telecommuting include improved employee satisfaction, reduced absences, increased productivity, reduced employer cost, minimizes wasted meeting time, increased collaboration, and provides a work environment in which the employer can expand its talent pool by recruiting talent from multiple geographical areas.
- **Provide the support necessary for remote workers to do their jobs:** Since the average remote worker saves the employer 11k a year annually, employers should have no problem supporting remote workers with a reliable internet connection, dedicated workspace, phone, computer, printer, router, office supplies, desk and desk chair.
- **Establish remote work policies, expectations, and guidelines:** Provide guidance regarding work hour expectations, communication and collaboration schedules, vacation, and time-off policies.

- **Communicate remote work policies, expectations, and guidelines and solicit feedback:** Make sure that policies and expectations are clearly stated, available, and open for discussion.
- **Create a remote culture statement:** Provide lists of values and interests that employees share and explain how the company promotes those values.
- **Introduce new employees in front of the entire team:** Current remote employees already have established relationships from the days when the face-to-face workplace was commonplace. New employees do not have these relationships; therefore, every effort should be made to introduce new employees and socialize them into the team.
- **Establish a remote “water cooler”:** Mimicking the social water cooler environment of the face-to-face workplace, develop an online chat room where employees can share information much like they would do so in a face-to-face environment.
- **Communicate, communicate, communicate!** Whether face-to-face or video conferencing, bringing people together creates networks, forms bonds, facilitates the exchange of ideas, and establishes and maintains cultural norms.

As far as corporate cultures are concerned, “out of sight/out of mind” and letting remote cultures develop by happenstance is not necessary or advisable. Effective remote cultures benefiting employees and employers alike can be established by following the guidelines above.

Figure 15-1 The Three-Cornered Fight for Control

Source: John E. G. Bateson, *Managing Services Marketing: Text and Readings*, 3rd ed. (Fort Worth, TX: The Dryden Press, 1995).

equilateral triangle, seamless service will thrive. However, if one department begins to dominate the other two, this places stress on the service delivery system, and seams will begin to form, and subsequent service will begin to falter. Ultimately, the firm's **service logic** stitches the departmental and functional seams together in order to help provide flawless service. Seamlessness can be referred to as "tooth-to-tail" performance—a term commonly used in the armed forces. "The personnel out front in the trenches need to be backed up with coordinated supplies, information resources, personnel reinforcements, and so on."¹⁵ Similarly, when developing a service culture, the primary efforts of the service firm should equally focus on the customer (marketing logic), the service delivery process (operations logic), and on the personnel providing customer services (human resources logic). However, before this can happen, firms must first understand the business philosophies that drive their current cultures.

15-4 Industrial Management Versus Market-Focused Management Models

In the effort to create an excellent service culture, the firm should first consider its current philosophical approach to running the organization. Two models of management currently dominate the manner in which service firms operate, thereby directly influencing the development of the firm's service culture: the industrial management model and the market-focused management model. The **industrial management model** approach is more traditional and based on past schools of thought. Despite its outdated

service logic

Promotes seamlessness by balancing the internal logics of marketing, operations, and human resources.

industrial management model

An approach to organizing a firm that focuses on revenues and operating costs and ignores the roles personnel play in generating customer satisfaction and sustainable profits.

methods, the industrial management approach is alive and well in many service organizations today—traditions and bad habits are hard to break. Before an organization can transform itself into a world-class service operation, it must first understand the roots of its current business philosophy and all its unintended consequences.

15-4a The Industrial Management Model

The industrial management model, which has its roots in the manufacturing sector, is still employed today by many service organizations.¹⁶ Organizations that follow the industrial management model believe that: (1) location strategies, sales promotions, and advertising drive sales revenue; and that (2) labor and other operating costs should be kept as low as possible. In sum, the industrial management model focuses on revenues and operating costs and ignores (or at least forgets) the role personnel play in generating customer satisfaction and sustainable profits. Given the role that employees play throughout the service encounter, it is sadly ironic how the industrial management model continues to be embraced by many of today's companies. For example, a general manager of a local internationally known hotel brand recently told a group of services marketing students that the keys to the hotel's success were quite simple—maximize daily room rates and minimize daily labor costs. This manager's business philosophy is a classic industrial management model approach to business. Absent from the general manager's keys to success were employee and guest satisfaction among other factors, including employee and customer retention, goals relating to service quality and service recovery, and many other worthy objectives that lead to providing seamless service to guests.

In general, followers of the industrial management model believe that good employees are difficult to find, and they support the notion that "all things being equal, it is better to rely on technology, machines, and systems than to depend on human beings."¹⁷ In addition, advocates of the industrial approach further believe that most employees are indifferent, unskilled, and incapable of fulfilling any duties beyond performing simple tasks. Consequently, jobs under the industrial model are intentionally narrowly defined to leave little room for employees to exercise judgment. As a result, employees are held to low job performance expectations, their wages are kept as low as possible, and few opportunities exist for advancement. As opposed to valuing front-line employees, the industrial model places a higher value on upper and middle managers while viewing the people who deliver service as basic nonessential personnel. The industrial approach assumes that only managers can solve problems; consequently, resolving customer problems quickly becomes almost impossible because additional steps are built into the service delivery process as front-line employees are forced to seek out managers to resolve customer issues.

Consequences of the Industrial Management Model

The industrial model by definition guarantees a cycle of failure, as service failures are designed directly into the service

delivery system. Due to its lack of support for frontline personnel, the industrial approach, albeit unintentionally, actually encourages frontline employees to be indifferent to customer special requests and problems. In essence, the system prohibits the front-line employee from taking any action even if the employee wants to assist in meeting customer requests or correcting the problem. Customer reactions to employee indifference are not surprising. Two-thirds of customers who now defect from their former suppliers do so not because of the product, but because of the indifference and unhelpfulness of the person providing the service.¹⁸

In further attempts to reduce operating costs, many firms that embrace the industrial model have replaced their full-time personnel with less-experienced and less-committed part-time personnel. These people are paid less than full-time personnel and receive few, if any, company benefits. In some instances, companies routinely release workers before mandatory raises and other benefits begin, to keep operating costs down. Managerial practices such as this have created a new class of migrant worker in the United States—millions of employees now travel from one short-term job to another. Consequently, the industrial management model flies directly in the face of the position advocated by the proponents of the service-profit chain. Employees are not valued, internal service quality is not a priority, and employee retention and productivity are not established goals.

The consequences associated with the industrial model in regard to service organizations have been self-destructive. The industrial model has produced dead-end front-line jobs, poor pay, superficial training, no opportunity for advancement, and little, if any, access to company benefits. Moreover, the industrial approach has led to customer dissatisfaction, flat or declining sales revenues, high employee turnover, and little or no growth in overall service productivity. In sum, many believe that the industrial approach is bad for customers, employees, shareholders, and even the quality of life for the countries in which this organizational philosophy continues to be embraced. Yet, the industrial management model continues to operate because the lessons of the past have not been effectively communicated to the business leaders of tomorrow. Clearly, it is time to break with tradition and adopt a business philosophy that promotes a service-oriented culture and balances the needs of employees, customers, and company operations.

15-4b The Market-Focused Management Model

In contrast to the industrial management model, proponents of the **market-focused management model** believe

market-focused management model

An organizational model that focuses on the components of the firm that facilitate the firm's service delivery system.

that the number one purpose of the firm is to serve the customer.¹⁹ Consequently, logic suggests that *although the purpose of the firm is to serve the customer, the firm should be organized internally in a manner that supports the people who serve the customer*. By following this approach, service delivery becomes the focus of the system and the overall differential advantage in terms of competitive strategy. In essence, the market-focused management approach promotes a service-oriented culture that benefits customers, employees, and the organization itself (see Services for a Better World in Action).

The Service Triangle The Service Triangle framework presented in Figure 15-2²² depicts six key relationships that comprise the market-focused management approach. First, the firm's service strategy must be communicated to its customers. If superior service is the focus of the firm and the key point of differentiation on which it distinguishes itself from competitors, customers need to be made aware of the firm's commitment to service excellence. For example, The Ritz-Carlton's Credo explicitly states the company's commitment to service excellence.

The Ritz-Carlton Hotel is a place where the genuine care and comfort of our guests is our highest mission.

We pledge to provide the finest personal service and facilities for our guests who will always enjoy a warm, relaxed, yet refined ambience.

The Ritz-Carlton experience enlivens the senses, instills well-being, and fulfills even the unexpressed wishes and needs of our guests.²³

However, it is important to note, a firm wishing to express its superior service to customers must first have an effective service delivery system in place before it announces to the world that superior service is its primary objective.

Second, the firm's service strategy (commitment to service excellence) needs to be communicated to the firm's employees. Good service starts at the top, and management must lead by example. If top management is not committed to processes that facilitate service excellence, front-line employees who interact with the firm's customers will be ineffective at best. Front-line employees who interact with customers emulate the firm's leadership. Leadership that values customers and processes that deliver customer and employee satisfaction will yield employees who share the same values. The opposite is true as well. Managers who despise their customers create a toxic service culture for employees and customers alike.

The third relationship depicted within the service triangle focuses on the consistency of the service strategy with the systems that are developed to run the day-to-day operations. In other words, the firm's service delivery systems should flow logically from the service strategy and enhance the service encounter for all involved. For example, online retail operations are an extension of the retailer's interaction with its customers. If the retailer publicly states that service is a priority, then its online

Services for a Better World in Action

Cultivating a Caring Corporate Culture

Caring corporate cultures are committed to the betterment of the firm's employees, its customers, and the communities in which it operates.²⁰ Caring corporate cultures must go beyond the "caring words" used in mission, vision, value statements, and motivational speeches and must be embodied within the firm's overall business strategy. Ultimately, caring cultures unite employees, customers, and the community around a shared purpose.

Caring cultures begin with the firm's leadership. Philosophically, leaders of caring cultures do not "take charge of the business." Alternatively, leaders of caring cultures "take care of those that are in their charge." Leaders must constantly model caring behavior. Taking care of the team leads to several worthwhile benefits such as better mental health, improved retention, reduced onboarding costs, and enhances the perception of employment stability. Subsequently, employees of caring cultures add value to the services that are provided to customers which in turn creates a source of competitive advantage for the firm. Research indicates, "employees who truly care about their company and team members will take care of their customers," who return the favor with customer loyalty. As a result, caring cultures impact a firm's profitability in a clear and positive way.

Best practices of firms that have excelled and maintained a caring culture include:

- Walk-the-Talk: Demonstrate leadership that thinks and acts like a human being
- Hand pick applicants that fit with the company's culture
- Establish collaborative environments where people's opinions are heard and valued
- Demonstrate a genuine interest in and value placed on work-life balance and employee health and happiness
- Offer a strong benefit package
- Form connections with customers and the community around a shared purpose
- Be a firm that cares about more than just making money

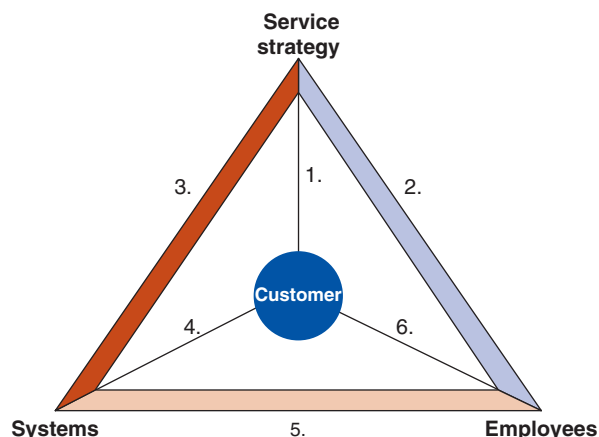
Cultivating a culture of care provides a sustainable work environment.²¹ Caring cultures attract top talent, the talent is retained, which in turn, attracts new top talent as the firm continues to expand. Cared for employees provide customer care. Customers receive top-notch service which leads to increased purchase amounts, purchase frequency, and word-of-mouth referrals which in turn lead to revenue growth and profitability. Ultimately, a caring culture pays for itself by encouraging a cycle of success.

systems should be exceptional as well. Clearly, Amazon understands this relationship. This third relationship of the service triangle seems straightforward, but apparently it is difficult to implement. How many companies tout the importance of customer service, yet queue their customers in endless automated telephone loops or route their calls to outsourced call centers where, even when connected, cultural differences often prevent customers from communicating effectively with the firm's employees? Adding to the frustration is the firm's voice recorded message that

repeatedly boasts, "Your call is important to us!" Given the inept systems that are set up by firms to handle customer calls, how important can the calls really be?

The fourth relationship illustrated in the service triangle involves the impact of organizational systems upon the customer's service experience. Interactions with the firm's systems should enhance the customer's service experience. For example, if the firm touts service excellence as its primary strategy, systems such as check-out procedures, delivery systems, and return policies should

Figure 15-2 The Service Triangle



Source: Adapted from Karl Albrecht and Ron Zemke, *Service America* (Homewood, IL: Dow Jones-Irwin, 1985) pp. 31–47.



Among the six service triangle relationships, the customer/service provider interaction, also known as “critical incidents” or “moments of truth,” is perhaps the most important relationship of them all.

be excellent as well. Service firms should avoid designing defensive systems developed for the sole purpose of keeping a small minority of customers from taking advantage of the company. Systems such as rigid return policies may weed out a few bad customers at the expense of honest customers, who are forced to suffer through systems and policies that treat them as suspects instead of valued assets.

The fifth relationship within the service triangle pinpoints the importance of organizational systems and employee efforts. Organizational rules and regulations should not be obstacles in the way of employees wishing to provide great service. For example, wheelchair attendants at Denver’s International Airport are only allowed to transport passengers with disabilities to the curb of the terminal building. Proceeding into the covered parking garage 50 feet away from the terminal is not permissible (apparently for liability reasons). As a result, family members who have greeted the passenger with disabilities inside the terminal to help with luggage must exit the parking garage, pay the parking toll, and return to passenger arrivals to receive their family member. This extra step in the process can easily add 15 to 20 minutes to getting the family member into their vehicle.

Finally, the sixth and last relationship depicted in the service triangle is perhaps the most important of them all—the customer/service provider interaction. Also known as “critical incidents” or “moments of truth,” the importance of the interaction between service providers and customers cannot be overstated.

Service providers must be more flexible, communicative, able to deal with stress, and willing to take initiative compared to their manufacturing counterparts. To the customer, service providers are the public face of the organization and occupy a two-way communication role—from the organization to the customer, and from the customer back to the organization. Service firms that successfully navigate the customer/service provider interaction do so by avoiding the “human resources trap.” This trap makes the fatal

flaw in judgment of placing the full burden of “moments of truth” upon the service provider. The firm’s non-personal services—such as the physical facility, the accuracy and timeliness of billing, and all the behind-the-scenes support staff who enable service providers to perform their jobs—must be in place and working together for the firm to provide seamless service. Ultimately, service providers are only as good as the service delivery systems and service culture that supports their efforts.

The market-focused management model is based on the belief that the purpose of the firm is to serve the customer. As a result, this approach promotes the stance that the firm should be organized to help serve the people who serve the customer. In many ways, the market-focused management approach is consistent with the service-profit chain’s emphasis on internal service quality and employee satisfaction. The market-focused management approach believes employees want to do good work and experience individual career growth. Hence, advocates of this approach are much more optimistic about their faith in human nature than their industrial management counterparts.

15-5 Developing a Service Culture

A service firm’s culture reflects the shared values and beliefs that drive the organization—the formally written, the unwritten, and the actual occurrences that help employees understand the norms for behavior in the organization. In short, organizational culture establishes the “dos and don’ts” of employee behavior and provides the basis on which various employee behaviors can coalesce.²⁴ For example, consider Southwest Airlines’ 11 Primary Attitudes and Zappos’ 10 Commandments that guide employee behavior, which are depicted in Table 15-2.

15-5a Assessing the Current Culture of the Service Firm: Observation and Indirect Questioning Techniques

Before an organization can change its culture, it must first understand its current culture. Assessing the firm’s current culture can be accomplished by means of informal (observational and indirect questioning techniques) and formal approaches, such as conducting a formal service audit. Informal approaches such as the observational techniques that follow often provide keen insights into the values and beliefs of the organization.²⁵

1. Observe the current culture as an impartial observer—if you were an observer who had never seen this group of employees interact before, what would you learn from their conversations and actions?
2. Gauge employee emotions—what are employees passionate about? What do people inside the organization get excited about, and what do they argue about? People only get excited or argue about issues that are truly important to them.

Table 15-2 Southwest Airlines and Zappos Guide to Employee Behavior

“We are not an airline with great customer service. We are a great customer service organization that happens to be in the airline business.”

Colleen Barrett
Southwest Executive

Southwest Airlines:	Zappos:
11 Primary Attitudes	The 10 Commandments of Zappos
1. Employees are number one. The way you treat your employees is the way they will treat your customer.	1. Deliver Wow through service.
2. Think small to grow big.	2. Embrace and drive change.
3. Manage in the good times for the bad times.	3. Create fun and a little weirdness.
4. Irreverence is okay.	4. Be adventurous, creative, and open-minded.
5. It's okay to be yourself.	5. Pursue growth and learning.
6. Have fun at work.	6. Build open and honest relationships with communication.
7. Take the competition seriously, but not yourself.	7. Build a positive team and family spirit.
8. It's difficult to change someone's attitude, so hire for attitude and train for skill.	8. Do more with less.
9. Think of the company as a service organization that happens to be in the airline business.	9. Be passionate and determined.
10. Do whatever it takes.	10. Be humble.
11. Always practice the Golden Rule, internally and externally.	

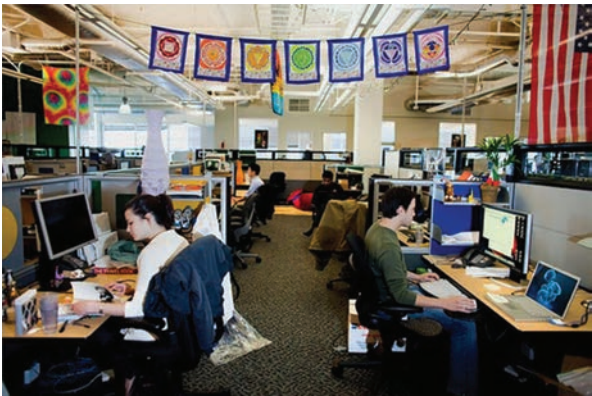
Sources: Kevin Freiberg and Jackie Freiberg, *Nuts! Southwest Airlines' Crazy Recipe for Business and Personal Success* (Austin, TX: Bard Press, 1996); Jeffrey M. O'Brien, “The 10 Commandments of Zappos,” *CNN Money*, January 22, 2009, https://money.cnn.com/2009/01/21/news/companies/obrien_zappos10.fortune/index.htm

3. Observe objects and artifacts—what is hanging on office walls and what do employees display on their desks? Cartoons about the incompetence of management (e.g., Dilbert) or the stupidity of customers are typical indicators of the values and beliefs held by the firm's employees.
4. Observe what is missing—what should be visible that is not? Some employee offices look like a home away from home, while other offices are drab and spartan. The former approach may indicate that the employee views the job as an integral part of life, while the latter may indicate that the employee's primary motivation for work is a paycheck.
5. Go for a culture walk—take a walk around the firm and look for the physical signs of culture. Experts advise that you observe:
 - a. Space allocation and office location—who gets the most space, the best offices, and who is separated from whom?
 - b. Bulletin boards and displays—conduct a content analysis of what is being posted and what it says about the organization.
 - c. Common areas—what are the common areas used for and for whom?
 - d. Memos and emails—what is the content, what is the tone, and do people primarily communicate verbally or through written communications?
 - e. Employee interaction—is there any employee interaction and is there emotion displayed?
6. Conduct culture interviews and surveys—In addition to observational techniques, indirect questions such as the following can also provide key insights into a current culture.
 - a. What would employees tell their friends about working at this organization?
 - b. What is the one thing employees would like to change?
 - c. Who are the company heroes? Why these persons?
 - d. What is the employee's favorite characteristic of the company?
 - e. What kinds of people would fail in this organization?
 - f. What is your favorite question to ask a job candidate?

Assessing the current culture of a firm with observational and indirect questioning techniques can be very enlightening and challenging. By determining the current culture, the firm's leadership gains a better understanding of how to move the firm forward to its new set of values and beliefs.

15-5b Assessing the Current Culture of the Service Firm: Conducting a Service Audit²⁶

Another useful approach in assessing the firm’s current culture involves conducting a service audit. The **service audit** asks direct questions of front-line and top management personnel, and it requires the firm to think about the forces that drive its current profits. Moreover, the active involvement of front-line and top management personnel in conducting the audit facilitates the change in culture if necessary. The audit consists of 22 questions (see Table 15-3) that address nine components: profit and growth, customer satisfaction, external service value, employee productivity, employee loyalty, employee satisfaction, internal service quality, leadership, and the relationships between these measurements.



Eros Hoagland/Redux

Before an organization can change its culture, it must first understand its current culture. Observational techniques often provide keen insights into the values and beliefs of the organization. What do you believe is the culture of this organization?

15-6 Strategies that Facilitate Cultural Change

Upon assessing the service firm’s current culture, the firm’s leadership may wish to cultivate new cultural beliefs and values. Figure 15-3 presents a simple framework for considering the four options available when implementing cultural change in the service organization.²⁷

service audit

A series of questions that force the firm to think about what drives its profits and suggests strategies for competitive differentiation and long-term profitability.



Fran/CartoonStock.com

In order to be an effective leader within a service organization, management must “walk the talk,” which in this case—it’s not happening!

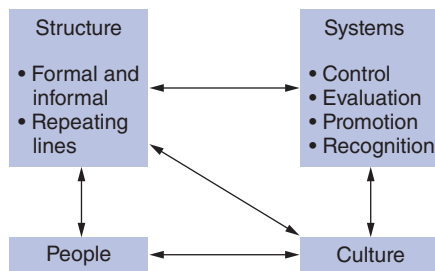
Table 15-3 The Service Audit

The Profit and Growth Component	Insights:
1. How does the firm define customer loyalty?	Traditional measures of customer loyalty involve repeat sales, purchase frequency, and increases in amounts purchased. The firm also needs to consider the depth of the relationship.
2. Does the firm measure profits from referrals?	Customer loyalty and satisfaction should be measured in terms of the customers’ willingness to refer the firm to friends, family, and colleagues.
3. What proportion of the firm’s development funds are spent on retaining customers as opposed to attracting new ones?	Firms often spend the majority of their resources on obtaining new customers while neglecting their existing customers.
4. When customers do not return, do we know why?	Contacting customers who have defected provides the firm with the opportunity to make improvements.
The Customer Satisfaction Component	
5. Is customer satisfaction data collected in a systematic manner?	The key to successful measurement is consistency so that current assessments can be compared with past benchmarks.
6. What methods are used to obtain customer feedback?	The active solicitation of customer complaints, after-sale surveys, customer focus group interviews, mystery shopping, and total market service quality surveys should be used in conjunction with employee surveys.

Table 15-3 The Service Audit (Continued)

The Profit and Growth Component	Insights:
The Customer Satisfaction Component	
7. How is customer satisfaction data used?	Customer satisfaction data needs to be shared with employees who provide the service.
The External Service Value Component	
8. How does the firm measure value?	One key to providing superior customer service is to define service value from the customer's perspective.
9. How is information on customer perceptions of the firm's value shared within the company?	Keeping customer information in the hands of top management does little to improve the service effort on the front line.
10. Does the firm actively measure the gap between customer expectations and perceptions of services delivered?	Perception scores alone merely reflect whether customers agree with the statement, not whether what they are evaluating meets or exceeds their expectations.
11. Is service recovery an active strategy discussed among management and employees?	Actively tracking failures and recoveries identifies failure points in the system and allows the firm to minimize their occurrence.
The Employee Productivity Component	
12. How does the firm measure employee productivity?	If the firm does not measure what it really believes is important, employees will never pay attention to it.
The Employee Loyalty Component	
13. Does the firm actively pursue strategies to promote employee loyalty?	Employee loyalty to the organization is often visible to customers and directly influences customer evaluations of the firm.
14. Does the firm set employee retention goals?	Customers prefer the continuity of interacting with the same personnel over time so much that the firm's personnel may be its key differential advantage over competitors.
The Employee Satisfaction Component	
15. Are employee satisfaction measures linked to customer satisfaction measures?	The outcomes associated with employee satisfaction—external service values, customer satisfaction, customer loyalty, revenue growth, and increased profitability—provide feedback and reinforce the company's internal service quality and employee satisfaction.
16. Are customer and organizational needs considered when hiring?	Hiring people with good job skills and good interpersonal skills is vital for services.
17. Are employee reward programs tied to customer satisfaction, customer loyalty, and quality of employee performance?	Service firms wishing to enhance the customer focus of their employees must implement behavior-based reward systems in addition to outcome-based reward systems.
The Internal Service Quality Component	
18. Are employees aware of internal and external customers?	The ideal service firm should work seamlessly as a team.
19. Do employees have the support necessary to do their jobs?	Does the firm just talk about providing superior service, or does it talk about it and back up?
The Firm's Leadership Component	
20. Does the firm's leadership help or hinder the service delivery process?	The leaders of successful firms act as enablers, coaches, and facilitators.
21. Is the firm's leadership creating a corporate culture that helps employees as they interact with customers?	Top management sets the tone and provides the resources that support the personnel who serve the customers.
The Measurement Relationship Component	
22. How do the preceding measures of service performance in the service audit relate to the firm's overall profitability?	Relating each of these components to the firm's overall profitability provides a resounding message throughout the company that service and quality pay!

Source: Adapted from Cynthia Webster, "What Kind of Marketing Culture Exists in Your Service Firm? An Audit," *The Journal of Services Marketing*, 6, 2, (Spring 1992): 54–67.

Figure 15-3 Cultural Framework

Source: John E. G. Bateson, *Managing Services Marketing: Text and Readings*, 3rd ed. (Fort Worth, TX: The Dryden Press, 1995).

15-6a Changing Culture through Structure

The organization's culture is a function of its **structure**. Changing culture through structure, however, is a slow process because, in many instances, it takes years to successfully implement an organizational change in structure. In the effort to create a more customer-focused organization, two approaches to changing the culture through structure have been tried: (1) using the marketing department as a change agent, and (2) restructuring the firm around the customer's experience.

Marketing Department as Change Agent Marketing departments can be created simply to change the current orientation of the firm by creating a customer advocate within the organization. State Farm Insurance, the largest insurer of homes and automobiles in the United States, was trying to make a radical transformation within its corporate culture. For almost 100 years the company had been operating with a sales culture based on selling insurance products that the company had already developed. As the company approached its 100th year of operation, State Farm's management team recognized the importance of strategic and marketing planning in achieving its future growth objectives.

By switching from a sales-oriented to a marketing-oriented culture, the firm was essentially transforming its business philosophy from "selling what we make" to "making what we can sell." The transformation to a marketing culture was accomplished on a number of fronts, including changing the structure of the company. Changing the structure of the company was completed by creating a marketing department within State Farm. As amazing as it may seem, the company had not had a formal marketing department throughout its previous 99-year history. By creating a marketing department, the corporate level of State Farm was signaling to its employees and agents that

"marketing" and enhancing the customer experience had taken on a new sense of importance within the State Farm family.

Despite the effectiveness of using the marketing department as a change agent, some pro-customer experts are wary about this particular strategy. Some feel that once the marketing department has been created, other departments may quickly transfer the complete responsibility for customer satisfaction to the marketing department.²⁸ Moreover, this transfer is likely to create open warfare among departments in the organization.²⁹ Consider again the logic of the operations and the marketing departments. Operations departments, by their very nature, tend to be cost-driven. Their focus is on evaluating the operation to find costs to save and procedures to simplify. This outlook tends to have a short time horizon. Marketing, by comparison, is looking for product enhancements in order to create a competitive advantage. The creation of such an advantage is not something that firms can expect to achieve in the short run.

The coordination of conflicting departments such as marketing and operations often requires the use of unconventional management techniques. To mesh the logics of the different groups and to allow them to understand one another, a number of strategies have been suggested by organizational-behavior theory. **Interfunctional task forces** are a classic way of forcing people with diverse viewpoints to work together and develop a better understanding of one another's perspectives. In the same way, **interfunctional transfers** can create informal networks of individuals from different departments who understand and trust one another. For example, operations managers who are promoted to run a marketing department will face initial problems. Their orientation is toward operations, but their new roles require a marketing perspective. If such a transfer can be achieved successfully, the result is usually a general manager who makes rational and clear trade-offs between operations and marketing. Moreover, it also creates a marketing person who has direct contacts in the operations group and who can overcome many of the traditional barriers to change.

Restructuring around the Customer Experience As discussed much earlier in this text, the servuction model outlined the major forces that ultimately affect the customer's overall service experience. In response, a number of service firms have explicitly or implicitly restructured their organizations based upon the customer's experience. For example, one major airline has all departments that have direct

structure

The formal reporting hierarchy normally represented in an organizational chart.

interfunctional task force

Problem-solving group in which individuals with diverse viewpoints work together and develop a better understanding of one another's perspectives.

interfunctional transfers

Moving, via promotion or transfer, an employee from one organizational department to another to foster informal networks among departments.

customer contact report to the head of marketing. Only engineering and the flight crew (pilots) report to the head of operations. Combining all customer-contact departments with the marketing group has reversed the arguments from, “It will cost too much; it is inefficient,” to, “The customer needs this; how can we make it happen?” Still other firms have gone as far as creating the key leadership position of Vice President of the Customer Experience, and they have restructured lines of reporting accordingly.

15-6b Changing Culture through Systems

The firm’s culture is also a function of the **systems** put into place that control, evaluate, promote, and recognize the firm’s personnel. A number of approaches have been used to change culture through these systems. Some firms, for example, have started to give bonuses to managers at all levels based upon the firm’s customer satisfaction scores. The firm’s overall research effort can be tailored to measure satisfaction down to the branch level, and managers can be rewarded for improved scores. Unfortunately, the problem with this approach is that only part of the customer’s satisfaction is under the control of management. The customer’s expectations can be raised by competitive offerings, and satisfaction scores can drop as a consequence.

Another approach has been to introduce revenue into branch manager targets. A major New York bank wanted to change the retail branch manager orientation from one of considering only costs and security to one of considering customers first. The bank introduced a revenue-based performance evaluation system. For the first time, managers had to worry about where the customers came from and stop thinking of them as “people who made a mess of my branch.” Early successes by a few managers produced interesting results. Up to 20 percent of managers left the company, claiming that this was not what they were hired to do. The balance of the managers woke up the bank’s sleeping central marketing department to demand help in getting more customers. The long-term result of the change in the system was an increase in customers as well as in bad debt. The managers had discovered that money is an easy product to sell, and the bank had discovered it needed to revamp its credit control function.

Planning systems can also be used to change the orientation of companies. Formal marketing planning can drive organizations through the logic of marketing and can force them to develop an understanding of consumers’ needs. For example, in addition to creating a marketing department, State Farm also facilitated its cultural transformation by putting new reward systems in place that would speed the adoption of the new marketing culture. State Farm wanted

its agents to develop marketing plans for each agency. However, State Farm’s current contract with its agents did not specifically require this activity. Consequently, State Farm created its “Select Agent” program as a special designation for those agents who participated in marketing planning. One of the major perks of being a Select Agent was the inclusion of the agent’s name at the end of State Farm’s corporate television advertising. Hence, even though many agents might be available in a given area, only Select Agents would be listed at the conclusion of any State Farm regional television advertisements. By modifying existing systems, in this case the reward system, State Farm was effectively able to facilitate the desired behavior change in culture.

15-6c Changing Culture through People

Outsiders increasingly are being brought into the marketing departments of service firms to try to change the orientation. One strategy is the creation of key leadership positions within the organization to champion the marketing effort. Thus far, we have learned that State Farm transformed its culture by changing the structure of the company (introducing a marketing department) and by implementing new systems (providing incentives that modified the existing reward system). In addition to these efforts, State Farm created a highly visible management position within the organization to lead the corporate marketing department—Vice President of Marketing. Moreover, the Vice President of Marketing was given the same power and influence as all the other vice presidents in the company. The creation of this highly visible position, occurring concurrently with the change in structure and systems, once again signaled the importance of marketing’s new role throughout the entire organization.

15-6d Changing Culture Directly

In addition to changing culture through structure, systems, and people, culture change can also be facilitated by changing the culture directly by the development of training programs inside the service firm. State Farm furthered its culture-change initiative by providing corporate-wide marketing training programs so that all employees truly understood the difference between a sales orientation and a marketing orientation. By implementing all four culture-change initiatives simultaneously (structure, systems, people, and directly through programming), State Farm substantially increased the rate of culture transformation and dramatically increased its odds of success.

Culture-change programs are becoming increasingly popular. These programs range from broad-scale educational activities to highly empowering personnel in order to reengineer the firm’s entire service delivery process around the customer. Table 15-4 provides a simple way to categorize such activities. Along one axis is the nature of the groups used. Mixed groups are cross-sectional or interdepartmental; family groups can be a department or a naturally occurring group based on process, such as everyone involved in loading a particular flight with passengers. The second axis

systems

People-management systems of control, evaluation, promotion, and recognition.

Table 15-4 Categorizing Culture-Change Initiatives

Empowerment	Group	
	Mixed	Family
Low	"Putting the Customer First"	"Orientation Change"
High	"Change the Way You Work"	"Change the Way We Work"

Source: John E. G. Bateson, *Managing Services Marketing: Text and Readings*, 3rd ed. (Fort Worth, TX: The Dryden Press, 1995).

deals with the level of empowerment given to employees. Low levels of empowerment imply that people will change their behavior, but that the group will have no authority to change the processes and systems of the organization. High-level empowerment implies an ability to change the organization during the event or series of events. The slogans in the cells represent the hypothetical titles of such change programs, which often involve one or more meetings.

The top left cell refers to “**putting the customer first**” programs that take place in mixed groups within the organization. Seated together in sessions, personnel via professional development programs are trained to put the customer first. Through role playing, they are encouraged to recognize the importance of customers and change their behavior accordingly.

These types of programs can be very successful. To be successful, however, the new behavior needs to be reinforced on the job. If management and front-line personnel do not share the same level of enthusiasm and dedication toward the goal of creating a customer-oriented organization, the value of the lessons learned can be wiped out within hours. Without commitment to change, the new behaviors learned will be trivialized by colleagues, the old behaviors will be reinstated quickly, and the value of the program will be a total loss.

The top right cell, “**orientation change**,” overcomes these problems by processing personnel by family groups whose members can reinforce one another on the job. Both cells, however, focus on changing attitudes and individual behaviors. Changing organizational processes and systems are not part of these programs. This potentially produces role conflict as desired individual behaviors are stopped by organizational constraints such as the physical environment or the current operating system.

putting the customer first

The element of the culture-change initiative that teaches personnel to put the customer first.

orientation change

The element of the culture-change initiative that teaches “families” of personnel to reinforce one another on the job.

“**Change the way you work**,” in the lower left cell, draws on empowering personnel. Personnel are allowed to break the rules in the context of serving their customers. Because of the mixed group, however, this type of initiative is focused on the individual rather than on process-level empowerment.

The lower right cell, “**change the way we work**,” refers to initiatives that draw on many of the ideas in this text. Groups are in families and can be asked to flowchart their activities. They can then be asked to re-engineer the process to better serve their customers. The level of excitement in such groups is matched only by the anxiety of their bosses. Empowerment at this level really does place the boss in the role of coach and facilitator, and that is exactly what the boss’s role should be. In creating a seamless organization, it is not management’s job to force or dictate to employees to deliver service excellence. “Management’s job is to put together a system that actually makes it possible to deliver quality service.”³⁰

Ultimately, when considering culture change programming as an important component of a firm’s overall culture change initiative, program providers need to not only consider the content of training programs but also the composition of the audience. Having the right people in the room and in the correct sequence (management prior to subordinates) facilitates an environment where what is learned via training programs will survive and thrive outside of the training facility.



In addition to changing culture through structure, systems, and people, culture change can also be facilitated by changing the culture directly by the development of training programs inside the service firm.

change the way you work

The element of the culture-change initiative that allows personnel to break the rules in the context of serving their customers.

change the way we work

The element of the culture-change initiative that teaches personnel to flowchart their activities and to re-engineer the process to better serve their customers.

Summary

Corporate cultures are based on the shared values and beliefs that drive an organization's overall business philosophy. In general, the four main types of corporate culture include adhocracy culture, market culture, hierarchy culture, and clan culture. Firms with great service cultures support the employees who support the customer.

In pursuit of creating a world-class service culture, the individual departments and functions of a service firm must act in unison to create a seamless organization. The firm will not act as one if the current focus of the organization is on departmental and functional needs. Before any attempt is made to integrate the various departments of the firm, it is important to understand that each department is driven by its own internal logics—implicit and explicit principles that drive organizational performance. Ultimately, the firm's service logic stitches together the departmental and functional seams created by marketing, operations, and human resources in order to help provide flawless service. However, before this can happen, service firms must understand the industrial management and market-focused management philosophies that drive their current cultures.

Creating and supporting a market-focused organizational culture is critical when developing a seamless operation. The firm's culture drives employee behavior and directly influences the quality of the firm's service delivery system and subsequent customer evaluations of the firm's service effort. Before an organization can change its culture, it must first understand its current culture. Assessing the firm's current culture can be accomplished with informal (observational and indirect questioning techniques) and direct questioning approaches such as conducting a formal service audit. By conducting a service audit, a seamless service culture is fostered as employees throughout the organization come to appreciate the challenges faced and the contributions made by everyone involved in the firm's final service delivery effort. The service audit deals directly with

such issues as profit and growth, customer satisfaction, external service value, employee productivity, employee loyalty, employee satisfaction, internal service quality, leadership, and measures that assess the impact of each of these issues on the firm's bottom line.

Service firms wishing to transform their current cultures can facilitate the process by changing the firm's structure, systems, and key personnel, and/or they can change the culture directly through broad-based educational programming. By implementing all four culture-change initiatives simultaneously, service firms can substantially speed the rate of culture transformation and dramatically increase their odds of success.

In closing, we hope that this course has helped develop your understanding of the special challenges involved in the marketing and management of service operations. With challenge comes opportunity, and as you well know, plenty of opportunities exist in our current business environment to make the service encounter a more productive and pleasant experience for everyone involved—customers, employees, and employers alike. While many service firms are endlessly chasing the next big “out-of-the-box” idea, the service firms that truly succeed are the ones that focus “inside the box” itself. The “box” reflects the basic ideas of managing the four forces that affect the customer's experience—contact personnel, other customers, the servicescape, and the behind-the-scenes activities driving organizational systems that ultimately affect the customer's experience. Service firms that excel at “inside-the-box” activities thrive on providing internal service quality for their employees and produce the external service values that are essential in creating compelling customer experiences.

The time has now come for you to make a difference, and we look forward to writing about the differences you make in future editions of this text.

Doug Hoffman & John Bateson

Key Terms

culture
seamless service
functionalism
departmentalization
internal logic
operations logic
marketing logic
human resources logic

service logic
industrial management model
market-focused management model
service audit
structure
interfunctional task force
interfunctional transfers
systems

putting the customer first
orientation change
change the way you work
change the way we work

Review Questions

1. Compare and contrast the four types of traditional corporate cultures.
2. Discuss the fight for control among marketing, operations, and human resources personnel and how it affects a service firm's culture.
3. Describe the major philosophical differences between the industrial management approach and the market-focused management approach.
4. Briefly discuss the six key relationships depicted in the service triangle.
5. What is organizational culture? Why is it important?
6. Discuss four observations that may provide insight into a service firm's current culture.
7. What are the key components of a service audit?
8. Explain the relevance of interfunctional task forces and interfunctional transfers as they relate to corporate culture.
9. Discuss the four approaches to directly changing culture as presented in the text.
10. Briefly describe what you believe to be the top 10 characteristics of a service firm that exhibits a world-class service culture.

Notes

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Case 15

Assessing Culture: Go for a Culture Walk

Given that this is the last chapter of the text, students should now have a solid understanding of what it takes to deliver an exceptional service experience. Moreover, since education is a service setting and many of the concepts and strategies presented in this text can certainly apply to higher education, students can use their newfound knowledge to assess their current surroundings. The purpose of this live case is for students to conduct a culture walk within their own college, or perhaps assess the culture of another college on campus, or the culture of their current employer.

Before an organization can change its culture, it must first understand its current culture. The culture walk exercise is one strategy for assessing an organization's current culture. For those assessing their college's culture, students should observe the college's culture as impartial observers. In other words, students should observe the college's culture as if they were new to the college and had never before interacted with its faculty, staff, and students. Typical assessments conducted during a culture walk include observation and interpretation of:

- **Space allocation and office location**—who gets the most space, the best offices, and who is separated from whom? What do space allocation and office location signify?
- **Bulletin boards and displays**—conduct a content analysis of posted and displayed materials. What does the analysis say about the organization?
- **Common areas**—what are the common areas used for, and by whom?
- **Memos, emails, and other communication methods**—what is the content of these communications, what is the tone, and do people primarily communicate orally or through written communications?
- **Employee interaction**—do employees interact with one another, and is there any emotion displayed during these interactions?
- **Student interaction**—do students interact with one another, and is there any emotion displayed during these interactions?

- **Employee/student interaction**—do employees and students interact with one another, and is there any emotion displayed during these interactions?
- Further assessment of the college's culture can be accomplished through culture interviews and surveys with faculty, staff, and students. Thought-provoking questions that provide insight into the college's culture may include:
 - What would faculty, staff, and students tell their friends about working at or attending this college?
 - What is the one thing faculty, staff, and students would like to change?
 - Who are the college heroes? Why these people?
 - What are the faculty, staff, and students' favorite characteristics of the college?
 - What kinds of faculty, staff, and students would fail at this college?
 - What would be the faculty, staff, and students' favorite question to ask those who were considering working at or attending this college?

Discussion Questions

1. Assessing the current culture of a firm can be very enlightening and challenging. By determining the current culture, the college's or the employer's leadership gains a better understanding of how to move the college forward, if desired, to a new set of values and beliefs. Upon the collection and evaluation of the preceding information, students should report on what they consider are the core values and beliefs that comprise the college's or the employer's current culture. Define the core values and beliefs of the college/ employer and provide justification for why you believe these core values exist.
2. Provide a discussion on whether you believe the college's/ employer's core values are appropriate.
3. Make recommendations for how the college's/ employer's current culture should be changed. What strategies could you use to change the college's culture?

Glossary

A

activity time The time required to perform one activity at one station.

activity-based costing (ABC) Costing method that breaks down the organization into a set of activities, and activities into tasks, which convert materials, labor, and technology into outputs.

adaptive pricing The practice of offering discounts without conceding margins on a permanent basis.

adequate service The level of service a customer is willing to accept.

after-sales surveys A type of satisfaction survey that addresses customer satisfaction while the service encounter is still fresh in the customer's mind.

ambient conditions The distinctive atmosphere of the service setting that includes lighting, air quality, noise, music, and so on.

anticipating Mitigating the worst effects of supply and demand fluctuations by planning for them before they occur.

apathetic customers Consumers who seek convenience over price and personal attention.

apologetic strategies A set of verbal recovery strategies involving apologies from front-line providers and/or upper-level management.

approach/avoidance behaviors Consumer responses to the set of environmental stimuli that are characterized by a desire to stay or leave an establishment, explore/interact with the service environment, or ignore it, or feel satisfaction or disappointment with the service experience.

arousal-non-arousal The emotional state that reflects the degree to which consumers and employees feel excited and stimulated.

artificial intelligence Smart machines that learn from experience, adapt to new information, and perform tasks that would require human intelligence.

assurance dimension The SERVQUAL assessment of a firm's competence, courtesy to its customers, and security of its operations.

attribution The allocation of responsibility to self and other people, or even chance. In the sense of satisfaction or dissatisfaction, customers will allocate the cause of the satisfaction or dissatisfaction, and only in some cases blame the service organization.

auditing customer performance expertise Measuring the extent to which the customer understands the script that the service system has been designed to deliver.

autopilot Decision making that is efficient, often based on past experiences, and nonsystematic.

awareness set The set of alternatives of which a consumer is aware.

B

behavioral control The ability to actually control a situation.

behavioral modeling Categorizing customers to enable providers to more easily process them and remove stress.

beliefs Consumers' opinions about the provider's ability to perform the service.

benchmarking Setting standards against which to compare future data collected.

benefit concept The encapsulation of the benefits of a product in the consumer's mind.

benefit-driven pricing A pricing strategy that charges customers for services actually used as opposed to overall "membership" fees.

blueprinting The flowcharting of a service operation.

bottlenecks Points in the system at which consumers wait the longest periods of time.

boundary-spanners The various "parts" played by contact personnel who perform dual functions of interacting with the firm's external environment and internal organization.

boundary-spanning personnel Personnel who provide their services outside the firm's physical facilities.

buffering Surrounding the technical core with input and output components to buffer environmental influences.

buffering the technical core The operations management concept of ensuring that the core of the production process is able to run as efficiently as possible.

bundle of benefits All products are comprised of a bundle of benefits that include the core benefit plus secondary benefits such as convenience, cost savings, energy savings, reduced risk, etc.

business ethics The principles of moral conduct that guide behavior in the business world.

C

capacity sharing Strategy to increase the supply of service by forming a type of co-op among service providers that permits co-op members to expand their supply or service as a whole.

categorization The process of categorizing services based on previous experiences to identify the appropriate behavioral script.

change the way we work The element of the culture-change initiative that teaches personnel to flowchart their activities and to re-engineer the process to better serve their customers.

change the way you work The element of the culture-change initiative that allows personnel to break the rules in the context of serving their customers.

climate for service The shared perception of the service practices, procedures, and kind of behaviors that get rewarded.

code of ethics Formal standards of conduct that help in defining proper organizational behavior.

cognitive control When consumers perceive that they are in control, or at least that what is happening to them is predictable.

cognitive dissonance Doubt in the consumer's mind regarding the correctness of the purchase decision.

commercial cue An event or motivation that provides a stimulus to the consumer and is a promotional effort on the part of the company.

communication mix The array of communications tools available to marketers including advertising, personal selling, publicity, sales promotions, and sponsorships.

communication strategy Communicates the firm's positioning strategy to its target markets, including consumers, employees, stockholders, and suppliers for the purpose of achieving organizational objectives.

communications gap The difference between the actual quality of service delivered and the quality of service described in the firm's external communications.

compatibility management The management of a diverse group of customers with different needs within the same service setting.

compensatory strategies A set of recovery strategies that compensate the customers to offset the costs of the service failure.

complements The effect of cross-price elasticity in which an increase in the price of Product A decreases the demand for Product B.

complexity A measure of the number and intricacy of the steps and sequences that constitute a process.

complimentary services Services provided for consumers to minimize their perceived waiting time, such as driving ranges at golf courses, arcades at movie theaters, or reading materials in doctors' offices.

confirmed expectations Customer expectations that match customer perception, resulting in customer satisfaction.

conflicts of interest The situation in which a service provider feels torn between the organization, the customer, and/or the service provider's own personal interest.

conquest marketing A marketing strategy for constantly seeking new customers by offering discounts and mark-downs and developing promotions that encourage new business.

consideration set The brands in the evoked set that have not been eliminated right away.

consumer decision process The three-stage process consumers use to make purchase decisions; includes the prepurchase stage, the consumption stage, and the post-purchase evaluation stage.

consumption process The activities of buying, using, and disposing of a product.

contact personnel Employees other than the primary service provider who briefly interact with the customer.

contrast/clash Visual effects associated with exciting, cheerful, and informal business settings.

controllability A service failure attribution pertaining to whether or not the firm had control over the cause of the failure.

convergent scripts Employee/consumer scripts that are mutually agreeable and enhance the probability of customer satisfaction.

copy The content of the firm's communication message

core service failures Failures in the core service offering of the firm, including unavailable service, unreasonably slow service, and other core service failures.

corrective control The use of rewards and punishments to enforce a firm's code of ethics.

creative pricing Pricing strategies often used by service firms to help smooth demand fluctuations, such as offering "matinee" prices or "early bird specials" to shift demand from peak to nonpeak periods.

critical incident A specific interaction between a customer and a service provider.

cross over point The point in time where the percentage of people over the age of 65 in a population outnumber the percentage of people under the age of 15.

cross-price elasticity A measure of the responsiveness of demand for a service relative to a change in price for another service.

culture The shared values and beliefs that drive an organization's overall service philosophy.

customer acquisition cost The monetary amount spent on marketing and other activities to acquire a new customer.

customer decision journey (CDJ) The process a customer follows prior, during, and after making a purchase decision.

customer loyalty Reflects an emotional attachment as well as a business attachment to the service firm.

customer management A strategy service personnel can implement that minimizes the impact of other customers on each individual customer's service experience (e.g., separating smokers from nonsmokers in a restaurant).

customer performance Individuals' participation in the production of their own service.

customer relationship management (CRM) An approach to managing a company's interactions with current and future customers. It often involves using technology to organize, automate, and synchronize sales, marketing, customer service, and technical support (where appropriate).

customer research Research that examines the customer's perspective of a firm's strengths and weaknesses and includes such measures as customer complaints, after-sales surveys, focus group interviews, and total market service quality surveys.

customer retention Focusing the firm's marketing efforts toward the existing customer base.

customer socialization From a human resources management perspective, employees have to "on-board" successfully into the organization. They must be taught their role, the places and procedures, and most importantly, "how we do things around here." Customers too need to be "on-boarded."

customization Taking advantage of the variation inherent in each service encounter by developing services that meet each customer's exact specifications.

D

decoupling Disassociating the technical core from the servuction system.

defection management A systematic process that actively attempts to retain customers before they defect.

delivery gap The difference between the quality standards set for service delivery and the actual quality of service delivery.

departmentalization The act of dividing an organization into departments that focus on their own set of activities.

derived expectations Expectations appropriated from and based on the expectations of others.

desired service The level of service a customer actually wants from a service encounter.

dichotomization of wealth Reflects the disparity of wealth among populations—the rich get richer and the poor get poorer.

direct conflict Occurs when an employee is asked to perform two contradictory roles such as being both efficient and effective.

direct measures Measures of satisfaction generally obtained directly from customers using customer satisfaction surveys.

disconfirmed expectations Customer expectations that do not match customer perceptions.

dispersion of control The situation in which control over the nature of the service being provided is removed from employees' hands.

distributive justice A component of perceived justice that refers to the outcomes (e.g., compensation) associated with the service recovery process.

divergence A measure of the degrees of freedom service personnel are allowed when providing a service.

divergent scripts Employee/consumer scripts that "mismatch" and point to areas in which consumer expectations are not being met.

dominance–submissiveness The emotional state that reflects the degree to which consumers and employees feel in control and able to act freely within the service environment.

dual entitlement Cost-driven price increases are perceived as fair, whereas demand-driven price increases are viewed as unfair.

E

economic customers Consumers who make purchase decisions based primarily on price.

economies of scale Based on the idea of the more you produce, the cheaper it is to produce it ... the cheaper it is to produce it, the cheaper it can be sold ... the cheaper it can be sold, the more it is sold ... the more it is sold, the more it can be produced (and so on).

efficiency pricing Pricing strategies that appeal to economically minded consumers by delivering the best and most cost-effective service for the price.

emotional responses Emotional reactions (feelings) in response to stimuli including pleasure–displeasure, arousal–non-arousal; and dominance–submissiveness.

empathy dimension The SERVQUAL assessment of a firm’s ability to put itself in its customers’ place.

employee socialization The process through which a person adapts and comes to appreciate the values, norms, and required behavior patterns of an organization.

employee surveys Internal measures of service quality concerning employee morale, attitudes, and perceived obstacles to the provision of quality services.

employee-job fit The degree to which employees are able to perform a service to specifications.

employer brand The brand that is created in the market for staff that is analogous to the brand in the customer market.

empowerment Giving discretion to front-line personnel to meet the needs of customers creatively.

enduring service intensifiers Personal factors that are stable over time and increase a customer’s sensitivity to how a service should be best provided.

energy cost The physical energy spent by the customer to acquire the service.

enfranchisement Empowerment coupled with a performance-based compensation method.

environmental psychology The branch of psychology that studies how physical evidence and environments influence perceptions and behaviors of individuals.

environmental, social and governance factors (ESG) Non-financial factors such as the firm’s stance on environmental issues (e.g., carbon emissions, deforestation), social issues (e.g., employee gender and diversity initiatives, fair labor practices), and governance issues (e.g., diversity of board members, political contributions, and executive pay).

ergonomics The science of developing work environments that fit the job and/or task with the physical and mental capabilities of the employee.

e-service A technology-based service that completes tasks, solves problems, and/or conducts transactions.

ethical customers Consumers who support smaller or local firms as opposed to larger or national service providers.

ethical vigilance Paying close attention to whether one’s actions are right or wrong, and if ethically wrong, asking why you are behaving in that manner.

ethics A branch of philosophy dealing with what is good and bad and with moral duty and obligations; the

principles of moral conduct governing an individual or group.

evaluation of alternatives The phase of the prepurchase stage in which the consumer places a value or “rank” on each alternative.

evoked set Alternatives that the consumer actually remembers at the time of decision making.

exit A complaining outcome in which the customer stops patronizing the store or using the product.

expansion preparation Planning for future expansion in advance and taking a long-term orientation to physical facilities and growth.

expectancy disconfirmation model Model proposing that comparing customer expectations to their perceptions leads customers to have their expectations confirmed or disconfirmed.

expectancy disconfirmation theory The theory proposing that consumers evaluate services by comparing expectations with perceptions.

expected script The script a customer carries into the service setting; what the customer expects to happen and the benchmark against which he or she will evaluate the experience.

expert customers Individuals who have expertise in the purchase process for a particular good or service. Expert performers, by comparison, are expert in the service production process.

expert performance Not all customers are equally proficient. An expert knows how to be part of the production process.

explicit service promises Spoken obligations to which the firm commits itself through its advertising, personal selling, contracts, and other forms of communication.

external search A proactive approach to gathering information in which the consumer collects new information from sources outside the consumer’s own experience.

extrinsic rewards Extrinsic rewards such as pay are only part of the reason that people work.

F

facility exterior The physical exterior of the service facility; includes the exterior design, signage, parking, landscaping, and the surrounding environment.

facility interior The physical interior of the service facility; includes the interior design, equipment used to serve customers, signage, layout, air quality, and temperature.

factories in the field Another name for multisite locations.

fail points Points in the system at which the potential for malfunction is high and at which a failure would be visible to the customer and regarded as significant.

failures relating to customer needs and requests Service failures relating to the implicit and explicit needs of customers, including special needs, customer preferences, customer errors, and disruptive others.

failures relating to problematic customers Failures relating to the customer's own misbehavior, including drunkenness, verbal and physical abuse, violations of company policies, and uncooperative customers.

failures relating to unprompted/unsolicited employee actions Failures relating to level of attention, unusual employee actions, violations of cultural norms, gestalt, and responses to adverse conditions.

financial risk The possibility of a monetary loss if the purchase goes wrong or fails to operate correctly.

fixed costs Costs that are planned and accrued during the operating period regardless of the level of production and sales.

flat-rate pricing A pricing strategy in which the customer pays a fixed price and the provider assumes the risk of price increases and cost overruns.

focus group interviews Informal discussions with customers that are usually guided by a trained moderator; used to identify areas of information to be collected in subsequent survey research.

focused factory An operation that concentrates on performing one particular task in one particular location; used for promoting efficiency and effectiveness through repetition and concentration on one task necessary for success.

forward buying When retailers purchase enough product on deal to carry over until the product is being sold on deal again.

free-based pricing strategies A pricing strategy where part or all of the service is provided to customers at no charge. Strategies include lead generation models, advertising revenue models, exchange revenue models, free basic service models, free trial models, and freemiums.

functional orientation From a functional perspective, marketing's role is imbedded within the marketing department itself, and its primary goal is to facilitate the exchange process by making it easier for buyer and sellers to conduct transactions.

functionalism The belief that the function of something rather than the experience it creates should determine its design.

G

goods Objects, devices, or things.

H

halo effect An overall favorable or unfavorable impression based on early stages of the service encounter.

hard technologies Hardware that facilitates the production of a standardized product.

harmony Harmony refers to visual agreement and is often the basis for quieter, plusher, and more formal business settings

heterogeneity A distinguishing characteristic of services that reflects the variation in consistency from one service transaction to the next.

high involvement Allows employees to eventually learn to manage themselves, utilizing extensive training and employee control of the reward allocation decisions.

high-contact systems Service production processes are arranged on a spectrum according to how much the customer is part of the process. In a high-contact system, the customer has a much larger "partial employee" role to play.

holistic environment Overall perceptions of the servicescape formed by individual employees and customers based on the physical environmental dimensions.

horizontal communication The flow of internal communication between a firm's headquarters and its service firms in the field.

hue The actual color, such as red, blue, yellow, or green.

human resources logic The reasoning that stresses recruiting personnel and developing training to enhance the performance of existing personnel.

I

image value The worth assigned to the image of the service or service provider by the customer.

implicit service promises Unspoken Obligations to which the firm commits itself by means of the tangibles surrounding the service and the price of the service.

inadequate support A management failure to provide employees personal training and/or technological and other resources necessary for them to perform their jobs in the best possible manner.

indirect measures Measures of customer satisfaction including tracking and monitoring sales records, profits, and customer complaints.

individual behaviors Responses to the servicescape that are typically described as approach and avoidance behaviors.

industrial management model An approach to organizing a firm that focuses on revenues and operating costs and ignores the roles personnel play in generating customer satisfaction and sustainable profits.

inelastic demand The type of market demand when a change in the price of a service is greater than a change in quantity demanded.

information search The phase in the prepurchase stage in which the consumer collects information pertaining to possible alternatives.

inseparability A distinguishing characteristic of services that reflects the interconnections among the service provider, the customer involved in receiving the service, and other customers sharing the service experience.

instrumental complaints Complaints expressed for the purpose of altering an undesirable state of affairs.

intangibility A distinguishing characteristic of services that makes them unable to be touched or sensed in the same manner as physical goods.

intangible dominant Services that lack the physical properties that can be sensed by consumers prior to the purchase decision.

Intensity The brightness or the dullness of the colors.

interactional justice A component of perceived justice that refers to human content (e.g., empathy, friendliness) that is demonstrated by service personnel during the service recovery process.

inter-client conflicts Disagreements between clients that arise because of the number of clients who influence one another's experience.

interdepartmental support The support provided by other departments in the service organization that allow service providers to do their jobs.

interfunctional task force Problem-solving group in which individuals with diverse viewpoints work together and develop a better understanding of one another's perspectives.

interfunctional transfers Moving, via promotion or transfer, an employee from one organizational department to another to foster informal networks among departments.

internal logic Implicit and explicit principles of individual departments that drive organizational performance.

internal response moderators The three basic emotional states of the SOR model that mediate the reaction between the perceived servicescape and a customers' or employees' responses to the service environment.

internal search A passive approach to gathering information in which the consumer's own memory is the main source of information about a product.

interpersonal services Service environments in which customers (and perhaps "other customers") and providers are physically present.

interpersonal training Training focused on teaching service providers how to deal with customers.

intrinsic rewards Intrinsic rewards such as enjoying the job itself, receiving recognition from coworkers and supervisors, or even the satisfaction of meeting goals are often just as powerful as motivators.

invisible organization and systems That part of a firm that reflects the rules, regulations, and processes upon which the organization is based.

J

job involvement Allows employees to examine the content of their own jobs and to define their roles within the organization.

K

knowledge gap The difference between what customers expect of a service and what management perceives customers to expect.

L

lagged effect When demand for the service is infrequent, and therefore the success of the communication strategy may not be realized until a later point in time.

learned helplessness The condition of employees who, through repeated dispersion of control, feel themselves unable to perform a service adequately.

levels of management The complexity of the organizational hierarchy and the number of levels between top management and the customers.

lexicographic approach A systematic model that proposes that the consumer makes a decision by examining each attribute, starting with the most important, to rule out alternatives.

lifetime profit (LTP) of a customer The average profit per sale multiplied by the average number of times customers reorder (discounted to the present).

lifetime value (LTV) of a customer The average dollar amount per sale multiplied by the average number of times customers reorder (discounted to the present).

linear compensatory approach A systematic model that proposes that the consumer creates a global score for

each brand by multiplying the rating of the brand on each attribute by the importance attached to the attribute and adding the scores together.

locus A service failure attribution pertaining to the possible source of the failure including the service provider, the firm, the customer, or external forces.

low-contact systems Service production processes are arranged on a spectrum according to how much the customer is part of the process. In a low-contact system, the customer plays only a small role in the operation or production process.

M

market defectors Customers who exit the market due to relocation or business failure.

market-focused management model An organizational model that focuses on the components of the firm that facilitate the firm's service delivery system.

marketing logic The reasoning that stresses providing customers with options that better enable the service offering to meet individual needs.

marketing myopia Condition of firms that define their businesses too narrowly such as firms that produce tangible products and overlook the service aspects of their products.

mass customization A production strategy where customers are provided a standardized core product but are then permitted to add a limited amount of customization.

materialismo snobbery A viewpoint where manufacturing is king, and services are viewed as subservient to goods.

maximum output per hour The number of people that can be processed at each station in one hour.

mechanistic processes Formalized step-by-step processes that are developed to facilitate the firm's failure analysis and service recovery efforts.

mistargeted communications Occurs when the same communication message appeals to two diverse market segments.

molecular model A conceptual model of the relationship between the tangible and intangible components of a firm's operations as experienced by the consumer.

monetary cost The actual dollar price paid by the consumer for a product.

multisite locations A way service firms that mass-produce combat inseparability, involving multiple locations to limit the distance the consumers have to travel and staffing each location differently to serve a local market.

mystery shopping A form of noncustomer research that consists of trained personnel who pose as customers, shop at the firm unannounced, and evaluate employees.

N

negative disconfirmation Customer perceptions that are lower than customer expectations, resulting in customer dissatisfaction.

niche positioning strategy A positioning strategy that increases divergence in an operation to tailor the service experience to each customer.

noncustomer research Research that focuses on employee perspectives of the firm's strengths and weaknesses and employee performance (e.g., employee surveys and mystery shopping).

noninstrumental complaints Complaints expressed without expectation that an undesirable state will be altered.

nonpeak demand development A strategy in which service providers use their downtime to prepare in advance for peak periods or to market to different target markets that follow different demand patterns than the firm's traditional market segment.

nonsystematic evaluation Choosing among alternatives relying on a "gut-level feeling" approach.

novice performance Not all customers are equally proficient. The novice does not know what to do and how to perform.

O

one-sided blueprint An unbalanced blueprint based on management's perception of how the sequence of events *should* occur.

operations logic The reasoning that stresses cost containment/reduction through mass production.

organic processes Informal sets of values and beliefs that comprise the firm's service recovery culture.

organism The recipients of the set of stimuli in the service encounter; includes employees and customers.

organization/client conflicts Disagreements that arise when a customer requests services from the service provider that violate the rules of the organization.

organizational defectors Customers who leave due to political considerations inside the firm, such as reciprocal buying arrangements—if you buy from us, we will buy from you.

organizational relationships Working relationships formed between service providers and various role partners such as customers, suppliers, peers, subordinates, supervisors, and others.

orientation change The element of the culture-change initiative that teaches “families” of personnel to reinforce one another on the job.

ostensive complaints Complaints directed at someone or something outside the realm of the complainer.

other customers The term used to describe customers who share a service experience with the primary customer who is receiving the service.

other tangibles Other items that are part of the firm’s physical evidence, such as business cards, stationery, billing statements, reports, employee appearance, uniforms, and brochures.

overpromising A firm’s promise of more than it can deliver.

P

partial employee Customers who engage in employee-like behaviors and assist in the provision of services received.

past experience The previous service encounters a customer has had with a service provider.

penetration strategy A positioning strategy that increases complexity by adding more services and/or enhancing current services to capture more of a market.

perceived justice The process in which customers weigh their inputs against their outputs when forming recovery evaluations.

perceived service alternatives Comparable services customers believe they can obtain elsewhere and/or produce themselves.

perceived servicescape A composite of mental images of the service firm’s physical facilities held by an individual.

perceived-control perspective A model in which consumers evaluate services by the amount of control they have over the perceived situation.

perception The process by which one *senses, organizes, and interprets* (S-O-I) the information we receive from the environment.

perfect-world model J. D. Thompson’s model of organizations proposing that operations’ “perfect” efficiency is possible only if inputs, outputs, and quality happen at a constant rate and remain known and certain.

performance risk The possibility that the item or service purchased will not perform the task for which it was purchased.

perishability A distinguishing characteristic of services in that they cannot be saved, their unused capacity cannot be reserved, and they cannot be inventoried.

person/role conflict A poor fit between a person’s self-perception and the specific role the person must play in an organization.

personal needs A customer’s physical, social, and psychological needs.

personal service philosophies A customer’s own internal views of the meaning of service and the manner in which service providers should conduct themselves.

personal sources of information Sources such as friends, family, and other opinion leaders that consumers use to gather information about a service.

personalized customers Consumers who wish to be pampered and attended to and who are much less price sensitive.

personnel value The worth assigned to the service-providing personnel by the customer.

physical cue A motivation, such as thirst, hunger, or another biological cue that provides a stimulus to the consumer.

physical evidence/tangible clues The physical characteristics that surround a service to assist consumers in making service evaluations, such as the quality of furnishings, the appearance of personnel, or the quality of paper stock used to produce the firm’s brochure.

physical risk The possibility that if something does go wrong, injury could be inflicted on the purchaser.

physiological responses Subconscious responses to the firm’s physical environment often based on pain or comfort.

plant-within-a-plant (PWP) The strategy of breaking up large, unfocused plants into smaller units buffered from one another so that each can be focused separately.

pleasure–displeasure The emotional state that reflects the degree to which consumers and employees feel satisfied with the service experience.

positioning strategy How the firm is viewed by customers compared to its competitors. Positioning strategy speaks to the firm’s differential advantage.

positive disconfirmation Customer perceptions that exceed customer expectations, resulting in delighting customers.

predicted service The level of service a customer believes is likely to occur.

price bundling The practice of marketing two or more products and/or services in a single package at a single price to increase the value of the offering.

price defectors Customers who switch to competitors for lower-priced goods and services.

price discrimination The practice of charging different customers different prices for essentially the same service.

price unbundling The practice of decoupling benefits from a product offering for the purpose of offering lower price options.

problem awareness The second phase of the prepurchase stage, in which the consumer determines whether a need exists for the product.

procedural justice A component of perceived justice that refers to the process (e.g., time) the customer endures during the service recovery process.

process time Calculated by dividing the activity time by the number of locations in which the activity is performed.

product The term is used as an umbrella descriptor for *goods, services, people, places, and ideas*.

product defectors Customers who switch to competitors who offer superior goods and services.

product value The worth assigned to the product by the customer.

production-line approach The application of hard and soft technologies to a service operation in order to produce a standardized service product.

product-line pricing The practice of pricing multiple versions of the same product or grouping similar products together.

psychic cost The mental energy spent by the customer to acquire the service.

psychological risk The possibility that a purchase will affect an individual's self-esteem.

putting the customer first The element of the culture-change initiative that teaches personnel to put the customer first.

Q

quality circles Empowerment involving small groups of employees from various departments in the firm who use brainstorming sessions to generate additional improvement suggestions.

question context The placement of general and specific questions relative to one another within a questionnaire.

question form The way a question is phrased, that is positively, or negatively.

question timing The length of time after the date of purchase that questionnaire is distributed.

R

rationing Involves resorting to triage tactics when the demands placed on the system by unpredictable environmental forces exceed the firm's ability to handle them.

reflexive complaints Complaints directed at some inner aspect of the complainer.

reimbursement strategies A set of recovery strategies that provide the customer with a refund or store credit.

relationship pricing Pricing strategies that encourage customers to enhance and expand their dealings with the service provider.

reliability dimension The SERVQUAL assessment of a firm's consistency and dependability in service performance.

remote services Services in which employees are physically present while customer involvement in the service production process is at arm's length.

replacement rate The number of children per female that need to be born to replace a couple—approximately 2.1.

research orientation A firm's attitude toward conducting customer research.

reservation price The price a consumer considers to capture the value of benefits offered.

reservation system A strategy to help smooth demand fluctuations in which consumers ultimately request a portion of the firm's services for a particular time slot.

response bias A bias in survey results due to responses being received from only a limited group among the total survey participants.

responsiveness dimension The SERVQUAL assessment of a firm's commitment to providing its services in a timely manner.

restoration strategies A set of recovery strategies offered to offset the current failure situation by providing an identical offering, corrections to the original offering, or by offering a substitute.

retaliation A complaining outcome in which the customer takes action deliberately designed to damage the physical operation or hurt future business.

robotics Programmable machines designed to perform a series of repetitive tasks such as those that take place in an industrial setting.

role ambiguity A situation in which the employee does not know how to perform his or her job.

role ambiguity Uncertainty of employees' roles in their jobs and poor understanding of the purpose of their jobs.

role conflict A situation in which the employee is caught between the opposing wishes of the firm's customers and the firm's management.

role/self-conflict Experienced when employees are asked to perform a new role that is inconsistent with their self-concept.

S

S-O-I Model The S-O-I Model assists service marketers in understanding the formation of customer perceptions via sensing, organizing, and interpreting.

satisfaction-based pricing Pricing strategies that are designed to reduce the amount of perceived risk associated with a purchase.

Scale of market entities The scale that displays a range of products along a continuum based on their tangibility, ranging from tangible dominant to intangible dominant.

script congruence Occurs when the actual scripts performed by customers and staff are consistent with the expected scripts.

script norms Proposed scripts developed by grouping together events commonly mentioned by both employees and customers, and then ordering those events in their sequence of occurrence.

script perspective Argues that rules, mostly determined by social and cultural variables, exist to facilitate interactions in daily repetitive events, including a variety of service experiences.

seamless service Services that occur without interruption, confusion, or hassle to the customer.

search attributes Components of a product that can be evaluated prior to purchase.

self-perceived service role The input a customer believes they are required to contribute in order to produce a satisfactory service encounter.

self-service technologies Technologically based services that help customers help themselves.

self-services Service environments that are dominated by the customer's physical presence, such as ATMs or postal kiosks.

service audit A series of questions that force the firm to think about what drives its profits and suggests strategies for competitive differentiation and long-term profitability.

service cost per meal The labor costs associated with providing a meal on a per-meal basis (total labor costs/maximum output per hour).

service defectors Customers who defect due to poor customer service.

service failures Breakdowns in the delivery of service; service that does not meet customer expectations.

service gap The distance between a customer's expectation of a service and perception of the service actually delivered.

Service HR Wheel The HR functions that together support the creation of a climate for service.

service imperative Reflects the view that the intangible aspects of products are becoming the key features that differentiate products in the marketplace.

service logic Promotes seamlessness by balancing the internal logics of marketing, operations, and human resources.

service providers The primary providers of a core service, such as a waiter or waitress, dentist, physician, or college instructor.

service quality An attitude formed by a long-term, overall evaluation of a firm's performance.

service quality information system An ongoing research process that provides relevant data on a timely basis to managers, who use the data in decision making.

service recovery A firm's reaction to a complaint that results in customer satisfaction and goodwill.

service recovery culture An informal set of beliefs, behaviors, and practices that set the tone for how the firm wishes to address customer complaints.

service recovery paradox A situation in which the customer rates performance higher if a failure occurs and the contact personnel successfully recover from it than if the service had been delivered correctly the first time.

service sabotage Willful and malicious acts by service providers designed to ruin the service.

service value The worth assigned to the service by the customer.

service-dominant (S-D) logic A viewpoint that the entire business world is either directly or indirectly involved in the provision of services.

service-profit chain The logic that demonstrates the relationship between satisfied service employees and the economic performance of the service firm.

services Deeds, efforts, or performances.

servicescapes The strategic use of physical evidence to design service environments.

SERVQUAL A 44-item scale that measures customer expectations and perceptions regarding five service quality dimensions.

servuction model A model used to illustrate the four factors that influence the service experience, including the servicescape, contact personnel/service providers, other customers, and the invisible parts of the organization and systems.

shades Darker values.

shortage The need for a product or service due to the consumer's not having that particular product or service.

signpost items Items that customers buy often, so they are very well aware of typical prices.

signs, symbols, artifacts Physical evidence that includes signage to direct the flow of the service process, personal artifacts to personalize the facility, and the style of decor.

situational factors Circumstances that lower the service quality but that are beyond the control of the service provider.

size/shape/colors The three primary visual stimuli that appeal to consumers on a basic level.

SMART terms When setting objectives, objectives should be SMART—specific, measurable, achievable, relevant, and time-bound.

smoothing Managing the environment to reduce fluctuations in supply and/or demand.

social cue An event or motivation that provides a stimulus to the consumer, obtained from the individual's peer group or from significant others.

social desirability bias A bias in survey results because of respondents' tendencies to provide information they believe is socially appropriate.

social enterprises A business model that balances the objectives of both for-profit and non-profits by generating both profits and positive change.

social responsibility The practice of conducting business in a manner that while benefitting the company also is in the best interest of the environment and society as a whole.

social risk The possibility of a loss in personal social status associated with a particular purchase.

socialization The process by which an individual adapts to the values, norms, and required behavior patterns of an organization.

societal orientation The primary goal of the societal perspective of marketing is to create value and sustain mutually satisfying long-term relationships, not only benefiting customers, the organization, and investors, but

also benefitting other key stakeholders such as employees, suppliers, distributors, retailers, the surrounding community, and society.

soft technologies Rules, regulations, and procedures that facilitate the production of a standardized product.

space/function Environmental dimensions that include the layout of the facility, the equipment, and the firm's furnishings.

specialization positioning strategy A positioning strategy that reduces complexity by unbundling the different services offered.

stability A service failure attribution pertaining to the likelihood the service failure will recur.

standardization The goal of standardization is to produce a consistent service product from one transaction to the next.

standards gap The difference between what management perceives customers to expect and the quality specifications set for service delivery.

station A location at which an activity is performed within a service blueprint.

stimuli The various elements of the firm's physical evidence that are collected through the five senses of sight, sound, touch, taste, and smell.

stimulus The thought, action, or motivation that incites a person to consider a purchase.

Stimulus-Organism-Response (S-O-R) Model A model developed by environmental psychologists to help explain the effects of the environment on behavior; describes environmental stimuli, emotional states and responses to those states.

structure The formal reporting hierarchy normally represented in an organizational chart.

subordinate service roles The low-status jobs within service organizations where the employee feels subordinate not only within the organization but also subordinate to the customer.

subscription-based pricing Subscription-based pricing generates revenues by asking customers to pay a reoccurring price at reoccurring intervals in return for granting customers access to the firm's service products.

substitutes The effect of cross-price elasticity in which an increase in the price of Product A increases the demand for Product B.

suggestion involvement Low-level empowerment that allows employees to recommend suggestions for improving the firm's operations.

sustainability The ability to meet current needs without hindering the ability to meet the needs of future generations in terms of economic, environmental, and social challenges.

switching costs Costs that can accrue when changing from one service provider to another.

symbolic meaning Meaning inferred from the firm's use of physical evidence.

systematic evaluation Choosing among alternatives by using a set of formalized steps to arrive at a decision.

systems People-management systems of control, evaluation, promotion, and recognition.

T

tangible dominant Goods that possess physical properties that can be felt, tasted, and seen prior to the consumer's purchase decision.

tangibles dimension The SERVQUAL assessment of a firm's ability to manage its tangibles including equipment, facilities, personnel, and communication materials.

target markets The market segment that becomes the focus of a firm's marketing efforts.

technical core The place within an organization where its primary operations are conducted.

technical training Training focused on teaching service providers their operational role in delivering the service.

technological defectors Customers who switch to products outside the industry.

third parties A supply strategy in which a service firm uses an outside party to service customers and thereby save on costs, personnel, etc.

time cost The time the customer has to spend to acquire the service.

tints Lighter values.

total market service quality surveys Surveys that measure the service quality of the firm sponsoring the survey and the service quality of the firm's competitors.

transformative service initiatives (TSI) Initiatives that enhance the well-being of vulnerable consumers, who often enter service settings with marginalizing and stigmatizing conditions that hamper their ability to fully co-create value with service providers.

transitory service intensifiers Personal, short-term factors that heighten a customer's sensitivity to service.

triple bottom line Firms that pursue the triple bottom line conduct daily business operations in a manner that considers not only the firm's economic prosperity, but

also its goals and objectives on environmental issues, social justice, and equality movements.

two-sided blueprint A blueprint that takes into account both employee and customer perceptions of how the sequence of events actually occurs.

type 1 service staff Service staff who are required to deal with customers quickly and effectively in "once only" situations where large numbers of customers are present.

type 2 service staff Service staff who deal with numerous, often repeat customers in restricted interactions of somewhat longer duration.

type 3 service staff Service staff required to have more highly developed communication skills because of more extended and complex interactions with customers.

U

unbundling Divesting an operation of different services and concentrating on providing only one or a few services in order to pursue a specialization positioning strategy.

unfulfilled desire The need for a product or service due to a consumer's dissatisfaction with a current product or service.

unresponsive strategy A recovery strategy in which the firm purposely decides not to respond to customer complaints.

upward communication The flow of information from front-line personnel to upper levels of the organization.

usage-based pricing Usage-based pricing is a popular alternative to subscription-based pricing due to its flexibility. Usage-based pricing measures customers use of the service and bills accordingly.

V

value The lightness and darkness of the colors.

variable costs Costs that are directly associated with increases in production and sales.

visual pathway Printed materials through which the professional image of the firm can be consistently transmitted, including firm brochures, letterhead, envelopes, and business cards.

voice A complaining outcome in which the customer verbally communicates dissatisfaction.

volume-oriented positioning strategy A positioning strategy that reduces divergence to create product uniformity and reduce costs.

W

willingness to perform An employee's desire to perform to his or her full potential in a service encounter.

word-of-mouth communications Unbiased information from someone who has been through the service experience, such as friends, family, consultants and/or online reviews.

work facilitation The provision of the basic infrastructure and technology to enable service providers to deliver the desired service.

Z

zero defections A model used by service providers that strives for zero customer defections to competitors.

zero defects model A model used in manufacturing that strives for zero defects in goods produced.

zone of tolerance Level of quality ranging from high to low and reflecting the difference between desired service and adequate service; expands and contracts across customers and within the same customer, depending on the service and the conditions under which it is provided.

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