

Mekelle University  
College of business and economics  
Department of marketing management



Services marketing teaching material for marketing  
management 2<sup>nd</sup> year students

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## **Course Description**

The course services marketing generally introduce students to cutting-edge coverage of services marketing. The foundation of this course is the recognition that services present special challenges that must be identified and addressed. It will examine marketing in industries that deal primarily in services but also from the perspective of all organizations, in recognition of the fact that service is an integral part of the offering of every company and organization, regardless of the sector in which it operates. In this course, an attempt is made to explore the nature of services, consumer behavior in services, expectation and perception of services, building customer relationships, service recovery, pricing, integrated services marketing communications, distribution of services, designing the service environment, and service differentiation, integrated gaps model of service quality, and productivity, more specifically in the context of service industries. To this end, the course ensures the fact that successful marketing of services and delivery of excellent services are critical element in the development of customer satisfaction and the long term success of an organization.

## **Objectives of the Course**

The main objective of this course is to equip students with in-depth knowledge to manage logistics activities.

After the successful accomplishment of the course the learner should:

- ❖ Explain what services are and identify trends in the service sector.
- ❖ Construct a flowchart identifying the service processes from the customer and provider perspectives.
- ❖ Understand the value of customer loyalty, customer retention and service recovery.
- ❖ Explore the profound impact of technology on service.
- ❖ Outline the basic differences between goods and services and the resulting challenges for service businesses.
- ❖ Introduce the expanded marketing mix for services.
- ❖ Understand and apply aspects of productivity, quality and service delivery.  
Identify strategies and key success factors to enhance the effectiveness of services marketing and measure services performance.

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## **CHAPTER ONE**

### **INTRODUCTION TO SERVICES MARKETING**

#### **Objectives of the Chapter: After Completing this chapter, students should be able to:**

- Define what service marketing is
- Explain the reasons for growth in the service sector
- List and define the inherent characteristics of services
- Specify the major problems created by the characteristics of services and the appropriate marketing strategies need to recue these problems
- Understand the traditional and expanded marketing mix elements

#### **1.1 Service Definition**

Customer service is a task, other than common operations that involves interactions with customers in person, by telecommunication mail, of automated process. The meaning of customer service varies from one organization to another. Within the service sector, it can be described as the total quality of the service process as perceived by the customer.

To define service, there is no standard or commonly accepted definition, with the contexts of business or retailing operations. Nevertheless, Philip Kotler defines “A service is any act or performance that one partly can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical production. (Kotler, 2006).

According to Stephone, service is any activity or benefit that one partly can offer to another that is essentially intangible and does not result in the ownership of anything. (Ross Stephone A. 2001)

Louis definition, service is intangible tasks that satisfy consumer and industrial user’s need when efficiently developed and distributed to chosen market segment. (Boon, Louis E. 1990)

The American Marketing Association also defines services in the following way, “Services are activities, benefits or satisfactions which are offered for sale are provided on connection with the sale of goods.”

All the above definitions make clear that services are activities benefits or satisfaction and we find their uses for selling products which may be tangible or intangible.

## 1.2. Reasons for Growth of the Service Sector

The service sector has experienced rapid growth since World War II as many nations shift from a manufacturing-based economy to a service economy. A major stimulus in this shift is the movement to an information age spurred/drive by the invention of the computer and advancements in telecommunications. As countries continue to shift from an agricultural to industrialized economic base, the demand for services will continue to increase. Additional factors contributing to the growth of the service sector are an aging population longer life expectancies (nursing homes, limited care facilities, diet centers, and fitness centers will also be positively affected by an aging population), increased leisure time, higher per capita income (A larger discretionary income offers opportunities for entertainment services), increased time pressure, more female work force participation, changing social and cultural values, and advances in technology (maintenance services).

Changes in culture and society have changed people's perception of the service industry. For example, hiring a house-cleaning service is no longer reserved for the wealthy. Mothers are no longer seen as shirking/avoid their duty if they don't stay home with their children and provide for their car until they are out of school. Society no longer feels a man is neglecting his responsibilities when he hired someone to repair his/her car, mow his lawn, or repair his/her home.

## 1.3 Characteristics of Services

Services possess four inherent characteristics not found in goods: intangibility, perishability, inseparability, and variability. These characteristics create unique challenges for services. To attract new customers and to keep current customers coming back, services firms must find ways to meet these challenges.

### 1.3.1 Intangibility

**Intangibility** refers to the lack of tangible assets that can be seen, touched, smelled, heard, or tasted prior to purchase. Services vary in the degree to which they are intangible; however, for most services there are tangible items that are used to perform the service. Services such as a college education, air travel, and sporting events are highly intangible because they cannot be seen, touched, smelled, heard, or tasted prior to the purchase.

Some services offer a tangible product with their service but the service is still intangible because consumers are purchasing the service, not the good.

Strategies to reduce negative impact of intangibility, such as:

- Stressing tangible cues;
- Using personal sources of information;
- Stimulating word-of-mouth communication
- Creating a strong corporation image; and
- Encouraging employees to communicate with customers.
-

### **1.3.2 Perishability**

The second characteristic of services is perishability, meaning the service cannot be inventoried or store. If tangible goods are not sold, a retailer can store it and sell it at a later time. This feature allows firms to mass produce goods and store them in warehouses until consumers are ready to purchase. For services, this is not possible. For example, Concerts and sporting events, if they want to watch, they must go to where the performance is staged, at the time it is occurring. Again, empty seats are lost revenue since they cannot be inventoried and sold at a later time.

To reduce the negative impact of perishability, service firms must develop strategies to cope with fluctuating demand.

Strategies to reduce negative impact of perishability, such as:

- The service firm has to develop strategies to deal with demand, supply, and capacity. The goal is for demand and supply to match, which should be close to the capacity of the firms. For example, when demand is high, the restaurant will need to expand supply by hiring additional wait staff and cooks.

### **1.3.3 Inseparability**

Inseparability is the simultaneous production and consumption of services. Goods can be produced and then sold at a later time, services cannot. For instance, getting a haircut involves a customer going to a hair stylist and being present while the service is being performed. Getting medical services involves a doctor or a dentist performing an examination or procedure while the customer is present. Because service must be performed and/or consumed at the same time, the quality of the service is highly dependent on the ability of the service provider and the quality of interaction between the service provider and the customer. Managing the human element is critical for success for service firms with a high degree of inseparability.

Strategies to reduce negative impact of inseparability, such as:

- It is important for the service firm to hire competent employees and then train them to perform the service.
- The service firm needs a process for managing customers so customers will have positive feelings about the interaction between employees and themselves.
- Inseparability can also be managed by having additional locations and by offering carrying-out home delivery services.

### **1.3.4 Variability**

The fourth unique characteristic of service is variability, which refers to the sporadic/irregular of random levels of service quality customers receive when they patronize/shop a service. Variability is primarily caused by the human element, although machines may malfunction causing a variation in the service.

Various service employees will perform the same service differently and even the same service employees will provide varying levels of service from one time to another. Variability is also



caused by a variance in the input; the same could be true for attorneys handling legal situations for various clients.

Strategies to reduce negative impact of variability, such as:

- Standardization and quality control measures can be used to reduce the variability of services. By standardizing the service, customers will tend to receive the same quality of service regardless of who performs the service and when the service is performed. In addition, if machines can be incorporated into the service, machines tend to be more consistent, in terms of quality production, than humans.

#### **1.4. Challenges and Questions for Service Marketers**

Because of these basic differences between goods and services, marketers of services face some very real and distinctive challenges. The challenges revolve around understanding customer needs and expectations for service, tangibilizing the service offering, dealing with a myriad/numerous of people and delivery issues, and keeping promises made to customers. Answers to questions such as the ones listed here still elude managers of services.

How can service quality be defined and improved when the product is intangible and non-standardize?

How can new services be designed and tested effectively when the service is essentially in intangible process?

How can the firm be certain is communicating a consistent and relevant image when so many elements of the marketing mix communicate to customers and some these elements are the service providers themselves?

How does the firm accommodate fluctuating demand when capacity is fixed and the service itself is perishable?

How can the firm best motivate and select service employees who, because the services are delivered in real time, become a critical part of the product itself?

How should prices be set when it is difficult to determine actual costs of production and price may be inextricably intertwined with perceptions of quality?

How should the firm be organized so that good strategic and tactical decisions are made when a decision in any of the functional areas of marketing, operations, and human resources?

How can the balance between standardization and personalization be determined to maximize both the efficiency of the organization and the satisfaction of its customers?

How can the organization protect new service concepts form competitors when service processes cannot be legally patented?

How does the firm communicate quality and balance to consumers when the offering is intangible and cannot be readily tried or displayed?

How can the organization ensure the delivery of consistent quality service when both the organization's employees and the customers themselves can affect the service outcome?

## 1.5. Addressing the Challenges of services Marketing and Management

The preceding questions are some of the many raised by managers and marketers of services. The following sections will introduce several models or frameworks that are useful for addressing these questions and making services marketing and management decisions at both the strategic and implementation levels. First, the services marketing triangle and the services marketing mix (to be discussed in chapter two in detail). Both of these frameworks address the challenges inherent in services, and each of them can be used to assess and guide strategies, as well as providing a roadmap for implementation planning. At the end, the gaps model of service quality will be discussed briefly.

### 1.5.1. The service Marketing Triangle

The service marketing triangle below shows the three interlinked groups that work together to develop, promote, and deliver services. These key players are labeled on the points of the triangle: the company (or sub business unit or department or management), the customers, and the providers (whoever it is that actually delivers the service to customers). Between these points on the triangle, there are three types of marketing that must be successfully carried out for a service to succeed: External, internal, and interactive marketing. All these activities revolved around making and keeping promises to customers. For services, all three types of marketing activities are essential for building and maintaining relationships with customers. Each is now discussed in more detail.

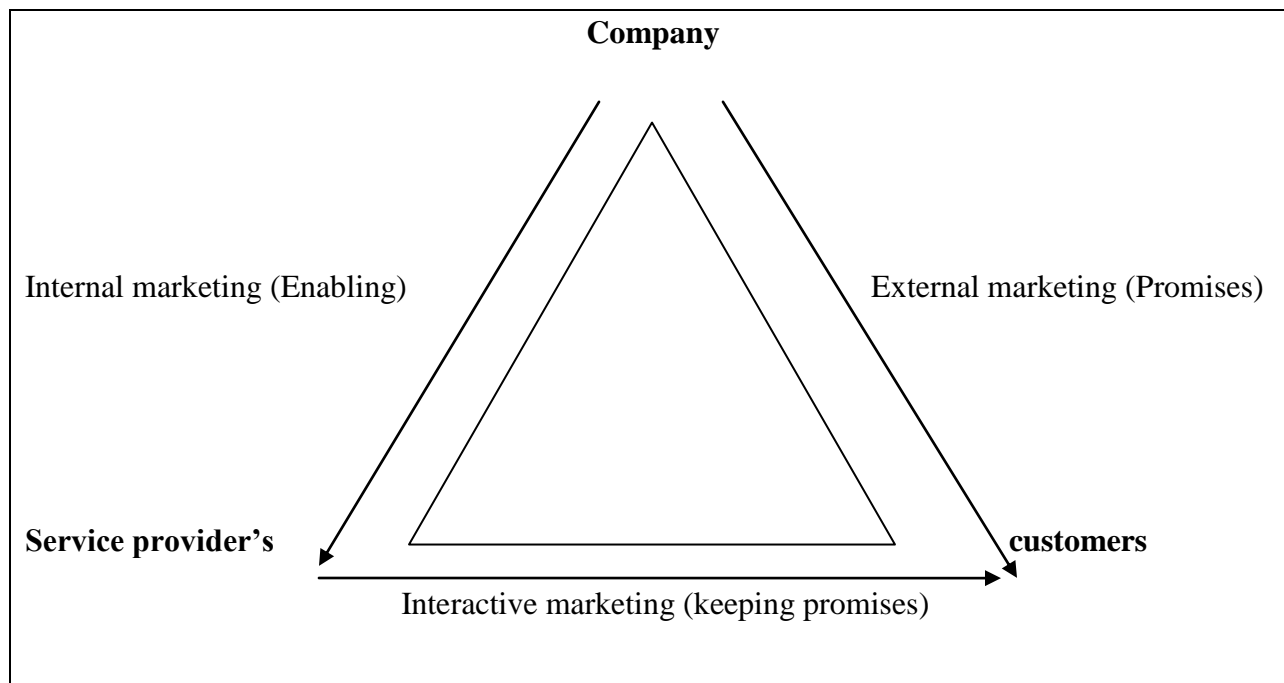


Fig. 1.1 the services marketing triangle

*Source Adapted from Mary Jo Bither, "Building Service Relations, it's About Promises, "Journal of the Academy of Marketing Science 23, 4 (1995) 246-51*

### **A. External Marketing: making promises**

Through its external marketing efforts, a company makes promises to its customers regarding what they can expect and how it will be delivered. Traditional marketing activities such as advertising, sales, special promotions, and pricing facilitate this type of marketing. But for services, other factors also communicate the promise to customers. The service employees, the design and décor of the facility, the service process, itself communicate and help to set customer expectation. Service guarantees and two-way communication are additional ways of communicating service promises. Unless consistent and realistic promises are set via all of these external communication vehicles, a customer relationship will be off to a shaky beginning. Further, if there is a tendency to overpromise, the relationship may also be off to a weak beginning.

### **B. Interactive Marketing: Keeping promises**

External marketing is just the beginning for services marketers: Promises made must be kept. Keeping promises, or interactive marketing, is the second type of marketing activity captured by the triangle and is the most critical from the customer's point of view. Service promises are most often kept or broken by the employees of the firm or by third party providers, most often in real time. Sometimes service promises are even delivered through technology. Interactive marketing occurs in the moment of truth when the customer interacts with the organization and the service is produced and consumed. Interestingly, promises are kept or broken and the reliability of service is tested every time the customer interacts with the organization.

### **C. Internal Marketing: Enabling promises**

A third form of marketing is internal marketing that takes place enabling of promises. For service providers and service systems to deliver on the promises made, they must have the skills, abilities, tools, and motivations to be delivered. In other words, they must be enabled. This essential service marketing activity has become known as trained, provided with tools and appropriate internal system, and rewarded for good service; the promises may not be kept. Internal marketing also hinges on the assumption that employee satisfaction and customer satisfaction are inextricably linked.

Aligning the sides of the Triangle: - In a triangle, all three sides are essential to complete the whole. For services all three marketing activities, represented by the sides of the triangle, are critical to success; without one of the sides in place, the triangle or the total marketing effort cannot be optimally supported. Each side represents significant challenges.

### **D. Technology and the Service Marketing Triangle**

With the impact of technology on all dimensions of service and service delivery, it has been suggested that the services triangle be expanded to explicitly include technology-turning the triangle into a pyramid.

The pyramid suggests that interactive marketing can be the result of customers, providers, and technology interacting in real time to produce the service. It also suggests that management has the responsibility to facilitate not only the delivery or service through human providers, but also the delivery through technology. Finally, the pyramid suggests that customers will at times interact only with technology and therefore will need skills, abilities, and motivation to receive services in that manner. Issues of customer satisfaction with technology-delivered service are also implied.

### 1.5.2. The services marketing Mix

Another way to begin addressing the challenges of services marketing is to think creatively about the marketing mix through an expanded marketing mix for services which is going to be discussed next.

### 1.5.3. The Gap Model of Service Quality

The third model for addressing services challenges is the gaps model of service quality. This model focuses on strategies and processes the firms can employ to drive service excellence. The gaps model will be discussed in chapter four.

## 1.6. Traditional Marketing Mix

The traditional marketing mix is composed of the four P's: Product, price, place (distribution), and promotion. Careful management of product, place, promotion, and price will clearly also be essential to the successful marketing of services. However, the strategies for the four P's require some modifications when applied to service. For example, traditionally promotion is thought of as involving decisions related to sales, advertising, sales promotions, and publicity.

### Key Strategy Areas for the 4 Ps

Product	Place	Promotion	Price
<ul style="list-style-type: none"> <li>• Physical good features</li> <li>• Quality level</li> <li>• Accessories</li> <li>• Packing</li> <li>• Warranties</li> <li>• Product lines</li> <li>• Branding</li> </ul>	<ul style="list-style-type: none"> <li>• Channel type</li> <li>• Exposure</li> <li>• Intermediaries</li> <li>• Outlet locations</li> <li>• Transportation</li> <li>• Storage</li> <li>• Managing Channels</li> </ul>	<ul style="list-style-type: none"> <li>• Promotion blend</li> <li>• Salespeople               <ul style="list-style-type: none"> <li>○ Number</li> <li>○ Selection</li> <li>○ Training</li> <li>○ Incentives</li> </ul> </li> <li>• Advertising               <ul style="list-style-type: none"> <li>○ Targets</li> <li>○ Media types</li> <li>○ Types of ads</li> <li>○ Copy thrust</li> </ul> </li> <li>• Sales promotion</li> <li>• Publicity</li> </ul>	<ul style="list-style-type: none"> <li>• Flexibility</li> <li>• Price level</li> <li>• Terms</li> <li>• Differentiation</li> <li>• Discounts</li> <li>• Allowances</li> </ul>

### **A) Service product (Service Outcome)**

The product component of the marketing mix is the outcome of the service. It consists of two components: the technical and the functional. The technical outcome is the end result of the service or the “what” of the service. For dental services, it would be the completed root canal or the completed crown.

The functional outcome is the process of receiving the service or “how” the service was provided. Functional service is the way the customer or client was treated by the firm’s staff. For dental services, it is the way the dentist, the dental assistant, and the receptionist interacted with the patient.

### **B) Price**

The second component of the marketing mix is the price of the service. Because services are intangible and experiential in nature, price becomes more important to consumers as a cue of what to expect. Higher prices tend to convey higher quality. However, an extremely high price may be viewed by consumers as a rip-off. The converse is also true; lower prices tend to convey lower quality but for some services and for some consumers, this is acceptable.

For example, we may expect to pay less for food at “X” than we do at “Y” because we know we will not get the same level of personalized service at “X”. Although a tradeoff between price and service is acceptable, consumers will not tolerate inferior food or service. In other words, there is a minimum level of quality that will be acceptable.

### **C) Distribution**

Because of the inherent characteristics of services, distribution becomes more challenging. Distribution is the availability and accessibility of a service to consumers. Manufacturers such as Sony can sell their products at many retail outlets. However, for a service this is more difficult.

The importance of the location of service facilities varies directly with the amount of contact that will occur between the customers and employees of the services firm. A convenient location is not important for equipment based services, such as electricity or telephone, where the customer seldom needs to visit the business office. Conversely, a convenient location is critical when the service provider and customer must meet face-to-face. Most marketing channels for services are direct because the service provider and customer usually interact directly.

### **D) Promotion**

Since services are experiential in nature, promoting a service is more complex than promoting a good

When developing an effective promotion program as part of its marketing mix, a service marketer should take certain factors into consideration:

- 1) **Employees** - Many services rely heavily on employees who directly affect a firm’s promotional efforts.

- 2) **Word-Of-Mouth Advertising** - Consumers are highly prone to rely on personal sources of information, especially word-of-mouth advertising. The service marketer's promotion program should recognize this fact and capitalize on this type of advertising.
- 3) **Tangible Symbols** - the promotion plan, especially the advertising program, should develop tangible symbols that help to position the service and the product correctly in the consumer's mind.
- 4) **Continuity** - Since it is impossible to obtain a patent on a service, unique service attributes are often copied by competitive service providers. To remain competitive in services marketing, a firm must constantly modify its service offering.
- 5) **Kept Promises** - it is difficult to provide – and control– the same level and quality of service to all customers. Therefore, a service marketer should not make false promises.

### 1.7. The Expanded Marketing Mix

In services, these factors are also important but, because services are produced and consumed simultaneously, service delivery people are involved in “real-time” promotion of the service even if their jobs are typically defined in terms of the operational function they perform. Pricing also becomes very complex in services where “unit costs” needed to calculate prices may be difficult to determine, and whether the customer frequently uses price as a cue to quality.

Because services are usually produced and consumed simultaneously, customers are often present in the firm's factory, interact directly with the firm's personnel and are actually part of the service production process. Also, because services are intangible customers will often be looking for any tangible cue to help them understand the nature of the service experience.

These facts have led services marketers to conclude that they can use additional variables to communicate with and satisfy their customers.

For example, in the hotel industry, the design and decor of the hotel as well as the appearance and attitudes of its employees will influence customer perceptions and experiences.

Acknowledgement of the importance of these additional communication variables has led services marketers to adopt the concept of an expanded marketing mix for services shown in the following table.

People	Physical evidence	Process
<ul style="list-style-type: none"> <li>• Employees <ul style="list-style-type: none"> <li>○ Recruiting</li> <li>○ Training</li> <li>○ Motivation</li> <li>○ Rewards</li> <li>○ Teamwork</li> </ul> </li> <li>• Customers <ul style="list-style-type: none"> <li>○ Education</li> <li>○ Training</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Facility design</li> <li>• Equipment</li> <li>• Employee dress</li> <li>• Other tangibles <ul style="list-style-type: none"> <li>○ Reports</li> <li>○ Business Cards</li> <li>○ Statements</li> <li>○ Guarantees</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Flow of activities <ul style="list-style-type: none"> <li>○ Standardized</li> <li>○ Customized</li> </ul> </li> <li>• Number of steps <ul style="list-style-type: none"> <li>○ Simple</li> <li>○ Complex</li> </ul> </li> <li>• Customer involvement</li> </ul>

### A) People

Refer to all human actors who play a part in service delivery and thus influence the buyer's perceptions: namely, the firm's personnel, the customer and other customers in the service environment. All of the human actors participating in the delivery of a service provide cues to the customer regarding the nature of the service itself. How these people are dressed, their personal appearance and their attitudes and behaviors all influence the customer's perceptions of the service.

The service provider or contact person can be very important. In fact, for some services (such as consulting, counseling, teaching and other professional relationship-based services), the provider is the service. In other cases the contact person may play a relatively small part in service delivery; for instance, a telephone installer, an airline baggage handler, or an equipment delivery dispatcher.

In many service situations, customers themselves can also influence service delivery, thus affecting service quality and their own satisfaction. For example, a client of a consulting company can influence the quality of service received by providing needed and timely information and by implementing recommendations provided by the consultant. Similarly, health care patients greatly affect the quality of service they receive when they either comply or do not comply with health regimens prescribed by the provider.

Customers not only influence their own service outcomes, but they can influence other customers as well. In a theater, at a ball game or in a class room, customers can influence the quality of service received by others – either enhancing or detracting from other customers' experiences. Given the strong influence they can have on service quality and service delivery, employees, the customer him/herself, and other customers and included within the people element of the service marketing mix.

### B) Physical Evidence

Physical evidence is the environment in which the service is delivered and where the firm and customer interact and any tangible components that facilitate performance or communication of the service. The physical evidence of service includes all the tangible representations of the service such as brochures, letterhead, business cards, report formats, signage and equipment.



In some cases it includes the physical facility where the service is offered (the service-escape); for example, the retail bank branch facility. In other cases, such as telecommunication services, the physical facility may be irrelevant. In this case other tangibles such as billing statements and appearance of the repair truck may be important indicators of quality.

Especially when consumers have little on which to judge the actual quality of service, they will rely on these cues, just as they rely on the cues provided by the people and the service process. **Physical evidence cues provide excellent opportunities for the firm to send consistent and strong messages regarding the organization's purpose, the intended market segments, and the nature of the service.**

### **C) Process**

Process is the actual procedures, mechanisms and flow of activities by which the service is delivered – the service delivery and operating systems. The actual delivery steps the customer experiences or the operational flow of the service, will also provide customers with evidence on which to judge the service. Some services are very complex, requiring the customer to follow a complicated and extensive series of actions to complete the process. Highly bureaucratized services frequently follow this pattern and the logic of the steps involved often escapes the customer.

Another distinguishing characteristic of the process that can provide evidence to the customer is **whether the service follows a production-line/standardized approach or whether the process is an empowered/customized one.**

None of these characteristics of the service is inherently better or worse than another. Rather, the point is that these process characteristics are another form of evidence used by the consumer to judge service.

For example, two successful airline companies A and Company B follow extremely different process models. Company A is no-frills (no food, no assigned seats) no exceptions, low-priced airline that offers frequent, relatively short-length domestic flights. All of the evidence it provides is consistent with its vision and market position. On the other hand, company B focuses on the business traveler and is concerned with meeting individual travel needs. Thus, its process is highly customized to the individual, and employees are empowered to provide nonstandard service when needed. Both airlines have been very successful.

The three new marketing mix elements (People, physical evidence, and process) are included in the marketing mix as separate elements because they are within the control of the firm and any or all of them may influence the customer's initial decision to purchase a service as well as the customer's level of satisfaction and repurchase decisions.

### **Discussion Questions:**

1. What are the basic characteristics of services vs. goods?
2. One of the underlying frameworks for the text is the services marketing mix. Discuss why each of the three new mix elements (process, people and physical evidence) is



included. How might each of these communicate with or help to satisfy an organization's customers?

3. Think of a service and examine how technology is used or could be used to improve its delivery.
4. Discuss the concept that the value a customer derives from a physical good such as a vacuum cleaner is really the cleaning service provided by the good, not the good itself.

## CHAPTER TWO

### CONSUMER BEHAVIOR IN SERVICE SETTING

**Objectives of the chapter: At the end students should be able to:**

- Understand nature of service consumption and user costs for services
- Explain the generic difference in consumer behavior in service and good
- Understand in the four categories of consumer behavior

#### 2.1 An overview of customer Behavior

Understanding customer behavior lies at the heart of marketing.

Why do **customers buy one product and not another?**

**Who or what influences their decisions** and their brand preferences?

Against **what criteria do they evaluate** possible alternatives?

Why do **they buy one type of service when a different type** might have provided a better solution to their needs?

What drives **these needs in the first planed?**

How do the buying patterns of the household and corporate purchasers tend to be different?

- Once a customer has actually purchased a service, marketers need to examine how and when they use it.

**How does the customer interact** with service facilities, service personnel, and other customers, especially in the case of high-contact services?

#### 2.2 The nature of service consumption

The term consumption is often equated in the economic literature with consumer and corporate expenditure. **In reality the consumption means “the act or process of using something up.** It’s easy to understand how packaged goods are consumed. This notion **of physical consumption or deterioration does not apply to most services.** Exceptions exist for food and beverage services, but they are special cases. Certainly, the factors of production necessary to create services eventually need replacement. Gronroos captures the distinction between goods consumption and service consumption by describing the former as output consumption and the later as process consumption.

Is it even appropriate to use the term consumer to describe service customers? In chapter 1, we noted that customers did not normally obtain ownership of services. They merely acquire the right to a performance that makes use of the service firm’s assets. Perhaps the single most

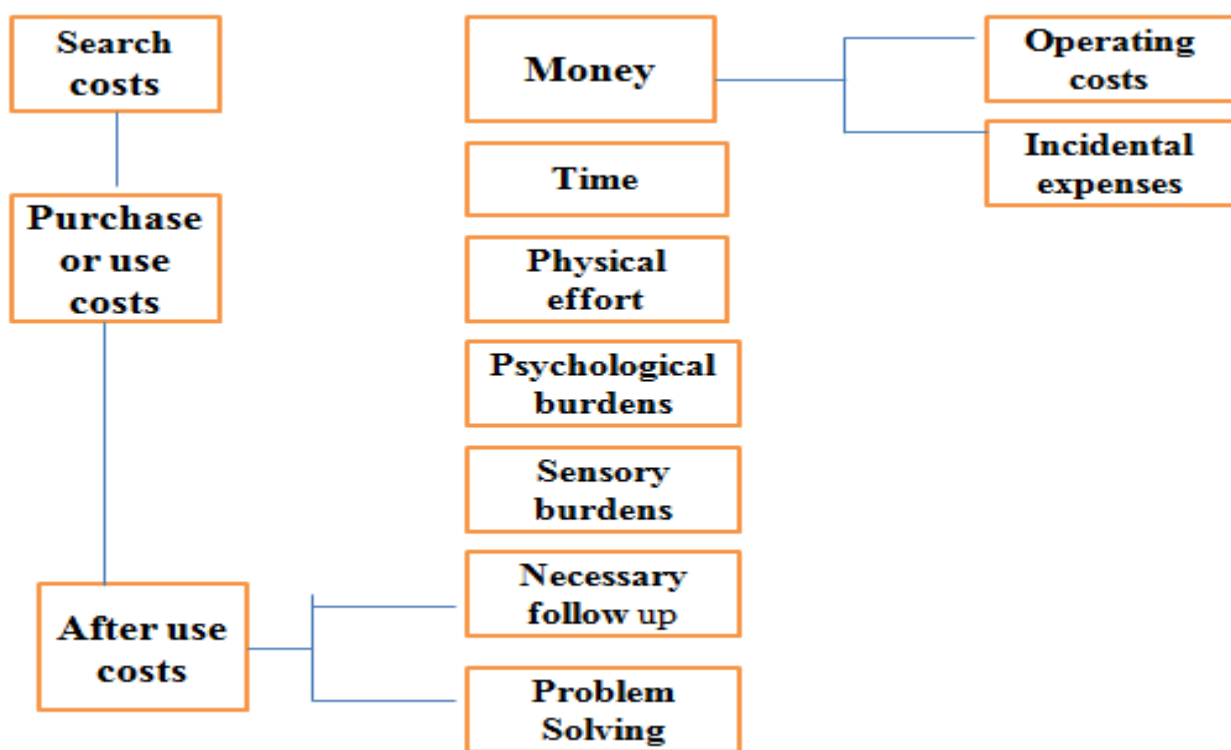
important element that is consumed in service delivery is time, which is an irreplaceable resource for both customers and providers and involved opportunity.

### 2.2.1. Understanding user costs for services

To obtain the benefits of a service performance, customers must be prepared to offer something in exchange.

From a customer's standpoint, the monetary price charged by the supplier may be just the first of many costs associated with purchase and delivery of a service. Let's take a look at what's involved.

Figure 2.1 Determining the Total Costs of a service.



*Time expenditures* are inherent in service delivery. There is an opportunity cost to customers for the time they are involved in the service delivery process because they could spend that time in other ways. They could even be working to earn additional income.

*Physical effort* may be incurred in obtaining services especially if customers must come to the service factory and if deliver entails self-service.

*Psychological burdens* such as mental effort, feelings of inadequacy, or fear are sometimes attached to evaluating service alternatives making a selection, and then using particular service.

*Sensory burdens* relate to unpleasant sensations affecting any of the five sense. In a service environment they may include putting up with noise, unpleasant smells, drafts, excessive heat or cold uncomfortable seating, visually unappealing environments, and even nasty tastes.

Customers sometimes refer to physical, psychological, and sensory burdens collectively as “effort” or ‘hassle”.

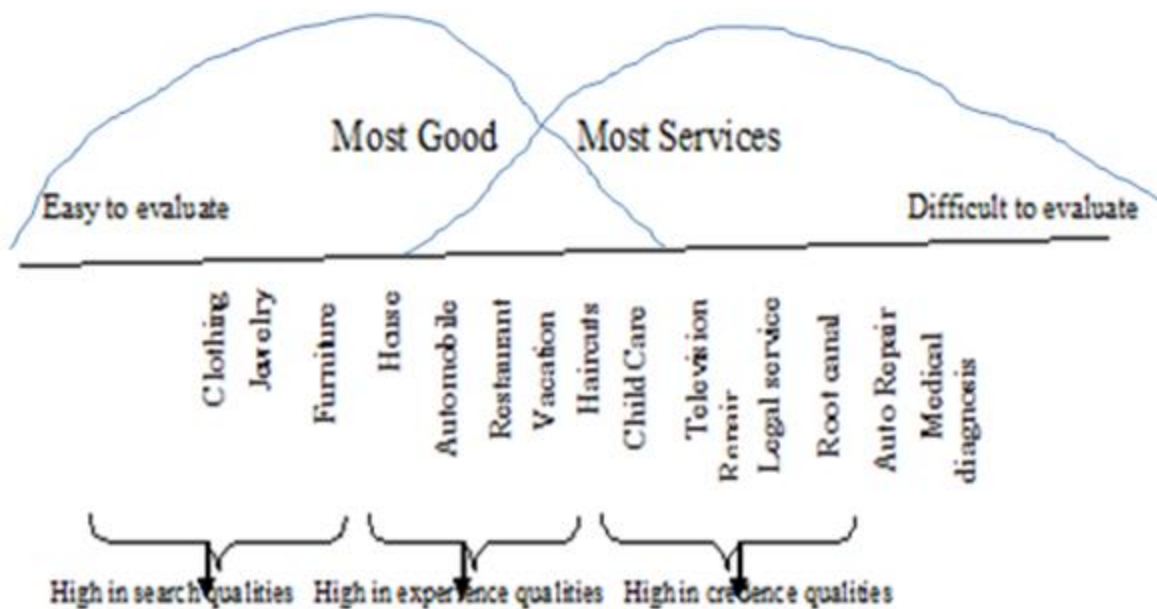
### 2.3 A Continuum of Product Attributes

One of the basic differences between goods and services is that services are harder for customers to evaluate. All products can be placed on a continuum ranging from “easy to evaluate” to difficult to evaluate” depending on whether they are high in search attributes, experience attributes, or credence attributes. These three attribute categories provide a useful framework for understanding how consumers evaluate different types of market offerings. As shown in Figure 2.2, most physical goods are located toward the left of the spectrum, with services to the middle or right.

**Search Attributes:** Physical goods tend to emphasize those attributes that allow customers to evaluate a product before purchasing it. Features such as color, style, price, fit feel, hardness, and sound allow prospective consumers to try out, taste-test or test drive the product prior to purchase. These tangible attributes help customers understand and evaluate what they will get in exchange for their money and reduces the sense of uncertainty or risk associated with the purchase occasion. Goods such as clothing, furniture, cars, and electronic equipment are high in search attributes.

**Experience Attributes:** These are properties that can’t be evaluated prior to purchase. Customers must experience these features to know what they are getting. Holidays, live entertainment performances, sporting events, and restaurants fall into this category. Although people can examine brochures, scroll through we sites that explain the features of a holiday destination, view travel films or read reviews by travel expert, they can’t really evaluate or feel the dramatic beauty associated with. And neither can customers always rely on information from friends, family or other personal sources when evaluating these or other types of services. Consider your own experiences in following up recommendations from friends to see a particular film.

**Credence Attributes:** Product characteristics that customers find impossible to evaluate confidently even after purchase and consumption are known as credence attributes because the customer is forced to trust that certain benefits have been delivered even though it may be hard to document them.



**Figure 2.2 Continuum of evaluation for different types of products**

Figure 2.2 arrays goods and services high in search, experience, or credence qualities along a continuum of evaluation ranging from easy to evaluate to difficult to evaluate. Goods high in search qualities are the easiest to evaluate (left end of the continuum).

Goods and services high in experience qualities are more difficult to evaluate because they must be purchased and consumed before assessment is possible (center of continuum).

Goods and services high in credence qualities are the most difficult-to evaluate because the consumer may be unaware of or may lack sufficient knowledge to appraise whether the offerings satisfy given wants or needs even after consumption (right end of the continuum).

The major premise of this chapter is that most goods fall to the left of the continuum, while most services fall to the right due to three of the distinguishing characteristics described in chapter one: *intangibility, heterogeneity and inseparability* of production and consumption. These characteristics make service more difficult to evaluate than goods. Difficulty in evaluation, in turn, forces consumers to rely on different cues and processes when evaluating services.

In summary, most services tend to be located from the center to the right of the continuum, reflecting two of the basic differences between goods and services. The characteristics present special challenges for service marketers requiring them to find ways to reassure customers and reduce the perceived risks associated with buying and using services whose performance and value can't easily be predicted.

### **2.3.1 Strategic Responses to the Intangibility of service Performances.**

Marketers whose products are high in experience characteristics often try to provide more search attributes for their customers. One approach is to offer a free trial. Some providers of online computer services have adopted this strategy. For example, American Online offers potential users a free software diskette and the chance to try its services without charge for a certain number of hours. This reduces customers' concerns about entering into a paid contract without first being able to test the service. Advertising is another way to help customers visualize service benefits when there are few inherent search attributes i.e. by showing physical evidence of the benefits of the service.

Providers of service that are high in credence characteristics have an even greater challenge. Their benefits may be so intangible that customers cannot evaluate the quality of what they have received even after the service has been purchased and consumer. In this case, marketers often try to provide tangible cues to customers about their services. For example, some high-contact services design their facilities to provide customers with physical evidence of service quality. Professional such as doctors, lawyers etc... to see the credentials that quality them to provide expert service.

## **2.4. The purchase Process for services**

When customers decide to buy a service to meet an unfulfilled need, they go through what is often a complex purchase process. This process has three separate stages:

- The Pre-purchase stage,
- The service encounter stage, and
- The post purchase stage

### **2.4.1 Pre-purchase Stage**

The decision to buy and use a service is made in the pre-purchase stage. Individual needs and expectations are very important here because they influence what alternative customers will consider. If the purchase is routine and relatively low risk, customers may move quickly to selecting and using a specific service provider. But when more is at stake or a service is about to be used for the first time, they may conduct an intensive information search.

The next step is to identify potential suppliers and then weigh the benefits and risks (costs as it is mentioned in the above) of each option before making a final decision.

This element of perceived risk is especially relevant for services that are high in experience or credence attributes and thus difficult to evaluate prior to purchase and consumption. First time users are especially likely to face greater uncertainty. Risk perceptions reflect customers' judgments of the probability of a negative outcome. The worse the possible outcome and the more likely it is to occur, the higher perception of risk. Different types of perceived risks are:

Type of Risk	Examples of Customer concerns
<ul style="list-style-type: none"> <li>▪ Functional risk (unsatisfactory performance outcomes)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Will this training course give me the skill I need to get a better job?</li> <li>▪ Will the dry cleaner be able to remove the stains from this jacket?</li> </ul>
<ul style="list-style-type: none"> <li>▪ Financial risk (monetary loss, unexpected costs)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Will repairing my car cost more than the original estimate?</li> </ul>
<ul style="list-style-type: none"> <li>▪ Temporal risk (wasting time, consequences of delays)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Will service at this restaurant be so slow that I will be late for my afternoon meeting?</li> </ul>
<ul style="list-style-type: none"> <li>▪ Physical risk (personal injury or damage to possessions)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Will I fall sick if I travel abroad on vacation?</li> </ul>
<ul style="list-style-type: none"> <li>▪ Psychological risk (personal fears and emotions)</li> </ul>	<ul style="list-style-type: none"> <li>▪ How can I be sure this aircraft will not crash?</li> </ul>
<ul style="list-style-type: none"> <li>▪ Social risk (how others think and react)</li> </ul>	<ul style="list-style-type: none"> <li>▪ What will my friends think of me if they learn I stayed at this cheap motel?</li> </ul>
<ul style="list-style-type: none"> <li>▪ Sensory risk (unwanted impacts on any of the five senses)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Will the bed be uncomfortable?</li> </ul>

When customers feel uncomfortable with risks, they can use a variety of methods to reduce them during the pre-purchase stage. In fact, you have probably tried some of the following *risk reduction strategies* before deciding to purchase a service.

- Seeking information from respected personal sources (family, friends, peers)
- Relying on a firm that has a good reputation
- Looking for guarantees and warranties
- Visiting service facilities or trying aspects of the service before purchasing
- Asking knowledgeable employees about competing services
- Examining tangible cues or other physical evidence
- Using the internet to compare service offerings

#### 2.4.2 Service Encounter Stage

After deciding to purchase a specific service, customers experience one or more contacts with their chosen service provider. These **moments of truth** in the service encounter often begin with submitting an application, requesting a reservation or placing an order. Contacts may take the form of personal exchanges between customers and service employees or impersonal interactions with machines or computers. In high-contact services, such as restaurants, health care, hotels,

and public transportation, customers may experience a variety of elements during service delivery each of which has the potential to provide clues to service quality.

Service environments include all of the tangible characteristics to which customers are exposed. The appearance of building exteriors and interiors; the nature of furnishings and equipment; the presence or absence of dirt, odor or noise; and the appearance and behavior of other customers can all sever to shape expectations and perceptions of service quality.

Service personnel are the most important factor in most high-contact service encounters, where they have direct, face –to-face interactions with customers. In low –contact situations, as in telephone-based service delivery, knowledgeable customers often expect employees to follow specific scripts during the service encounter.

Handling service encounter, excessive deviations from these scripts can lead to dissatisfaction. Handling service effectively on the part of the employee usually combines learned skills with the right type of personality. Careful recruitment, training, compensation, and motivation are essential inputs.

Support services are made up of the materials and equipment plus all of the backstage processes that allow front stage employees to do their work properly. This element is critical, because many customer-contact employees can't perform their jobs well without receiving internal services from support personnel.

When customers use a people-processing service, they often find themselves in close proximity to other customers. Waiting rooms at a medical clinic may be filled with other patients; trains, buses or aircraft are usually carrying many passengers at once, requiring travelers to sit next to strangers. Similarly, restaurants serve many patrons simultaneously and a successful play or film will attract a large audience (in fact, the absence of an audience is a bad sign!). Unfortunately, some of these other customers occasionally behave badly, thus detracting from the service experience. Managers needs anticipate such incidents and have contingency plans in place for how to deal with the different types of problems that might occur.

### **2.4.3 Post purchase Stage**

During the post purchase stage, customers continue a process they began in the service encounter stage-evaluating service quality and their **satisfaction or dissatisfaction** with the service experience. The outcome of this process will affect their future intentions, such as whether to remain loyal to the provider that delivered service and whether to pass on positive or negative recommendations to family members and other associates.

Customers evaluate service quality by comparing what they expect with what they perceive they received. If their expectations are met or exceeded, they believe they have received high quality service. If the price –quality relationship is acceptable and other situational and personal factors



are positive, then these customers are likely to be satisfied. As a result, they are more likely to make repeat purchases and become loyal customers. However, if the service experience does not meet customers' expectations, they may complain about poor service quality, suffer in silence, or switch providers in the future.

## 2.5 Evaluating the Service Offering

Because the consumer evaluation and purchase processes are more complex for services, it's especially important that service managers understand how customers view the totality of the service offering (sometimes referred to as the service package). One of the best and most customer-oriented definitions of a service offering comes from FedEx, Early defined service very simply as “ all actions and reactions that customers perceive they have purchased” This statement views service through the customers' eyes. Hence, it can be applied to any business and clarifies that service is a bundle consisting of the core product plus a cluster of supplementary services.

### 2.5.1. Increasing Customers' Perceptions of Value

Whatever the business companies have to think in terms of performing well on all actions and reactions that customers perceive they are purchasing. And they need to be clear about which of these various interactions constitutes the core product and which represent supplementary service elements.

The *core product*, as noted in the principles of marketing course, provides the central benefit that addresses specific customer needs. It defines the fundamental nature of a company's business lodging, **transportation**, cleaning and so forth. *Supplementary service elements* supply additional benefits to enhance the core product and differentiate it from competitors' offerings.

### 2.5.2 Competing on supplementary Service Elements

Every business that aspires to market leadership should be working to enhance existing products and to develop new ones. But achieving significant innovation in the core product is nearly always time-consuming and expensive, sometimes requiring enormous research and investments. In mature product categories, such innovation only occurs infrequently.

Because significant innovation in core products seems to be an infrequent event in many industries, much of the action asks place among supplementary service elements. That is where most companies mature industries should focus their strategic thinking for the short and medium term because supplementary services offer the best opportunity of increasing customers' perceptions of value. This idea is not a new one by any means.

### Discussion Questions:

1. Where does a college or university education fit on the continuum of evaluation for different types of products? Where does computer software fit? Consulting? Retailing? Fast food? What are the implications for consumer behavior?
2. What are examples (other than those given in the chapter) of services that are high in credence properties? How do high credence properties affect consumer behavior for these services?
3. How do you reduce risk when choosing a restaurant in a city you haven't visited before?
4. Why are consumer experiences so important in the evaluation process for services?

## CHAPTER THREE

### Customer Expectation of Service

**Objectives of the chapter: At the end students should be able to:**

- Identify and define the levels of consumer expectations
- List the antecedents of consumer expectations of services
- Identify the internal and external factors that impact consumers' expectations
- Explain how service firms can manage consumer expectations of the purchase process

#### 3.1. Meaning and types of Service expectations

*What are Customer expectations?*

*These are beliefs about service delivery that function as standards or reference points against which performance is judged.* Customers compare their perceptions with the reference points when evaluating service quality. Knowledge about customer expectation is critical to services marketers. Knowing what the customer expects is the first step in delivering quality service. Being wrong about what customers want can mean losing a customer's business

Service marketers need a far more thorough and clear definition of expectations in order to comprehend, measure, and manage them. Customer expectations embrace several different elements, including desire service, predicted service, and a zone of tolerance that falls between the desired and adequate service levels.

- a. ***Desired and Adequate Service Levels.*** Desired service is the type of service customers hope to receive. It is a wished for level of service. Most customers are realistic and understand that companies can't always deliver the level of service they would prefer; hence, they also have a threshold level of expectations, **termed adequate service**, which is defined as the minimum level of service customers will accept without being dissatisfied.

The levels of both desired and adequate service expectations may reflect **explicit and implicit promises by the provider, word-of-mouth comments, and the customer's past experience (if any)** with this organization.

- b. ***Predicted Service.*** The level of service customers actually anticipate receiving is known as predicted service and directly affects how they define adequate service on any given occasion. If good service is predicted, the adequate level will be higher than if poorer service is predicted. Customer predictions of service may be situation specific. For example, from past experience, customers visiting a museum on a summer day may expect to see larger crowds.
- c. ***Zone of tolerance.*** The inherent nature of services makes consistent service delivery difficult across employees in the same company and even by the same service employee from one day to another. The extent to which customers are willing to accept this

variation is called the Zone of tolerance. A performance that falls below the adequate service level will cause frustration and dissatisfaction, whereas one that exceeds the desired service level will both please and surprise customers, creating what is *sometimes referred to as customer delight*.

Another way of looking at the zone of tolerance is to think of it as the range of service within which customers do not pay explicit attention to service performance. By contrast, when service falls outside the range, customers will react either positively or negatively. The zone of tolerance can increase or decrease for individual customers depending on factors such as *competition, price, or importance of specific service attributes*.

## 3.2. Antecedents of Consumer Expectations

### 3.2.1 Internal Factors

Internal factors impacting a consumer's expectations of a service include the consumer's personal needs, level of involvement, past experience, and service philosophy. The factors will impact a person's desired and adequate levels expectation

#### i. Individual Needs

The personal needs of consumers are based on Maslow's Hierarchy of Need model. According to Maslow, lower-order needs must be fully or at least partially satisfied in a sequential order before higher-order needs will affect human behavior.

**A.** The most elementary needs of humans are the **physiological needs** of food, shelter, and clothing.

**B. Safety needs**, such as security, protection from physical harm and avoidance of the unexpected.

**C. The social belongingness need** or the desire to be accepted by members of one's family, social groups and other individuals.

**D.** The two higher needs of **self-esteem** and **self-actualization** are more difficult to satisfy. Self-esteem needs include the desire for status, esteem, and respect from others. Only when the lower-order needs have been satisfied will individuals move to these higher-order needs.

#### ii. Level of involvement

The second personal factor affecting consumer expectations is the consumer's level of involvement with the service. Involvement has two effects on expectations.

- First as the level of involvement increases, the gap between the ideal level of service and the desired level of service narrows.

- Second, as the level of involvement increases the zone of tolerance decreases. Consumers are less tolerant when a service is less than ideal. Low-involvement services are just the opposite.

### **iii. Past Experience**

The most important factor affecting consumer expectations of a service is a consumer's past experience.

### **iv. Service Philosophy**

Consumer's expectations are also affected by his or her personal philosophy concerning the delivery of service and very little tolerance for deviation. Other consumers have lower standards and tend to be more tolerant of service deviations.

Individuals develop their personal service philosophy through a combination of two inputs, **hereditary** and **past experience**. In early childhood, individuals learn from observing others. Later in life, they learn from their own experiences.

## **3.2.2. External Factors**

The three external factors that affect consumer expectations are **competitive options**, **social context**, and **word-of-mouth communications**. These factors can have an impact on all four levels of expectations. However, the primary impact is on the predicted level.

### **i. Competitive Options**

The level of service consumers expect from a particular service vendor is impacted by the alternatives available to the consumer. In many cases, expectations of services will not only be affected by other vendors in the same industry but by what is available in other service industries.

### **ii. Social Context**

A consumer's social situation can have an impact on his or her expectations of a service. People's desired level of expectations will often increase when they are with others who are important to them, while their zone of tolerance is normally reduced.

### **iii. Word-of-Mouth Communications**

The third external factor is word-of-mouth communications. It is the strongest source of information used by consumers in forming expectations. Consumers will often seek the opinion of others before purchasing a service.

Word-of-mouth communication can come from three sources: **personal sources**, **expert sources**, and **delivered sources** and is used to solidify or establish the predicted level of

services. For services will which consumers have little knowledge for experience word-of-mouth communications can be used to establish the desired levels of services.

**Personal sources** include friends, relatives, and work associates. **Expert's sources** are sometimes sought out, especially for high-involvement purchases. Consumers often believe experts will provide better information than personal. Occasionally, **derived sources** of information are obtained and used to form expectations. Derived sources are third-party sources.

### 3.2.3 Situational Factors

Consumer expectations of a service are affected by situational factors such as:

- a. ***Reason for purchase*** can alter consumer expectations.
- b. ***Consumer mood*** states will impact expectations. Individuals in a good mood tend more tolerant of service personnel. Their zone of tolerance is greater and their expectation level of adequate service is lower and vice versa.
- c. ***Time constraints*** also impact consumer expectations. Firms who use human power for temporary workers modify their expectation when faced with time constraints. If a firm needs help immediately, they will expect human power to be able to meet the need, but they will normally lower their predicted expectations of the person's work ability. Their zone of tolerance would be wider since human power would not have sufficient time to locate the best individual.
- d. ***Emergencies and catastrophes*** have an impact on consumer expectations. In an emergency, individuals expect for example hospitals to act immediately and their zone of tolerance is very small.

### 3.2.4. Firm –Produced Factors

a. ***Promotions:*** Promises made in advertisements and sales promotions will be used by consumers in forming their predicted level of service for a particular firm. Advertising can also modify a consumer's desired level of service, adequate level of service, and zone of tolerance

b. ***Pricing:*** Consumer expectations are affected by the price of the service. The general rule is that the higher the price, the higher the consumer's expectations of a service and the narrower the zone of tolerance and vice versa.

c. ***Distribution:*** Distribution has an impact on service expectations. Predicted expectations of chain operations will multiple outlets. Customers believe each branch facility will offer approximately the same level of service because they are all run under the same corporate brand name. The availability and accessibility of a service to customers has an impact on their expectations

**d. Service personnel:** Conversations with service personnel also have an impact on expectations. If the employee says that many customers have a nice coffee after many sessions, the customer will form different expectations and zone of tolerance will be a little wider.

**e. Tangible cues:** Tangible cues are an important antecedent of consumer expectations. Tangible cues consist of such things as the appearance of the interior and exterior of the facility.

**f. Other customers:** Expectations of a service can be affected by other customers. If customers expect the same type of treatment and attention, he/she will probably be disappointed.

**g. Firm image:** The image consumers have of a firm will have an impact on their expectations of the service. If they have a high image of the firm, they will have high expectation. If the image is low expectations will be low. The predicted level of service is the primary level of consumer expectations affected by a consumer's image of a company. The image of a consumer can also affect the zone of tolerance. **Individuals will be more tolerant of service deviations if they have a high image of the firm than if they have a low image.**

### 3.3. Role of Consumer Expectation

Consumer expectations are important during all three stages of the purchase process. Understanding the role of consumer expectations in each these phases is important to service businesses.

- During the pre-purchase phase, consumer expectations will influence which firm is patronized.
- During the service encounter, customer will compare the service they are receiving to what they expected.
- In the post-purchase phase, after patronage decisions will be based on how closely the service experience met the expectations of customer.

### 3.4. Managing Consumer Expectations

As noted previously purchase decisions are based on consumer expectations. **The higher the expectations are the greater the probability of purchase. The lower the expectations are the lower the probability of purchase.** Also, remember that **the higher the expectations, the greater the chances that the service firm will not be able to meet consumer expectations and that the customer will be dissatisfied. The reverse is true for lower expectations.**

Service firm face this strange dilemma, promoting high expectations will increase patronage but also increase the chances of producing dissatisfied customers. Promoting lower expectations will ensure satisfied customers, but the chances of getting customers to buy the service are greatly reduced. Therefore, the ideal goal is to promote the exact service customers will receive and to provide the exact service customers expect. If firms can match expectations and service, customers are satisfied.

Managing customer expectations is a critical component in the marketing plan of a service business. Consumer expectations must be managed during the **pre-purchase phase, the service encounter, and the post-purchase phase.**

### ✓ **During the pre-purchase phase**

Managing customer expectations during the pre-purchase phase consists of three steps.

1. Learn what customers expect
2. Tell customers what they can expect
3. Consistently provide the service that customers expect

### ✓ **During the service encounters**

Three strategies can be used during the service encounter to manage customer expectations:

1. Service personnel must communicate with the customer during the service encounter
2. If possible, service providers should modify the service to meet the customers' expectations
3. If the service cannot be modified the service personnel should explain why the customer expectations cannot be met.

The goal of this phase is **to ensure the service being provided matches the customer's expectations.**

### ✓ **During the post-purchase phase**

Managing consumer expectations does not stop after the service is performed. Service firms have three strategies they can see after the service has been completed.

1. Companies should communicate with customers immediately after the service is completed to see if expectations were met.
2. Firms can use a follow-up programs (evaluation survey)
3. Companies should have a procedure for dealing with dissatisfied customer that will assist in managing future expectations.

The goal during this phase is twofold.

- To communicate with costumers to see if expectations were met
- To modify the service to increase the chances of repeat purchases



### Discussion Questions:

1. What is the difference between desired service and adequate service? Why would a services marketer need to understand both types of service expectations?
2. Consider a recent service purchase that you have made. Which of the factors influencing expectations were the most important in your decision? Why?
3. Should service marketers delight their customers?

## Chapter Four

### Customer perception

The objectives of this chapter are as follows:

- Provide students with definitions and understanding of customer satisfaction and service quality and of how these two types of customers' perceptions are related.
- Show that service encounters or the moments of truth are the building blocks of customer perception.
- Highlight strategies for managing customer perceptions of service

#### 4.1 Over view of Customer Perceptions and its definition

How customers perceive services, how they assess whether they have experienced quality service and whether they are satisfied are the subject of this chapter. *As we move through this chapter, keep in mind that perceptions are always considered relative to expectations.*

Customers perceive service in terms of *quality of the service* and *how satisfied they are overall with their experiences*. Companies today recognize that they can compete more effectively by distinguishing themselves with respect to *service quality* and *improved customer satisfaction*.

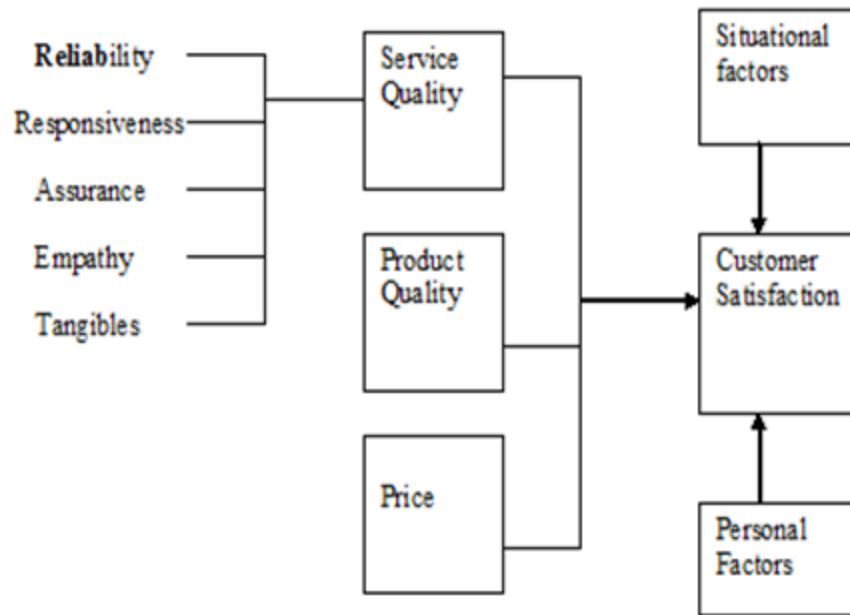
- ✓ *A consumer perception is defined as the process by which an individual selects, organizes, and interprets stimuli into a meaningful and Coherent picture of the world. A stimulus is any unit of input to any of the sense. Examples of stimuli (i.e sensory input) include products, packages, brand names, advertisements, and commercials (Leon and Leslie, 1997).*
- ✓ *Perceptions are defined in various ways; strydom, Jooste and Cant (2000) define customer perception as the process of receiving, organizing and assigning meaning to information of stimuli detected by the customer's five senses and opine that it gives meaning to the world that surrounds the customer. Perceptions are also described as the end result of a number of observations by the customer.*

##### 4.1.1 Satisfaction versus Service Quality

Practitioners and writers in the popular press tend to use the terms satisfaction and quality *interchangeably*, but researchers have attempted to be more precise about the meaning and measurement of the two concepts, resulting considerable debate.

Consensus is growing that the two concepts are fundamental different in terms of their *underlying causes* and *outcomes*. While they have certain things in common, satisfaction is generally viewed as broader concept while service quality assessment focuses specifically on dimensions of service. Based on this view, perceived service quality is a component of customer satisfaction.

As shown in the following figure 4.1, Service quality is a focused evaluation that reflects the customer's perception of specific dimensions of *service reliability, responsiveness, assurance, empathy, tangibles*. Satisfaction, on the other hand, is more inclusive: it is influenced by *perceptions of service quality, product quality and price as well as situational factors and personal factors*.



*Figure 4.1 Customer perception of quality and customer satisfaction*

#### 4.1.2. Internal and External Perceptions

When we refer to customer perceptions, we assume that the dimension of service and the ways in which customers evaluate service and are similar whether the customer is *internal* or *external* to the organization.

By external customer, we mean those individuals and businesses that buy goods and services from the organization. These are the people we usually think of when we use the word “*customer*”.

Internal customers are *employees* within the firm who, in their jobs, depend on others in the organization for internally provided goods and services.

When we refer to customers perceptions and how customers evaluate services, you can assume that both internal and external customers are included and that the definitions, strategies and approaches can apply to either group.

### 4.2 Customers Satisfaction

Building from previous definitions, Richard L. Oliver offers his own formal definition. Satisfaction is the consumer’s fulfillment response. It is a judgment that a producer or service feature or the product or service itself provides a pleasurable level of consumption-related fulfillment.

In less technical terms, we translate this definition to mean that *satisfaction is the customers’ evaluation of a product or service in terms of whether that product or service has met their needs and expectations*. Failure to meet needs and expectations is assumed to result in dissatisfaction with the product or service.

According to Kottler and Keller (2006), customer satisfaction is a person's feeling of pleasure or disappointment resulting from comparing a product's perceived performance (or outcome) in relation to his or her expectations.

***If the performance falls short of expectations, the customer is dissatisfied. If the performance matches the expectations, the customer is satisfied. If the performance exceeds expectations, the customer is highly satisfied or delighted.***

Customer *satisfaction will be influenced by specific product or service* features and by perceptions of quality as suggested by figure above. Satisfaction will also be influenced by *customers' emotional responses, their attributions, and their perceptions of equity.*

- ✓ ***Product and Service Features:*** Customer satisfaction with a product or service is influenced significantly by the customer's evaluation of product or service features. For a service such as a resort hotel, important features might include the pool area, access to golf facilities, restaurants, room comfort and privacy, helpfulness and courtesy of staff, room price and so forth.
- ✓ ***Consumer Emotions:*** Customers' emotions can also affect their perceptions of satisfaction with products and services. These emotions can be stable, pre-existing emotions- for example, mood state or life satisfaction. Think of times when you are happy mood and positive frame of mind has influenced how you feel about the servings may carry over in to how you respond to services, causing you to over-react or respond negatively to any little problem.
- ✓ ***Attributions for service success or Failure:*** Attributions, the perceived causes of events, influence perception of satisfaction as well. When they have been surprised by an outcome (the service is either much better or much worse than expected), consumers tend to look for the reasons and their assessments of the reasons can influence their satisfaction. For example, if a customer of a weight-loss organization fails to lose weight as hoped for, she will likely search for causes— was it something she did, was the diet plan ineffective, or did circumstances simply not allow her to follow the diet regiment— before determining her level of satisfaction or dissatisfaction with the weight-loss company. For many services, customers at least take partial responsibility for how things turn out.
- ✓ ***Perceptions of Equity or Fairness:*** Customer satisfaction is also influenced by perceptions of equity and fairness. Customers ask themselves: ***Have I been treated fairly compared with other customers?*** Did other customers get better treatment, better prices, or better quality service? Did I pay a fair price for the service? Was I treated well in exchange for what I paid and the effort I expended? Notions of fairness are central to customers' perceptions of satisfaction with products and services.

#### ***4.2.1 National customer Satisfaction Indexes***

Because of the importance of customers' satisfaction to firms and overall quality of life, many countries have a national index that measures and tracks customer satisfaction at a macro level. Many public policy makers believe that these measures could and should be used as tools for evaluating the health of the nation's economy, along with traditional measures of productivity and price.

## 4.2.2 Outcomes of Customer Satisfaction

Why all of this attention to customer satisfaction? Well, as mentioned earlier, some public policymakers believe that customer satisfaction is an important indicator of national economic health. They believe that it is not enough to track economic efficiency and pricing statistics.

Beyond these macroeconomic implications, however, individual firms have discovered that increasing Level of customer satisfaction can be linked to customer loyalty and profits. There is an important relationship between customer satisfaction and customer loyalty. They must aim to more than satisfy or even delight their customers. Many companies are spending more time and money understanding the underpinnings of customer satisfaction and ways that they can improve.

## 4.3. Service Quality

Next is service quality, a critical component of customer perceptions. In the case of pure services, service quality will be the dominant element in customer's evaluations. In cases where customers' services or services are offered in combination with a physical product, service quality may also be very critical in determining customer satisfaction. First, we discuss the distinctions between *process* and *technical* outcome quality; then we examine the five dimensions of service quality.

### 4.3.1 Process versus Technical Outcome Quality

Ultimately, consumers judge the quality of services on their perception of the technical outcome provided and on how that outcome was delivered. For example, a legal services client will judge the quality of the outcome or how the court case was resolved and also the quality of the process.

Process quality would include such things as the lawyer's timeliness, his responsiveness in returning phone calls, his empathy for the client, his courtesy and listening skills.

Similarly a restaurant customer will judge the service on her perceptions of the meal (technical outcome quality) and on how the meal was served and how the employees interacted with her (process quality).

The technical quality of the service—the actual competence of the provider or effectiveness of the outcome—is not easy for the customer to judge. The customer may never know for sure whether the service was performed correctly or even if it was needed in the first place.

When customers cannot accurately evaluate the technical quality of service, they form impressions of the service including its technical quality from whatever sources exist, using their own “shorthand” or cues that may not be apparent to the provider.

Cues such as the tangibles that accompany the service (computer graphics and other presentation materials) the professor's appearance of nervousness, the degree of confidence communicated or even whether the professor starts and ends class on time are used to infer competence. Understanding the cues used to signal the presence or absence of technical quality allows professors and other marketers some control over their customers' impressions.

### 4.3.2 Service Quality Dimensions

Exploratory research by Parasuraman, Zeithaml, and Berry (1985) revealed that the criteria used by consumers for assessing service quality are 10 potentially overlapping dimensions.

These dimensions were tangibility, reliability, responsiveness, communication, credibility, security, competency, courtesy, understanding/knowing the customer, and access.

These ten dimensions and their descriptions serve as the basic structure of the service-quality domain from which five items were derived for the current SERVQUAL scale.

Parasuraman, Zeithaml and Berry (1988) identified five principal dimensions that customers use to evaluate service quality. These are: **Reliability**, **Responsive**, **Assurance**, **Empathy**, and **Tangibles** as shown earlier and defined here:

- Reliability: Ability to perform the promised service dependably and accurately.
- Responsiveness: Willingness to help customers and provide prompt service.
- Assurance: Employees' knowledge and courtesy and their ability to inspire trust and confidence.
- Empathy: Caring, individualized attention given to customers.
- Tangibles: Appearance of physical facilities, equipment, personnel and written materials.

These five dimensions were found relevant for baking, insurance, appliance repair and maintenance, securities brokerage, long-distance telephone service, automobile repair service, and others.

### 4.3.3 Model of Service Quality Gaps

*There are seven major gaps in the service quality concept*

**Gap1: Customers' expectations versus management perceptions:** as a result of the *lack of a marketing research orientation, inadequate upward communication* and *too many layers of management*.

**Gap2: Management perceptions versus service specifications:** as a result of *inadequate commitment to service quality, a perception of unfeasibility, inadequate task standardization* and *an absence of goal setting*.

**Gap3: Service specifications versus service delivery:** as a result of *role ambiguity and conflict, poor employee-job fit and poor technology-job fit, inappropriate supervisory control systems, lack of perceived control* and *lack of teamwork*.

**Gap4: Service delivery versus external communication:** as a result of *inadequate horizontal communications* and *propensity to over-promise*.

**Gap5: The discrepancy between customer expectations and their perceptions of the service delivered:** as a result of *the influences exerted from the customer side and the shortfalls (gaps) on the part of the service provider*. In this case, customer expectations are influenced by the *extent of personal needs, word of mouth recommendation* and *past service experiences*.

**Gap6: The discrepancy between customer expectations and employees' perceptions:** as a result of *the differences in the understanding of customer expectations by front-line service providers.*

**Gap7: The discrepancy between employee's perceptions and management perceptions:** as a result of *the differences in the understanding of customer expectations between managers and service providers.*

#### 4.4 Building Blocks of Satisfaction and Service Quality

What have been termed the “building blocks of satisfaction and service quality-namely, service encounters or the “moment of truth.” **The service encounter or the moment of truth is what we termed interactive marketing in the triangle that is seen in chapter one.** It is where promises are kept or broken, **sometimes called “real-time marketing”.** It is from these service encounters that customers build their perceptions.

##### 4.4.1 Service encounter and “moments of Truth”

From customer's point of view, the most vivid impression of service occurs in the service encounter, or the “moment of truth”, **when the customer interacts with the service firm.** For example, among the service encounters a hotel customer experiences are checking in to the hotel, eating a restaurant meal..... Among the service encounters that a business-to-business customer experiences **in purchase and use of a piece of equipment are sales contact, delivery, installation,** billing, and servicing.

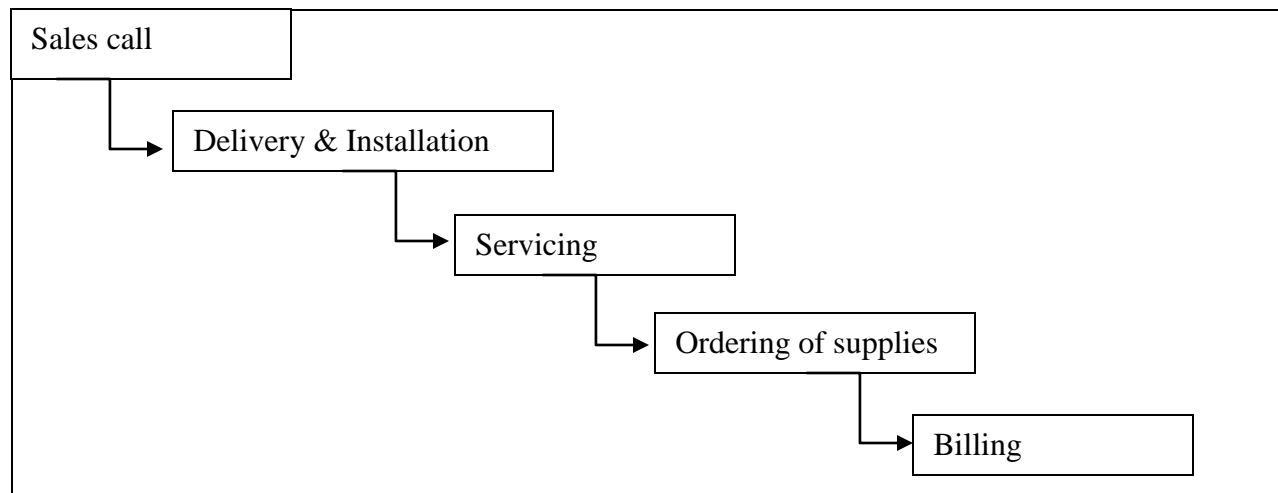
It is in these encounters that **customers receive a snapshot of the organization's service quality** and each encounter contributes to the customer's overall satisfaction and willingness to do business with the organization again. From the organization's point of view, each encounter thus presents an **opportunity to prove its potential as a quality service provider and to increase customers' loyalty.**

Some services have few service encounters and others have many. Mistakes or problems that occur in the early levels of the service cascade are particularly critical, because a failure at one point results in greater risk for dissatisfaction at each ensuing level.

##### 4.4.2. Importance of encounters

While early events in the encounter cascade are likely to be especially important, any encounter can potentially be critical in determining customers' satisfaction and loyalty. For example, the following figure is presented to show the cascade for an individual purchase





**Figure 4.2: Showing encounter cascade for an industrial purchase**

If customer is interacting with a firm for the first time, that initial encounter will create a first impression of the organization.

Even when the customers have had multiple interactions with a firm, each individual encounter is important in creating a composite image of the firm in the customer's memory. Many positive experiences add up to a composite/compound image of high quality, while many negative interactions will have the opposite effect.

On the other hand, a combination of positive and negative interactions will leave the customer feeling unsure of the firm's quality, doubtful of its consistency in service delivery, and vulnerable to appeals of competitors.

#### **4.4.3 Types of Service Encounters**

There are three general types of service encounters: remote encounters, phone encounters, and face-to-face encounters.

- First, encounters can occur without any direct human contact (**remote encounters**), such as when a customer interacts with a bank through the ATM system, buying ticket through automated machine, or with a mail-order service through automated dial-in ordering. Remote encounters also occur when the firm sends its billing statements or communicates other types of information to customers by mail.
- **Phone encounter:** in many organizations (e.g. insurance companies, utilities, telecommunications), the most frequent type of encounter between and end customer and the firm occurs over the telephone (phone encounters). Almost all firms (whether goods manufacturers or service businesses) rely on phone encounters in the form of customs-service, general inquiry, or order-taking functions. The judgment of quality in phone encounters is different from remote encounters because there is greater potential variability in the interaction. Tone of voice, employee knowledge, and effectiveness/ efficiency in handling customer issues become important criteria for judging quality in these encounters.



- A third type of encounter is the one that occurs between and employee and a customer in direct contact (**face-to face encounters**).

Determining and understanding service quality issues in face-to-face contexts is the most *complex* of all. Both *verbal* and *nonverbal* behaviors are important determinants of quality, as are *tangible cues such as employee dress* and *other symbols of service* (e.g. equipment, informational brochures, physical setting). In face-to-face encounters the customer also plays a role in creating quality service for herself through her own behaviors during the interaction.

#### 4.4.4 Sources of Pleasure and Displeasure in Service Encounters

Researchers have extensively analyzed service encounters in many contexts **to determine the sources of customers' favorable and unfavorable** perceptions. The research uses the critical incident technique to get customers and employees to provide verbatim stories about satisfying and dissatisfying service encounters they have experienced. With this technique, customers (either internal or external) are asked the following questions.

- When did the incident happen?
- What specific circumstances led up to this situation?
- Exactly what did the employee (or firm) say or do?
- What resulted that made you feel the interaction was satisfying (or dissatisfying)?
- What could or should have been done differently?

Try to see your firms through your customers' eyes. Now think of a recent time when a customer or your firm had a particularly satisfying/unsatisfying interaction with you or a fellow employee". The stories are then analyzed to determine common themes-*recovery (after failure)*, *adaptability*, *spontaneity*, and *coping*-have been identified as the sources for customers.

1. **Recovery** –Employee Response to Service Delivery System failures:
2. Adaptable service delivery system is when the customer has special needs or requests that place demands on the process. In these cases, **customers judge service encounter quality in terms of the flexibility** of the employees and the system. Incidents categorized within this theme all contain an implicit or explicit request for customization of the service to meet a need.
3. **Spontaneity-Unprompted and Unsolicited Employee Actions:** Even when there is no system failure and no special request or need, customers can still remember service encounters as being very satisfying or very dissatisfying.
4. **Coping-Employee Response to problem Customers:** The incidents categorized in this group came to light when employees were asked to describe service encounter incidents in which customers were either very satisfied or dissatisfied.

#### 4.4.5 General Service Behaviors

The following table summarizes the specific behaviors that cause satisfaction and dissatisfaction in service encounters according to the four themes just presented.

**Table 4.1: Positive and negative behaviors**

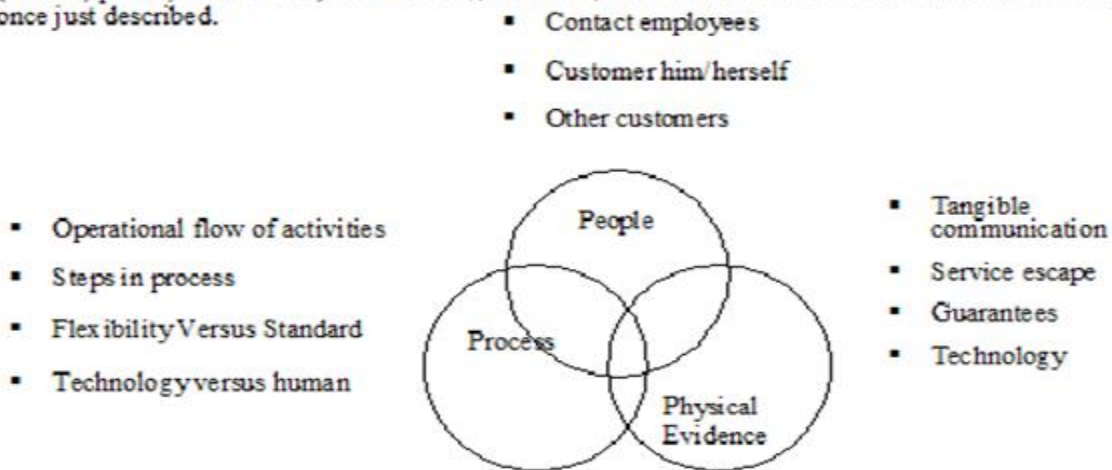
Name	Do's	Don'ts
Recovery	Acknowledge problem	Ignore customer
	Explain cause	Blame Customer
	Apologize	Downgrade
	Compensate/Upgrade	Act as if nothing is wrong
	Layout options	Pass the back
	Take responsibility	
Adaptability	Recognize the seriousness of the need	Ignore
	Acknowledge	Promise, but fail to follow through
	Anticipate	Show unwillingness to try
	Attempt to accommodate	Embarrass the customer
	Adjust the system	Laugh at the customer
	Explain rules/policies	Avoid responsibility
	Take responsibility	Pass the back
Spontaneity	Take time	Exhibit impatience
	Be attentive	Ignore
	Anticipate needs	Steal from customers
	Listen	Discriminate
	Provide information	
	Show empathy	
Coping	Listen	Take customers dissatisfaction personally
	Try to accommodate	Let customers dissatisfaction affect others
	Let go of the customer	
	Explain	

**4.4.6 Evidence of service**

The new mix elements essentially are the evidence of service in each moment of truth.

The three types of evidence may be differentially important depending on the type of service encounter (remote, phone, face-to-face). All three types will operate in face to face service encounters as in the once just described.

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**Figure 4.3: The evidence of service (from the customers point of view) source, Managing the evidence of service “by Mary Jo Bitner from the sservice Quality, 1993**

## 4.5. Strategies for Influencing Customer Perceptions

Management strategies used to influence perceptions of service delivery are:

- ✓ **Measure and manage customer satisfaction and service quality:** Customer satisfaction measurements are needed *to track trends, to diagnose problems, and to link to other customers-focused strategies.*
- ✓ **Aim for Service Quality and Customer Satisfaction in Every Service Encounter:** Because every service encounter is potentially critical to *customer retention*, many firms aim for “zero defects,” or 100% satisfaction. To achieve this requires first, clear documentation of all of the points of contact between the organization and its customers. Each of the four themes underlying satisfaction/ dissatisfaction in service encounters presented earlier-*recovery, adaptability, spontaneity, and coping*-suggests specific types of actions that would aid an organization aiming for zero defects.
  - **Plan for Effective Recovery:** When service customers have been disappointed on the first try, “doing it very right the second time “is essential to maintaining customers’ loyalty.
  - **Facilitate Adaptability and Flexibility:** Customer perceptions of organizational adaptability and flexibility also create feelings of satisfaction or dissatisfaction in service encounters
  - **Encourage Spontaneity:** Memorable encounters occur for customers even when there is no system failure and no special request. While employee behaviors with in this third theme would appear to be somewhat random and relatively uncontrollable, there are things that organizations can do to encourage positive spontaneous behaviors and discourage negative behaviors.
  - **Help Employees Cope with Problem Customers:** Several management strategies are suggested by this last theme. First, managers and customers need to acknowledge that the customer isn’t always right nor will she always behave in acceptable ways. Contact employees are not given the **appropriate training and tools to deal with problem customers**. Employees need appropriate coping and problem-solving skills to handle difficult customers as well as their own feelings in such situations. Another implication is the need for “training customers” so that they will know what to expect and know the appropriate behaviors in given situations.
  - **Manage the Dimensions of Quality at the Encounter Level:** While the five dimensions of service quality-*reliability, responsiveness, assurance, empathy, and tangibles*-are generally applied to the overall quality of the firm, it is certainly possible to relate them to each individual encounter.

- ✓ **Manage the Evidence of service to reinforce perceptions:** The evidence of service *people*, *process*, and *physical evidence*-shown in the above figure provides a framework for planning marketing strategies that address the expanded marketing mix elements for service.

### Discussion Questions:

1. What is customer satisfaction, and why is it so important? Discuss how customer satisfaction can be influenced by each of the following: product attributes and features, customer emotions, attributions for success or failure, perceptions of fairness, and family members or other customers.
2. List and define the five dimensions of service quality.
3. Describe a remote encounter, a telephone encounter and a face to-face encounter that you have had recently. In each case, how did you evaluate the encounter and what were the most important factors determining your satisfaction/dissatisfaction?
4. Consider a service and explain how satisfaction with this service could be influenced by the reactions and opinions of other people.

## Chapter five

### Customer Relationships

**The objective of this chapter: At the end of this chapter students will be able to:**

- Explain relationship marketing, its goals and the benefits of long-term relationships for firms and customers.
- Explain why and how to estimate customer lifetime value.
- Specify the foundations for successful relationship marketing, namely quality core service and careful market segmentation Understand successful customer retention strategies

#### 5.1 Relationships Marketing

There has been a shift from a transaction to a relationship focus in marketing. Customers become partners and the firm must make long-term commitments to maintaining those relationships with quality, service and innovation.

Relationship marketing essentially represents a paradigm shift within marketing always from acquisitions/transaction focus toward a retention/relationship focus. Relationship marketing and relationship management is interchangeable name.

It is a philosophy of doing business, a strategic orientation that focuses on keeping and improving current customers, rather than on acquiring new customers. This philosophy assumes that consumers prefer to have an ongoing relationship with one organization than to switch continually among providers in their search for value. Successful marketers are working on effective strategies for retaining customers.

The bucket theory illustrates why a relationship strategy that focuses on plugging the holes in the bucket makes so much sense. Historically, marketers have been more concerned with acquisition of customers, so a shift to a relationship strategy often represents changes in mind set, organizational culture and employee reward systems. For example, the sales incentive systems in many organizations are set up to reward bringing in new customers rather than the existing customers.

#### ***Goals of Relationship Marketing***

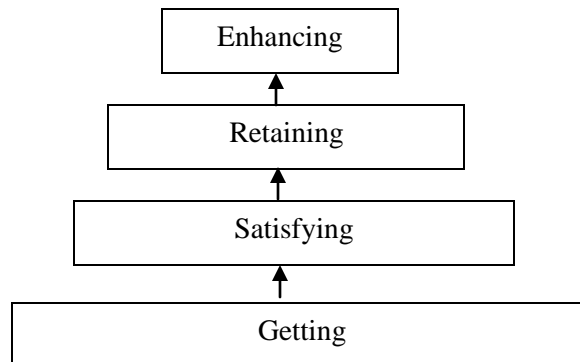
The primary goal of relationship marketing is to build and maintain a base of committed customers who are profitable for the organization. To achieve this goal, ***the firm will focus on the attraction, retention and enhancement of customer relationship***. First, the firm will seek to attract customers who are likely to become long-term relationship customers.

As the number of these relationships grow, the loyal customers themselves will frequently help to attract (through word of mouth) new customers with similar relationship potential. Once they are attracted to begin a relationship with the company, customers will be more likely to stay in the relationship when they are consistently provided with quality products and services and good value over time. They are less likely to be pulled away by competitors if they feel the company

understands their changing needs and seems willing to invest in the relationship constantly improving and evolving its product and service mix.

Finally, the goal of customer enhancement suggests that loyal customers can be even better customers if they buy more products and services from the company over time. Loyal customers not only provide a solid base for the organization, they may represent growth potential.

**Fig. 5.1 Customer goals of Relationship Marketing: getting customers, satisfying customers, retaining customers and enhancing customers.**



### **5.1.1. Benefits of Customer/ firm Relations**

Both parties in the customer/firm relationship can benefit from customer retention. That it is not only in the best interest of the organization to build and maintain a loyal customer base, but customers themselves also benefit from long-term associations.

#### **A. Benefits for customers:**

Assuming they have choice, customers will remain loyal to a firm when they receive greater value relative to what they expect from competing firms. Perceived value is the consumer's overall assessment of the utility of a product based on perceptions of what is received and what is given. Value represents a trade-off for the consumer between the "give" and the "get" components.

Consumers are more likely to stay in a relationship when the (quality, satisfaction, specific benefits) benefits exceed the given (monetary and non monetary) costs. When firms can consistently deliver value from the customer's point of view, clearly the customer benefits and has an incentive to stay in the relationship.

Beyond the specific inherent benefits of receiving service value, customers also benefit in other ways from long-term associations with firms. Sometimes it is these relationship benefits that keep customers loyal to a firm more than the attributes of the core service. For example, someone may choose to stick with his/her current bank even when he/her learn of an attractive offer at a competing bank because he/she:

- Feels comfortable in the relationship
- Knows what to expect

- Has a good working relationship with his/her personal banker, and
- Knows he/she will be taken care of even if he/she has an unusual request.

Research has uncovered specific types of relational benefits of the sort just described that customers experience in long-term service relationships including *confidence benefits*, *social benefits* and *special treatment benefits*.

**i. Confidence Benefits:-**

These benefits comprise feelings of trust or confidence in the provider, along with a sense of reduced anxiety and comfort in knowing what to expect. Across all the services studied in the research just cited, confidence benefits were the most important to customer.

- If the service provider knows us, knows our preferences and has tailored services to suit our needs over time, then changing providers would mean educating a new provider on all of these factors.
- The costs of switching are frequently high in terms of both dollar costs of transferring business and the psychological and time-related costs.
- In fact, one of the stressful and unsettling aspects of relocating to a new geographic area is the need to establish new relationship with service providers such as banks, schools, retailers, doctors, and hairdressers.

**ii. Social Benefits**

Over time, customers develop a sense of familiarity and even a social relationship with their service providers. These ties make it less likely that they will switch, even if they learn about a competitor that might have better quality or a lower price.

**iii. Special Treatment Benefits**

It includes things as getting the benefit of the doubt, being given a special deal or price, getting preferential treatment.

**B. Benefits for the Organization**

The benefits to an organization of maintaining and developing a loyal customer's base are numerous. They can be linked directly to the firm's bottom line.

**i. Increasing Purchases.**

As consumers get to know a firm and are satisfied with the quality of its services relative to that of its competitors, they will tend to give more of their business to the firm. And as customers mature in terms of age, life cycle, growth of business, they frequently require more of a particular service.

**ii. Lower Costs.**

There are many startup costs associated with attracting new customers. They include advertising and other promotion costs, operating cost of setting up accounts and systems and time costs of getting to know the customer. Sometimes these initial costs can outweigh the revenue expected from the new customer in the short term.



Even ongoing relationship maintenance costs are likely to drop over time. For example, early in a relationship a customer is likely to have questions and to encounter problems as he or she learns to use the service. Once learning has taken place the customer will have fewer problems and questions and the service provider will incur fewer costs in serving the customer.

**iii. Free Advertising through word of mouth.**

When a product is complex and difficult to evaluate, and there is risk involved in the decision to buy it—as is the case with many services—customers most often look to others for advice on which providers to consider.

Satisfied, loyal customers are likely to provide a firm with strong word-of-mouth endorsements. This form of advertising can be more effective than any paid advertising the firm might use, and has the added benefit of reducing the costs of attracting new customers.

**iv. Employee Retention.**

An indirect benefit of customer retention is employee retention. It is easier for a firm to retain employees when it has a stable base of satisfied customers. People like to work for companies whose customers are happy and loyal.

Their jobs are more satisfying and they are able to spend more of their time fostering a relationship than scrambling for new customers. In turn, customers are more satisfied and become even better customers—a positive upward spiral. Because employees stay with the firm longer, service quality improves and costs of turnover are reduced, adding further to profits.

## **5.2. Life time Value of a Customer**

Lifetime value of a customer is a concept or calculation that looks at customers from the point of view of their lifetime revenue and profitability contributions to a company. This type of calculations obviously needed when companies start thinking of building long-term relationships with their customer.

### **Factors that influence lifetime value**

The lifetime value of a customer is influenced by the length of an average “lifetime”, the average revenues generated per relevant time period over the lifetime, Sales of additional products and service over time and referrers generated by the customer over time.

Lifetime value sometimes refers to lifetime revenue stream only; other times, when costs are considered, lifetime value may truly mean ‘lifetime profitability.’”

## **5.3. Foundation for Relationship Strategies**

In this section, the foundations needed to begin focusing on retention strategies:

- a. Quality offered in the core service
- b. Careful market segmentation and targeting and
- c. Continuous monitoring of relationships.



### ***a. Quality in the core Service***

- Retention strategies will have little long-term success unless there is a solid base of service quality and customer satisfaction to build on.
- It must be competitive, however, and frequently better than that.
- It's not good to attempt retention strategies of inferior services.

### ***b. Careful Market Segmentation and Targeting***

A second basic foundation of relationship marketing is market segmentation-learning and defining who the organization wants to have relationships with.

#### ***Process for Market Segmentation and Targeting in Services***

Many aspects of segmentation and targeting for services are the same as those for manufactured goods.

These are:

- Identifying bases for segment the market,
- developing profiles of resulting segment,
- develop measures of segment attractiveness,
- select the target segment, and
- Ensure that segments are compatible.

The most powerful differences involve the need for compatibility in market segments. Because other customers are often present when a service is delivered, service providers must recognize the need to choose compatible segments or to ensure that incompatible segments are not receiving service at the same time.

A second difference between goods and service is that service providers have a far greater ability to customize service offerings in real time than manufacturing firms have.

### ***c. Monitoring Relationships***

A thorough means of monitoring and evaluating relationship quality over time is another foundation for relationship marketing.

Basic market research in the form of annual customer relationship surveys can be the foundation for such a monitoring strategy. Current customers should be surveyed to determine their perceptions of value received, quality, satisfaction with services and satisfaction with the provider relative to competitors.

The organization will also regularly communicate with its best customers in person or over the telephone. In a competitive market it is difficult to retain customers unless they are receiving a base level of quality and value.

A well-designed customer database is also critical. Knowing who the organization's current customers are, what their buying behavior is, the revenue they generate, the related cost to serve them, their preference and relevant segmentation information (e.g. demographics, lifestyle, usage

patterns) forms the foundation of a customer database. In cases of customer leaving the organization, information on termination would also exist in the database.

## 5.4. Retention Strategies

Leonard Berry and A. Parasuraman have developed a framework for understanding types of retention strategies. The framework suggests that retention marketing can occur at different levels and that each successive level of strategy results in ties that bind the customer a little closer to the firm. At each successive level, the potential for sustained competitive advantage is also increased Building on the levels of the retention strategy idea, which are discussed in the following section.

### 5.4.1. Level one-Financial Bonds

At level one, the customer is tied to the firm primarily through financial incentives lower prices for greater volume purchases or lower prices for customers who have been with the firm a long time. Unfortunately, financial incentive do not generally provide long-term advantages to a firm since, unless combined with another relationship strategy, they don't serve to differentiate the firm from its competitors in the long run.

Other types of retention strategies that depend primarily on financial rewards are focused on bundling and cross selling of services. In other cases, firms aim to retain their customers by simply offering their most loyal customers the assurance of stable prices or at least lower price increases than those paid by new customers. In this way, they are rewarding their loyal customers by sharing with them some of the cost savings and increased revenue the firm received through serving them over time.

### 5.4.2 Level two- Social Bonds

Level two strategies bind customers to the firm through more than financial incentive. While price is still assumed to be important, level two retention marketers build long term relationships through social and interpersonal as well as financial bonds. Customers are viewed as "Clients," not nameless faces and become individuals whose needs and wants the firm seeks to understand. Services are customized to fit individual needs and marketers find ways of staying in touch with their customers, thereby developing social bonds with them. I.e.:

- Providing personal touches like cards and gifts and sharing personal information with clients all served to increase the likelihood that the client would stay with the firm.
- Recognizing the value of continuous relationships in building loyalty.
- Relationships that are formed with the organization due to the social bonds that develops among customers rather than between customers and the provider of the services.
- In the absence of strong reasons to shift to another provider, interpersonal bonds can encourage customers to stay in a relationship. In combination with financial incentive, social bonging strategies may be very effective.

### **5.4.3. Level Three- customization bonds**

Level three strategies involve more than social ties and financial incentive, although there are commonly elements of level one and two strategies encompassed within a customizations strategy and vice versa.

Two commonly used terms fit within the customization bonds approach: mass customization and customer intimacy. Both of these strategies suggest that customer loyalty can be encouraged through intimate knowledge of individual customers and through the development of “one-to-one” solutions that fit the individual customers’ needs.

Mass customization has been defined as “the use of flexible processes and organizational structures to produce varied and often individually customized products and services at the price of standardized, mass-produced alternatives”. Mass customization does not mean providing customers with endless solutions or choices that only make them work harder for what they want; rather, it means providing them through little effort on their part with tailored services to fit their individual needs.

### **5.4.4. Level Four- Structural bonds**

Level four strategies are the most difficult to imitate and involve structural as well as financial, social and customization bonds between the customer and the firm. Structural bonds are created by providing services to the client that are frequently designed right into the service delivery system for that client. Often structural bonds are created by providing customized services to the client that are technology based and serve to make the customer more productive.

### **5.4.5 Customer Appreciation**

We end our retention strategies discussion with an obvious, but often neglected, way to retain customers: showing appreciation for their business. By first providing the services as promised, and then thanking the customer for the business, firms can go long way toward retaining individual customers, Especially in business-to-business situations, customers would like their suppliers to extend appreciation either in person or over the phone and not just take their business for granted. Letters addressed to “Dear Valued Customer: are not really the answers, especially for the origination’s best customers. Such an impersonal; approach may well communicate exactly the opposite of what was intended. Instead, a personal letter or a personal phone call will have greater impact.

### **Discussion Questions:**

1. Discuss how relationship marketing or retention marketing is different from the traditional emphasis in marketing.
2. Think about a service organization that retains you as a loyal customer. Why are you loyal to this provider? What are the benefits to you of staying loyal and not switching to another provider? What would it take for you to switch?
3. Describe the four levels of retention strategies, and give examples of each type. Again, think of a service organization to which you are loyal. Can you describe the reason(s) you are loyal in terms of the different levels? In other words, what ties you to the organization?

4. With regard to the same service organization, what are the benefits to the organization of keeping you as a customer?
5. Describe the four levels of retention strategies, and give examples of each type. Again, think of a service organization to which you are loyal. Can you describe the reason(s) you are loyal in terms of the different levels? In other words, what ties you to the organization?

## CHAPTER SIX

### Complaint Handling and Service Recovery

**Objectives of the chapter: At the end of this chapter students will be able:**

- Understand the courses of action that are opened to dissatisfied consumer
- Explain the factors that influence complaining behavior
- Understand how managers design a service recovery system
- Know the techniques for identifying the root cause for specific problems
- Know the offers of service guarantees

#### 6.1 Consumer Complaining Behavior

- Chances are that you're not entirely satisfied with the quality of at least some of the services that you use.
- How do you respond when you have been disappointed?
- Do you complain informally to an employee, ask to speak to the manager, file a complaint with the head office of the firm that let you down, write to some regulatory authority, or telephone a consumer advocacy group or
- Do you just grumble/complain to your friends and family, mutter darkly to yourself, and take your business elsewhere next time you need that type of service?
- If you don't normally tell a company (or outside agency) of your displeasure with unsatisfactory service or faulty goods, then you're not alone.
- Research around the world has exposed the sad fact that most people do not complain.

##### 6.1.1 Customer Response to Service Failures

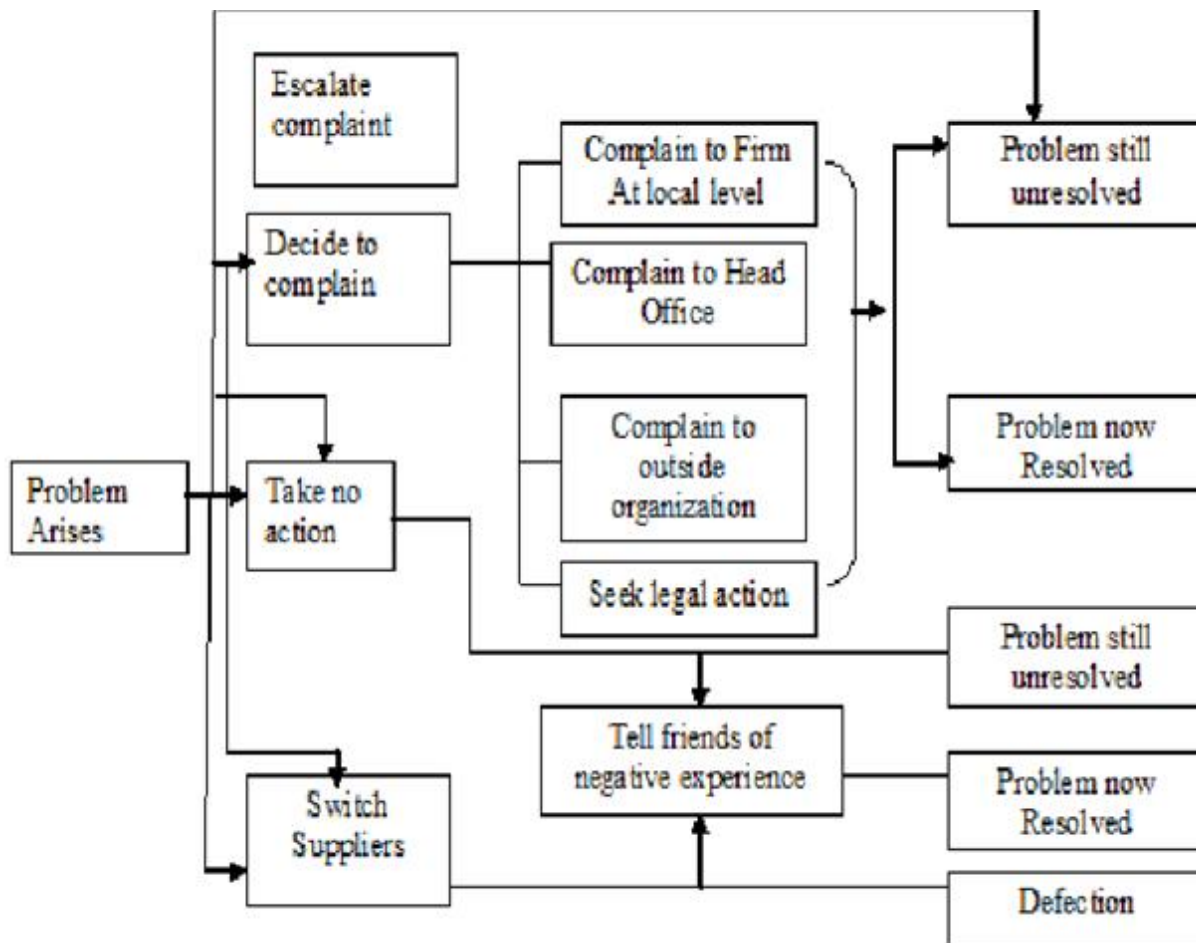
What options are open to customers when they experience a service failure?

Figure 6.1 depicts the courses of action available. This model suggests at least four major courses of action:

- Do nothing.
- Complain in some form to the service firm.
- Take action through a third party (consumer advocacy group, consumer affairs or regulatory agencies, and civil or criminal courts).
- Abandon this supplier and discourage other people from using the service (negative word of mouth).

Following through the sequence of possible reactions, we can see a variety of end results, leaving the customer anything from furious/upset to delight. The risk of defection is high, especially when there are a variety of competing alternatives available.

Managers need to be aware that the impact of a defection can go far beyond the loss of that person's future revenue stream. Angry customers often tell many other people about their problems. The web has made life more difficult for companies that provide poor service, because unhappy customers can now reach thousands of people by posting complaints on bulletin boards or setting up web sites to publicize their bad experiences with specific organizations.



*Figure 6.1: Courses of action open to dissatisfied customer*

### 6.1.2. The TARP Study of Consumer Complaint Handling

The Technical Assistance Research Programs Institute (TARP) has studied consumer complaint handling in many countries. In 1986, it published a landmark study based on its own research and a detailed review of other studies from around the world. Its findings, which were widely publicized, promoted many managers to consider the impact of dissatisfied customers especially those who never complains but simply defected to a competitor. Let's take a closer look at some specific findings.

**What percent of problem Are Reported?** From its own research and detailed literature studies, TARP found that when U.S. customers experienced problems concerning manufactured consumer product, only 25 to 30 percent of them actually complained etc.....

**Where Do People Complain?** Studies show that the majority of complaints are made at the place where the product was bought or the service received. Very few dissatisfied consumers complain directly to the manufacturers or to the head office etc.....

**Who is most likely to complain?** In general research findings suggest that consumers from high income households are more likely to complain than those from lower-income ones and that younger people are more likely to complain than older ones. People who complain also tend to be more knowledgeable about the products in question and the procedures for complaining etc....

### **Why Don't Customers Complain?**

TARP found three primary reasons why dissatisfied customers do not complain.

- They didn't think it was worth the time or effort.
- They decided no one would be concerned about their problem or resolving it
- They did not know where to go or what to do
- Another reason why people don't complain reflects culture or context.

**Impact on Repurchase Intentions:** When complaints are satisfactorily resolved, there's a much better chance that the customers involved will remain brand loyal and continue to repurchase the items in question.

### **6.1.3 Factors Influencing Complaining Behavior**

When consumers have an unsatisfactory service encounter, their initial (often unconscious) reaction is to assess what is at stake. In general, studies of consumer complaining behavior have identified two main purposes for complaining.

First, consumers will complain to recover some economic loss, seeking either to get a refund or to have the service performed again (e.g., car repairs and dry cleaning services). They may take legal action if the problem remains unresolved.

A second reason for complaining is to rebuild self-esteem. When service employees are rude, aggressive, deliberately intimidating or apparently uncaring (such as when a sales assistant is discussing the weekend social activities with colleagues and pointedly ignores waiting customers), the customers' self-esteem, self-worth or sense of fairness may be negatively affected. They may feel that they should be treated with more respect.

There are perceived costs to complaining. These may include:

- the **monetary cost** of a stamp or phone call,
- **time and effort** in writing a detailed letter or making a verbal complaint, and
- The **psychological cost** of risking an unpleasant personal confrontation with a service provider especially if this involves someone whom the customer knows and may have to deal with again such costs may well deter a dissatisfied customer from complaining

Complaining represents a form of social interaction and is therefore likely to be *influenced by role perceptions and social norms*. One study found that for services **where customers have "low power"** (defined as the perceived ability to influence or control the transaction), they are less likely to voice complaints.

Professional service providers, such as doctors, dentists, lawyers, and architects, are a good example. **Social norms tend to discourage customer criticism of such individuals**, who are



seen as experts about the service being offered. A clear implication is that professionals need to develop comfortable ways for customers to express legitimate complaints.

#### **6.1.4 Complaints as Market Research Data**

Responsive service organizations look at complaints as a stream of information that can be used to help monitor productivity and quality and highlight improvements needed to improve service design and execution.

Complaints about slow service or bureaucratic procedures for instance, may provide useful documentation of inefficient and unproductive processes, For complaints to be useful as research input, they should be funneled into a central collection point, recorded, categorized and analyzed compiling this documentation requires a system for capturing complaints wherever they are made- without hindering timely resolution of each specific problem- and transmitting them to a central of all customer complaints received by a service provider). Coordinating such activities is not a simple matter because there are many different entry points, including:

- The firm's own employees at the front line .who may be in contact with **customers face –to-face or by telecommunications**
- **Intermediary organizations acting** on behalf of the original supplier
- Managers who normally work backstage but who are contacted by a customer seeking higher authority
- Suggestion or complaint cards mailed or placed or placed in a special box
- Complaints to third parties – consumer advocate groups, legislative agencies, trade organizations and other customers

The most useful roles for centralized complaint logs/record are:

- To **provide a basis for follow-up** and tracking all complaints to see that they have in fact been resolved,
- To serve **as an early warning indicator** of perceived deterioration in one or more aspects of service, and
- **To indicate topics and issues** that may require more detailed research.

A skilled interviewer can solicit valuable information by asking customers questions such as

- Can you tell me why do you feel this way?
- Who (or what) caused this situation?
- How did customer contact employees respond?
- What action would you like to see the firm take to prevent a recurrence of such a situation?

#### **6.1.5 Making it easier for customers to complain**

How can managers make it easier for unhappy customers to complain about service failures? Many companies have improved their complaint collection procedures:

- By adding special toll/fee free phone lines,



- Prominently displayed customer comment cards and video or computer terminals for recording complaints. Some go even further,
- Training their staff to ask customers if everything is satisfactory and to intervene if a customer is obviously discontented of course just collecting complaints doesn't necessarily help resolve them.

## 6.2. Impact of Service Recovery Efforts on Customer Loyalty

TARP argues that complaint handling should **be seen as a profit center**, not a center and has even created a formula to help companies relate the value of retaining a profitable customer to the overall costs of running an effective complaint handling unit.

Efforts to design service recovery procedures must take into account a firm's specific environment and the types of problems that customers are likely to encounter.

### 6.2.1 Service Recovery Following Customer Complaints

Service recovery is an umbrella term for systematic efforts by a firm to correct a problem following a service failure and to retain a customer's goodwill. Service recovery efforts play a crucial role in achieving (or restoring) customer satisfaction. In every organization, things may occur that have a negative impact on its relationships with customers

Effective service recovery requires thoughtful procedures for resolving problems and handling disgruntled customers. It is critical for firms to have effective recovery strategies, because even a single service problem can destroy a customer's confidence in a firm under the following conditions:

- The failure is totally outrageous/offensive (for instance, blatant dishonesty on the part of the supplier).
- The problem fits a pattern of failure rather than being an isolated incident.
- The recovery efforts are weak, serving to compound the original problem rather than correct it

The real difficulty for employees is that they often lack the authority and the tools to resolve. Customer problems, especially when it comes to arranging alternatives at the company's expense or authorizing compensation on the spot. When complaints are made after the fact, the options for recovery are more limited. In this case, the firm can apologize, repeat the service to achieve the desired solution or offer some other form of compensation.

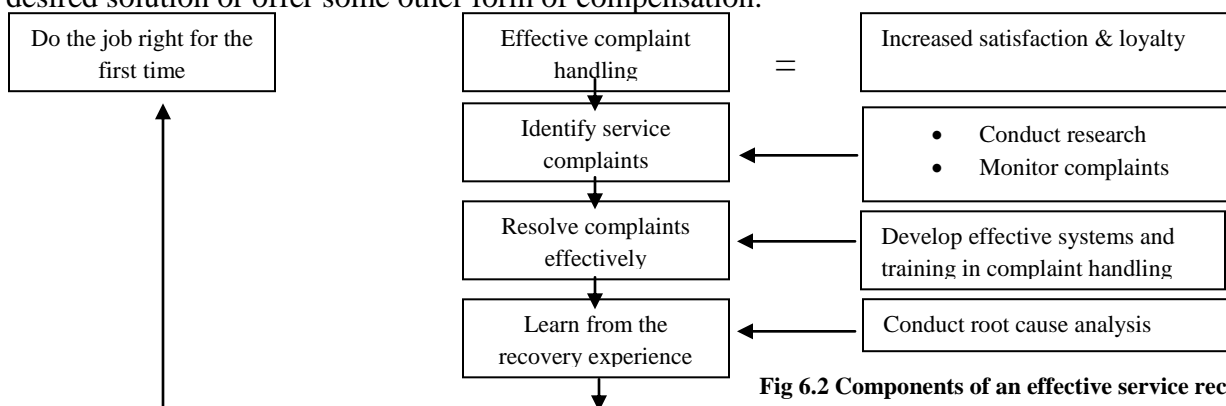


Fig 6.2 Components of an effective service recovery

## 6.2.2 Principles of Effective Problem Resolution for Service Failure

Recovering from service failures takes more than just pious/dedicated expressions of determination to resolve any problems that may occur. It requires commitment, planning and clear guidelines. Both managers and front-line employees must be prepared to deal with angry customers who are confrontational and sometime behave in insulting ways toward service personnel who aren't at fault in any way. Service efforts should be flexible, and employees should be empowered to use their judgment and communication skills to develop solutions that will satisfy complaining customers.

The guidelines for effective problem resolution presented here below are based on discussions with executives in many different industries. Of course, the service recovery process for a particular firm must take into account its specific environment and the types of problems that its customers are likely to encounter.

### Guidelines for Effective Problem Resolution

1. ***Act fast:*** if the complaint is made during service delivery, then time is of the essence to achieve a full recovery. When complaints are made after the fact, many companies have established policies of responding within 24 hours or sooner.
2. ***Admit mistake but don't be defensive:*** Acting defensively may suggest that the organization has something to hide or is reluctant to fully explore the situation.
3. ***Show that you understand the problem from each customer's point of view:*** Seeing situations through the customers' eyes is the only way to understand what they think has gone wrong and why they are upset. Service personnel should avoid jumping to conclusions with their own interpretations.
4. ***Don't argue with customers:*** The goal should be to gather facts to reach a mutually acceptable solution, not to win a debate or prove that the customer is an idiot. Arguing gets in the way of listening and seldom diffuses anger.
5. ***Acknowledge the customer's feelings, either tacitly or explicitly:*** (for example, "I can understand why you're upset"). This action helps to build rapport, the first step in rebuilding a bruised relationship.
6. ***Give customers the benefit of the doubt:*** Not all customers are truthful and not all complaints are justified. But customers should be treated as though they have a valid complaint until clear evidence to the contrary emerges. If a lot of money is the amount involved is small. It may not be worth haggling over a refund or other compensation. But it's still a good idea to check records to see if there is a past history of dubious complaints by same customer.
7. ***Clarify the steps needed to solve the problem:*** When instant solutions aren't possible, telling customers how the organization plans to proceed shows that corrective action is being taken. It also sets expectations about the time involved (so firms should be careful not to over promise).

8. ***Keep customers informed of progress:*** Nobody likes being left in the dark. Uncertainty breeds anxiety and stress. People tend to be more accepting of disruptions if they know what is going on and receive periodic progress reports.
9. ***Consider compensation:*** When customers do not receive the service outcomes that they paid for or have suffered serious inconvenience or loss of time and money because the service failed, either a monetary payment or an offer of equivalent service in kind is appropriate. This type of recovery strategy may also reduce the risk of legal action by an angry customer. Service guarantees often lay out in advance what such compensation will be and the firm should ensure that all guarantees are met.
10. ***Persevering/continue to regain customer goodwill:*** When customers have been disappointed, one of the biggest challenges is to restore their confidence and preserve the relationship for the future. Perseverance may be required to defuse customers' anger and to convince them that actions are being taken to avoid a recurrence of the problem. Truly exceptional recovery efforts can be extremely effective in building loyalty and referrals.

### 6.3 Service Guarantees

A small but growing number of companies offers customers an unconditional guarantee of satisfaction, promising that if service delivery fails to meet predefined standards, the customer is entitled to one or more forms of compensation---such as an easy --to-claim replacement, refund or credit, Christopher Hart argues that these service guarantees are powerful tools for both promoting and achieving service quality for the following reasons:

- a. Guarantees force firms to focus on what their customers want and expect in each element of the service.
- b. Guarantees set clear standards, telling customers and employees alike what the Company stands for. Payouts to compensate customers for poor service cause managers to take guarantees seriously because they highlight the financial costs of quality failures.
- c. Guarantees require the development of systems for generating meaningful customer feedback and acting on it.
- d. Guarantees force service organizations to understand why they fail and encourage them to identify and overcome potential fail points.
- e. Guarantees build marketing muscle by reducing the risk of the purchase decision and building long --term loyalty.

#### Discussion Questions:

1. What is the value of undertaking research with lost customers? Suggest ways in which this research could be done.
2. What are the benefits to the company of an effective service guarantee? Should every service organization have one?
3. Explain the logic behind these two quotes: 'a complaint is a gift' and 'the customer who complains is your friend'.

4. For a particular service, identify examples of unfairness in outcomes, procedures and interactions.
5. Why is it important for a service firm to have a strong recovery strategy? Think of a time when you received less than desirable service from a particular service organization. Was any effort made to recover? What should/could have been done differently? Do you still buy services from the organization? Why or why not? Did you tell others about your experience?

## Chapter Seven

### Service Development and Design

**Objectives of the chapter: At the end of the chapter students will be able:**

- understand the challenges inherent in service design
- know steps in the new-service development process
- Show the value of service blueprinting and quality function development in new-service design and service improvement

#### 7.1 Challenges of Service Designing

Because services are intangible, they are difficult to describe and communicate. When services are delivered over a long period their complexity increases and they become even more difficult to define and describe. Further, because services are delivered by employees to customers, they are heterogeneous. These characteristics of services, which we explored in the first chapter of this course, are the heart of the challenge involved in designing services.

Because services cannot be touched or tried out, people frequently resort to words in their efforts to describe them. Lynn Shostack, a pioneer in developing design concepts for services, has pointed out four risks of attempting to describe service in words alone. These are:

The first risk is over *simplification*. Shostack point out the “to say that “portfolio management” means “buying and selling stocks” is like describing the space shuttle as “ something that flies” some people will picture a bird, some a helicopter, and some an angel” words are simply inadequate to describe a whole complex service system.

The second risk is *incompleteness*. In describing services, people tend to omit details or elements of the service with which they are not familiar.

The third risk is *subjectivity*. Any one person describing a service in words will be biased by personal experiences and degree of exposure to the service. Persons working in different functional areas of the same service organization are likely to describe the service very differently as well, biased by their own functional blinders.

The final risk of describing services using words alone is *biased interpretation*. No two people will define “responsive,” “quick”, or “flexible” in exactly the same way.

It is critical that all involved be working with the same concepts of the new service, based on customer needs and expectations. For a service that already exists, any attempt to improve it will also suffer unless everyone has a shared vision of the service and associated issues.

#### 7.2 New Service Development

The fact that services are intangible makes it even more imperative for a new service development system to have four basic characteristics:

- It must be objective, no subjective
- It must be precise, not vague
- It must be fact driven, not opinion driven
- It must be methodological not philosophical

Often, new services are introduced on the basis of managers' and employees' subjective opinions about what the services should be and whether they will succeed rather than on objective designs incorporating data about customer perceptions, market needs and feasibility.

Because services are produced and consumed simultaneously and often involve interaction between employees and customers, it is also critical that the new service development process involve both employees and customers. Employee Involvement in choosing which new services to develop and how these services should be designed and implemented can be very beneficial.

Contact employees are psychologically and physically close to customers and can be very helpful in identifying customer needs for which new services can be offered. Involving employees in the design and development process also increases the likelihood of new-service success because employees can identify the organizational issues that need to be addressed to support the delivery of the service to customers.

Because customers are often active participators in service deliver, they too should be involved in the new-service development process. Beyond just providing input on their own needs, customers can help design the service concept and the delivery process.

### 7.3 Types of new services

Not all new services are "new" to the same degree. The type of new service options can run the range from major innovations to minor style changes, as described in the following.

**Major innovations:** are new services for markets as undefined.

**Start up business:** consist of new services for a market that is already served by existing products that meet the same generic needs. Service examples include the creation of health maintenance organization to provide an alternative form of health care delivery.

**New Services:** for the currently served market represent attempts to offer existing customers of the organizations a service not previously available from the company (although it may be available from other companies). Examples airlines offering fax and phone service during flights.

**Service line extension:** represents augmentations of the existing service line, such as a restaurant adding new menu item and a university adding new courses or degrees.

**Service improvements:** represent perhaps the most common type of service innovation. Changes in feature of services that are already offered might involves faster execution of an existing service process, extended hours of service, or augmentations such as added amenities in a hotel room.

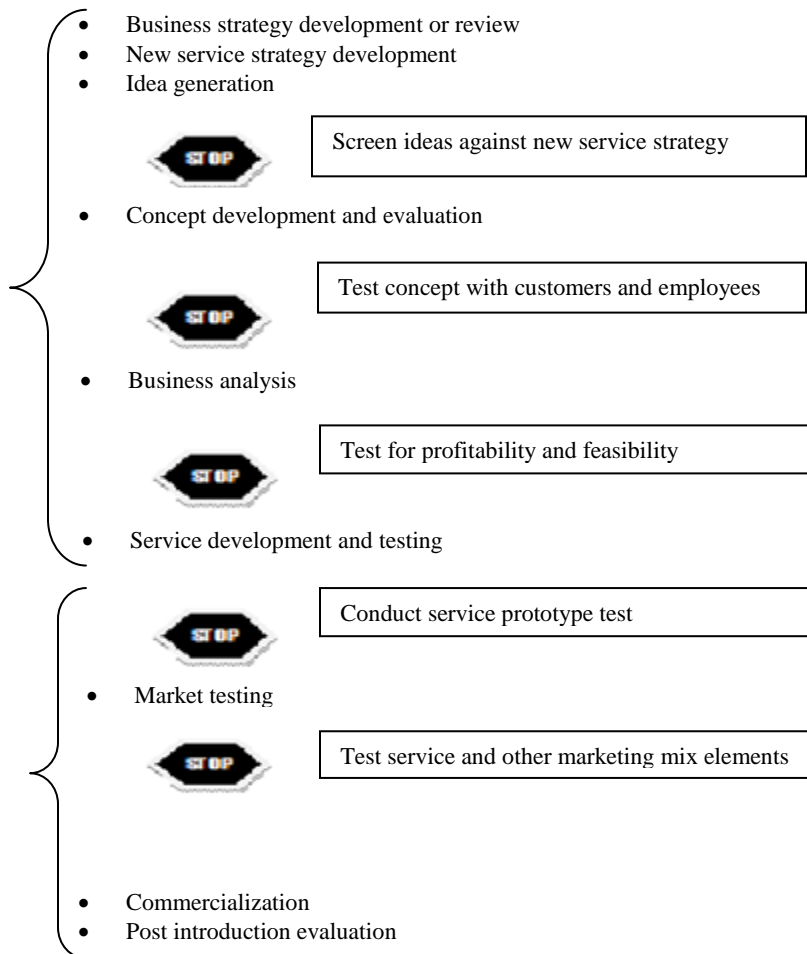
**Style changes:** represent the most modest service innovations, although they are often highly visible and can have significant effects on customer perceptions, emotions and attitudes. Changing the color scheme of a restaurant, or painting aircraft a different color all represents style changes. These do not fundamentally change the service, only its appearance.

## 7.4. Stages in New-Service Development

The steps can be applied to any of the types of new services just described. Much of what is presented in this section has direct parallels in the new-product development process for manufactured goods. Because of the inherent characteristics of services, however, the development process for new services require unique and complex adaptations.

Figure 7-1 shows that basic principles and steps in new service development. While these may be similar to those for manufactured goods, their implementation is significantly different. In addition for many service industries (e.g. telecommunication, transportation, utilities, banking), government agencies that regulate the industries greatly influence the nature and speed of new service development.

An underlying assumption of new product development process model is that new product ideas can be dropped at any stage of the process if they do not satisfy the criteria for success at that particular stage. Figure 7-1 shows the checkpoints (represented by stop signs) that precede critical stages of the development process. The process shown in Figure 7-1 is divided into two sections: front-end planning and implementation.



**Fig 7.1: New service development process**



### 7.4.1 Front-End Planning

**Business Strategy Development:** It is usually assumed that an organization will have an overall strategic vision and mission.

- Clearly a first step in new service development is to review that vision and mission.
- The new service strategy and specific new service ideas must fit within the larger strategic picture of the organization.

**New-Service Strategy Development:** Research suggest that without a clear new product/service strategy, a well planned portfolio of new products and services and an organizational structure that facilitates product development via ongoing communications and cross-functional sharing of responsibilities, front-end decisions become ineffective. Thus, a product portfolio/set strategy and a defined organizational structure for new-product/ service development are critical—and are the foundations—for success.

The types of new services that will be appropriate will depend on the organization’s goals, vision, capabilities and growth plans. By defining a new-service strategy (possibly in terms of markets, types of services, time horizon for development, profit criteria, or other relevant factors), the organization will be in a better position to begin generating specific ideas.

Offerings	Markets	
	Current customers	New customers
Existing service	Share building	Market development
New service	Service development	Diversification

*Fig 7.2: New service strategy matrix of identifying opportunities*

One way to begin formulating a new-service strategy is to use the framework shows in Figure 7.2 for identifying growth opportunities. The matrix suggests that companies can develop a growth strategy around current customers or for new customers, and can focus on current offerings or new service offerings.

**Idea Generation:** The step in the process is the formal solicitation of new ideas. The ideas generated as this phase can be passed through the new-service strategy screen described in the preceding step. Many methods and avenues are available for searching out new-service ideas.

Formal brainstorming, solicitation of ideas from employees and customers, lead-user research, and learning about competitors’ offerings is some of the most common approaches. Observing customers and how they use the first products and services can also generate creative ideas for new innovations.

**Service Concept Development and Evaluation:** Once an idea surfaces that is regarded as a good fit with both the basic business and the new –service strategies, it is ready for initial development. In the case of a tangible product, this would mean formulating rather basic product definition and then presenting consumers, with descriptions and drawings to their reactions.



Drawing pictures and describing an intangible service in concrete terms are difficult. It is therefore important that agreement be reached at this stage on exactly what the concept is. By involving multiple parties in sharpening the concept definition, it often becomes apparent that individual views of the concept are not the same.

After clear definition of the concept, it is important to produce a description of the service that represents its specific features and characteristics and then to determine initial customer and employees to the concept. The new-service concept would then be evaluated by service, whether they are favorable to the concept, and whether they feel it satisfies an unmet need.

**Business Analysis:** Assuming the service concept is favorable evaluated by customers and employees at the concept development stage, the next step is to determine its feasibility and potential profit implications. Demand analysis, revenue projections, cost analyses, and operational feasibility are assessed at this stage.

Because the development of service concepts is so closely tied to the operational system of the organization, this stage will involve preliminary assumptions about the costs of hiring and training personnel, delivery system enhancements, facility changes, and any other projected operations costs. The organization will pass the results of the business analysis through its profitability and feasibility screen to determine whether the new-service idea meets the minimum requirements.

#### **7.4.2 Implementation**

Once the new service concept has passed all of the from-end hurdles, it is ready for the implementation stages of the process.

**Service Development and Testing:** In the development of new tangible products, this stage involves construction of product prototypes and testing for consumer acceptance.

Again, because services are intangible and largely produced and consumed simultaneously, this step is difficult. To address the challenge, this stage of service development should involve all who have a stake in the new service: customers and contact employees as well as functional representatives from marketing, operations, and human resources. During this phase, the concept is refined to the point where a detailed service blueprint is likely to evolve over a series of iterations on the basis of input from all of the parties listed.

For example, when a large state hospital was planning a new computer-based information service for doctors throughout its state, it involved many groups in the service development and evaluation stage, including medical researchers, computer programmers and operators, librarians, telecommunications experts, and record clerks as well as the physician customers. A final step is for each area involved in rendering the service to translate the final blueprint into specific implementation plans for its part of the service delivery process.

**Market Testing:** Because new-service offerings are often intertwined with the delivery system for existing services, it is difficult to test new services in isolation. The new service might be offered to employees of the organization and their families for a time to assess their responses to variations in the marketing mix or the organization might decide to test variations in pricing and promotion in less realistic contexts by intentions to buy the service under varying circumstances,

While this approach certainly has limitation compared with an actual market test, it is better than not assessing market response at all.

It is also extremely important at this stage in the development process to pilot run the service to be sure that the operational details are functioning smoothly.

**Commercialization:** At this stage in the process, the service goes live and is introduced to the marketplace. The stage has two primary objectives.

The first is to build and maintain acceptance of the new service among large numbers of service delivery personnel who will be responsible day to day for service quality. The task is made easier if acceptance has been built in by involving key groups in the design and development process all along. However, it will still be a challenge to maintain enthusiasm and communicate the new service throughout the system; excellent internal marketing will help.

The second objective is to monitor all aspects of the service during introduction and through the complete service cycle. If the customer need six experiences the entire service, then careful monitoring must be maintained through at least six months. Every detail of the service should be assessed- phone calls, face-to face transactions, billing, complaints, and delivery problems. Operating efficiency and costs should also be tracked.

**Post introduction Evaluation:** At this point the information gathered during commercialization of the service can be reviewed and changes made of the delivery process, staffing of marketing-mix variables on the basis of actual market response to the offering. No service will ever stay the same. Whether deliberate or unplanned, changes will always occur.

Therefore, formalizing the review process to make those changes that enhance service quality from the customer's point of view is critical. The service blueprint service a valuable purpose in providing a focal point for discussing and planning changes in the offering

## 7.5 Service Blueprinting

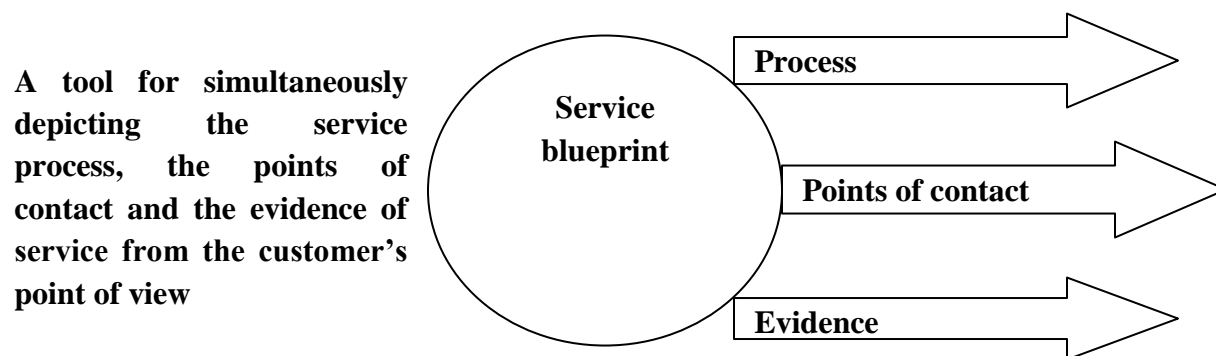
A major stumbling block in developing new service (and in improving existing service) is seeming inability to describe and depict the service at the concept development, product development, and market test stages. One of the keys to matching service specifications to customer expectations is the ability to describe critical service process characteristics objectively and to depict them. Then, employees, customers and managers alike know what the service is, can see their role in, its delivery and understand all of the steps and flows involved in the service process.

In this section of the chapter we look in depth at service blueprinting, a tool that addresses the challenges of designing and specifying intangible service processes.”

### 7.5.1 What is a service Blueprints?

The manufacturing and construction industries have a long tradition of engineering and design. Can you imagine a house being built without detailed specifications? Can you imagine a car, a computer, or even a simple product like a child's toy or a shampoo being produced without concrete and detailed plans, written specifications, and engineering drawings? Yet services

commonly lack concrete specifications. A service, even a complex one, might be introduced without any formal, objective depiction of the process.



**Fig 7.3: Service Blueprint**

A service blueprint is a picture or map that accurately portrays the service system so that the different people involved in providing it can understand and deal with it objectively regardless of their roles or their individual points of view. Blueprints are particularly useful at the design and redesign stages of service of service development. A service blueprint visually displays the service by simultaneously depicting the process of service delivery, the points of customer contact, the roles of customers and employees and the visible elements of the service

See Figure 7-3. It provides a way to break a service down into its logical components and to depict the steps or tasks in the process the means by which the tasks are executed and the evidence of service as the customer experiences it.

Blueprinting has its origins in a variety of field and techniques, including logistics, industrial engineering decision theory and computer systems analysis- all of which deal with the definition and explanation of *processes*.

**Blueprint components:** The key components of service blueprints are four. They are customer actions, "onstage," contact employee actions; "backstage" contact employee actions, and support processes. The conventions for drawing service blueprints are not rigidly defined, and thus the particular symbols used, the number of horizontal lines in the blueprint, and the particular labels for each part of the blueprints may vary somewhat depending on what you read and the complexity of the blueprint being described. This is not a problem, as long as you keep in mind the purpose of the blueprint and view it from the point of view of its usefulness as a tool, rather than as a set of cast-in stone rules for designing services.

The *customer actions* area encompasses the steps, choices, activities, and interactions that the customer performs in the process of purchasing, consuming and evaluating the service. In a legal services example, the customer actions might include a decision to contact an attorney, a face-to-face meeting(s), additional phone calls, receipt of documents and receipt of a bill.

Paralleling the customer actions are two areas of contact employee actions. The steps and activities that the contact employees perform that are the *onstage employee actions*. In the legal

services stepping the actions of the attorney (the contact employee) that are visible to the client are, for example, the initial interview, intermediate meetings and final delivery of legal documents.

Those contact employee actions that occur behind the scenes to support the onstage activities are the *backstage contact employee actions*.

Physical evidence Customer actions <b><i>Line of interactions</i></b>
Onstage contact Employee actions <b><i>Line of visibility</i></b>
Backstage contact Employee actions <b><i>Line of internal interactions</i></b>
Support process

**Fig 7.4: Service blueprint components**

The *support processes* section of the blueprint covers the internal services, steps, and interactions that take place to support the contact employees in delivering the service. Again in the legal example, any service support activities such as legal research by staff, preparation of documents, and secretarial support to set up meetings will be shown in the support processes area of the blueprint.

The four key action areas are separated by three horizontal lines.

- First in the ***line of interaction***, representing direct interactions between the customer and the organization. Any time a vertical line crosses the horizontal line of interaction, a direct contact between the customer and the organization, or a service encounter, has occurred.
- The next horizontal line is the critically **important *line of visibility***. This line separates all service activities that are visible to the customer from those that are not visible.
- In reading blueprints it is immediately obvious whether the consumer is provided with much visible evidence of the service simply by analyzing how much of the service occurs above the *line of visibility* versus the activities carried out below the line. This line also separates what the contact employees do onstage from what they do backstage.

### Discussion Questions:

1. Why is it challenging to design and develop services?
2. Identify where ideas for service innovation might come from.
3. What are the risks of attempting to describe services in words alone?
4. Why is service innovation so critical for firms and countries?

## CHAPTER EIGHT

### DELIVERING AND PERFORMING SERVICES

**The objectives of this chapter are to:**

- Illustrate the critical importance of service employees in creating customer satisfaction and service quality
- Demonstrate the challenges inherent in boundary spanning roles.
- Provide examples of strategies for creating customer oriented service delivery
- Show how the strategies can support a service culture

#### **A. EMPLOYEES' ROLES IN SERVICE DELIVERY**

The focus of this chapter is on employees and human resources practices that facilitate delivery of quality services.

#### **8.1 The critical importance of service employees**

People—from line employees and those supporting them from behind the scenes are critical to the success of any service organization. The importance of people in the marketing of services is captured in the people element of the services marketing mix.

In this chapter the focus is on service employees because:

- a. They are the service
  - b. They are the organization in the customer's eyes
  - c. They are marketers
- a. They are the service**

In many cases, the contact employee is the service: - there is nothing else. For example, in most personal services (e.g. haircutting, physical trainers, child care etc...) the contact employee provides the entire service singlehandedly. The offering is the employee. Thus, investing in the employee to improve the service means making a direct investment in the improvement of manufactured product.

**b. They are the organization in the customer's eye**

Even if the contact employee does not perform the service entirely, he/she may still personally represent the firm in the customer's eyes. All of the employees of a law firm or health clinic from the professionals who provide the service to the receptionists and office staff represent the firm to the client and everything these individuals do or say can influence perceptions of the organization.

### c. They are marketers

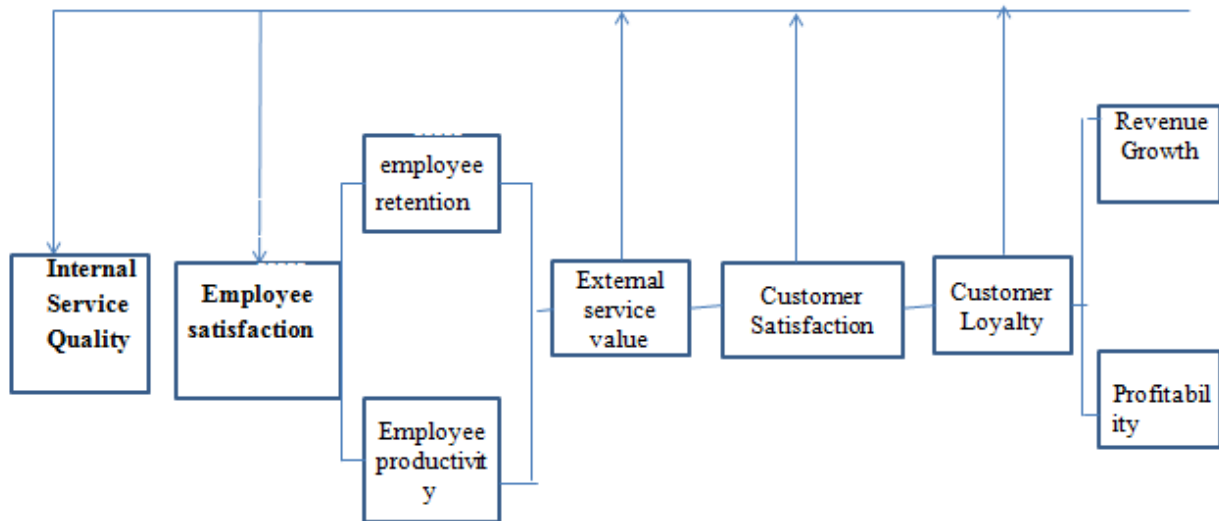
Because contact employees represent the organization and can directly influence customer satisfaction, they perform the role of marketers. Service employees perform marketing functions. They can perform this function well to the organization's advantage or poorly to the organization's detriment.

#### 8.1.1 Employee satisfaction, customer satisfaction and profits

There is concrete evidence that satisfied employees make for satisfied customers and satisfied customers can in turn reinforce employees' sense of satisfaction in their jobs.

What the service profit chain suggests is that there are critical linkages among internal service quality, employee satisfaction/productivity, the value of services provided to the customer and ultimately customer satisfaction, retention and profits.

**Fig 8.1 the service profit chain**



Source: An Exhibit James L. Heskett, Thomas et al (1994) Putting the Service profit chain to work, Harvard Business Review

#### 8.1.2 Service Quality Dimension are Driven by employee Behavior

All of the five dimensions of service quality (reliability, responsiveness, assurance, empathy and tangibles) can be influenced directly by service employees. Delivering the service as promised (reliability) is often totally within the control of front-line employees.

Front line employees directly influence customer perceptions of responsiveness through their personal willingness to help and their promptness in serving customers. The assurance dimension of service quality is highly dependent on employees' ability to communicate their credibility and to inspire trust and confidence.

It is difficult to imagine how an organization would deliver “caring, individualized attention” to customers independent of its employees. Empathy implies that employees will pay attention, listen adapt and be flexible in delivering what individual customers need. Organizations that leave this quality dimension to chance are likely find extreme variation on this dimension across employees and customer experience.

Employee appearance and dress are important aspects of the tangibles dimension of quality, along with many other factors that are independent of service employees (e.g. the service facility, décor, brochures, and signage).

## **8.2 Boundary spanning roles**

The front-line service employees are referred to as boundary spanners because they operate at the organization's boundary. They serve a critical function in understanding, filtering and interpreting information and resources to and from the organization and its external constituencies.

Who are these boundary spanners? What types of people and positions comprise critical boundary-spanning roles? Their skills and experience cover the full spectrum of jobs and careers. In industries such as fast food, hotels, telecommunication and retail, the boundary spanners are the least skilled, lowest paid employees in the organization. They are order takers, front-desk employees, telephone operators, store clerks etc...

In other industries, boundary spanners are well paid, highly educated professionals, for example doctors, lawyers, accountants, consultants, architects and teachers.

No matter what the level of skill or pay, boundary spanning positions are often high stress jobs. In addition to mental and physical skills, these positions require extra ordinary levels of emotional labor, frequently demand an ability to handle interpersonal and inter-organizational conflict and call on the employee to make re-time trade-offs between quality and productivity of the job.

### **8.2.1 Emotional labor**

The term emotional labor was coined by Arlie Hochschild to refer to the labor that goes beyond the physical or mental skills needed to deliver quality services. It means delivering smiles, making eye contact, showing sincere interest, and engaging in friendly conversation with people who are essentially strangers and who may or may not ever be seen again. Friendliness, courtesy, empathy, and responsiveness directed toward customers all require huge amounts of emotion labor from the front-line employees who shoulder this responsibility for the organization for the organization; strategies include carefully selecting people who can handle emotional stress, training them, and teaching them.

### **8.2.2 Sources of conflict**

Front-line employees often face interpersonal and inter-organizational conflicts on the job. Their frustration and confusion can, if left unattended, lead to stress, job dissatisfaction, a diminished ability to service customers, and burnout. The conflicts are:

- a.* Person/role conflicts



- b.* Organization versus client
- c.* Client versus client
- d.* Quality versus productivity

- A. Person/role conflicts:** In some situations, boundary spanners feel conflicts between what they are asked to do and their own personalities, orientations, or values. For example, person/role conflict also arises when employees are required to wear clothing or change some aspect of their appearance to conform to the job requirements.
- B. Organization/Client conflict:** A more salient type of conflict for most front-line service employees is the conflict between their two bosses, the organization and the individual customer. Service employees are typically rewarded for following certain standards, rules, and procedures. The conflict is greatest when the employee believes the organization is wrong in its policies and must decide whether to accommodate the client and risk losing her job or follow the policies.
- C. Inter-client conflict:** Sometimes conflict occurs for boundary spanners when there are incompatible expectations and requirements from two or more customers. This occurs most often when the service provider is serving customers in turn (e.g. a bank teller, a doctor etc.....) or is serving many customers simultaneously (e.g. teachers, entertainers). In the case of serving customers in turn, the provider may satisfy one customer by spending additional time, customizing the service, and being very flexible in meeting the customer's needs. Meanwhile, waiting customers are becoming dissatisfied because their needs are not being met in a timely way.
- D. Quality/productivity Trade-offs:** Front-line service workers are asked to be both effective and efficient: They are expected to deliver satisfying service to customers and at the same time to be cost effective and productive in what they do. The essential trade-offs between quality and quantity and between maximum effectiveness and efficiency place real-time demands and pressure on service employees.

### 8.3. Strategies for closing the Gap between the actual performance of a service and the standards set by management

A complex combination of strategies is needed to ensure that service employees are willing and able to deliver quality services and that they stay motivated to perform in customer-oriented, service minded ways.

The strategies presented here are organized around four basic themes that build customer-oriented service minded workforce:

- a.* Hire the right people
- b.* Develop people to deliver service quality
- c.* Provide the needed support system and
- d.* Retain the best people



## A. Hire the right people

- Specific approaches for hiring and energizing front-line workers takes on a different look and feel across companies based on the organization's values, culture, history and vision.
- One of the best ways to close gap 3 is to start with the right service delivery people from the beginning. This implies that considerable attention should be focused on hiring and recruiting service personnel.

Ways to improve service employee recruitment efforts to get the right people from the beginning:

- Compete for the best people:** to get the best people, an organization needs to identify who the best people are and compete with other organizations to hire them. To do so:
  - ❖ communicate with prospective employees through appropriate media
  - ❖ Interview multiple employees for every position
  - ❖ Raise what might be unnecessarily low standards in order to identify more qualified employees
- Hire for service competencies and service inclination**

Once potential employees have been identified, organizations need to be conscientious in interviewing and screening to truly identify the best people from the pool of candidates. Service competencies are the skills and knowledge necessary to do the job.

They must also be screened for service inclination:- their interest in doing service related work which is reflected in their attitudes towards service and orientation towards serving customers and others on the job.

- Be the preferred employer:** on way to attract the best people is to be known as the preferred employer in a particular Industry or in a particular location.

## B. Develop people to deliver service quality

Once it has hired the right employees, the organization must train and work with these individual to ensure service performance.

- ❖ Train from technical and interactive skills
- ❖ Empower employees: means giving employees the desire, skills, tools and authority to serve the customers.
- ❖ Promote teamwork: enhancing employees work as teams.

## C. Provide needed support system

To be efficient and effective in their jobs, service workers require internal support systems that are aligned with their need to be customer focused. E.g. doctors requires access to patient information

The following sections suggest strategies for ensuring customer-oriented internal support:

- ❖ Measure internal service quality
- ❖ A cautionary note
- ❖ Provide supportive technology and equipment
- ❖ Develop service-oriented internal processes

#### **D. Retain the best people**

Employee turnover, especially when the best service employees are the one leaving, can be very detrimental to customer satisfaction employee morale and overall service quality. Some strategies that are particularly aimed at this goal:

- ❖ Include employees in the company vision: They need to share an understanding or the organization's vision.
- ❖ Treat employees as customers
- ❖ Measure and reward strong service performers

### **B. CUSTOMERS' ROLES IN SERVICE DELIVERY**

#### **8.4. The importance of customers in service delivery**

Customer participation at some level is inevitable in service delivery. Services are actions or performances, typically produced and consumed simultaneously. In many situations employees, customers and even others in the service environment interact to produce the ultimate service outcome. Because they participate, customers are indispensable to the production process of service organizations and they can actually control or contribute to their own satisfaction.

Recognition of the role of customers is also reflected the definition of the people element of the services marketing mix. People all human actors who play a part in service delivery and thus influence the buyer's perceptions: namely, the firm's personnel, the customer, and other customers in the service environment.

##### **a. Customer receiving the service**

Because the customer receiving the service participates in the delivery process, she/he can contribute to gap 3 (the gap between service specification and service delivery) through their own appropriate or inappropriate, effective or ineffective, productive or unproductive behavior. The level of customer participation low, medium, high varies across service as shown in the following table.

**Table 8.1 Levels of customer participation across different services**

Low: consumer presence required during service delivery	Moderate: consumer inputs required for service creation	High: Customer co creates the service product
Produces are standardized	Client inputs customize a standard service	Action of participation guides the customized service
Service is produced regardless of any	Provision of service requires customer purchase	Service cannot be created apart from the customers' purchase and active participation
Payment may be the only required customer input	Customer inputs (information materials) are necessary for an adequate outcome, but the service firm provides the service	Customer inputs are mandatory and co create the outcome
Examples: airline travel, motel stay, fast-food restaurant	Haircut, physical exam, full-service restaurant	Marriage counseling, personal training, weight reduction program

### **b. Other customers**

Other customers are present in the service environment and can affect the nature of the service outcome or process. Other customers can enhance customer satisfaction and perceptions of quality or they can detract from satisfaction and quality.

Some of the ways other customers can negatively affect the service experience are by exhibiting disruptive behaviors, causing delays, overusing excessively crowding, and manifesting incompatible needs.

Finally, customers who are being served simultaneously but who have incompatible needs can negatively affect each other. This can occur in restaurants, college class rooms, hospitals, and any service establishment whenever multiple segments are served simultaneously. E.g. Smoking drinking alcohol, etc...

## **8.5 Customers' role in the service Delivery**

### **The importance of customers in service delivery**

Customer participation at some level is inevitable in service delivery. Services are performed, produced and consumed simultaneously.

The three major roles played by customers in service delivery:

- a.* customers as productive resources
- b.* customers as contributors to quality and Satisfaction

**c. Customers as competitors.**

**A. Customers as productive resources**

Service customers have been referred to as “partial employees” of the organization human resource who contribute to the organization’s productive capacity. The customers contribute effort, time or other resources to the service production process and they should be considered as part of the organization.

For example, when self-service gasoline stations first came into being, customers were asked to pump their own gas and fewer employees were need and the overall productivity of gas stations improved.

**B. Customers as contributors to service quality and satisfaction**

Effective customer participation can increase the likelihood that needs are met and that the benefits the customers seeks are actually attained.

For example, the service outcome of education is highly dependent on active participation by students.

**C. Customers as competitors**

A final role played by service customers is that of potential competitor. If self-service customers can be viewed as resources of the firm, or as “partial employees”, self-service customers could in some cases partially perform the service or perform the entire service for themselves and not need the provider at all. Customers thus in a sense are competitors of the companies that supply the service.

## **8.6 Strategies for enhancing customer participation**

The overall goals of a customer participation strategy will typically be to increase productivity and customer satisfaction while simultaneously decreasing uncertainty due to unpredictable customer actions. The strategies are:

**A. Define customer jobs:** determining what type of participation it wants from customers thus beginning to define the customer's job. The customer's job description” will vary with the type of service and the organization's desire position within its industry the customer's job: Helping him, helping others, promoting the company.

**B. Recruit, educate and reward customers**

Once the customer's role is clearly defined, the organization can think in terms of facilitating that role.

- i. Recruit the right customers: before the company begins the process of educating and socializing customers for their roles, it must attract the right customers to fill those roles.
- ii. Educate and train customers to performance effectively: customers need to be educated, or in essence “socialized” so that they can perform their roles effectively. Through the socialization process, it is possible for service customers to gain an appreciation of

specific organizational values, develop the abilities necessary to function within a specific context, understand what is expected of them, and acquire the skills and knowledge to interact with employees and other customers.

- iii. Rewards for their contributions: customer is more likely to perform their roles effectively, or to participate actively if they are rewarded for doing so. Rewards are likely to come in the form of increase control over the delivery process, time savings, monetary savings, and psychological or physical benefits.

### **C. Manage customer mix**

Because customers frequently interact with each other in the process of service delivery and consumption, another important strategic objective is the effective management of the mix of customers who simultaneously experience the service. If a restaurant chooses to serve two segments during the dinner hour that are incompatible with each other for example, single college students who want to party and families with small children who quiet quiet it may find that the two groups do not merge well.

The process of managing multiple and sometimes conflicting segments is known as compatibility manage, broadly defines as “ a process of first attracting homogenous consumers to the service environment, the actively managing both the physical environment and customer to customer encounter in such a way as to enhance satisfying encounters and minimize dissatisfying encounters.”

Whether a household or a firm chooses to produce a particular service for itself or contract externally for the service depends on a variety of factors:

- **Expertise capacity:** possesses the specific skills and knowledge needed to produce it.
- **Resource capacity:** Having resources including people, space, money, and materials.
- **Time capacity:** with adequate time capacity
- **Economic rewards:** the economic advantage or disadvantage of a particular exchange decision
- **Psychic rewards:** include degree of satisfaction enjoyment, gratification, or happiness
- **Trust:** means the degree of confidence or certainty
- **Control:** desire for control over the process and outcome of the exchange will also influence the choice.

### **Discussion Questions:**

1. What is *emotional labor*? How can it be differentiated from physical or mental labor?
2. Select a service provider (your dentist, doctor, lawyer, hair stylist) with whom you are familiar, and discuss ways this person could positively influence the five dimensions of service quality in the context of delivering his or her services. Do the same for yourself (if you are currently a service provider).
3. Describe the four basic human resource strategy themes and why each plays an important role in building a customer oriented organization.

## CHAPTER NINE

### INTEGRATED SERVICES MARKETING

**Objectives of the chapter: After Completing these chapter students should be able to understand:**

- Concept of integrated service marketing communication
- Reasons for service communication problems
- Strategies to match service promises with service delivery
- Concept of customer expectation
- Managing internal marketing communication

#### 9.1 Concept of integrated services marketing communications

Today, however, more companies are adopting the concept of integrated marketing communications (IMC), where the company carefully integrates and organizes all of its external communications channels. As a marketing executive explained it,

- *Integrated marketing communications build a strong brand identity in the marketplace by tying together and reinforcing all your images and messages. IMC means that all your corporate messages, positioning and images, and identity are coordinated across all venues. It means that your PR materials say the same things as your direct mail campaign, and your advertising has the same 'look and feel' as your website.*

In this chapter we propose that a more complex type of integrated marketing communication is needed for services than for goods. External communications channels must be coordinated, as with physical goods, but both external communications and internal communication channels must be integrated to create consistent **service promises**. To do that, internal marketing communications channels must be managed so that employees and the company are in agreement about what is communicated to the customer. We call this more complicated version of IMC *integrated services marketing communications* (ISMC). ISMC requires that everyone involved with communication clearly understand both the company's marketing strategy and its promises to consumers.

#### 9.2 Key Service Communication Challenges

Discrepancies between what is communicated about a service and what a customer receives – or perceives that they receive – can powerfully affect consumer evaluations of service quality. The factors that contribute to these communication challenges include:

- Service intangibility
- Management of service promises,
- Management of customer expectations,
- Customer education, and
- Internal marketing communications.

In this chapter, we first describe the challenges stemming from these factors and then detail strategies that firms have found useful in dealing with them.

### 9.2.1 Service intangibility

Because services are performances rather than objects, their essence and benefits are difficult to communicate to customers. Intangibility makes marketing communication for services more challenging for both marketers and consumers. The intangible nature of services creates problems for consumers both before and after purchase. Before buying services, consumers have difficulty understanding what they will be buying and evoking names and types of services to consider? During purchase, consumers often cannot clearly see the differences among services. After purchase, consumers have trouble evaluating their service experiences.

The difficulties associated with intangibility can be divided into five properties, each of which has implications for services marketing communication. Intangibility involves **incorporeal existence, abstractness, generality, non-searchability and mental impalpability**.

- ***Incorporeal existence***: The service product does not occupy physical space. Although the delivery mechanism may use facilities that occupy space (such as a dry-cleaning shop), the service itself (dry cleaning) does not. The implication is that showing the service is difficult, if not impossible.
- ***Abstractness***: Service benefits such as financial security, fun, or health do not correspond directly with objects, making them difficult to visualize and understand. When businesses need consulting, for example, they often do not know where to begin because the concept is so vague that they do not understand the specific goals processes, or cannot articulate what deliverables they are seeking.
- ***Generality***: refers to a class of things, persons, events, or properties, whereas *specificity* refers to particular objects, people, or events. Many service and service promises are described in generalities (wonderful experience, superior education, completely satisfied customers), making them difficult to differentiate from those of competitors.
- ***Non-searchability***: Because service is a performance, it often cannot be previewed or inspected in advance of purchase. If we are interested in finding a doctor, a heating repair firm, a personal trainer, or virtually any service, we cannot search the options as easily as we can search the shelves in a grocery store. Considerably more effort must be expended, and what we find may not be useful. For example, if a customer needs a plumber, the information contained in a source such as the telephone directory does not adequately discriminate among the choices.
- ***Mental impalpability***: Services are often complex, multidimensional, and difficult to grasp mentally. When customers have not had prior exposure, familiarity, or knowledge services are difficult to interpret. You may have experienced this when buying car insurance for the first time.

These five aspects of service intangibility make customers feel more uncertain about their purchases, and evidence indicates that the greater the risk that customers perceive in purchasing services, the more actively they will seek and rely on online or offline word of mouth communications to guide their choices. Word of mouth can be a very convincing source of information about services for consumers, but it is not under the control of the service provider.



### **9.2.2 Management of Service Promises**

A serious problem occurs when companies fail to manage service marketing communications. The vows made by salespeople, advertising and service personnel and service falls short of what is promised. This sometimes occurs because the part of the company making the promise lacks the information necessary to make accurate statements. For example, salespeople often sell services, particularly new business services such as software, before they are actually available and without having an exact date of when they will be ready for market. Demand and supply variations make service provision possible at some times, improbable at others and, generally, difficult to predict. The traditional functional structure of many companies, with their marketing and sales, operations, production human resources, and finance departments (often called silos), also makes communication about promises and delivery difficult internally.

### **9.2.3 Management of Customer Expectations**

Appropriate and accurate communication about services is the responsibility of both marketing and operations. Marketing must accurately (if compellingly) reflect what happens in actual service encounters; operations must deliver what is promised in communications. For example, when a management consulting firm introduces a new offering, the marketing and sales departments must make the offering appealing enough to be viewed as superior to competing services.

### **9.2.4 Customer Education**

Service companies must educate their customers. If customers are unclear about how the service will be provided, what their role in delivery involves, and how to evaluate services they have never used before, they will be disappointed. When this happens, customers will hold the service company responsible, not themselves. Errors or problems in service, even when they are 'caused' by the customer, still lead customers to defect. For this reason the firm must assume responsibility for educating customers.

### **9.2.5 Internal Marketing Communications**

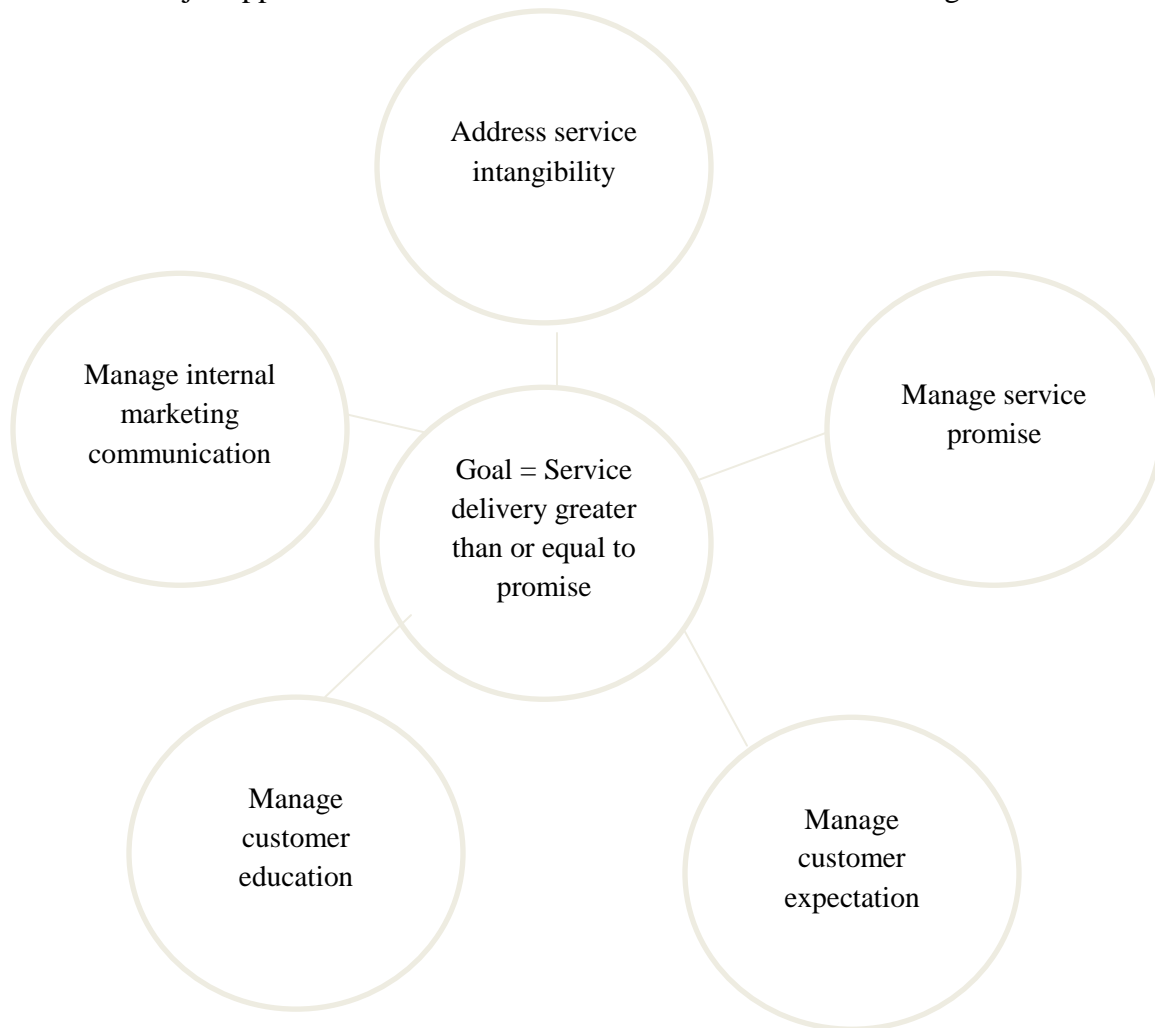
Multiple functions in the organization, such as marketing and operations, must be coordinated to achieve the goal of service provision. Because service advertising and personal selling promise what *people* do frequent and effective communication across functions horizontal communication is critical. If internal communication is poor, perceived service quality is at risk. If company advertising and other promises are developed without input from operations, contact personnel may not be able to deliver service that matches the image portrayed in marketing efforts.

## **9.3 Five Categories of Strategies to Match Service Promises with Delivery**

Figure 9.2 shows the major approaches to overcome the service communication challenges that we just described. The goal is to deliver service that is greater than, or equal to, promises made. To do so, all three sides of the marketing service triangle must be addressed.



Figure 9.2 Five major approaches to overcome service communication challenges



### 9.3.1 Address Service Intangibility

Approaches to address service intangibility include advertising and other communication strategies that clearly communicate service attributes and benefits to consumers, and strategies designed to encourage word-of-mouth and social media communication.

If service companies recognize the challenges they face due to intangibility, they can use selected strategies to compensate. In one way or another, each of the individual strategies we discuss here focuses on ways to make the message dramatic and memorable.

- Use narratives to demonstrate the service experience.
- Present vivid information
- Use interactive imagery
- Focus on the tangibles
- Use brand icons to make the service tangible
- Use association, physical representation, documentation and visualization
- Feature service employees in communication.

- Feature satisfied customers in the communication
- Encourage word-of-mouth communication
- Leverage social media
- Make use of video-sharing networks

### 9.3.2 Manage Service Promises

In manufacturing physical goods, the departments that make promises and those that deliver them can operate independently. Goods can be fully designed and produced, and then turned over to marketing for promotion and sale. In services, however, the sales and marketing departments make promises about what other employees in the organization will fulfill. Because what employees do cannot be standardized to the same extent as physical goods, greater coordination and management of promises are required. This coordination can be accomplished by creating a strong service brand and by coordinating all of the company's marketing communications.

### 9.3.3 Manage Customer Expectations

Accurately promising when and how service will be delivered is one of the most important ways to close the communication gap. Among the most effective strategies to manage customer expectations are:

- Make realistic promises
- Offer service guarantees, options and tiered-value offerings
- Communicate criteria customers can use to assess service

### 9.3.4 Manage Customer Education

Customers must perform their roles properly for many services to be effective. If customers forget to perform their roles, or perform them improperly, disappointment may result. For this reason, communication to customers can take the form of customer education.

### 9.3.5 Manage Internal Marketing Communication

The fifth major category of strategies necessary to match service delivery with promises involves managing internal marketing communications. Internal marketing communications can be both vertical and horizontal. *Vertical communications* are either downward, from management to employees, or upward, from employees to management. *Horizontal communications* are those across functional boundaries in an organization.

### Discussion Question:

1. Review the five general strategies for achieving integrated services marketing communications. Would all these strategies be relevant in goods firms? Which would be most critical in goods firms? Which would be most critical in services firms? Are there any differences between those most critical in goods firms and those most critical in services firms?
2. Explain the Reasons for service communication problems.
3. What are the Strategies used to match service promises with service delivery.

## CHAPTER TEN

### PRICING OF SERVICES

**Objectives of the chapter: After completing these chapter students should be able to understand:**

- The Concept of value to Customers
- The role of price as an indicator of service quality
- Approaches to pricing service
- Strategies Used by companies to price services

#### 10.1 Concept of value to customers

##### Four Meanings of Perceived Value

One of the most appropriate ways that companies price their services is basing the price on the perceived value of the service to customers. Among the questions a service marketer needs to ask are the following: What do consumers mean by value? How can we quantify perceived value in dollars, so that we can set appropriate prices for our services? Is the meaning of value similar across consumers and services? How can value perceptions be influenced? To understand demand-based pricing approaches, we must fully understand what value means to customers.

This is not a simple task. When consumers discuss value, they use the term in many different ways and talk about myriad attributes or components. What constitutes value, even in a single service category, appears to be highly personal and idiosyncratic. Customers define value in four ways:

1. Value is low price.
2. Value is whatever I want in a product or service.
3. Value is the quality I get for the price I pay.
4. Value is what I get for what I give.

##### 10.1.1 Value Is Low Price

Some consumers equate value with low price, indicating that what they have to give up in terms of money is most salient in their perceptions of value, as typified in these representative comments from customers:

- For dry cleaning: “Value means the lowest price.”
- For carpet steam cleaning: “Value is price—which one is on sale.”
- For a fast-food restaurant: “When I can use coupons, I feel that the service is a value.”
- For airline travel: “Value is when airline tickets are discounted.”

##### 10.1.2 Value Is Whatever I Want in a Product or Service

Rather than focusing on the money given up, some consumers emphasize the benefits they receive from a service or product as the most important component of value. In this value definition, price is far less important than the quality or features that match what the consumer

wants. In the telecommunications industry, for example, business customers strongly value the reliability of the systems and are willing to pay for the safety and confidentiality of the connections. Service customers describe this definition of value as follows:

- For an MBA degree: “Value is the very best education I can get.”
- For medical services: “Value is high quality.”
- For a social club: “Value is what makes me look good to my friends and family.”
- For a rock or country music concert: “Value is the best performance.”
- For a hotel room for a honeymoon: “Value is a luxurious room with a hot tub.”

### **10.1.3 Value Is the Quality I Get for the Price I Pay**

Other consumers see value as a tradeoff between the money they give up and the quality they receive.

- For a hotel for vacation: “Value is price first and quality second.”
- For a hotel for business travel: “Value is the lowest price for a quality brand.”
- For a computer services contract: “Value is the same as quality. No value is affordable quality.”

### **10.1.4 Value Is What I Get for What I Give**

Finally, some consumers consider all the benefits they receive as well as all sacrifice components (money, time, effort) when describing value.

- For a housekeeping service: “Value is how many rooms I can get cleaned for what the price is.”
- For a hairstylist: “Value is what I pay in cost and time for the look I get.”
- For executive education: “Value is getting a good educational experience in the shortest time possible.”

The four consumer expressions of value can be captured in one overall definition consistent with the concept of utility in economics: perceived value is the consumer’s overall assessment of the utility of a service based on perceptions of what is received and what is given.

## **10.2 Price as an Indicator of Service Quality**

One of the intriguing aspects of pricing is that buyers are likely to use price as an indicator of both service costs and service quality. Price is at once an attraction variable and a repellent. Customers’ use of price as an indicator of quality depends on several factors, one of which is the other information available to them. When service cues to quality are readily accessible, when brand names provide evidence of a company’s reputation or when the level of advertising communicates the company’s belief in the brand, customers may prefer to use those cues instead of price. In other situations, however, such as when quality is hard to detect or when quality or price varies a great deal within a class of services, consumers may believe that price is the best indicator of quality. Many of these conditions typify situations that consumers face when purchasing services. Another factor that increases the dependence on price as a quality indicator is the risk associated with the service purchase. In high-risk situations, many of which involve

credence services such as restaurants or management consulting, the customer will look to price as a surrogate for quality.

Because customers depend on price as a cue to quality and because price sets expectations of quality, service prices must be determined carefully. In addition to setting prices to cover costs or match competitors, companies must select the price points that convey the appropriate quality signal. Pricing too low can lead to inaccurate inferences about the quality of the service. Pricing too high can set expectations that may be difficult to match in service delivery.

### **10.3 Approaches to Pricing Services**

Rather than repeat what you learned about pricing in your marketing principles class, we want to emphasize in this chapter the way that service prices and pricing differ from both the customer's and the company's perspective. We discuss these differences in the context of the three pricing structures typically used to set prices: (1) cost-based, (2) competition-based, and (3) demand-based pricing. These categories, as shown in Figure 10.1, are the same bases on which goods prices are set, but adaptations must be made in services. The figure shows the three structures interrelating because companies need to consider each of the three to some extent in setting prices. In the following sections, we describe in general each basis for pricing and discuss challenges that occur when the approach is used in service pricing. Figure 10.1 summarizes those challenges.

#### **10.3.1 Cost-Based Pricing**

In cost-based pricing, a company determines expenses from raw materials and labor, adds amounts or percentages for overhead and profit, and thereby arrives at the price. This method is widely used by industries such as utilities, contracting, wholesaling, and advertising. The basic formula for cost-based pricing is

$$\text{Price} = \text{Direct costs} + \text{Overhead costs} + \text{Profit margin}$$

Direct costs involve the materials and labor associated with delivering the service, overhead costs are a share of fixed costs, and the profit margin is a percentage of full costs (Direct + Overhead).

#### **Special Challenges in Cost-Based Pricing for Services**

What is unique about services when using cost-based approaches to pricing? First, costs are difficult to trace or calculate in service businesses, particularly where multiple services are provided by the firm. Consider how difficult it must be for a bank to allocate teller time or ATM costs accurately across its checking, savings, and money market accounts to decide what to charge for the services. Second, a major component of cost is employee time rather than materials and the value of people's time, particularly nonprofessional time, is not easy to calculate or estimate. One of the major difficulties in cost-based pricing involves defining the units in which a service is purchased. Thus, the price per unit—a well understood concept in the pricing of manufactured goods—is a vague entity. For this reason many services are sold in terms of input units rather than units of measured output. For example, most professional services (such as consulting, engineering, architecture, psychotherapy, and tutoring) are sold by the hour.

### **10.3.2 Competition-Based Pricing**

The competition-based pricing approach focuses on the prices charged by other firms in the same industry or market. Competition-based pricing does not always imply charging the identical rate others charge but rather using others' prices as an anchor for the firm's price. This approach is used predominantly in two situations: (1) when services are standard across providers, such as in the dry cleaning industry and (2) in oligopolies with a few large service providers, such as in the rental car industry. Difficulties involved in provision of services sometimes make competition-based pricing less simple than it is in goods industries.

#### **Special Challenges in Competition-Based Pricing for Services**

Competition-based pricing, commonly practiced in goods firms, can be difficult for service firms. Small firms may find it difficult to charge the same prices that larger service firms charge and make margins high enough to remain in business. Many local service establishments' dry cleaning, retail, and tax accounting, among others cannot deliver services at the low prices charged by chain operations.

Further, the heterogeneity of services across and within providers makes this approach complicated. As an example, banks offer many types of accounts and services. To try to determine how a competitive bank prices for individual accounts and may differ in features and costs and whether those prices give sufficient margins and profits can be difficult.

### **10.3.3 Demand-Based Pricing**

The two approaches to pricing just described are based on the company and its competitors rather than on customers. Neither approach takes into consideration that customers may lack reference prices, may be sensitive to nonmonetary prices, and may judge quality on the basis of price. All these factors can be accounted for in a company's pricing decisions. The third major approach to pricing, demand-based pricing, involves setting prices consistent with customer perceptions of value: prices are based on what customers will pay for the services provided.

#### **Special Challenges in Demand-Based Pricing for Services**

One of the major ways that pricing of services differs from pricing of goods in demand-based pricing is that nonmonetary costs and benefits must be factored into the calculation of perceived value to the customer. When services require time, inconvenience, and psychological and search costs, the monetary price must be adjusted to compensate. And when services save time and search costs, the customer is willing to pay a higher monetary price. The challenge is to determine the value to customers of each of the nonmonetary aspects involved.

Another way services and goods differ with respect to this form of pricing is that information on service costs may be less available to customers, making monetary price not as salient a factor in initial service selection as it is in goods purchasing.

## 10.4 Pricing Strategies That Link to the Four Value Definitions

In this section we describe the approaches to services pricing that are particularly suited to each of the four value definitions.

### 10.4.1 Pricing Strategies When the Customer Means ‘Value Is Low Price’

When monetary price is the most important determinant of value to a customer, the company focuses mainly on price. This focus does not mean that the quality level and intrinsic attributes are always irrelevant, just that monetary price dominates in importance. To establish a service price in this definition of value, the marketer must understand to what extent customers know the objective prices of services in this category, how they interpret various prices and how much is too much of a perceived sacrifice. These factors are best understood when the service provider also knows the relative monetary value of the purchase, the frequency of past price changes and the range of acceptable prices for the service. Some of the specific pricing approaches appropriate when customers define value as low price include:

- **Discounting:** Service providers offer discounts or price cuts to communicate to price sensitive buyers that they are receiving value
- **Odd pricing:** Odd pricing is the practice of pricing services just below the exact Euro amount to make buyers perceive that they are getting a lower price.
- **Synchro-pricing:** Synchro-pricing is the use of price to manage demand for a service by capitalizing on customer sensitivity to prices.
- **Dynamic pricing:** is a form of technology-led synchro-pricing frequently used as part of a revenue management/yield management model
- **Penetration pricing:** Penetration pricing is a strategy in which new services are introduced at low prices to stimulate trial and widespread use.

### 10.4.2 Pricing Strategies When The Customer Means ‘Value Is Everything I Want In A Service.’

When the customer is concerned principally with the ‘get’ components of a service, monetary price is not of primary concern. The more desirable intrinsic attributes a given service possesses, the more highly valued the service is likely to be and the higher the price the marketer can set.

- **Prestige Pricing:** is a special form of demand-based pricing by service marketers who offer high-quality or status services.
- **Skimming Pricing:** A strategy, in which new services are introduced at high prices, is an effective approach when services are major improvements over past services.

### 10.4.3 Pricing Strategies When the Customer Means “Value Is the Quality I Get for the Price I Pay”

Some customers primarily consider both quality and monetary price. The task of the marketer is to understand what quality means to the customer (or segments of customers) and then to match quality level with price level.

- **Value Pricing:** The widely used term value pricing has come to mean “giving more for less.”



- **Market Segmentation Pricing:** With market segmentation pricing, a service marketer charges different prices to groups of customers for what are perceived to be different quality levels of service, even though there may not be corresponding differences in the costs of providing the service to each of these groups.

#### 10.4.4 Pricing Strategies When the Customer Means “Value Is All That I Get for All That I Give”

Some customers define value as including not just the benefits they receive but also the time, money, and effort they put into a service.

- **Price Framing:** Because many customers do not possess accurate reference prices for services, service marketers are more likely than goods marketers to organize price information for customers so they know how to view it.
- **Price Bundling:** Some services are consumed more effectively in conjunction with other services; other services accompany the products they support (such as extended service warranties, training, and expedited delivery).
- **Complementary Pricing:** Services that are highly interrelated can be leveraged by using complementary pricing.
- **Results-Based Pricing:** In service industries in which outcome is very important but uncertainty is high, the most relevant aspect of value is the result of the service.

#### Discussion Questions:

1. Which approach to pricing (cost-based, competition-based, or demand-based) is the most fair to customers? Why?
2. Is it possible to use all three approaches simultaneously when pricing services? If you answer yes, describe a service that is priced this way.
3. Name three services you purchase in which price is a signal to quality. Do you believe that there are true differences across services that are priced high and those that are priced low? Why or why not?



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