Essentials of Services Marketing, 3rd edition

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Essentials of Services Marketing

3rd Edition

AT YOUR SERVICE

Pearson

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Brief Contents

Preface

Services dominate the expanding world economy as never before, and technology continues to evolve in dramatic ways. Established industries and old, illustrious companies decline and may even disappear as new business models and industries emerge. Competitive activity is fierce, with firms often using new strategies and technologies to respond to changing customer needs, expectations, and behaviors. This book has been written in response to the global transformation of our economies to services. Clearly, the skills in marketing and managing services have never been more important!

As the field of services marketing has evolved, so too has this book. This new edition has been revised significantly since the 2nd edition. It captures the reality of today's world, incorporates recent academic and managerial thinking, and illustrates cutting-edge service concepts.

This book is based on *Services Marketing: People, Technology, Strategy,* 8th edition (World Scientific, 2015). It has been significantly condensed and sharpened to provide a crisp introduction to key topics in services marketing. In addition, the case selection, visuals, and design are meant to appeal to undergraduate and polytechnic students.

WHAT'S NEW IN THIS EDITION?

The 3rd edition represents a significant revision. Its contents reflect ongoing developments in the service economy, dramatic developments in technology, new research findings, and enhancements to the structure and presentation of the book in response to feedback from reviewers and adopters.

New Structure, New Topics

▶ Almost all chapters are now structured around an *organizing framework* that provides a pictorial overview of the chapter's contents and line of argument.

▶ New *applications of technology* are integrated throughout the text, ranging from apps, M-commerce and social networks, to robots, artificial intelligence, and biometrics.

▶ Each of the 15 chapters has been revised. All chapters incorporate *new examples* and references to *recent research*. Significant changes in chapter content are highlighted below.

▶ Chapter 1, "**Introduction to Services Marketing**," now explores the nature of the modern service economy more deeply and covers B2B services, outsourcing, and offshoring. Furthermore, the Service-Profit Chain was moved here to serve as a guiding framework for the book (it was featured in Chapter 15 in the previous edition).

▶ Chapter 2, "**Consumer Behavior in a Services Context,**" also covers the post-consumption behaviors, including service quality, its dimensions and measurement (including SERVQUAL), and how quality relates to customer loyalty. This section was in Chapter 14 in the previous edition.

- Chapter 7, "**Promoting Services and Educating Customers**," is now tightly organized around the 5 Ws model, a new section on the services marketing communications funnel was added, and the coverage of new media (including social media, mobile, apps, and QR codes) was significantly expanded.

- Chapter 8, "**Designing Service Processes**," has a new section on emotionprints and covers service blueprinting in more depth.

- Chapter 11, "**Managing People for Service Advantage**," has new sections on a service-oriented culture, how to build a climate for service, and effective leadership in service organization and leadership styles. Part of this content was previously covered in Chapter 15.

- Chapter 14, "**Improving Service Quality and Productivity**," now integrates key concepts in the main body of the chapter instead of the appendix as in the earlier edition. These are TQM, ISO 9000, Six Sigma, and the Malcolm-Baldrige and EFQM.

- Chapter 15, "**Building a Service Organization that Wins**," was completely restructured to provide a recap and integration of the key themes of *Services Marketing*, 8th edition. It now features an auditing tool to assess the service level of an organization. It emphasizes the impact of customer satisfaction on long-term profitability and closes with a call to action.

In B2B markets in particular, innovative business models charge on the basis of outcomes rather than on services provided. For example, Rolls-Royce's Power-by-the-Hour service does not charge for services such as maintenance, repairs, and materials. Its charges are based on the outcome of these activities, that is, the number of flying hours. [22] In effect, generated cost savings are shared between the provider and their client.

Price Bundling. An important question for service marketers is whether to charge an inclusive price for all elements (referred to as a "bundle") or to price each element separately. If customers prefer to avoid making many small payments, bundled pricing may be best. In other cases, itemized pricing is preferable. Bundled prices offer firms a certain level of guaranteed revenue from each customer while providing customers a clear idea in advance of how much they can expect to pay. Unbundled pricing provides customers with the freedom to choose what to buy and pay for. However, customers may be angered if they discover that the actual price of what they consume, inflated by all the "extras," is substantially higher than the advertised base price that attracted them in the first place. [23]

Discounting. Selective price discounting targeted at specific market segments can offer important opportunities to attract new customers and fill capacity that would otherwise go unused. However, unless it is used with effective rate fences that allow specific segments to be targeted cleanly, a strategy of discounting should be approached with caution.

Figure 6.25 Shipment of goods are typically charged by a combination of distance (miles, kilometers, or zones) and weight or size (such as cubic volume).

FOR WHAT TYPES OF COURSES CAN THIS BOOK BE USED?

This text is suitable for courses directed at undergraduate and polytechnic students equally. *Essentials in Services Marketing* places marketing issues within a broader general management context. The book will appeal to students heading for a career in the service sector, whether at the executive or management level.

Whatever the job is in the services industry, a person has to understand the close ties that link the marketing, operations, and human resources functions in service firms. With that perspective in mind, we have designed the book so that instructors can make selective use of chapters and cases to teach courses of different lengths and formats in either services marketing or services management.

WHAT ARE THE BOOK'S DISTINGUISHING FEATURES?

The third edition of *ESM* retains some of the key features that have made it successful, and improves on other aspects of the textbook to help students understand services marketing more effectively. These features include the following:

▶ You'll find that this text takes a ***strongly managerial perspective***, yet is ***rooted in solid academic research***, complemented by memorable frameworks. Our goal is to bridge the all-too-frequent gap between theory and the real world.

▶ The text is ***organized around an integrated framework*** the reader immediately can relate to. The framework cascades across the entire book. Furthermore, each chapter provides a succinct ***chapter overview in pictorial form***.

▶ We worked hard to create a text that is ***clear, readable, and focused***.

Figure 1.3 An introduction to services marketing.

▶ An ***easy-to-read text*** that works hand-in-hand with visuals that make important concepts accessible.

▶ A ***global perspective***. Examples were carefully selected from America, Europe and Asia.

▶ ***Systematic learning approach***. Each chapter has clear ***learning objectives***, an ***organizing framework that that provides a quick overview*** of the chapter's contents and line of argument, and ***chapter summaries in bullet form*** that condense the core concepts and messages of each chapter.

▶ ***Opening vignettes*** and ***boxed inserts*** within the chapters are designed to capture student interest and provide opportunities for in-class discussions. They describe significant research findings, illustrate practical applications of important service marketing concepts, and describe best practices by innovative service organizations.

What Aids Are Available for Instructors?

We have developed pedagogical aids to help instructors develop and teach courses built around this book and to create stimulating learning experiences for students both in and out of the classroom.

Teaching Aids within the Text

▶ An opening vignette, which highlights key issues discussed in the chapter

▶ Learning objectives and milestone markers for these when a section provides material that meet these learning objectives

▶ Boxed inserts throughout the chapters, which often lend themselves well to in-class discussion

▶ Interesting graphics, photographs, and reproductions of advertisements, which enhance student learning, provide opportunities for discussion, and add a visual appeal

▶ Key words, which help to reinforce important terms and concepts

▶ Chapter summaries, which meet each chapter's learning objectives

▶ Review Questions and Application Exercises located at the end of each chapter
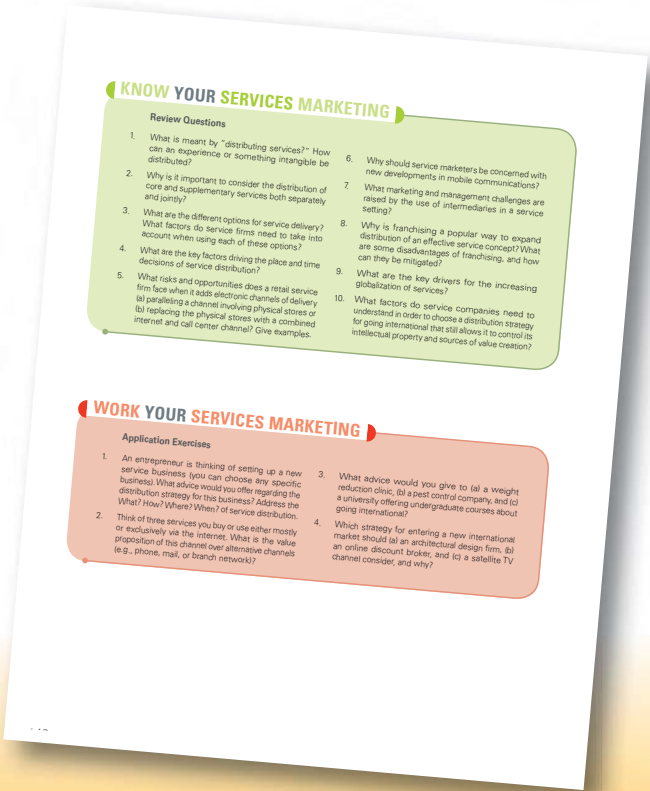
Pedagogical Materials Available from the Publisher

Case Bank: A large set of additional cases that can be used in courses that adopt this textbook. Available in both Word and PDF versions as a resource for instructors. A table shown in the textbook will suggest which cases to pair with which chapters.

Instructor's Manual: A repository of detailed course design and teaching hints, including sample course outlines; chapter-by-chapter teaching suggestions, plus discussion of learning objectives and sample responses to study questions and exercises; suggested student exercises and comprehensive projects (designed for either individual or team work); detailed case teaching notes, including teaching objectives, suggested study questions, in-depth analysis of each question, and helpful hints on teaching strategy designed to aid student learning, create stimulating class discussions, and help instructors create end-of-class wrap-ups and "takeaways."

Test Bank: Multiple choice True/False, short-answer, and essay questions, with page references and difficulty level provided for each question. Contents are classified into general and application. This is available in TestGen format, a test-generating program, which allows instructors to add, edit, or delete questions from the test item file; analyze test results; and organize a database of exams and student results.

PowerPoint Slides: The slides are linked to each chapter and featuring both "word" slides and graphics. All slides have been designed to be clear, comprehensible, and easily readable.

Image Bank: A collection of images in the textbook.

Video Bank: A list of website links that features corporate videos and advertisements to relate concept to application.

EBook: Electronic version of the text that includes useful features such as highlighting and search. It can be viewed on a variety of browsers and devices.

PART I

Understanding Service Markets, Products, and Customers

- Introduction to Services Marketing
- Consumer Behavior in a Services Context
- Positioning Services in Competitive Markets

PART II

Applying the 4 Ps of Marketing to Services

- Developing Service Products and Brands
- Distributing Services through Physical and Electronic Channels
- Setting Prices and Implementing Revenue Management
- Promoting Services and Educating Customers

PART III

Managing the Customer Interface

- Designing Service Processes
- Balancing Demand and Capacity
- Crafting the Service Environment
- Managing People for Service Advantage

PART IV

Developing Customer Relationships

- Managing Relationships and Building Loyalty
- Complaint Handling and Service Recovery

PART V

Striving for Service Excellence

- Improving Service Quality and Productivity
- Building a World-Class Service Organization

Developing Customer Relationships

Part IV focuses developing customer relationships through building loyalty and effective complaint handling and service recovery for the long term profitability. It consists of the following two chapters:

Chapter 12 Managing Relationships and Building Loyalty

Focuses on achieving profitability through creating relationships with customers from the right segments and then finding ways to build and reinforce their loyalty using the Wheel of Loyalty as an organizing framework. This chapter closes with a discussion of customer relationship management (CRM) systems.

Chapter 13 Complaint Handling and Service Recovery

Examines how effective complaint handling and professional service recovery can be implemented. It starts with a review of consumer complaining behavior and principles of effective service recovery. Service guarantees are discussed as a powerful way of institutionalizing effective service recovery and as an effective marketing tool signaling high quality service. The chapter also discusses how to deal with jaycustomers who take advantage of service recovery policies and abuse the service in other ways.

13

complaint handling and
SERVICE
RECOVERY

LEARNING OBJECTIVES (LOs)

By the end of this chapter, the reader should be able to:

▶ **LO 1** Recognize the actions that customers may take in response to service failures.

▶ **LO 2** Understand why customers complain.

▶ **LO 3** Know what customers expect from the firm when they complain.

▶ **LO 4** Understand how customers respond to effective service recovery.

▶ **LO 5** Explain the service recovery paradox.

▶ **LO 6** Know the principles of effective service recovery systems.

▶ **LO 7** Be familiar with the guidelines for front-line employees on how to handle complaining customers and recover from a service failure.

▶ **LO 8** Recognize the power of service guarantees.

▶ **LO 9** Understand how to design effective service guarantees.

▶ **LO 10** Know when firms should not offer service guarantees.

▶ **LO 11** Be familiar with the seven groups of jaycustomers and understand how to manage them effectively.

Figure 13.1 JetBlue's reputation for customer service excellence was temporarily grounded.

OPENING VIGNETTE

Too Little, Too Late—JetBlue's Service Recovery[1]

A terrible ice storm in the East Coast of the United States caused hundreds of passengers to be trapped for 11 hours inside JetBlue planes at the John F. Kennedy International Airport in New York. These passengers were furious because JetBlue personnel did nothing to get them off the planes. In addition, JetBlue cancelled more than 1,000 flights over six days, leaving even more passengers stranded. This incident cancelled out much that JetBlue had done right to become one of the strongest customer service brands in the United States. The company was going to be ranked number four by *Business Week* in a list of top 25 customer service leaders but was pulled from the rankings due to this service failure. What happened?

There was no service recovery plan. No one—not the pilot, the flight attendants, or the station manager—had the authority to get the passengers off the plane. JetBlue's offer of refunds and travel vouchers did not seem to reduce the anger of the passengers who had been stranded for so many hours. David Neeleman, JetBlue's CEO at the time, sent a personal e-mail to all customers in the company's database to explain what caused the problem, apologize profusely, and detail its service recovery efforts. He even appeared on late-night television to apologize, and he admitted that the airline should have had better contingency planning. However, the airline still had a long way to go to repair the damage done.

Gradually, JetBlue rebuilt its reputation, starting with its new Customer Bill of Rights. The bill required the airline

Figure 13.2 JetBlue's new Customer Bill of Rights and publicity campaigns involving the Simpsons were measures taken to win customers back.

to provide vouchers or refunds in certain situations when flights were delayed. Neeleman also changed JetBlue's information systems to keep track of the locations of its crew and trained staff at the headquarters to help out at the airport when needed. All these activities were aimed at helping the company climb its way back up to the heights it fell from. By 2014, JetBlue Airways was back on the list of J. D. Power Customer Service Champions for many consecutive years. (J. D. Power and Associates conducts customer satisfaction research based on survey responses from millions of customers worldwide.) This showed that JetBlue's customers had finally forgiven its service failure and were supporting its efforts to deliver continued service excellence.

Customer Responses to Service Failure

- Take public action (complain to the firm, to a third party, take legal action)
- Take private action (switch provider, spread negative word-of-mouth)
- Take no action

Customer Expectations Once a Complaint Is Made

Customers expect fair treatment along three dimensions:
- Procedural justice: Customers expect a convenient, responsive, and flexible service recovery process
- Interactional justice: The recovery effort must be seen as genuine, honest, and polite
- Outcome justice: The restitution has to reflect the customer loss and inconveniences suffered

Customer Responses to an Effective Service Recovery

- Avoids switching, restores confidence in the firm
- The Service Recovery Paradox: An excellent recovery can even result in higher satisfaction and loyalty than if a service was delivered as promised

Customer Complaining

Why do customers complain?
- Obtain restitution or compensation
- Vent anger
- Help to improve the service
- For altruistic reasons

What proportion of unhappy customers complains?
- 5%–10% complain

Why don't unhappy customers complain?
- It takes time and effort
- The payoff is uncertain
- Complaining can be unpleasant

Who is most likely to complain?
- Higher socio-economic class customers
- Customers with more product knowledge

Where do customers complain?
- The vast majority of complaints are made at the point-of-service provision (face to face or over the phone)
- Only a small proportion of complaints is sent via email, social media, websites, or letters

Principles of Effective Service Recovery Systems

- Make it easy for customers to provide feedback and reduce customer complaint barriers
- Enable effective service recovery: Make it (1) proactive, (2) planned, (3) trained, and (4) empowered
- Establish appropriate compensation levels: Set based on the (1) positioning of the firm, (2) severity of the service failure, and the (3) importance of the customer. Target for "well-dosed generosity."

Dealing with Complaining Customers:
- Act fast
- Acknowledge customer's feelings
- Don't argue
- Show understanding
- Clarify the facts
- Give customer the benefit of the doubt
- Propose steps to solve the problem
- Consider compensation
- Persevere to regain customer goodwill
- Improve the service system
- Keep the customer informed

Service Guarantees

- Institutionalize professional complaint handling and service recovery
- Drive improvement of processes
- Design: (1) unconditional, (2) easy to understand, (3) meaningful, (4) easy to invoke, (5) easy to collect on, and (6) credible
- Unsuitable for firms with (1) a reputation for excellence, (2) poor quality service, and (3) uncontrollable quality due to external factors (e.g., weather)

Jaycustomers

There are 7 types of jaycustomers:
- The Cheat
- The Thief
- The Rule Breaker
- The Belligerent
- The Family Feuders
- The Vandal
- The Deadbeat

- Jaycustomers cause problems for firms and can spoil the service experience of other customers.
- Firms need to keep track and manage their behavior, including, as a last resort, blacklisting them from using the firm's facilities.

Figure 13.3 Organizing framework for managing complaints and service recovery.

CUSTOMER COMPLAINING BEHAVIOR

The first law of service quality and productivity might be: Do it right the first time. However, we can't ignore the fact that failures continue to occur, sometimes for reasons outside the organization's control (such as the ice storm that caused the JetBlue incident in our opening vignette). Many "moments of truth" in service encounters are vulnerable to breakdowns. Such distinctive service characteristics as real-time performance, customer involvement, and people as part of the product greatly increase the probability of service failures. A firm's ability to handle complaints and resolve problems frequently determines whether it builds customer loyalty or watches its customers take their business elsewhere. An overview of this chapter is provided in Figure 13.3.

Customer Response Options to Service Failure

It is likely that you're not always satisfied with some of the services you receive. How do you respond to your dissatisfaction with these services? Do you complain informally to an employee, ask to speak to the manager, or file a formal complaint? Or do you just mutter darkly to yourself, grumble to your friends and family, and choose an alternative supplier the next time you need a similar type of service?

If you choose not to complain to the firm about poor service, you are not alone. Research around the globe has shown that most people decide not to complain, especially if they think it will do no good. Figure 13.4 suggests at least three major courses of action a customer may take in response to a service failure:

1) Take some form of public action (e.g., complaining to the firm or to a third party, such as a customer advocacy group, a consumer affairs or regulatory agency, or even civil or criminal court).
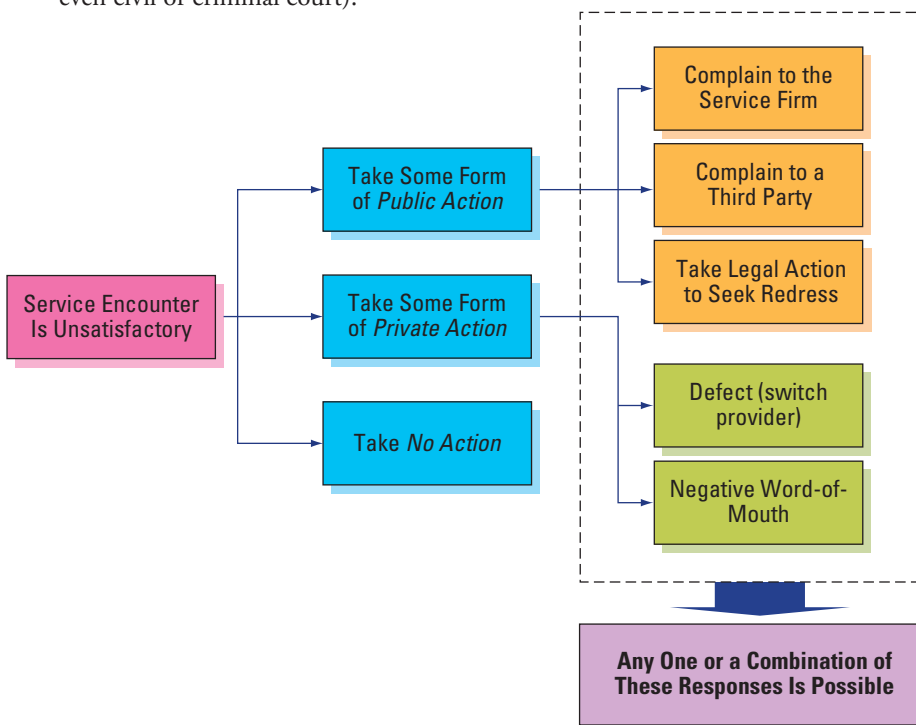
> **LO 1**
> Recognize the actions that customers may take in response to service failures.

Figure 13.4 Customer response categories to service failures.

PART IV

2) Take some form of private action (e.g., abandoning the supplier).

3) Take no action (Figure 13.5).

It's important to remember that a customer can take any one action or a combination of actions. Managers need to be aware that the impact of a defection can go far beyond the loss of that customer's future revenue stream. Angry customers often tell many other people about their problems.[2] The internet allows unhappy customers to reach thousands of people by posting complaints on bulletin boards and blogs and even setting up their own websites to talk about their bad experiences with specific organizations.

Understanding Customer Complaining Behavior

To be able to deal effectively with dissatisfied and complaining customers, managers need to understand key aspects of complaining behavior, starting with the questions posed below.

Why Do Customers Complain? In general, studies of consumer complaining behavior have identified four main purposes for complaining:

1) *To obtain restitution or compensation.* Consumers often complain to recover some economic loss by seeking a refund or compensation and/or to have the service performed again.[3]

2) *To vent their anger.* Some customers complain to rebuild self-esteem and/or to release their anger and frustration. When service processes are bureaucratic and unreasonable or when employees are rude, deliberately intimidating, or apparently uncaring, the customers' self-esteem, self-worth, and sense of fairness can be negatively affected. As a result, they may become angry and emotional.

3) *To help to improve the service.* When customers are highly involved with a service (e.g., at a college, an alumni association, or their main banking connection), they give feedback to try and contribute toward service improvements.

4) *For altruistic reasons.* Finally, some customers are motivated by altruistic reasons. They want to spare other customers from experiencing the same shortcomings, and they may feel bad if they fail to draw attention to a problem that will raise difficulties for others if it remains uncorrected.

What Proportion of Unhappy Customers Complain? Research shows that on average, only 5%–10% of customers who have been unhappy with a service actually complain.[4] Sometimes the percentage is far lower. A review of the records of a public bus company showed that there were about three formal complaints for every million passenger trips. Assuming two trips a day, a person would need 1,370 years (roughly 27 lifetimes) to make a million trips. In other words, the rate of complaints was incredibly low, especially since public bus companies are rarely known for service excellence. However, there's evidence that consumers across the world are becoming better informed, more self-confident, and more assertive about seeking satisfactory outcomes for their complaints.

Figure 13.5 Some customers may be frustrated but do not take any action to complain, as seen here in an interaction with an online service.

Why Don't Unhappy Customers Complain? A number of studies have identified some of the reasons why customers don't complain. Customers may not want to take the time to write a letter, send an e-mail, fill in a form, or make a phone call, particularly if they don't see the service as being important enough to be worth the effort. Many customers see the pay-off as uncertain and believe that no one would be concerned about their problem or willing to deal with it. In some situations, people simply don't know where to go or what to do. Moreover, many people feel that complaining is unpleasant and fear confrontation, especially if the complaint involves someone they know and may have to deal with again (Figure 13.6).[5]

Who Is Most Likely to Complain? Research findings consistently show that people in higher socio-economic levels are more likely to complain than those in lower levels. Their better education, higher income, and greater social involvement give them the confidence, knowledge, and motivation to speak up when they encounter problems.[6] Furthermore, those who complain also tend to be more knowledgeable about the product in question.

Figure 13.6 Customers often view complaining as difficult and unpleasant.

Where Do Customers Complain? Studies show that the majority of complaints are made at the place where the service was received. One of the authors of this book completed a consulting project for developing and implementing a customer feedback system. He found that an amazing 99% of customer feedback was given face to face or over the phone to customer service representatives. Less than 1% of all complaints were submitted via the firm's website, social media pages, e-mail, letters, or feedback cards. A survey of airline passengers found that only 3% of respondents who were unhappy with their meal actually complained about it, and they all complained to the flight attendant. No one complained to the company's headquarters or to a consumer affairs office.[7] Moreover, although customers tend to use interactive channels such as face-to-face encounters or the telephone when they want a problem to be fixed, they use non-interactive channels to complain (e.g., e-mail or websites) when they mainly want to vent their anger and frustration.[8]

In practice, managers often don't hear about the complaints made to front-line employees. Without a formal customer feedback system, only a tiny proportion of the complaints may reach corporate headquarters.[9] If unhappy customers have already used other channels of complaint but their problem has not been solved, they are more likely to turn to online public complaining. This is due to "double deviation." The service performance already caused dissatisfaction in the first instance, and the firm's attempt to resolve the problem also failed.[10]

What Do Customers Expect Once They Have Made a Complaint?

LO 3
Know what customers expect from the firm when they complain.

Whenever a service failure occurs, people expect to be treated fairly. However, research has shown that many customers feel that they have neither been treated fairly nor given adequate compensation. When this happens, their reactions tend to be immediate, emotional, and enduring. In contrast, outcomes that are perceived as fair have a positive impact on customer satisfaction.[11]
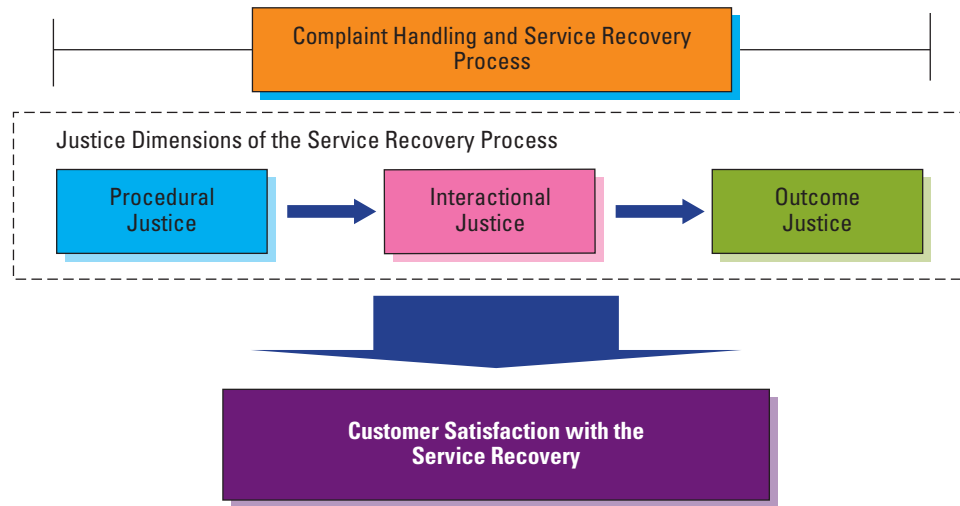
Figure 13.7 Three dimensions of perceived fairness in service recovery processes.

Stephen Tax and Stephen Brown found that as much as 85% of the variation in satisfaction with a service recovery was determined by three dimensions of fairness (see Figure 13.7):[12]

▶ *Procedural justice* refers to the policies and rules that any customer has to go through to seek fairness. Customers expect the firm to take responsibility, which is the key to the start of a fair procedure. This should be followed by a convenient and responsive recovery process that takes into account the flexibility of the system and the customer inputs into the recovery process.

▶ *Interactional justice* involves the employees of the firm who provide the service recovery and their behavior toward the customer. It is important to give an explanation for the failure and to make an effort to resolve the problem. Furthermore, the recovery effort must be seen as genuine, honest, and polite.

▶ *Outcome justice* concerns the restitution or compensation that a customer receives as a result of the losses and inconveniences caused by the service failure. This includes compensation not only for the failure but also for the time, effort, and energy spent during the process of service recovery.

LO 4

Understand how customers respond to effective service recovery.

CUSTOMER RESPONSES TO EFFECTIVE SERVICE RECOVERY

"Thank Heavens for Complainers" was the provocative title of an article about customer complaining behavior. The article featured a successful manager exclaiming, "Thank goodness I've got a dissatisfied customer on the phone! The ones I worry about are the ones I never hear from."[13] Customers who do complain give the firm a chance to correct problems (including some the firm may not even know it has), restore relationships with the complainer, and improve future satisfaction for all customers.

research has shown that the service recovery paradox is far from universal.[20] For example, a study of repeated service failures in a retail banking context showed that the service recovery paradox held for the first service failure that was recovered to customers' full satisfaction.[21] However, if a second service failure occurred, the paradox disappeared. This indicates that customers may forgive a firm once but become disillusioned if failures recur. The study also showed that customers' expectations were raised after they experienced a very good recovery (i.e., they began to expect the same standard of recovery for dealing with future failures).

The severity and "recoverability" of the service failure may also determine whether the customer comes out of the service recovery process delighted. No one can replace spoiled wedding photos or a ruined holiday, or eliminate the consequences of a debilitating injury caused by service equipment. In such situations, it's hard to imagine anyone being truly delighted even when a most professional service recovery is conducted. Contrast these examples with a lost hotel reservation, for which the recovery is an upgrade to a better room or even a suite. When poor service is recovered by the delivery of a superior product, the customer is usually delighted and may even hope for another lost reservation in the future.

The best strategy, of course, is to do it right the first time. As Michael Hargrove puts it, "Service recovery is turning a service failure into an opportunity you wish you never had."[22] Unfortunately, empirical evidence shows that some 40% to 60% of customers reported dissatisfaction with the service recovery processes they experienced.[23]
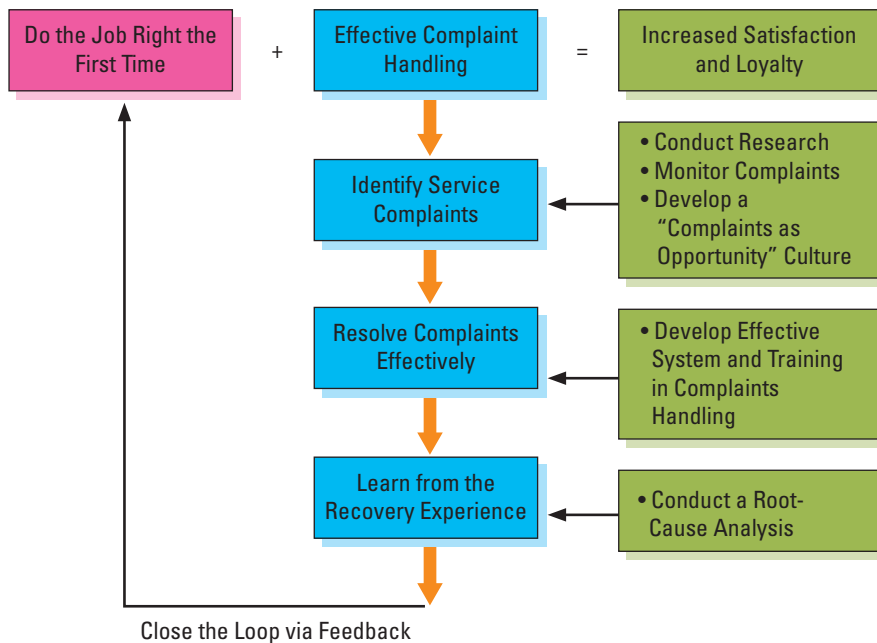
PRINCIPLES OF EFFECTIVE SERVICE RECOVERY SYSTEMS

Managers need to recognize that current customers are a valuable asset base and develop effective procedures for service recovery following unsatisfactory experiences. We discuss three guiding principles to get it right: (1) make it easy for customers to give feedback, (2) enable effective service recovery, and (3) establish appropriate compensation levels. A fourth principle—learning from customer feedback and driving service improvements—will be discussed in Chapter 14 in the context of customer feedback systems. The components of an effective service recovery system are shown in Figure 13.8.[24]

Make It Easy for Customers to Give Feedback

How can managers overcome unhappy customers' reluctance to complain about service failures? The best way is to address the reasons for their reluctance directly. Table 13.1 gives an overview of potential measures that can be taken to overcome the reasons we identified earlier in this chapter. Many companies have improved their complaint-collection procedures by adding special toll-free phone lines (see Figure 13.9 for a tongue-in-cheek example of what not to do!), links on their websites and social media pages, and clearly displayed customer comment cards in their branches. In their customer communications, some companies feature service improvements that were the direct result of customer feedback under the motto "You told us, and we responded."

Figure 13.8 Components of an effective service recovery system.

Enable Effective Service Recovery

It takes more than just pious expressions of determination to recover from service failures or resolve any problems that may occur. Commitment, planning, and clear

Table 13.1 Strategies to reduce customer complaint barriers.

Complaint Barriers for Dissatisfied Customers	Strategies to Reduce These Barriers
Inconvenience • Difficult to find the right complaint procedure • Effort; e.g., writing and mailing a letter	Make feedback easy and convenient: • Put customer service hotline numbers, e-mail addresses, the website, and /or postal addresses on all customer communications materials (letters, bills, brochures, the website, phone book, yellow pages listings, etc.)
Doubtful payoff • Uncertain whether any or what action will be taken by the firm to address the issue the customer is unhappy with	Reassure customers that their feedback will be taken seriously and will pay off: • Have service recovery procedures in place and communicate this to customers; e.g., in the customer newsletter and the website. • Feature service improvements that resulted from customer feedback.
Unpleasantness • Fear of being treated rudely • Fear of being hassled • Feeling embarrassed	Make providing feedback a positive experience: • Thank customers for their feedback (can be done publicly and in general by addressing the entire customer base). • Train service employees not to hassle and to make customers feel comfortable. • Allow for anonymous feedback.
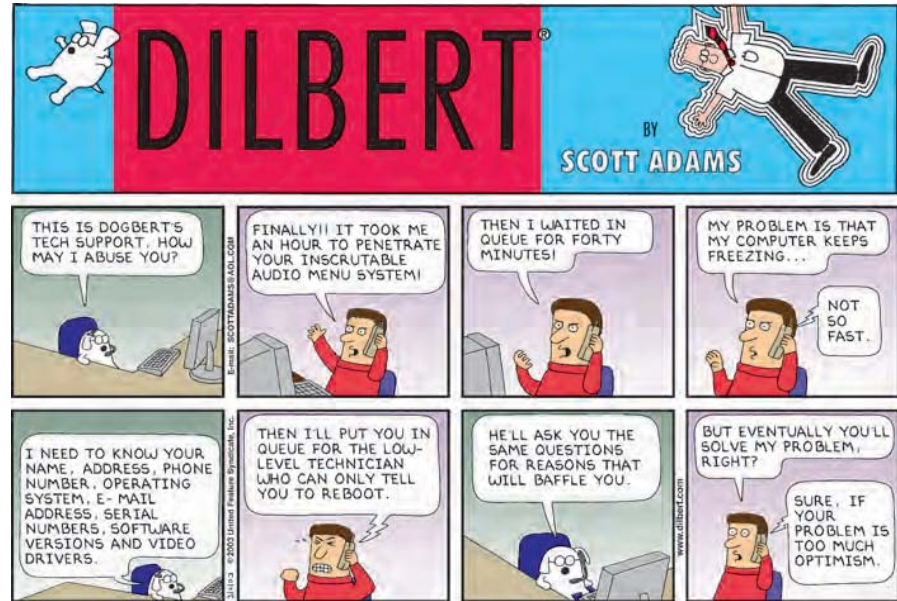
guidelines are necessary. Specifically, effective service recovery should be (1) proactive, (2) planned, (3) trained, and (4) empowered.

Service Recovery Should Be Proactive. Service recovery is ideally initiated on the spot, preferably before customers have a chance to complain (see Service Insights 13.1). Service personnel should be sensitive to signs of dissatisfaction so that they can ask whether customers might be experiencing a problem. For example, the waiter may ask a guest who has only eaten half of his dinner, "Is everything all right, sir?" The guest may say, "Yes, thank you, I am not very hungry," or "The steak is well done but I had asked for medium-rare." The second response gives the waiter a chance to recover the service rather than have an unhappy diner leave the restaurant and potentially not return.

Recovery Procedures Need to Be Planned. Contingency plans have to be developed for service failures, especially for those that occur regularly and cannot be designed out of the system.[25] For example, revenue management practices in the travel and hospitality industries often result in overbooking. Travelers are denied boarding, and hotel guests are "walked" even though they had confirmed seats or reservations. To simplify the task of front-line staff, firms should identify the most common service problems (such as overbooking) and then develop solution sets for employees to follow. In contact centers, the customer service representatives prepare scripts to guide them in a service recovery situation.

Recovery Skills Must Be Taught. As a customer, you may quickly feel insecure at the point of service failure because things are not turning out as you had expected. So you look to an employee for assistance. But are the employees willing and able to help you? Effective training on how to handle recovery solution sets for routine service failures (as in our hotel example in Service Insights 13.1) as well as non-routine ones builds confidence and competence among front-line staff, enabling them to turn distress into delight.[26]

Recovery Requires Empowered Employees. Service recovery efforts should be flexible, and employees should be empowered to use their judgment and communication skills

to develop solutions that will satisfy complaining customers.[27] This is especially true for out-of-the-ordinary failures for which a firm may not have developed and trained solution sets. Employees need to be able to make decisions and spend money in order to resolve service problems promptly and recover customer goodwill. In this day and age, when online public complaining is gaining popularity, employees may even be empowered to respond online. For example, if complaints are made in the form of tweets, employees may tweet back with solutions to resolve the problems.[28]

🔔 SERVICE INSIGHTS 13.1

Effective Service Recovery in Action

The lobby is deserted. It's not hard to overhear the conversation between the front-desk receptionist at the Marriott Long Wharf Hotel in Boston and the late-arriving guest.

"Yes, Dr. Jones, we've been expecting you. I know you are scheduled to be here for three nights. I'm sorry to tell you, sir, but we are booked solid tonight. A large number of guests we assumed were checking out did not. Where is your meeting tomorrow, sir?"

The doctor tells the receptionist where it is.

"That's near the Omni Parker House! That's not very far from here. Let me call them and get you a room for the evening. I'll be right back."

A few minutes later, the receptionist returns with the good news.

"They're holding a room for you at the Omni Parker House, sir. And, of course, we'll pick up the tab. I'll forward any phone calls that come here for you. Here's a letter that will explain the situation and expedite your check-in, along with my business card so you can call me directly here at the front desk if you have any problems."

The doctor's mood is moving from exasperation toward calm. However, the receptionist is not finished with the encounter. He reaches into the cash drawer. "Here is a $50 bill. That should more than cover your cab fare from here to the Parker House and back again in the morning. We don't have a problem tomorrow night, just tonight. And here's a coupon that will get

you complimentary continental breakfast on our concierge level on the fifth floor tomorrow morning . . . and again, I am so sorry this happened."

As the doctor walks away, the hotel's night manager turns to the receptionist, "Give him about 15 minutes and then call to make sure everything went okay."

A week later, when it is still a peak period for hotels in that city, the same guest who had overheard the exchange is in a taxi, en route to the same hotel. Along the way, he tells his companion about the great service recovery episode he had witnessed the week before. The two travelers arrive at the hotel and make their way to the front desk, ready to check in.

They are greeted with unexpected news: "I am so sorry gentlemen. I know you were scheduled here for two nights. But we are booked solid tonight. Where is your meeting scheduled tomorrow?"

The would-be guests exchange a rueful glance as they give the receptionist their future plans. "That's near the Méridien. Let me call over there and see if I can get you a room. It won't but take a minute." As the receptionist walks away, the tale teller says, "I'll bet he comes back with a letter and a business card."

Sure enough, the receptionist returns to deliver the solution; it's not a robotic script, but all the elements from the previous week's show are on display. What the tale teller thought was pure initiative from the front-desk receptionist the previous week turns out to be a predetermined response to a specific category of service problem.

How Generous Should Compensation Be?

Clearly, vastly different costs are associated with possible recovery strategies. How much compensation should a firm offer when there has been a service failure? Would an apology be sufficient instead? The following rules of thumb can help managers to answer these questions:

▶ **What is the positioning of your firm?** If a firm is known for service excellence and charges a premium price for quality, customers will expect service failures to be rare. The firm should therefore make a demonstrable effort to recover the few failures that do occur and be prepared to offer something of significant value. However, in a mass-market business, customers are likely to accept an apology and a rework of the service.

▶ **How severe was the service failure?** The general guideline is: "Let the punishment fit the crime." Customers expect little for minor inconveniences (here, a sincere apology will do), but a much more significant compensation is required if the failure caused major damage in terms of time, effort, annoyance, or anxiety.

▶ **Who is the affected customer?** Long-term customers and those who spend heavily at a service provider expect more, and it is worth making an effort to save their business. One-time customers tend to be less demanding and have less economic importance to the firm. Hence, compensation can be less but should still be fair. There is always the possibility that a first-time user will become a repeat customer if he or she is treated well.

The overall rule of thumb for compensation at service failures should be "well-dosed generosity." Being perceived as stingy adds insult to injury, and the firm will probably be better off apologizing rather than offering a minimal compensation. Overly generous compensation is not only expensive but may also be interpreted negatively by customers. It may raise questions in their minds about the soundness of the business and cause them to become suspicious about the underlying motives. They may worry about the implications of such generosity for the employee as well as for the business. Moreover, excessive generosity does not seem to result in higher repeat-purchase rates than when fair compensation is offered.[29] There is a risk, too, that a reputation for over-generosity may encourage dishonest customers to actively "seek" service failures.[30] In fact, what customers really want is often just a satisfactory solution to their service problem rather than bells and whistles![31]

LO 7

Be familiar with the guidelines for front-line employees on how to handle complaining customers and recover from a service failure.

Dealing with Complaining Customers

Both managers and front-line employees must be prepared to deal with distressed customers, including jaycustomers who can become confrontational and behave in unacceptable ways toward service personnel who often aren't at fault. (Jaycustomers will be discussed later in this chapter.)

Good interactive skills combined with training and on-the-spot thinking are critical for front-line employees to deal with such situations. Service Insights 13.2 provides specific guidelines for effective problem resolution. These guidelines are designed to help calm upset customers and to deliver a resolution that they will see as fair and satisfying.

"Who picked 'I Can't Get No Satisfaction' to be our on-hold music?"

Guidelines for the Front Line: How to Handle Complaining Customers and Recover from a Service Failure

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. Even when full resolution is likely to take longer, fast acknowledgment remains very important.

2 *Acknowledge the customer's feelings.* This must be done either tacitly or explicitly (for example, "I can understand why you're upset"). It helps to build rapport, which is the first step in rebuilding a bruised relationship.

3 *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 wrong. Arguing gets in the way of listening and seldom diffuses anger.

4 *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're upset. Service personnel should avoid jumping to conclusions with their own interpretations.

5 *Clarify the facts and sort out the cause.* A failure may result from service inefficiency, misunderstanding by customers, or misbehavior by a third party. If you've done something wrong, apologize immediately in order to win the understanding and trust of the customer. The more the customer can forgive you, the less he/she will expect to be compensated. Don't be defensive; acting defensively may suggest that the organization has something to hide or is reluctant to look fully into the situation.

6 *Give customers the benefit of the doubt*. Not all customers are truthful, and not all complaints are genuine. However, customers should be treated as though they have a valid complaint until clear evidence proves the contrary. If a lot of money is at stake (as in insurance claims or potential lawsuits), careful investigation needs to be carried out. If the amount involved is small, it may not be worth haggling over a refund or other compensation. However, it's still a good idea to check records to see if there is a past history of dubious complaints by the same customer.

7 *Propose the steps needed to solve the problem*. When instant solutions aren't immediately available, tell customers how the firm intends to take action to deal with the problem. This 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 causes people to be anxious and stressed. People tend to be more accepting if they are kept informed about what's going on and receive periodic progress reports.

9 *Consider compensation*. When customers do not receive the service outcomes they believe they have paid for, or when they suffer serious inconvenience and/or loss of time and money due to the failure of the service, either a monetary payment or some other compensation in kind (e.g., an upgrade on a flight or free dessert in a restaurant) 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 *Persevere to regain customer goodwill.* When customers have been disappointed, one of the hardest things to do is to restore their confidence and keep the relationship going. 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.

11 *Self-check the service delivery system and improve it.* After the customer has left, you should check to see whether the service failure was caused by accidental mistakes or system defects. Take advantage of every complaint to perfect the whole service system. Even if the complaint is found to be a result of a misunderstanding by the customer, it implies that some part of the communication system is ineffective.

Figure 13.10 Language is important in appeasing upset customers.

SERVICE GUARANTEES

One way for particularly customer-focused firms to institutionalize professional complaint handling and effective service recovery is by offering service guarantees. In fact, a growing number of companies offer customers a service guarantee, promising that if service delivery fails to meet pre-defined standards, the customer will be entitled to one or more forms of compensation (such as an easy-to-claim replacement, refund, or credit). A well-designed service guarantee not only facilitates effective service recovery but also institutionalizes the practice of learning from service failures and ensuring subsequent system improvements.[32]

The Power of Service Guarantees

Service guarantees are powerful tools for promoting as well as achieving service quality:[33]

1) Guarantees force firms to focus on what their customers want and expect in each element of the service.

2) 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.

3) Guarantees require the development of systems for generating meaningful customer feedback and acting on it.

4) Guarantees force service organizations to understand why they fail and encourage them to identify and overcome potential fail points.

5) Guarantees build "marketing muscle" by reducing the risk of the purchase decision and building long-term loyalty.

From the customer's perspective, the primary function of service guarantees is to lower the perceived risks associated with purchase.[34] The presence of a guarantee may also make it easier and more likely for customers to complain. They will anticipate

a readiness on the part of front-line employees to resolve the problem and provide appropriate compensation.

The benefits of service guarantees can be seen clearly in the case of Hampton Inn's "100% Hampton Guarantee": "If you're not 100% satisfied, you don't pay". As a business-building program, Hampton's strategy of offering to refund the cost of the room to a guest who expresses dissatisfaction has not only attracted new customers but also served as a powerful retention device. People choose to stay at a Hampton Inn because they are confident that they will be satisfied. The guarantee has also become a vital tool to help managers identify new opportunities for quality improvement.

Figure 13.11 Hampton Inn's advertising often includes its "100% satisfaction guaranteed."

How to Design Service Guarantees

Some guarantees are simple and unconditional. Others appear to have been written by lawyers and contain many restrictions. Ideally, service guarantees should be designed to meet the following criteria:[35]

▶ **LO 9**

Understand how to design effective service guarantees.

1) **Unconditional.** Whatever is promised in the guarantee must be totally unconditional, and there should not be any element of surprise for the customer.

2) **Easy to understand and communicate.** The customer must be clearly aware of the benefits that can be gained from the guarantee.

3) **Meaningful to the customer.** The guarantee must be on something that is important to the customer, and the compensation should be more than adequate to cover the service failure.

4) **Easy to invoke.** It should be easy for the customer to invoke the guarantee.

5) **Easy to collect on.** If a service failure occurs, the customer should be able to easily collect on the guarantee without any problems.

6) **Credible.** The guarantee should be believable (Figure 13.12).

Is Full Satisfaction the Best You Can Guarantee?

Full-satisfaction guarantees have generally been considered the best possible design. However, it has been suggested that the ambiguity associated with such guarantees can lead to discounting of their perceived value. For example, customers may raise questions such as "What does full satisfaction mean?" or "Can I invoke a guarantee when I am dissatisfied even if the fault does not lie with the service firm?"[36] Attribute-specific guarantees (e.g., guaranteed delivery within 24 hours) are highly specific and therefore don't suffer from ambiguity. However, their coverage is not comprehensive, and this limits their appeal. A hybrid version of the full-satisfaction and attribute-specific guarantees, called the "combined guarantee," addresses this issue. It combines the wide scope of a full-satisfaction guarantee with the low uncertainty of attribute-specific performance standards. The combined guarantee has been shown to be superior to the pure full-satisfaction or attribute-specific guarantee designs.[37] Specific performance standards are guaranteed (e.g., on-time delivery), but the full-satisfaction coverage of

Table 13.2 Types of service guarantees.

Term	Guarantee Scope	Example
Single attribute-specific guarantee	One key attribute of the service is covered by the guarantee.	"Any of three specified popular pizzas is guaranteed to be served within 10 minutes of ordering on working days between 12 a.m. and 2 p.m. If the pizza is late, the customer's next order is free."
Multiattribute-specific guarantee	A few important attributes of the service are covered by the guarantee.	Minneapolis Marriott's guarantee: "Our quality commitment to you is to provide: • a friendly, efficient check-in • a clean, comfortable room, where everything works • a friendly efficient check-out If we, in your opinion, do not deliver on this commitment, we will give you $20 in cash. No questions asked. It is your interpretation."
Full-satisfaction guarantee	All aspects of the service are covered by the guarantee. There are no exceptions.	Lands' End's guarantee: "If you are not completely satisfied with any item you buy from us, at any time during your use of it, return it and we will refund your full purchase price. We mean every word of it. Whatever. Whenever. Always. But to make sure this is perfectly clear, we've decided to simplify it further. GUARANTEED. Period."
Combined guarantee	All aspects of the service are covered by the full-satisfaction promise of the guarantee. Explicit minimum performance standards on important attributes are included in the guarantee to reduce uncertainty.	Datapro Information Services guarantees "to deliver the report on time, to high quality standards, and to the contents outlined in this proposal. Should we fail to deliver according to this guarantee, or should you be dissatisfied with any aspect of our work, you can deduct any amount from the final payment which is deemed as fair."

PART IV

Furthermore, in markets where there is little perceived difference in service quality among competing firms, the first firm to institute a guarantee may be able to obtain a first-mover advantage and create value differentiation for its services. If more than one competitor already has guarantees in place, offering a guarantee may become a qualifier for the industry. In such cases, the only real way to make an impact is to launch a highly distinctive guarantee that goes beyond what is already offered by competitors.

Discouraging Abuse and Opportunistic Customer Behavior

Throughout this chapter, we advocate that firms should welcome and even encourage complaints and invocations of service guarantees. However, we have to acknowledge that not all complaints are honest. When firms have generous service recovery policies or offer guarantees, there is always the fear that some customers may take advantage

Rules set by service firms facilitate smooth operations, avoid unreasonable demands on employees, prevent misuse of products and facilities, protect the firms legally, and discourage individual customers from misbehaving. Ski resorts, for instance, are getting tough on careless skiers who pose risks to themselves as well as others. Collisions can cause serious injury and even kill. Ski patrol members must be safety-oriented and may even be required to take on a policing role. Just as dangerous drivers can lose their licenses, dangerous skiers can lose their lift tickets (Figure 13.13).

There are risks attached to making lots of rules. Fewer rules help to make the most important ones clearer.

The Belligerent. You've probably seen them shouting angrily in a store, at the airport, or in a hotel or restaurant; or perhaps with insults, threats, and obscenities. Service personnel are often abused, even when they are not to blame. If an employee lacks the power to resolve the problem, the belligerent may become madder still, even to the point of physical attack. Unfortunately, when angry customers rant at service personnel, the latter sometimes respond in kind, thus escalating the confrontation and reducing the likelihood of resolution (Figure 13.14).

What should an employee do when an aggressive customer brushes off attempts to defuse the situation? In a public environment, one priority should be to move the person away from other customers. Sometimes, supervisors may have to settle disagreements between customers and staff members; at other times, they need to support the employee's actions. If a customer has physically attacked an employee, it may be necessary to summon security officers or the police.

Rudeness over the telephone poses a different challenge. One approach for handling a customer who continues to shout at a telephone-based employee is for the latter to say firmly, "This conversation isn't getting us anywhere. Why don't I call you back in a

Figure 13.13 Dangerous skiers are rule breakers who pose a danger to others and need to be policed.

Figure 13.14 Confrontations between customers and service employees can easily escalate.

few minutes when you've had time to digest the information?" In many cases, a break to think (and cool down) is exactly what's needed.

The Family Feuders. People who get into arguments with members of their own family—or worse, with other customers—make up a sub-category of belligerents we call "family feuders." Employee intervention may either calm the situation or make it worse. Some situations require detailed analysis and a carefully thought-out response. Others, such as customers starting a food fight in a nice restaurant (yes, such things do happen!), require an almost immediate response. Service managers in these situations need to be prepared to think on their feet and act fast.

The Vandal. Soft drinks are poured into bank cash machines; graffiti are scrawled on both interior and exterior surfaces; burn holes from cigarettes scar carpets, tablecloths, and bedcovers; bus seats are slashed and hotel furniture broken; customers' cars are vandalized; glass is smashed and fabrics are torn. The list is endless. Customers don't cause all of the damage, of course. Bored or drunk young people are the source of much exterior vandalism. However, much of the problem does originate with paying customers who choose to misbehave (Figure 13.15).

The best cure for vandalism is prevention. Improved security discourages some vandals. Good lighting and the open design of public areas also help. Companies can choose vandal-resistant surfaces, protective coverings for equipment, and rugged furnishings. Educating customers to use equipment properly (rather than fighting with it) and providing warnings about fragile objects can reduce the likelihood of abuse or careless handling. Finally, there are economic sanctions: security deposits or signed agreements in which customers agree to pay for any damage that they cause.

We treat our customers like family.

GLASBERGEN

"Sometimes you have to treat them like a *dysfunctional family.*"

Figure 13.15 Treating customers like family is not always the best response by a service manager.

The Deadbeat. They are the ones who delay payment. Once again, preventive action is better than a cure. A growing number of firms insist on pre-payment. Any form of ticket sale is a good example of this. Direct-marketing organizations ask for your credit card number as they take your order. The next best thing is to present the customer with a bill immediately on completion of service. If the bill is to be sent by mail, the firm should send it fast while the service is still fresh in the customer's mind.

Customers may have a good reason for the delay, and acceptable payment arrangements can be worked out. There may be other considerations, too. If the client's problems are only temporary ones, what is the long-term value of maintaining the relationship? Will it create positive goodwill and word of mouth to help the customer work things out? These decisions are judgment calls, but if creating and maintaining long-term relationships is the firm's ultimate goal, they bear exploration.

Dealing with Customer Fraud

Dishonest customers may steal from the firm, refuse to pay for the service, fake dissatisfaction, purposefully cause service failures to occur, or overstate losses at the

time of genuine service failures. What steps can a firm take to protect itself against opportunistic customer behaviors?

The working assumption should be, "If in doubt, believe the customer." However, as Service Insights 13.3 shows, it's crucial to keep track of customers who repeatedly "experience service failures" and ask for compensation or invoke the firm's service guarantee. For example, one Asian airline found that the same customer lost his suitcase on three consecutive flights. As the chances of this truly happening are probably lower than winning the national lottery, front-line staff members were made aware of this individual. The next time he checked in his suitcase, the check-in staff followed the video image of the suitcase almost from check-in to pick-up at the baggage claim carrousel at the traveler's destination. It turned out that a companion collected the suitcase and took it away while the traveler again made his way to the lost-baggage counter to report his missing suitcase. This time, the police were waiting for him and his friend.

In another example, Continental Airlines consolidated some 45 separate customer databases into a single data warehouse to improve service as well as to detect customer fraud. The airline found one customer who received 20 bereavement fares in 12 months off the same dead grandfather!

To be able to effectively detect consumer fraud, the firm must maintain a central database of all compensation payments, service recoveries, returned goods, and any other benefits given to customers based on special circumstances (i.e., such transactions cannot be retained only at the local or branch level but must be captured in a centralized system). It is important to merge customer data across departments and channels for detecting unusual transactions and the systems that allow them.[43]

Research has shown that customers who think they were treated unfairly in any way (see our earlier discussion regarding distributive, procedural, and interactive fairness) are much more likely to take advantage of a firm's service recovery effort. In addition, consumers tend to take advantage of large firms more often than small ones; they think that large firms can easily afford the recovery costs. One-time customers are also much more likely to cheat than loyal customers, and customers who do not have a personal relationship with service employees are more likely to take advantage of service recovery policies.

Service guarantees are often used as payouts in service recovery, and it has been shown that the amount of a guarantee payout (e.g., whether it is a 10% or 100% money-back guarantee) has no effect on consumer cheating. It seems that customers who cheat for a 100% refund also cheat for 10%, and that customers who do not cheat for 10% don't do so for 100% either. However, repeat purchase intention significantly reduces cheating intent. Another finding shows that customers are more reluctant to cheat if the service quality provided is truly high compared to when it is just satisfactory.[44]

Figure 13.16 Installing surveillance cameras in public car parks can discourage vandalism.

These findings suggest a number of important managerial implications:

1) Firms should ensure that their service recovery procedures are fair.

2) Large firms should recognize that consumers are more likely to cheat them and have robust fraud-detection systems in place.

3) Firms can implement and thus reap the bigger marketing benefits of 100% money-back guarantees without worrying that the large payouts would increase cheating considerably.

4) Guarantees can be offered to regular customers or as part of a membership program, because repeat customers are unlikely to cheat on service guarantees.

5) Truly excellent services firms don't have to worry as much about cheating as the average service provider.

SERVICE INSIGHTS 13.3

Tracking Down Guests Who Cheat

As part of its guarantee-tracking system, Hampton Inn has developed ways to identify guests who appeared to be cheating. Guests showing high invocation trends receive personalized attention and follow-up from the company's Guest Assistance Team. Wherever possible, senior managers telephone these guests to ask about their recent stays. The conversation might go as follows: "Hello, Mr. Jones. I'm the director of guest assistance at Hampton Inn, and I see that you've had some difficulty with the last four properties you've visited. Since we take our guarantee very seriously, I thought I'd give you a call and find out what the problems were."

The typical response is dead silence! Sometimes the silence is followed with questions about how headquarters could possibly know about their problems. These calls have their humorous moments as well. One individual, who had invoked the guarantee 17 times in what appeared to be a trip that took him across the United States and back, was asked, "Where do you like to stay when you travel?" "Hampton Inn," came the enthusiastic response. "But," said the executive making the call, "our records show that the last seventeen times you have stayed at a Hampton Inn, you have invoked the 100% Satisfaction Guarantee." "That's why I like them!" proclaimed the guest (who turned out to be a long-distance truck driver on a per diem for his accommodation expenses).

CHAPTER SUMMARY

LO 1 ▶ When customers are dissatisfied, they have several alternatives. They can:
- o Take some form of public action (e.g., complain to the firm or a third party or even take legal action).
- o Take some form of private action (e.g., switch to another provider and/or spread negative word of mouth).
- o Take no action.

LO 2 ▶ To effectively recover from a service failure, firms need to understand customer complaining behavior and motivations as well as what customers expect in response.
- o Customers typically complain for any combination of the following four reasons: (1) to obtain restitution or compensation, (2) to vent their anger, (3) to help to improve the service, and (4) to spare other customers from experiencing the same problems (i.e., they complain for altruistic reasons).
- o In practice, most dissatisfied customers do not complain as (1) they may not know where to complain, (2) they think it requires too much effort and is unpleasant, and (3) they perceive the payoffs of their effort as uncertain.
- o The people who are most likely to complain tend to be better educated, have higher incomes, are more socially involved, and have more knowledge about the product.
- o Customers are most likely to complain at the point-of-service provision (face to face and over the phone). Only a small proportion of complaints is made via other channels such as e-mail, social media, websites, or letters.

LO 3 ▶ Once customers make a complaint, they expect firms to deal with it in a fair manner along three dimensions of fairness:
- o Procedural fairness: Customers expect the firm to have a convenient, responsive, and flexible service recovery process.
- o Interactional justice: Customers expect an honest explanation, a genuine effort to solve the problem, and polite treatment.
- o Outcome justice: Customers expect a compensation that reflects the loss and inconvenience suffered as a result of the service failure.

LO 4 ▶ Effective service recovery can, in many cases, avoid customer switching and restore confidence in the firm. When customers complain, they give the firm a chance to correct problems, restore the relationship with the complainer, and improve future satisfaction. Service recovery is therefore an important opportunity to retain a valued customer.

LO 5 ▶ The *service recovery paradox* describes the phenomenon where customers who experience an excellent service recovery after a failure feel even more satisfied than customers who had no problem in the first place. However, it is important to note that this paradox does not always apply. It is best to get the service right the first time rather than provide expensive service recovery.

LO 6 ▶ Effective service recovery systems should:
- o Make it easy for customers to give feedback (e.g., provide hotline numbers, e-mail addresses, and social media channels on all communications materials) and encourage them to provide feedback.
- o Enable effective service recovery by making it (1) proactive, (2) pre-planned, (3) trained, and (4) empowered.
- o Establish appropriate compensation levels. Compensation should be higher if (1) a firm is known for service excellence, (2) the service failure is serious, and (3) the customer is important to the firm.

LO 7 ▶ The guidelines that front-line employees should follow to handle customer complaints and recover the service effectively include: (1) act fast; (2) acknowledge the customer's feelings; (3) don't argue with the customer; (4) show that you understand the problem from the customer's point of view; (5) clarify the truth and sort out the cause; (6) give customers the benefit of the doubt; (7) propose the steps needed to solve the problem; (8) keep customers informed of progress; (9) consider compensation; (10) persevere to regain customer goodwill; and (11) self-check the service delivery system and improve it.

LO 8 ▶ Service guarantees are a powerful way to institutionalize professional complaint handling and service recovery. Service guarantees set clear standards for the firm. They also reduce customers' risk perceptions and can build long-term loyalty.

PART IV

LO 9 ▶ Service guarantees should be designed to be: (1) unconditional, (2) easy to understand and communicate, (3) meaningful to the customer, (4) easy to invoke, (5) easy to collect on, and (6) credible.

LO 10 ▶ Not all firms stand to gain from service guarantees. Specifically, firms should be careful offering service guarantees when: (1) they already have a reputation for service excellence, (2) service quality is too low and has to be improved first, (3) aspects of service quality are uncontrollable because of external factors (e.g., the weather), and (4) customers perceive low risk when buying the service.

LO 11 ▶ Not all customers are honest, polite, and reasonable. Some may want to take advantage of service recovery situations, while others may inconvenience and stress front-line employees and other customers. Such customers are called jaycustomers.

o   There are seven groups of jaycustomers: (1) the Cheat, (2) the Thief, (3) the Rulebreaker, (4) the Belligerent, (5) the Family Feuders, (6) the Vandal, and (7) the Deadbeat.

o   Different types of jaycustomers cause different problems for firms and may spoil the service experience of other customers. Hence, firms need to manage their behavior, even if that means keeping track of how often a customer invokes a service guarantee or (as a last resort) blacklisting them from using the firm's facilities.

These keywords are found within the sections of each Learning Objective (LO). They are integral to understanding the services marketing concepts taught in each section. Having a firm grasp of these keywords and how they are used is essential to helping you do well on your course, and in the real and very competitive marketing scene out there.

LO 1
1. Complain
2. Defection
3. No action
4. Private action
5. Public action
6. Service failure

LO 2
1. "Double deviation"
2. Anger
3. Compensation
4. Concern for others
5. Customer complaining behavior
6. Customer feedback system
7. Dissatisfied customers
8. Interactive channels
9. Non-interactive channels
10. Online public complaining
11. Restitution
12. Socio-economic levels

LO 3
1. Interactional justice
2. Outcome justice
3. Perceived fairness
4. Procedural justice

LO 4
1. Complaint handling
2. Customer satisfaction
3. Customer loyalty
4. Service recovery

LO 5
1. Full satisfaction
2. Repeated service failures
3. Service recovery paradox

LO 6
1. Affected customer
2. Complaint-collection procedures
3. Customer complaint barriers
4. Empowered
5. Fair compensation
6. Feedback
7. Contingency plans
8. Overly generous compensation
9. Planned
10. Positioning
11. Proactive
12. Revenue management practices

13. Service recovery systems
14. Severity of service failure
15. Trained

LO 7
1. Confrontational customers
2. Effective problem resolution

LO 8
1. "Marketing muscle"
2. Perceived risks
3. Service guarantees
4. Standards

LO 9
1. "Combined guarantee"
2. Attribute-specific guarantee
3. Credible
4. Easy to invoke
5. Easy to understand
6. Meaningful
7. Full-satisfaction guarantee
8. Unconditional

PART IV

How well do you know the language of services marketing? Quiz yourself!

⚠ **Not for the academically faint-of-heart**

For each keyword you are able to recall without referring to earlier pages, give yourself a point (and a pat on the back). Tally your score at the end and see if you earned the right to be called—a *services marketeer*.

SCORE

01 – 12   Services Marketing is done a great disservice.

13 – 24   The midnight oil needs to be lit, pronto.

25 – 36   I know what you *didn't* do all semester.

37 – 48   By George! You're getting there.

49 – 60   Now, go forth and market.

61 – 73   There should be a marketing concept named after you.

Review Questions

1. How do customers typically respond to service failures?

2. Why don't many more unhappy customers complain? What do customers expect the firm to do once they have filed a complaint?

3. Why would a firm prefer its unhappy customers to come forward and complain?

4. What is the service recovery paradox? Under what conditions is this paradox most likely to hold? Why is it best to deliver the service as planned, even if the paradox does hold in a specific context?

5. How can a firm make it easy for dissatisfied customers to complain?

6. Why should a service recovery strategy be proactive, planned, trained, and empowered?

7. How generous should compensations related to service recovery be?

8. How should service guarantees be designed? What are the benefits of service guarantees over and above a good complaint handling and service recovery system?

9. Under what conditions is it not suitable to introduce a service guarantee?

10. What are the different types of jaycustomers? How can a service firm deal with such customers?

PART IV

Application Exercises

1. Think about the last time you experienced a less-than-satisfactory service experience. Did you complain? Why? If you did not complain, explain why not.

2. When was the last time you were truly satisfied with an organization's response to your complaint? Describe in detail what happened and what made you satisfied.

3. What would be an appropriate service recovery policy for a wrongly bounced check for (a) your local savings bank, (b) a major national bank, and (c) a private bank for high net-worth individuals? Please explain your rationale and also compute the economic costs of the alternative service recovery policies.

4. Design an effective service guarantee for a service with high perceived risk. Explain (a) why and how your guarantee would reduce perceived risk of potential customers and (b) why current customers would appreciate being offered this guarantee although they are already a customer of that firm and therefore are likely to perceive lower levels of risk.

5. How generous should compensation be? Review the following incident and comment. Then evaluate the available options, comment on each, select the one you recommend, and defend your decision.

   "The shrimp cocktail was half frozen. The waitress apologized and didn't charge me for my dinner,"

was the response of a very satisfied customer about the service recovery he received. Consider the following range of service recovery policies a restaurant chain could set, and try to establish the costs for each policy:

Option 1: Smile and apologize, defrost the prawn cocktail, return it, and smile and apologize again.

Option 2: Smile and apologize, replace the prawn cocktail with a new one, and smile and apologize again.

Option 3: Smile and apologize, replace the prawn cocktail, and offer a free coffee or dessert.

Option 4: Smile and apologize, replace the prawn cocktail, and waive the bill of $80 for the entire meal.

Option 5: Smile and apologize, replace the prawn cocktail, waive the bill for the entire dinner, and offer a free bottle of champagne.

Option 6: Smile and apologize, replace the prawn cocktail, waive the bill for the entire dinner, offer a free bottle of champagne, and give a voucher for another dinner to be redeemed within three months.

6. Identify the possible behavior of jaycustomers for a service of your choice. How can the service process be designed to minimize or control the behavior of jaycustomers?

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CASE 16

LUX*: Staging a Service Revolution in a Resort Chain

Jochen Wirtz and Ron Kaufman

LUX* was a successful hospitality group operating in the Indian Ocean as well as other locations. In its previous incarnation, the company suffered from poor financial performance, poor service quality, and a weak brand. A change in the leadership of the company prompted a transformation that showed positive results within 12 months. This case study describes a service revolution that led to rapid improvements in service culture and guest experience, which in turn led to sustained financial improvements on a quarter-on-quarter basis.

INTRODUCTION

With its headquarters in Mauritius, the LUX* hospitality group operated a portfolio of eight resorts and a private island in the Indian Ocean (Exhibit 1). The brand promised guests a celebration of life through its new value proposition—luxury resort hospitality that is "Lighter.Brighter."

What is the "Lighter.Brighter" hospitality? Established luxury hotels had come to be associated with stiff-upper-lipped service and stuffy opulence. Lighter hospitality meant breaking away from these precedents to offer a more effervescent experience without compromising on the hotel's upscale sensibilities. At the same time, LUX* wanted to brighten up guest experiences. For example, the company significantly lowered the prices of items in the mini-bar to encourage guests to just take what they fancied and enjoy themselves. Such measures allowed LUX* to ensure that both guests and business would benefit from its operations.

Although LUX* was launched only four years ago, the group's resorts have been doing exceptionally well. Within a short span of time, LUX* has successfully transformed its service

culture. The group has seen 16 consecutive quarter-on-quarter improvements in its financial performance. The group's resorts also enjoy a higher occupancy rate than the industry average in the destinations where they operate (measured quarterly by the Market Penetration Index, which compares the hotel's occupancy against its competitive set). The group's financial performance is reflected in the multiple accolades it has won for service excellence. These include the "Indian Ocean Leading Hotel" award for LUX* Maldives from World Travel Awards, the "Best Resort Hotel Mauritius" award for LUX* Belle Mare from International Hospitality Awards, and the "Reunion Island's Leading Hotel" award for LUX* Ile de la Réunion from World Travel Awards.

THE DARK AGES

However, things were not always this rosy. Before LUX* was launched in 2011, the group was known as Naiade Resorts, and the company suffered from poor financial health. None of its hotels were on the list of top 10 hotels on TripAdvisor in their geographic competitive sets. To top it off, the Naiade brand lacked clarity. Its brand name was used for nine different properties ranging from three to five stars, creating an unclear positioning in the minds of consumers. The problems in its positioning became apparent when the global financial crisis struck in 2008–2009, causing a large drop in occupancy and room rates (Exhibit 2). The group's troubles culminated in 2011 with a criminal case involving the high-profile murder of an Irish hotel guest.

Having witnessed prolonged economic turmoil and a criminal case, the motivation and morale of hotel employees were unprecedentedly low. Financially, the impact of these troubles cumulated in a downward trajectory in the company's performance from 2008 to 2010 (Exhibit 3). The company reported a loss in 2010.

Exhibit 1: Some of the LUX* resorts in the Indian Ocean.

LUX* Belle Mare's Pool

LUX* Belle Mare's Beach

LUX* Belle Mare's Villa

LUX* Le Morne

LUX* Le Morne's Beach

Note: LUX* owns eight seaside resorts by the Indian Ocean. Each of them are fitted with an expansive infinity pool, stylish bars and ocean themed furnishings.

After hitting rock bottom, the company's management had to move fast, and Naiade Resorts achieved a turnaround within a very short span of time. By mid-2011, Naiade Resorts saw an improvement in its service, and this quickly translated into improved financial performance. Since then, the company has witnessed substantive and consistent service culture improvement and financial performance growth. How did the group manage this turnaround so quickly?

LUX* TRANSFORMATION

The very first step in Naiade's transformation can be traced back to the second half of 2010. In dire straits then, the board of directors of Naiade Resorts made changes to the company's leadership and appointed Paul Jones as CEO in October 2010.

Under Jones's leadership, many changes were introduced to the organization within the first 12 months of his appointment. They were aimed at rapidly improving the profitability of the business and creating a world-class brand that could eventually expand internationally. However, this marked a difficult transitional period for Naiade Resorts, which was in financial doldrums. Every month, the company struggled to pay salaries. Some employees even wondered if the changes would sink the company further.

Observing how dire the situation was, Jones commented, "The numbers pre-2010 were alarming and the company was sinking fast and would have been bankrupt had it not been for the capital injection from shareholders. In addition, the properties were in poor shape and staff morale was exceedingly low."

Together with his team, Jones focused transformation efforts on four main areas through an integrated and congruent strategy (Exhibit 4). First, he looked into the company's core strategy as well as the company values. Naiade Resorts' business model was shifted from one of owning hotels to one of managing them following an asset-light strategy. This new model would reduce the company's cash outlay, as owning hotels can be highly capital extensive. For example, buying a modest-sized resort in Mauritius is estimated to cost upwards of 15 million. The new business model would reduce the company's risk exposure and allow it to expand at a faster rate. This shift provided a critical impetus for the company to concentrate on improving its service delivery.

To decide how to go forward, Paul Jones flew in the general managers from its resorts and the group's senior management from all over the world. The managers and executives from various levels made important decisions on the company. These include the company's new Vision, Purpose, and Values

Exhibit 4: LUX*'s four-pronged approach.

Pre 2009: Naiade resorts acquired new resorts and renovated two resorts.

New Vision, Purpose and Values (VPV) was introduced.

Internal audits and LUX* Shining Hospitality Standards (LSHS) were introduced.

Introduced role of Chief Quality Assurance and Innovation Officer.

A new incentive scheme for the management team, an online feedback system, and mystery shopping were launched.

The new incentive scheme was cascaded to team members.

Market Metrix was introduced to instantaneously track customer experience.

Global economic crisis affected tourism industry severely.

2009   2010   2011   2012   2013   2014

Paul Jones was appointed as the new CEO.

Rebranded as LUX* and Reasons to Go (RTG) LUX* were introduced.

LUX* Innovation Challenge, was launched to crowdsource ideas internally. Quality Assurance Manual was introduced.

A review of "RTG LUX*" was completed that which strengthened existing innovations and planted the seeds for new innovations.

Naiade Resorts began seeing improvements in its financial performance.

Second phase of service training was rolled out.

Training programs were rolled out 3 months before re-branding to enable team members to achieve new service standards as well as prepare the organization for the re-branding exercise.

Legend to four-pronged approach:
- Vision, Purpose, and Values
- Measurements, Feedback, and Incentives
- Innovation and Differentiation
- Changing Service Culture through Training

Note: LUX*'s service revolution can be encapsulated by a four-pronged approach. After a change of leadership, Jones and his team swiftly introduced important changes in multiple areas that proved to be critical in turning the company around. The company has since continued to build on this momentum to continually improve.

(VPV); a new name for the business; and the re-defining of service standards. Many of these changes were implemented almost immediately after being agreed upon. This allowed for a progressive roll-out of the company's new strategy.

Second, to engage and reinvigorate its staff in the transformation, the top management decided it had to build the company's service culture from scratch. This included extensive training across all levels of the organization, an alignment of expectations of service standards, and a psychological and tangible breakaway from the old Naiade Resorts.

Third, Jones leveraged a fledgling spirit of innovation to build an organization that is bold, open to ideas and experimentation, and willing to accept failure. This was aimed at enabling LUX* to differentiate its value proposition.

Lastly, as CEO, Jones also embedded various performance management tools to sustain transformation. These tools included

the measurement of service and the use of employee-incentive schemes to re-align a transformed organization.

In the review of this four-pronged approach, the first major change was the introduction of the new VPV.

VISION, PURPOSE, AND VALUES

Before any transformation could occur, Jones needed a guiding compass that would provide a foundation for the new Naiade Resorts. A professional credo would expound the company's aspirations and provide a fundamental rallying zeitgeist for the staff. The Vision, "We Make Each Moment Matter" and the Purpose, "Helping People Celebrate Life" were crafted, and the Values of "People, Passion, Integrity, Leadership, and Creativity" were selected. These tied in closely with how staff members were expected to behave and interact with guests.

Between February 2011 and August 2011, every team member of Naiade was called upon to participate in the VPV foundation

delivering service that was distinctively LUX*. For example, LSHS provided guidance to employees by grooming them and training them on how they should interact with guests. A company-wide standard, LSHS was adapted to each resort in the form of standard operating procedures. The company also changed the way it tracked these new standards. For instance, it began to use internal audits in place of mystery shopping.

FUTURE PLANS

Having successfully revolutionized its service through a four-pronged approach, LUX* was in a much better position to implement its asset-light strategy in 2015. It had already signed a number of long-term management agreements for upcoming hotels in the Maldives and China.

By the end of 2016, LUX* expects to have almost a third of its portfolio owned by third parties but managed by LUX*.

Finally, LUX* has entered into a franchise agreement to open Café LUX*, a Reason to Go LUX* concept, outside the hotel. With its strong service culture, LUX* aims to become a global company with a bigger footprint.

STUDY QUESTIONS

1. What were the main factors that contributed to LUX* Resorts' successful service revolution?

2. What key challenges did LUX* face while carrying out its transformation? How were they addressed, and what else could have been done?

3. What are the next steps that LUX* should take to cement its strong service culture, continue service innovation, and maintain its high profitability?

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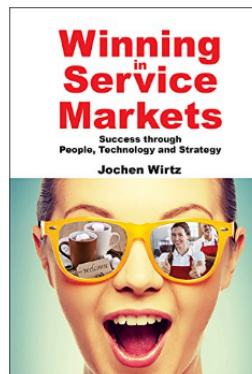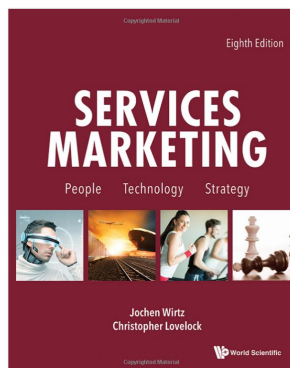- Hardcover
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