St. Mary's University

Faculty of Business

Department of Marketing Management

Module on

Services Marketing

Compiled by

Ibrahim Fedlurahman

September 2020

Addis Ababa, Ethiopia

Module Introduction

This course will help students to learn the fundamentals of services marketing from a practical point of view. The course focuses on the needs of customers, who are to be kept satisfied and delighted for a business to prosper. The course will help students understand services marketing from various perspectives and will also be useful if participants wish to establish a new service business or manage an existing one.

The need for specialized skills in Services Marketing has grown in recognition of the important role of services in advanced economies. This course addresses the essential nature of services and the role of service quality. Employees' role in service delivery and the emotional load for service workers form an important focus of the course.

In addition to the mentioned issues above this course will attempt 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, SERVQUAL and SERVPERF, more specifically in the context of service industries.

Service sector firms face increased competition and more demanding customers. Marketers need to develop a distinct set of competencies to design, manage, and evaluate the processes and performances that comprise the service offering.

Module Objectives

After completing this course, students will be able to:

- Distinguish various dimensions of services offer and key issues regarding customer evaluation;
- Put in place means and ways of identifying and managing issues related to customer expectations, perceptions, and outcomes;
- Outline the basic differences between goods and services
- Elaborate challenges that prevail in service businesses.
- Employ various relationship building and services recovery approaches;
- Analyze services design and plan for effective service delivery.

Table of Contents

Content	Page
Module Introduction	
CHAPTER ONE	
INTRODUCTION TO SERVICES MARKETING	
1.1. Introduction	1
1.2. What are services?	2
1.3. Why service marketing	5
1.3.1. Service-Based Economies	5
1.3.2. Service as a Business Imperative in Goods-Focused Businesses	6
1.3.3. Service Marketing Is Different	7
1.3.4. Service Equals Profits	7
1.4. Characteristics of Services	9
1.4.1. Intangibility	9
1.4.2. Heterogeneity	11
1.4.3. Inseparability (Simultaneous Production and Consumption)	13
1.4.4. Perishability	15
1.5. The service marketing triangle	21
1.6. Goods versus services marketing	22
1.7. Growth in Service Sector	23
CHAPTER TWO	
CUSTOMER EXPECTATION AND CUSTOMER PERCEPTION OF SERVICE	
2.1.Meaning and types of service expectations	30
2.2.A model of customer service expectations	31
2.3.Factor that influence customer expectations of service	35
2.3.1. Sources of Desired Service Expectations	35
2.3.1.1.Personal Needs	35
2.3.1.2.Personal Service Philosophy	36
2.3.1.3.Derived Service Expectations	36
2.3.2. Sources of Adequate Service Expectations	37
2.3.2.1.Perceived Service Alternatives	37
2.3.2.2.Situational Factors	38

2.3.2.3.Predicted Service 39
2.3.3. Sources of Both Desired and Predicted Service Expectations 40
2.3.3.1.Explicit Service Promises 40
2.3.3.2.Implicit Service Promises 41
2.3.3.3.Word-of-Mouth Communication 41
2.3.3.4.Past Experience 42
2.4.Customer perceptions 42
2.5.Customer satisfaction 43
2.6.Service quality and Gap Model of service quality 46
2.6.1. Gap Model 48
2.6.1.1.The Provider Gap 48
2.6.1.2.The Customer Gap 52
2.6.2. SERVQUAL and SERVPERF 53
2.7.Gap Model Vs SERVQUAL Vs SERVPERF 55
2.7.1. Measuring service quality in GAP Model 56
2.7.2. Measuring service quality in SERVQUAL Model 56
2.7.3. Measuring service quality in SERVPERF Model 57
2.8.E-Service Quality 58
2.9.Service Encounters or Moments of Truth 58
2.9.1. Types of Service Encounter 60
2.9.2. Sources of Pleasure and Displeasure in Service Encounters 61
CHAPTER THREE
BUILDING CUSTOMER RELATIONSHIP
3.1.Relationship Marketing 65
3.2.The Evolution of Customer Relationships 67
3.2.1. Customers as Strangers 67
3.2.2. Customers as Acquaintances 67
3.2.3. Customers as Friends 68
3.2.4. Customers as Partners 68
3.3.The Goal of Relationship Marketing 69
3.4.Relationship Value of Customers 70
3.5.Foundation for relationship strategies 71
3.5.1. Quality in the Core Service 71

3.5.2. Market Segmentation, Targeting and Positioning 72
3.5.2.1. A Process for Market Segmentation and Targeting in Services 73
3.5.2.2. Positioning of Services 75
3.5.2.3. Methods of positioning 75
3.5.2.4. Positioning maps 76
3.5.2.5. Role of Service Positioning Map 77
3.5.3. Monitoring Relationships 77
3.6. Retention Strategies 78
CHAPTER FOUR
SERVICE RECOVERY
4.1.The impact of service failure and recovery 84
4.2.Service Recovery Effects 84
4.3.How customers respond for service failure 86
4.4.Why do (and don't) people complain 87
4.5.Types of Customer Complaint Actions 88
4.6.Types of Complainers 89
4.7.Service recovery strategies 90
4.7.1. Service Recovery Strategy: fixing the customer 91
4.7.1.1.Respond Quickly 91
4.7.1.2.Provide Appropriate Communication 92
4.7.1.2.1. Display Understanding and Accountability 92
4.7.1.2.2. Supply Adequate Explanation 93
4.7.1.3.Treat Customers Fairly 93
4.7.1.4.Cultivate Relationships with Customers 94
4.7.2. Service Recovery Strategy: fixing the problem 94
4.7.2.1.Encourage and Track Complaint 94
4.7.2.2.Learn from Recovery Experiences 95
4.7.2.3.Learn from Lost Customers 95
4.7.2.4.Make the Service Fail-Safe—Do It Right the First Time! 95
4.7.3. Service Guarantees 95
4.7.3.1.Characteristics of Effective Guarantees 96
4.7.3.1.1. Limited Restrictions and Exclusions 96
4.7.3.1.2. Meaningful 96

4.7.3.1.3. Easy to Understand 97
4.7.3.1.4. Easy to Invoke 97
4.7.3.2.Types of Service Guarantees 97
CHAPTER FIVE
THE SERVICES MARKETING MIX
4.1.The traditional mix for service (4P's) 100
4.1.1. Delivering and Performing Service 100
4.1.1.1.Employee's role in service delivery 100
4.1.1.1.1. The effect of Employee Behaviors on Service Quality Dimensions 102
4.1.1.1.2. Strategies for Delivering Service Quality Through People 103
4.1.1.2.Roles of customers in service delivery 104
4.1.1.3.Strategies for enhancing customer participation 108
4.1.1.4.Concept of service intermediaries 108
4.1.1.5.Concept of electronic channels and its challenges in services industry 109
4.1.2. Integrated Services Marketing Communications 110
4.1.2.1.Concept of integrated services marketing communications 110
4.1.2.2.Reasons for service communication problems 111
4.1.2.3.Strategies to match service promises with service delivery 115
4.1.3. Pricing of Services 116
4.1.3.1.Concept of value to customers 117
4.1.3.2.Role of price as an indicator of service quality 118
4.1.3.3.Approaches to pricing services 119
4.1.3.4.Strategies used by companies to price services 119
4.2.The expanded mix for service (3P's) 125
4.2.1. Process 125
4.2.2. Physical Evidence 126
4.2.3. People 128
CHAPTER SIX
SERVICE DEVELOPMENT AND DESIGN
6.1.Challenges of service and design 132
6.2.New service development 133
6.2.1. Types of new services 134
6.2.2. Stages in new service development 137

6.3.Service blueprinting 141
6.4.Quality Function Deployment (QFD) 143
Reference vi

CHAPTER ONE

INTRODUCTION TO SERVICES MARKETING

1.1. Introduction

Marketing is often defined in terms of products and services. Service marketing means to provide services to those who are in need of services. Both product marketing and service marketing include the same principles and problems. Most of the marketing executives and top-level administrators focus their attention on the products only because industrial products determine the standard of living and it is assumed that services can also be marketed in equally with the same way as products.

However, during the last three decades, situation was totally changed. In the past, the industrial sector as well as the service sector had a very rapid growth and the services decided the quality of living standard. Economic development and social-cultural changes also helped the service sector to grow rapidly. Products can mainly satisfy the physical needs only but services fulfill the social and psychological needs of the people.

Service industry is much older than the manufacturing industry. Concerned expertise and businesspersons all over the world commonly offered services like the medical treatment, transportations, astrology etc. The Industrial Revolution, however, in 18th century (read more on the issue) diverted the focus to manufacturing industries with high intensity. Hence, a bulk volume of the manufactured products has been characterized the emergence of Industrial sector.

The present era brings by the revolutionary change in the service industry. A variety of services ranging from babysitter to event management has become a part of the running of the household and corporate world. The diversity of services has created the issue of defining service sector, which is a complex one.

It is frequently said that "everything is a service" and "all businesses are service businesses." Clearly no one would argue that brand icons like Disney, Marriott, and Starbucks are service companies−service is the core of their business and service excellence is a key to their success. Companies like Siemens, IBM, Cardinal Health, and General Electric are also service providers. They compete effectively in their industries by providing essential services like

training, repair, and distribution associated with their products, but also more sophisticated services like consulting, data and technology services, and business process outsourcing in their areas of expertise. Even consumer product companies like Apple and Samsung are service providers. For these companies, services are embedded in the products themselves, with smart phones and tablets providing essential services and solutions that many of us find critical to our daily lives

Chapter Objectives: After completing this chapter students will be able to;

- Define what service and services marketing is
- Differentiate between services and goods
- Explain reasons for the growth of services
- Analyze the service triangle and
- List and define characteristics of services along with the possible solutions

1.2. What are services?

Before discussion the subject matter, can you explain what service is and what service marketing is? What do you know about service industry? Manufacturing industry? Are they different? Give your view?

In 1966 Rathmell observed that most marketers have some idea of the meaning of the term 'goods'; they are tangible economic products that are capable of being seen and touched and may or may not be tasted, heard or smelled. As for services, Rathmell asserted that there was no clear understanding. He sought to change this by defining a good as a thing and service as an act, the former being an object, an article, a device or a material and the latter a deed, a performance, or an effort. Economic products were to be regarded as lying along a goods–services continuum with pure goods at one extreme and pure services at the other, but with most of them falling between these two extremes (see Fig. 1.1). For the food and tobacco category, percentage personal consumption expenditure on the services was nil. For recreation it was 30 per cent and for religious and welfare activities, 100 per cent.

Sixteen years later Shostack developed a refined version of the goods–services continuum and it remains a valuable perspective for understanding the nature of services (see Fig. 1.2). The essence of the continuum is that tangibility (ability to see, touch, smell, hear prior to purchase) decreases as one moves from left to right. Tangible entities are in evidence, such as equipment used by a nurse but, in general, they cannot be owned or possessed like salt or dog food. Every

organization on the continuum delivers some degree of service as part of its total offer. However, it is the organizations to the right (of television) which deliver most in the way of service and can therefore truly bear the hallmark 'service organizations'.

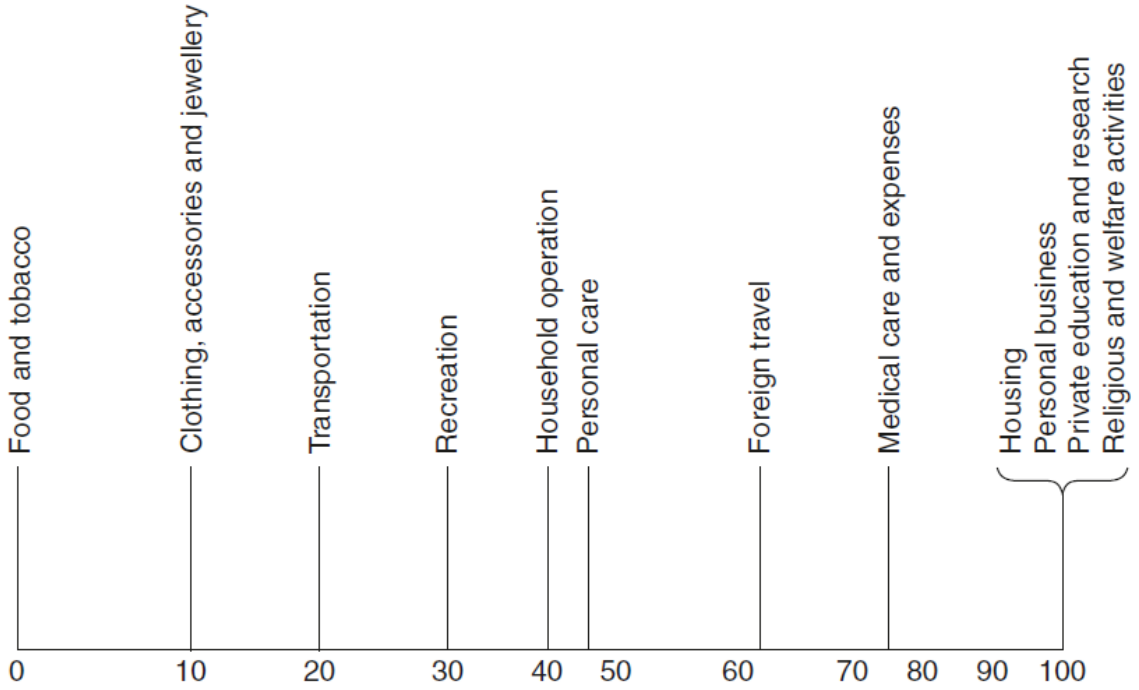


Fig.1.1 Personal consumption expenditure related to services Source: Rathmell (1966)

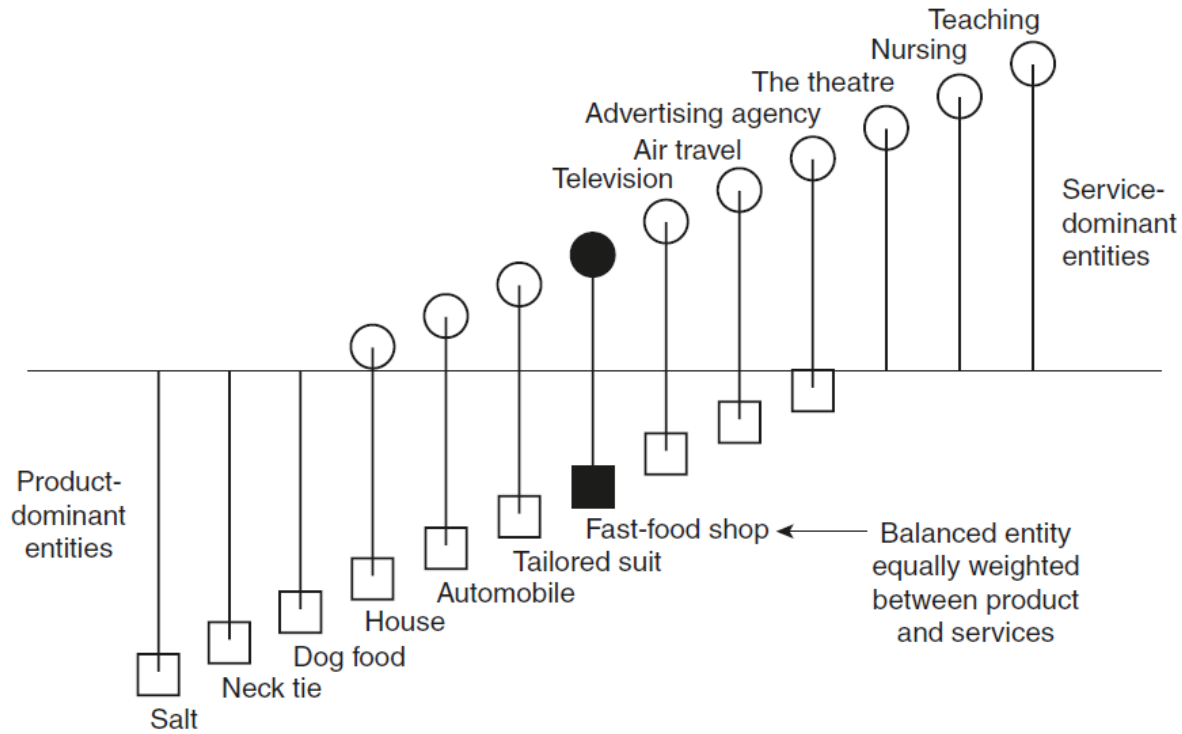


Fig.1.2 A scale of elemental dominance Source: Shostack (1982)

It is important to make a distinction between those for whom service is part of the overall offer (e.g. computer manufacturer, car dealer, fashion retailer) and those for whom service is the offer (e.g. bank, hotel, airline, accountant), as the latter exhibit particular characteristics that merit attention.

As consumers, we use services every day. Turning on a light, watching TV, talking on the telephone, riding a bus, visiting the dentist, mailing a letter, getting a haircut, refueling a car, writing a check, or sending clothes to the cleaners are all examples of service consumption at the individual level. The institution at which you are studying is itself a complex service organization. In addition to educational services, today's college facilities usually include libraries and cafeterias, counseling, a bookstore, placement offices, copy services, telecommunications, and even a bank. If you are enrolled at a residential university, campus services are also likely to include dormitories, health care, indoor and outdoor athletic facilities, a theater, and perhaps a post office. However, what is service and what is services marketing really are?

In most simple terms service is the action of doing something for someone or something. It is largely intangible (i.e. not material). A product is tangible (i.e. material) since you can touch it and own it. A service tends to be an experience that is consumed at the point where it is purchased, and cannot be owned since is quickly perishes. A person could go to a café one day and have excellent service, and then return the next day and have a poor experience.

Services are deeds, processes, and performances provided, coproduced, or co-created by one entity or person for and/or with another entity or person.

The American Marketing Association defines services as "activities, benefits or satisfactions, which affect sale or are provided in connection with the sale of goods."

According to William Stanton, "Services are those separately identifiable, essential intangible activities which provide want satisfaction and are not necessarily tied to the sale of a product or another service." In the words of Philip Kotler, "A service is any activity or benefit that one party can offer to another that is essentially intangible and does not result in the ownership of anything."

Services marketing is marketing based on relationship and value. It may be used to market a service or a product. The perception of service marketing gives emphasis on selling the services

in the best interest of users. Marketing of service means marketing of something which is intangible. It is marketing of promises.

1.3. Why Service Marketing?

Service marketing is an art. Capacity of a service provider is of prime importance because it can attract the clients to obtain the services. It also requires impressive public relations. The organization, which maintains good rapport with client, is always a winner. At present, the regulatory agencies of governments play very important role at every junction. Thus, the service providers have to establish good rapport and live liaison with them to make clients demands fulfilled in time.

Marketing a product-base business is different from marketing of a service–base business. Healthcare marketing falls under the category of service marketing. Hence, it develops through service marketing. Here are some of the reasons why to study service marketing:

1.3.1. Service-Based Economies

The size of the service sector is increasing in many countries around the world. Most developed and emerging countries experience the growth of many service industries, which contribute considerably to the national economies. The service sector accounts for two-thirds of the value of the GDP globally, and it is an important source of employment and exports for many countries (see Table 1.1.)

Table. 1.1. Estimated size of main sectors in selected countries as a percentage of GDP

	Agriculture	**Industry**	**Services**
World	6.0	30.9	63.2
European Union	1.8	25,0	73.1
The United States	1.1	22.1	76.8
China	10.2	46.9	43.0
Japan	1.4	24.9	73.8
Saudi Arabia	2.6	61.8	35.7
Nigeria	31.9	32.9	35.2
Source: World Economic Outlook Database, International Monetary Fund, 2011, The World Factbook, Central Intelligence Agency, www.cia.gov. Data for 2010.			

The service sector represented more than 80 percent of total employment in 2014 and 81 percent of gross domestic product of the United States in 2016. Almost all the absolute growth

in numbers of jobs and the fastest growth rates in job formation are in service industries, particularly health care and IT professional services.

There is a growing market for services and increasing dominance of services in economies worldwide (see Table 1.2.). This growth is apparent in established economies as well as emerging economies such as China, where the central government has placed a priority on service sector growth. The growth of the service sector has drawn increasing attention to the challenges of service sector industries worldwide.

Table. 1.2. Selected countries service contribution as a percentage of GDP

Country	Services GDP as of 2015	Country	Services GDP as of 2015
Hong Kong	93	Canada	71
UK	80	Germany	69
Netherlands	80	New Zealand	69
France	79	Australia	67
United States	78	Sweden	65
Singapore	76	Mexico	62
Japan	72	India	54
Brazil	72	China	48
Source: The CIA World Fact Book, 2015.			

1.3.2. Service as a Business Imperative in Goods-Focused Businesses

Early in the development of the field of service marketing and management, most of the impetus came from service industries such as banking, transportation, hospitality, and health care. As these traditional service industries have evolved and become even more competitive, the need for effective service management and marketing strategies has continued. Now, however, companies across industries have discovered the value of service innovation and service growth strategies. Manufacturers (e.g., GE, Caterpillar), technology companies (e.g., Avnet, Xerox, IBM), retailers (e.g., PetSmart), and even packaged goods companies (e.g., Procter & Gamble) have begun to discover the potential for service-led growth. All of these companies have realized that an excellent product alone is not a guarantee for long-term success.

Why are all these companies choosing to focus on services? There are a number of reasons. First, the commoditization of products in many industries has resulted in price and margin pressures on many physical goods. Services can help firms to customize their offerings, adding value for customers. Second, customers are demanding services and solutions, especially in business-to-business markets. In many situations, customers demand a solution to their problem or challenge that involves multiple products and services. They look to their providers to create and deliver these product-service solutions. Third, services often have higher profit margins than products and can thus provide platforms for firm profitability. As you will learn in later chapters, customer loyalty and customer satisfaction are driven in large part by service quality and service offerings. Again, this knowledge provides firms with another reason to develop services and cement customer loyalty through high-quality service. Finally, many industries are highly competitive today and service can be a differentiator in a crowded market.

As firms transition into services, they often encounter serious challenges in terms of culture change, sales and channel issues, and a need for expertise in designing and delivering services. These companies are typically engineering, technology, science, or operations driven. Their expertise is anchored in what they produce. As these companies transition and seek to grow through service, they find they need a new service logic, and the special concepts and approaches for managing and marketing services become increasingly apparent.

1.3.3. Service Marketing Is Different

Marketing and managing services presented issues and challenges not faced in manufacturing and packaged goods companies (see Exhibit 1.1 to identify the differences and challenges which were captured in a series of interviews by management consultant Gary Knisely). People who moved from marketing in packaged goods industries to marketing in health care, banking, and other service industries found that their skills and experiences were not directly transferable. They faced issues and dilemmas in marketing services that their experiences in packaged goods and manufacturing had not prepared them for. These people realized the need for new concepts and approaches for marketing and managing service businesses.

1.3.4. Service Equals Profits

In the final decades of the 20th century, many firms jumped on the service bandwagon, investing in service initiatives and promoting service quality as ways to differentiate themselves and create competitive advantage. Many of these investments were based on faith and intuition by

managers who believed in serving customers well and who believed in their hearts that quality service made good business sense. Indeed, a dedication to quality service has been the foundation for success for many firms, across industries.

How does service affect profits? Managers were first interested in this question in the late 1980s, when service quality emerged as a pivotal competitive strategy. The executives of leading service companies such as FedEx and Disney were willing to trust their intuition that better service would lead to improved financial success. Without formal documentation of the financial payoff, they committed resources to improving service and were richly rewarded for their leaps of faith. In the 1990s, the strategy of using service for competitive advantage and profits was embraced by forward-thinking manufacturing and information technology companies such as General Electric and IBM. However, executives in other companies withheld judgment about investing in service, waiting for solid evidence of its financial soundness.

Exhibit 1.1 Is the Marketing of Services Different? A Historical Perspective

In 1979 Gary Knisely, a principal of the consulting firm Johnson Smith & Knisely, asked the title question to practicing service marketers. Specifically, Knisely interviewed several high-ranking marketing executives who had all gone to work in consumer services after extensive experience in the consumer packaged goods industry (known for its marketing prowess).

These executives found differences, all right. Their discoveries came from attempts to apply (with mixed success, it turned out) consumer goods marketing practices directly to services. James L. Schorr of Holiday Inns Inc., formerly with Procter & Gamble, found that he could not overlay a consumer goods firm's marketing system onto a service firm. He, and the other executives interviewed, expressed certain recurring themes. First, more variables exist in the marketing mix for services than for consumer goods. Schorr claimed that in a service business, marketing and operations are more closely linked than in a manufacturing business; thus, the service production process is part of the marketing process. Second, customer interface is a major difference between goods marketing and services marketing. Executives from packaged goods companies never had to think in terms of a direct dialogue with their customers. For Schorr, the marketing of hotel rooms boiled down to a "people-on-people" sale. Robert L. Catlin, in relating his experience in the airline industry, stated, "Your people are as much of your product in the consumer's mind as any other attribute of the service." People buy products because they believe they work. But with services, people deal with people they like and they tend to buy services because they believe they will like them. This thought process makes the customer–employee interface a critical component of marketing.

The executives also commented on how the marketing mix variables common to both goods and services have vastly different implications for marketing strategy in the two contexts. In the distribution and selling of services, the firm cannot rely on well-stocked shelves past which the consumer can push a cart and make selections. Consumers' exposure to the full range of need-fulfilling service products may be limited by the salesperson's "mental inventory" of

services and how he or she prioritizes them. You could say that the service product manager is competing for the "mental shelf space" of the firm's sales personnel. For Rodney Woods, group marketing officer at United States Trust Co., pricing was the most critical factor in the marketing of services versus products. For Woods, determining the costs associated with service production and delivery proved very difficult, much more of a challenge than he had faced in his earlier career working with such large packaged goods companies as Pillsbury, Procter & Gamble, and Bristol-Myers. Also, the benefits of using price as a promotional weapon were not as apparent. Promotional price cuts tended to erode hard-fought positioning and image.

While scholars debated early on the issue of whether marketing management differs for goods versus services, for top managers with experience in both areas the differences were pronounced in 1979. They still are today. The differences that these early service marketers noted were the impetus for many of the ideas, concepts, and strategies practiced today.

Source: This discussion is based on interviews conducted by Gary Knisely that appeared in Advertising Age on January 15, 1979; February 19, 1979; March 19, 1979; and May 14, 1979.

1.4. Characteristics of Services

There are different modes of services provided to the customers. Services have a number of distinctive characteristics which differentiate them from goods and have a number of important marketing implications which necessitate different marketing strategies. The four characteristics of services are: intangibility, inseparability, heterogeneity, and perishability;

1.4.1. Intangibility

The most basic distinguishing characteristic of services is intangibility. Because services are performances or actions rather than objects, they cannot be seen, felt, tasted, or touched in the same manner that you can sense tangible goods. For example, health care services are actions (such as surgery, diagnosis, examination, and treatment) performed by providers and directed toward patients and their families. These services cannot be seen or touched by the patient, although the patient may be able to see and touch certain tangible components of the service (like the equipment or hospital room). In fact, many services such as health care are difficult to grasp even mentally. Even after a diagnosis or surgery has been completed the patient may not fully comprehend the service performed, although tangible evidence of the service (e.g., incision, bandaging, pain) may be apparent.

- **Resulting Marketing Implications**

Intangibility presents several marketing challenges. Many services cannot be inventoried due to capacity constraints, and therefore fluctuations in demand are often difficult to manage. For

example, there is tremendous demand for cinemas and alike in Addis in July -September but little demand in other times. Yet cinema owners have the same number of sits to sell year-round.

Services cannot be easily patented, and new service concepts can therefore easily be copied by competitors. Services cannot be readily displayed or easily communicated to customers, so quality may be difficult for consumers to assess. Decisions about what to include in advertising and other promotional materials are challenging, as is pricing. The actual costs of a "unit of service" are hard to determine, and the price–quality relationship is complex.

- **Possible solutions to intangibility problems**

Marketing practitioners have implemented a number of strategies in an attempt to offset or minimize the marketing challenges posed by intangibility. These strategies include:

- **The use of tangible clues to help 'tangibles' the service**: Given the absence of tangible properties, services are evaluated differently from goods. The abstract nature of some services makes it difficult for the average consumer to understand them. In many instances, consumers look at the physical evidence or tangible clues that surround the service to assist them in making service evaluations. Tangible clues may include such evidence as the quality of furniture in a lawyer's office, the appearance of the staff at a bank, or the quality of paper used for an insurance policy. One strategy embraced by many service organizations is to use some form of tangible clue in their advertising.
- **The use of personal sources of information to help spread the word about service alternatives**: Because consumers of services lack any objective means of evaluating them, they often rely on the subjective evaluations of friends, family and a variety of other opinion leaders. Hence, in purchasing services, personal sources of information (e.g., word of mouth and referrals) become more important to consumers than non-personal sources such as the mass media (e.g., television, radio and the Yellow Pages). One strategy often used to stimulate word-of-mouth advertising is to offer incentives to existing customers to tell their friends about a service organization's offerings.
- **The creation of strong organizational images to reduce the amount of perceived risk associated with service purchases**: The intangibility of services and the lack of objective sources of information to evaluate services mean that the amount of perceived risk associated with service purchases is generally greater than their goods counterparts.

In an attempt to combat the higher levels of perceived risk, some service organizations have spent a great deal of effort, time and money in developing a strong organizational image. A well-known and respected corporate image can also reduce the reliance on personal sources of information when making service provider choices. For example, when moving to a new area, a customer may bypass personal referrals and automatically seek out the nearest nationwide insurance agent for their home and car insurance needs based on the insurer's strong organizational image. Through image development and subsequent brand awareness nationwide, the insurance company could develop a differential advantage.

Although marketers may not be totally capable of eliminating the effects of intangibility, strategies such as these have provided innovative solutions for many service industries.

1.4.2. Heterogeneity

Because services are performances, frequently produced, consumed, and often co-created by humans, no two services will be precisely alike. The employees delivering the service frequently are the service in the customer's eyes, and people may differ in their performance from day to day or even hour to hour. Heterogeneity also results because no two customers are precisely alike; each will have unique demands or experience the service in a unique way. Because services are often coproduced and co-created with customers, customer behaviors will also introduce variability and uncertainties, resulting in heterogeneity of outcomes. Thus, the heterogeneity connected with services is largely the result of human interaction (between and among employees and customers) and human behaviors, as well as all of the vagaries that accompany them. For example, a tax accountant may provide a different service experience to two different customers on the same day depending on their individual needs and personalities and on whether the accountant is interviewing them when he or she is fresh in the morning or tired at the end of a long day of meetings.

- **Resulting Marketing Implications**

Because services are heterogeneous across time, organizations, and people, ensuring consistent service quality is challenging. Quality actually depends on many factors that cannot be fully controlled by the service supplier, such as the ability of the customer to articulate his or her needs, the ability and willingness of personnel to satisfy those needs, the presence (or absence) of other customers, and the level of demand for the service. Because of these complicating

factors, the service manager cannot always know for sure that the service is being delivered in a manner consistent with what was originally planned and promoted. Sometimes services are provided by a third party, further increasing the potential heterogeneity of the offering.

- **Possible solutions to Heterogeneity problems**

The two solutions proposed to offset the challenges posed by heterogeneity could be considered complete opposites of one another. On the one hand, some service organizations seek to provide customized services by tailoring the service offering to the individual needs of the consumer. Conversely, other service organizations develop a service delivery system that standardizes the service offering – every consumer receives essentially the same type and level of service.

- *Customization*:

Customization develops services that seek to meet each customer's individual needs. As both the customer and the service provider are involved in the service delivery process, it is possible to customize or tailor the service based on the customer's specific instructions. However, there are trade-offs associated with a customized service. While the customer may end up with a service that more closely meets his or her specific needs, the service will take longer to produce. Consequently, the provider can demand higher prices which, in turn, may lead to higher profit margins.

The downside of providing customized services is threefold:

1. Customers may not be willing to pay the higher prices associated with customized services.

2. Customized services take extra time to provide and deliver, and the customer may not have the luxury of waiting for the final product.

3. Customers may not be willing to face the uncertainty associated with customized services.

So, do customers prefer customized services over standardized services? Intuitively, most providers believe that customers would prefer customized products; however, the real answer is, 'it depends'. If price, speed of delivery and consistency of performance are issues, the customer will probably be more satisfied with a standardized service.

- *Standardization:*

The goal of standardization is to produce a consistent service product from one transaction to the next. Service organizations can attempt to standardize their service through intensive training of their service providers to reduce variations in performance. However, despite all the training in the world, employees ultimately will continue to vary somewhat from one transaction to the next. One way to eliminate this variance is to replace human labor with machines that minimize customer contact (e.g., automatic teller machines (ATMs), automated car washes).

On the positive side, standardization leads to lower consumer prices, consistency of performance and faster service delivery. However, some consumer groups believe that standardization sends the message that the organization does not really care about individual consumer needs and may be attempting to distance itself from the customer. Perceived distancing is particularly an issue as organizations are increasingly replacing human labor with machines such as automated phone services. In many instances, customers are becoming increasingly frustrated when forced to select from a menu of phone actions. Of course, standardization and customization do not have to be all-or-nothing propositions. Numerous service organizations, particularly in the travel and tourism arena, provide a standardized core product and allow consumers to select options to semi-customize the final outcome.

1.4.3. Inseparability (Simultaneous Production and Consumption)

Whereas most goods are produced first, then sold and consumed, many services are sold first and then produced and consumed simultaneously. For example, an automobile can be manufactured in Detroit, shipped to San Francisco, sold two months later, and consumed over a period of years. But restaurant services cannot be provided until they have been sold, and the dining experience is essentially produced and consumed at the same time. Frequently in service situations like the restaurant this also means that customers are present while the service is being produced and thus view and may even take part in the production process as co-producers or co-creators of the service. Simultaneity also means that customers will frequently interact with each other during the service production process and thus may affect each other's experiences. For example, strangers seated next to each other in an airplane may well affect the nature of the service experience for each other. That passengers understand this fact is clearly apparent in the way business travelers will often go to great lengths to be sure they are not

seated next to families with small children. Another outcome of simultaneous production and consumption is that service producers find themselves playing a role as part of the product itself and as an essential ingredient in the service experience for the consumer. Interestingly, with the advent of technology, many services can now be produced and consumed at different points in time, resulting in fewer challenges related to this characteristic for some providers. For example, the development of online education allows asynchronous delivery of class lectures and information.

- **Resulting Marketing Implications**

Because services often (although not always) are produced and consumed at the same time, mass production is difficult. The quality of service and customer satisfaction will be highly dependent on what happens in "real time," including actions of employees, the interactions between employees and customers, and interactions among customers themselves. Clearly the real-time nature of services also results in advantages in terms of opportunities to customize offerings for individual consumers. Simultaneous production and consumption also means that it is not usually possible to gain significant economies of scale through centralization. Often, operations need to be relatively decentralized, so that the service can be delivered directly to the customer in convenient locations, although the growth of technology-delivered services is changing this requirement for many services. Also because of simultaneous production and consumption, the customer is involved in and observes the production process and thus may affect (positively or negatively) the outcome of the service transaction.

- **Possible solutions to Inseparability problems**

Similar to the solutions proposed for intangibility, marketing practitioners have developed a number of strategies in the attempt to offset or minimize the marketing challenges posed by inseparability. These strategies include:

- *Selecting and training customer contact personnel:* Contact personnel exhibit variations in behavior that cannot be controlled by the service process. The attitudes, moods and emotions of contact personnel are visible to the customer and can affect the service experience for better or worse. As a result of the frequency and depth of interactions between service providers and consumers, selection of service personnel with superior communication and interpersonal skills is critical. In addition, training personnel once they are on the job is also necessary. Critics of service quality have

focused on 'robotic' responses by staff who have been trained in using the technology associated with the business, but not in dealing with different types of customers. Experts in service quality believe that employees must also be trained in 'soft' management skills such as reliability, responsiveness, empathy, assurance and managing the tangibles that surround the service.

- *Customer management:* The problems created by inseparability can also be minimized through effective customer management. For example, the provision of separate smoking rooms in some Asian international airports (spatial separation) is an example of one way to minimize the impact on non-smoking passengers. Restaurant reservation systems may help smooth out the demand created by traditional eating cycles. Providing home-delivery services may eliminate the need for many customers to be physically present within the service factory, thereby increasing the organization's operating efficiencies. Finally, isolating the technical core of the business from the customer allows for customer involvement while limiting the customer's direct impact on the organization's operations. For example, the typical dry cleaning business is designed so that customers are attended to at the front counter; meanwhile, the core operation is located in an area of the building where customers are not permitted.
- *Use of multisite locations:* To offset the effects of inseparability on centralized mass production, service organizations may establish multiple locations. Multisite locations act as factories in the field and limit the distance the customer must travel to purchase the service. Multisite locations are staffed by different service providers who produce their own supply of services to serve their local market. The use of multisite locations is not without its own set of special challenges. Each site is staffed by different service providers who have their own personalities and their own sets of skills. The differences in personnel are particularly troublesome for service organizations attempting to establish a consistent image by providing a standardized product.

1.4.4. Perishability

Perishability refers to the fact that services cannot be saved, stored, resold, or returned. A seat on an airplane or in a restaurant, an hour of a lawyer's time, or space in a shipping container not used or purchased cannot be reclaimed and used or resold at a later time. Perishability is in contrast to goods that can be stored in inventory or resold another day, or even returned if the consumer is unhappy. Would it not be nice if a bad haircut could be returned or resold to another customer? Perishability makes this action an unlikely possibility for most services.

- **Resulting Marketing Implications**

A primary issue that marketers face in relation to service perishability is the inability to inventory. Demand forecasting and creative planning for capacity utilization are therefore important and challenging decision areas. The fact that services cannot typically be returned or resold also implies a need for strong recovery strategies when things do go wrong. For example, although a bad haircut cannot be returned, the hairdresser can and should have strategies for recovering the customer's goodwill if and when such a problem occurs.

- **Possible solutions to Perishability problems**

Service demand and supply is difficult to balance. Therefore, service organizations have developed strategies that attempt to manage supply and demand. The strategies presented here are possible solutions to the difficulties associated with the perishability of services.

a. Demand Strategy Includes:

i. Creative Pricing

Creative pricing strategies are often used by service organizations to help smooth demand fluctuations. For example, offering price reductions in the form of 'early-bird specials' and 'matinees' have worked well for restaurants and cinemas, respectively. At the same time, some service organizations are willing to offer price reductions to attract customers during non-peak hours. By shifting demand to other periods, the service organization can accommodate more customers and provide better service during periods in which demand has previously been turned away because of limited supply, or where service levels have suffered because demand has surpassed optimal supply levels.

Creative pricing has also been used to target groups such as senior citizens, children and their parents (families), and university students. This pricing strategy both smooth's fluctuating demand and allows for the separation of diverse and sometimes incompatible target markets by preventing them from sharing the same consumption experience at the same time (temporal separation). For example, by providing family-type specials during late afternoon and early evening hours (early bird deals), a restaurant can significantly reduce the amount of potential conflict between 'family customers' and the 'adult-only customers' who generally dine later in the evening.

Price incentives have also been used to persuade customers to use a service organization's website and thus reduce demand for personal service during regular business hours. Customers who are encouraged by price incentives to search for information and/or place orders on the Internet may do so 24 hours a day, seven days a week.

ii. Reservation systems

Another common strategy used to reduce fluctuations in demand is to implement a reservation system. Reservations reduce the customer's risk of not receiving the service and minimize the time spent waiting in line. Reservation systems also allow service organizations to prepare in advance for a known quantity of demand, resulting in improved service.

Despite the advantages of a reservation system, a host of disadvantages accompany this strategy. First, someone must maintain the reservation system, which adds additional cost to the service operation. Next, customers do not always show up on time or sometimes fail to show up at all. As a result, the operation ends up with unutilized supply and lost revenue. Another drawback of reservation systems is that they offer to the customer an implied guarantee that the service will be available at a specified time, thereby increasing the customer's expectations. All too often, this implied guarantee is not met.

iii. Development of complementary services

The problems associated with perishability can also be buffered by developing complementary services that directly relate to the core service offering. A bar lounge in a restaurant is a typical example of a complementary service that not only provides the space to entertain customers while they wait, but also provides the restaurant with an additional source of revenue. Other complementary services that have been developed to help manage demand include reading materials in doctors' waiting rooms and televisions in the waiting areas of hospital emergency rooms.

iv. Development of non-peak demand

The effects of perishability can also be modified by developing non-peak demand. Non-peak demand development utilizes service downtime to prepare in advance for peak periods and/or to market to different market segments with different demand patterns. Consequently, non-peak demand development can reduce the effects of perishability in two ways. First, employees can be cross-trained during non-peak demand periods to perform a variety of other duties

during peak demand periods (e.g., dish-washing personnel may be trained to set up and clear tables). In addition, the tangibles associated with the service (such as refreshments on an airplane) can be prepared prior to the service encounter. Second, non-peak demand can also be developed to generate additional revenues by marketing to a different market segment that has a different demand pattern than the organization's traditional segment.

b. Supply strategy includes:

i. Part-time employee utilization.

The use of part-time employees makes additional supply available during peak demand periods. For example, retailers use part-time employees to increase their supply of service during holiday periods. The advantages of employing part-time workers as opposed to adding additional full-time staff include lower labor costs and a flexible labor force that can be employed when needed. On the negative side, using part-time employees sometimes causes consumers to associate the organization with lesser job skills, and lack of motivation and organizational commitment lead to lower levels of service.

ii. Capacity sharing

Another method of increasing the supply of service is capacity sharing. Capacity sharing involves forming a type of service cooperative with other service providers, thus permitting the cooperative to expand its supply of service as a whole. For example, many professional service providers in the health sector are combining their efforts by sharing the cost and storage of expensive diagnostic equipment. By sharing the cost of equipment, each service organization is able to supply forms of service it may not otherwise be able to provide because of the prohibitive costs associated with such equipment. In addition, the funds saved through cost sharing are freed to be spent on additional resources such as supplies and additional personnel, thereby further expanding the supply of service to consumers. Moreover, sharing represents a more sustainable practice in terms of preserving scarce resources.

iii. Utilization of third parties

A service organization can also expand its supply of a service through the use of third parties, thus saving on costs and personnel. For example, travel agents can provide the same information to travelers as an airline's own personnel. This third-party arrangement, however, enables the airline to reduce the number of personnel it employs to make flight reservations

and lets it redirect the efforts of existing personnel to other service areas. The cost savings associated with using third parties is evidenced by the airlines' willingness to pay commissions to travel agencies for booking flights.

However, the use of third parties may expose customers to competitive offerings as well. Many third parties such as travel agents represent a variety of suppliers. A customer who intended to book a flight on Fly Emirates may end up taking an Ethiopian Airlines flight because of a more compatible schedule and/or a less expensive fare. This type of competitive information would not have been available if the passenger had contacted Fly Emirates directly to make the flight reservation.

iv. Increase in customer participation

Another method for increasing the supply of service available is to encourage customer participation in which the customer performs part of the service. For example, at Sizzler restaurants, customers create their own salad from the 'salad bar', serve their own dessert from the 'dessert bar', refill their glass from the 'soft drink bar' and make their own hot beverage at the 'beverage bar'. Other examples include getting customers to fill up their own cars with petrol at the service station, complete their own banking transactions at ATMs or online, and bag their own groceries at some supermarkets. Self-service frees up the employees to provide other services.

Altogether, a number of advantages and disadvantages are associated with customer participation. The willingness of customers to provide their own service is generally a function of convenience, price and customization. For example, ATMs offer the customer the convenience of 24-hour banking, while the bagging of groceries is generally accompanied by lower grocery prices.

In contrast, customer participation may also be associated with a number of disadvantages that predominantly concern loss of control. In many instances, the more the customer becomes a major player in the production of the service, the less control the service organization is able to maintain over the quality of the service provided. For example, the doctor who instructs a patient to administer his or her own medicine relinquishes control over the outcome of the prescribed care. Quality control may also suffer as a result of confused customers who decrease the efficiency of the operating system. For example, customers who are waiting in line behind

someone who is using an ATM for the first time may experience the negative effects of the new customer's learning curve.

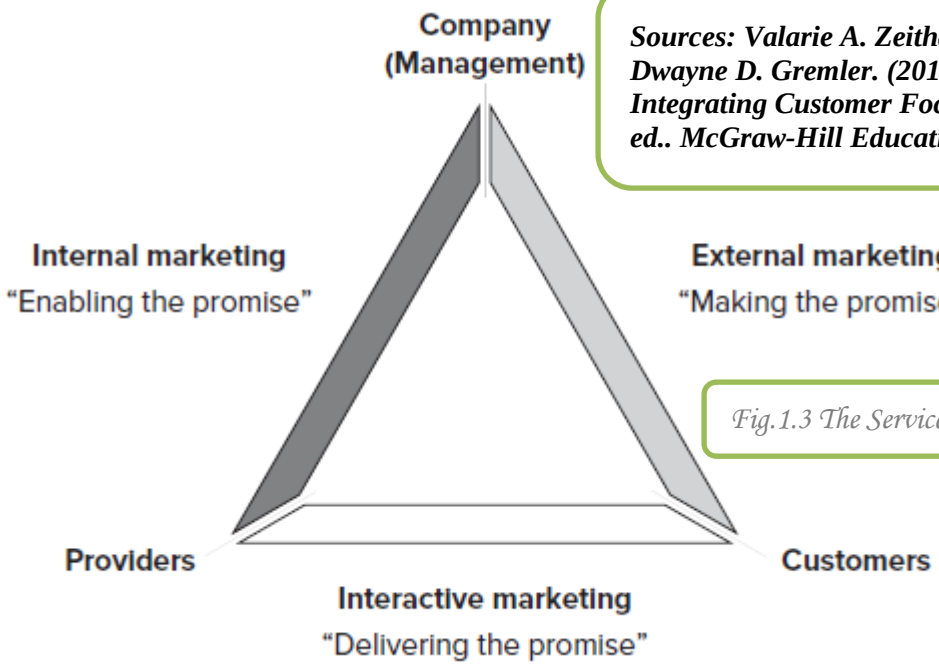
The loss of quality control may also be accompanied by a loss of control over operating costs. Self-service, particularly in the food industry, is associated with waste as a result of abuse of the system. Customers often take more food than they would normally order and may consume or share food with non-paying friends. Finally, increasing customer participation may be interpreted by some customers as the service organization's attempt to distance itself from the customer. As a result, the image of an uncaring, unresponsive and out-of-touch service organization may develop, driving many customers away to full-service competitors.

Table 1.3 summarizes the marketing problems and possible solutions for minimizing the challenges that occur because of services characteristics.

Table. 1.3. Services Characteristics, Associated Marketing Problems and Possible Solutions

Characteristic	Marketing problems	Possible solutions
Intangibility	➢ Lack of service inventories ➢ Lack of patent protection ➢ Difficulty in displaying or communicating services ➢ Difficulty in pricing services	➢ Use of tangible clues ➢ Use of personal sources of information ➢ Creation of a strong organizational image
Heterogeneity	➢ Difficult to standardize service and quality control	➢ Customization ➢ Standardization
Inseparability	➢ Physical connection of the service provider to the service ➢ Involvement of the customer in the production process ➢ Involvement of other customers in the production process ➢ Special challenges in mass production of services	➢ Selecting and training public contact personnel ➢ Consumer management ➢ Use of multisite locations
Perishability	➢ Higher demand than maximum available supply ➢ Higher demand than optimal supply level ➢ Lower demand than optimal supply level	➢ Demand strategy: 1. Creative Pricing 2. Reservation Systems 3. Development of Complementary Services 4. Development of Non-Peak Demand ➢ Supply strategy: 1. Part-Time Employee Utilization 2. Capacity Sharing 3. Utilization of Third Parties 4. Increase in Customer Participation
Source: K. Douglas Hoffman, Jhon E. G. Bateson, Greg Elliott and Dawn Birch, 2010.		

1.5.The service marketing triangle



Sources: Valarie A. Zeithaml, Mary Jo Bitner and Dwayne D. Gremler. (2018). Services Marketing: Integrating Customer Focus Across the Firm. 7th ed.. McGraw-Hill Education. New York, NY

Fig.1.3 The Service Marketing Triangle,

Ron Zemke, originally suggested the idea of the 'Service Triangle'. The 'Service Triangle' is best viewed as a tripod, i.e. something that has three legs which support the customer, remove any one leg and the customer falls off. Although these 'legs' are seen as being of equal importance they are there to deliver the desired quality service for the customer, and as per the Jan Carlzon – then CEO of Scandinavian Airlines Systems quote, there are two types of people, 'those who serve customers, and those who support those who serve customers'.

Service marketing is about promises—promises made and promises kept to customers. A strategic framework known as the service triangle (see Fig. 1.3) visually reinforces the importance of people in the ability of firms to keep their promises and succeed in building customer relationships. The triangle 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 (SBU, department, or "management"), the customers, and the providers. Providers can be the firm's employees, subcontractors, or outsourced entities who actually deliver the company's services. Between these three points on the triangle, three types of marketing must be successfully carried out for a service to succeed: external marketing, interactive marketing, and internal marketing.

On the right side of the triangle are the external marketing efforts that the firm engages in to develop its customers' expectations and make promises to customers regarding what is to be delivered. Anyone or anything that communicates to the customer before service delivery can be viewed as part of this external marketing function. But external marketing is just the beginning for service marketers: promises made must be kept. On the bottom of the triangle is what has been termed interactive marketing or real-time marketing. Here is where promises are kept or broken by the firm's employees, subcontractors, or agents. Those people representing the organization are critical at this juncture. If promises are not kept, customers become dissatisfied and eventually leave. The left side of the triangle suggests the critical role played by internal marketing. Management engages in these activities to help the providers deliver on the service promise: recruiting, training, motivating, rewarding, and providing equipment and technology. Unless service employees are able and willing to deliver on the promises made, the firm will not be successful. All three sides of the triangle are essential, and the sides of the triangle should be aligned. That is, what is promised through external marketing should be the same as what is delivered; and the enabling activities inside the organization should be aligned with what is expected of service providers.

Zemke maintains that those who serve customers should be "recruited for their aptitude as service givers", that is to say they should like looking after the needs of others. Though this is not unimportant at the 'fast food' end of the 'Service Spectrum' – it is critical at the 'intellectual property' end. Service givers cannot be introverts – nor, in the main, should they be 'showoffs' i.e. those who perpetually desire to be 'center stage'. The ideal personality type for the person in the front-line of a service business, is one with a strong element of being a 'people person', they must like people, and get personal satisfaction from delighting customers.

1.6. Goods versus services marketing

There is general agreement that differences between goods and services exist. It is also important to realize that each of these characteristics could be arranged on a continuum similar to the tangibility spectrum shown in Figure 1.1. That is, services tend to be more heterogeneous, more intangible, and more difficult to evaluate than goods, but the differences between goods and services are not black and white by any means. Table 1.4 summarizes the differences between goods and services and the implications of these characteristics.

Table. 1.4. Comparing Goods and Services

Goods	Services	Resulting Implications
Tangible	Intangible	➢ Services cannot be inventoried. ➢ Services cannot be easily patented. ➢ Services cannot be readily displayed or communicated. ➢ Pricing is difficult.
Standardized	Heterogeneous	➢ Service delivery and customer satisfaction depend on employee and customer actions. ➢ Service quality depends on many uncontrollable factors. ➢ There is no sure knowledge that the service delivered matches what was planned and promoted.
Production separate from consumption	Simultaneous production and consumption	➢ Customers participate in and affect the transaction. ➢ Customers affect each other. ➢ Employees affect the service outcome. ➢ Decentralization may be essential. ➢ Mass production is difficult.
Nonperishable	Perishable	➢ It is difficult to synchronize supply and demand with services. ➢ Services cannot be returned or resold. ➢ Services for any given time-period cannot be sold or delivered at a later date.

Source: A. Parasuraman, V. A. Zeithaml, and L. L. Berry, "A Conceptual Model of Service Quality and Its Implications for Future Research." Journal of Marketing 49 (Fall 1985), pp. 41–50.

1.7. Growth in Service Sector

Service marketing does involve any material objects. Last two-three decades have witnessed a fastest growth in service industry. Modern age is the age of service marketing. The changing life style and technology account for attracting a large share of consumer spending to get services. In fact, more than half of consumer's expenses are for services. In view of changing needs of customers, changing world, changing lifestyle and technological change and innovations, the market has become customer service oriented.

The Reasons for the growth of the service sector can be broadly categorized into two. They are:

I. Growth in intermediate demand from firms.
II. Growth in final demand from customers.

I. Intermediate Demand from Firms

Manufacturing firms realized the importance of staff function when line managers' sub-optimal performance in decision making relating to operational activities as well as the growth of the business was identified. Manufacturing firms started bundling with a number of service functions such as selling, marketing research, advertising, labor welfare, HRD, financial advisers, strategic advisers, etc. With the growth of competition and the pace of change in consumer exposure and expectations forced organizations to look for specialized services.

Companies started unbundling the organizations and taking the services from outside, where highly professional and specialized services are available at a relatively low price. As a result, a number of service organizations have come up in the world. The concept of self-reliance by way of minimizing or avoiding dependence on others was used by the firms to reduce uncertainties, to maintain confidentiality and to grow big. The wave of specialist services during the last three decades changed management philosophies and encouraged them to outsource many services. Hence, the demand for special services has gone up.

II. Final Demand from Customers

There is a growth in direct demand from customers for a variety of services. The marginal utility from goods has diminished at least in a relative sense and services have grown in importance. People spend more and more on services. The demand for health services, travel, entertainment, sports and the like registered a significant growth in recent years. The following are the reasons identified for the growth in demand for services directly from customers:

a. Increase in affluence (wealth)

A majority of the population in developed economies and significant groups in developing economies are becoming more affluent year by year. The demand for personal services, travel, tourism, entertainment, clubs and the like greatly depend upon the affluence of the society. If a traveler has only a little money, he will carry his luggage himself. If he is affluent, he will engage a porter for the same job. Affluence reduces the scope of self service and creates opportunities for many service people and organizations.

b. More leisure times

The tendency of the people throughout the world is to gain more leisure time so as to attend to their personal and family activities. There is a significant change in defining the holidays or leisure period even in semi-urban and rural pockets of India. People are now spending time on education, training skill development for themselves as well as for children, touring, entertainment, and personal care and so on.

c. Working woman

The percentage of women in employment is increasing each year in many economies. They no longer can be viewed merely as housewives and inferior to men. They have proved beyond doubt that they are equal to and, in some areas, more competent and suitable than men. The working woman is burdened with household activities as well as office activities. They are looking for services that can reduce their burden significantly. As they belong to a double income group, they have more money affluence to spend on services. As a result, the demand for crèches (a nursery for the supervision of preschool children while the parents work, like a day care center, nursery), babysitting, household domestic help, health services, fitness services, special education services and so on has gone up.

d. Growth in population of DINKS

Dinks are the acronym for double income group with no kids. It is not that the couple cannot have children due to physical problems. The couple do not try to have children, may be because both are busy with their respective careers. Generally, they may postpone having children for the first few years of marriage, after that due to pressures in employment and with imminent promotions and transfers the postponement continues until they reach the conclusion of not having children. In some societies, where the divorce rate is high, marriage is perceived as a short-term relationship. In such societies neither the male nor the female prefers to have children whose future is uncertain when marriage fails. In many developed societies DINKS is on the rise. DINKS spend liberally on services.

e. Greater life expectancy

Economic prosperity and increasing standard of living of the people have resulted in greater life expectancy. As a result, there is a significant growth in the population of senior citizens. If you take India as an example, the population above the age of 60 years has increased from

14.13 million by 2001. While the expected growth in respectively, the above 60 age group's growth is about 38.42 per cent. There would be greater demand for nursing homes and health care services with the increasing population of the elderly.

f. Greater complexity of products

The rapid pace of change in technology offers more and more new products to the society. People now have a very large spectrum of needs compared to the earlier life. They need specialists for maintenance of products such as computers, automobiles, televisions and kitchen appliances. Therefore, the demand for such service is growing day by day.

g. Greater complexity in life

In today's society people are required to play a number of roles. There is a demand for such services which can reduce or share their burden. As such, there is an increased demand for income tax consultants, legal consultants, counseling, employment services, labor supply services, baby care centers and so on.

h. Greater concern for resource scarcity and ecology

For a majority of the population financial resources are scarce or limited but they are desirous to have a number of services. Owning a tangible product for various services requires financial strength. On the other hand, many such goods may not be used to the optimum capacity by the individuals. Hence, there is a demand for leisure services such as car retails, computer hardware rentals, accommodation and door-to-door service. In recent years, many economies are concerned about environment and ecological balance. A large number of public organizations are being promoted by governments of various countries to protect the environmental from pollution and other hazards and to maintain the ecology through conservation of forests, protection of animals, birds, insects and other important spiced. They have been using various media for campaigning and taking up several programmes to make people participate in the process.

i. Increasing number of new products

Consumers have been exposed to a wide variety of choice in recent years. The life of products and services is shrinking owing to the rapid introduction of new or improved products. Consumers, being very busy, are unable to understand a product or service. As such,

consultancy services are enjoying increased demand. For example, if a person wants to invest in shares, the complex information inputs of the share market will certainly drive him to confusion and uncertainty. Brokers or consultancies services facilitate a smooth process.

j. The Young

The younger generation tends to use more and more services than the older generation, who depend on themselves for a number of activities. The younger generation would be able to cope up with the pace of change only through consumption of a number of services. For example, a graduate in computers can learn the new languages but it takes a lot of time. By the time he/she develops expertise in that, there is a danger that the program may get updated or may be lagging far behind in competition. Therefore, they prefer to take training through institutions to be competitive.

Summary

This chapter has set the stage for further learning about service marketing by presenting information on changes in the world economy and business practice that have driven the focus on service: the fact that services dominate the modern economies of the world; the focus on service as a competitive business imperative; specific needs of the deregulated and professional service industries; the role of new service concepts growing from technological advances; and the realization that the characteristics of services result in unique challenges and opportunities. The chapter presented a broad definition of services as deeds, processes, and performances, and it drew distinctions among pure service, value-added service, customer service, and derived service.

Building on this fundamental understanding of the service economy, the chapter presents the key characteristics of services that underlie the need for distinct strategies and concepts for managing service businesses. These basic characteristics are that services are intangible, heterogeneous, produced and consumed simultaneously (inseparable), and perishable. Because of these characteristics, service managers face a number of challenges in marketing, including the complex problem of how to deliver quality services consistently.

The chapter ended by describing the major two reasons in detail for the rapid growth of service sectors which includes: Growth in intermediate demand from firms and Growth in final demand from customers.

Summary Questions

1. What distinguishes service offerings from customer service? Provide specific examples.
2. How is technology changing the nature of customer service and service offerings?
3. What are the basic characteristics of services compared with goods? What are the implications of these characteristics for airline companies, hotels, banks, post office or any other service basing company?
4. Explain product-service spectrum in detail.
5. Is it important to study services marketing? Discuss the reasons from different perspective.
6. Discuss the four characteristics of service along with the marketing implications and possible solutions.
7. How could service triangle be explained along with the three strategies?
8. What major reasons exist that contributes for the growth of service sector or industry?

CHAPTER TWO

CUSTOMER EXPECTATION AND CUSTOMER PERCEPTION OF SERVICE

Customers are viewed as champion in modern marketing as they seek to satisfy a set of needs and wants that are partly related to the essential services like banking services. Customers have their expectations on how these needs and wants are met and that consistently form impressions about the actual service offered them in comparing with their expectations. Arguably, the performance of every organization depends on how well it satisfies its sophisticated customers.

The quality of service provided are directly proportional to the customer satisfaction and word of mouth as each customer generally compares the tangible services with his/her own expectations and if the tangible one falls below his/her expectations, the customer generally is disappointed and that affects his/her loyalty towards the company.

Quality is generally regarded as a key factor in the creation of worth and in influencing customer satisfaction. Hence, each of the mobile phone service providers has to be strategically positioned to provide quality services to satisfy customers. To provide improved quality service, mobile phone service providers need to investigate degree of customers' sensitivity and expectations toward service quality

This chapter outlines on the numerous definition and scopes of service delivery. The chapter will also engross on variances between customer expectations and customer perceptions as the basis for service quality measurement. Similarly, various service quality models, specifically SERVQUAL, SERVPERF and GAPS model, will be mentioned. Both its benefits and criticisms will be pointed out in the chapter.

Before jumping to the chapter try to explain what customer service expectation and perception is and how these two variables influence service quality and customer satisfaction.

Chapter Objectives: After completing this chapter students will be able to;

- Identify the levels of consumer expectations
- List the antecedents of consumer expectations and consumer perception of services

- State the internal and external factors that impact consumers' expectations and consumers' perception
- Explain how service firms can manage consumer expectations of the purchase process
- Discuss customer satisfaction and service quality
- Show that service encounters or the moments of truth are the building blocks of customer perception.
- Highlight strategies for managing customer perceptions of service

2.1.Meaning and types of service expectations

Although almost everyone has an intuitive sense of what expectations are, service marketers need a far more thorough and clear definition of expectations if they are to comprehend, measure and manage them.

Customer expectations are beliefs about service delivery that serve as standards, or reference points, against which performance is judged. Because customers compare their perceptions of performance with these reference points when evaluating service quality, thorough knowledge about customer expectations is critical to services marketers. Knowing what the customer expects is the first and possibly most critical step in delivering good-quality service. Being wrong about what customers want can mean losing a customer's business when another company hits the target exactly. Being wrong can also mean expending money, time and other resources on things that do not matter to the customer. Being wrong can even mean not surviving in a fiercely competitive market.

Among the aspects of expectations that need to be explored and understood for successful services marketing are the following: what types of expectation standards do customers hold about services? What factors most influence the formation of these expectations? What role do these factors play in changing expectations? How can a service company meet or exceed customer expectations?

Customers' expectations about what constitutes good service vary from one business to another. For example, although accounting and a hospital are both professional services, the experience of meeting an accountant to talk about your tax returns tends to be very different from visiting a hospital to get treatment for you or your kids. Expectations are also likely to vary in relation to differently positioned service providers in the same industry. While travelers expect no-frills service for a short domestic flight on a discount carrier, they would undoubtedly be very

dissatisfied with that same level of service on a full-service airline flying from Addis Ababa international airport to Europe, or from Toronto to Paris, even in economy class. Consequently, it's very important for marketers to understand customer expectations of their own firm's service offerings—especially as they relate to specific product elements.

Expectations is internal standards that customers use to judge the quality of a service experience.

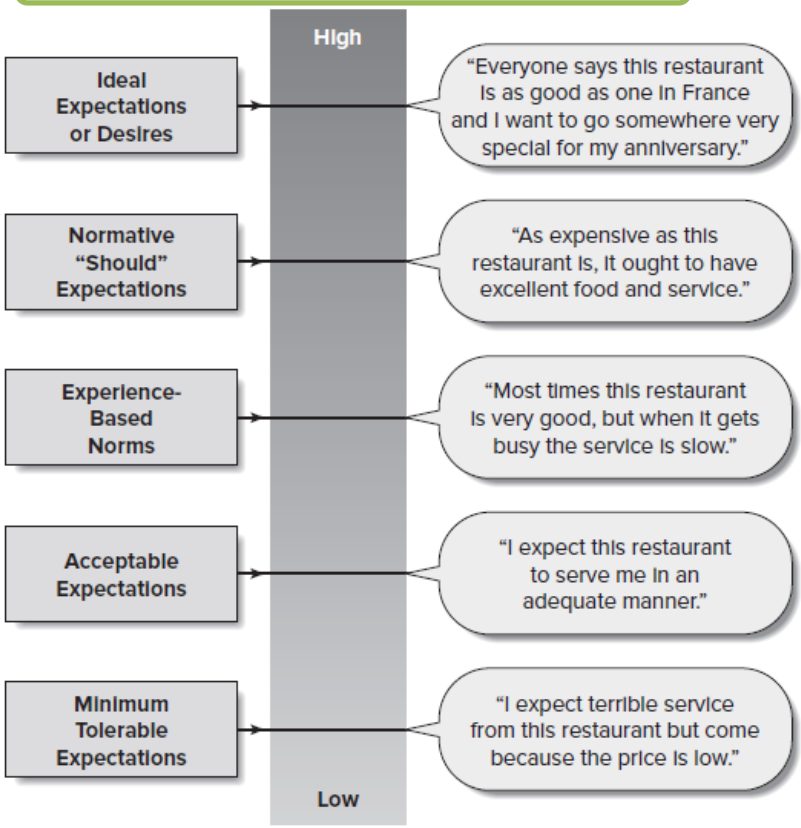
2.2.A model of customer service expectations

Imagine that you are planning to go to a restaurant. Figure 2.1 displays a continuum of possible service expectations. On the left of the continuum are different types or levels of expectations, ranging from high (top) to low (bottom). At each point we give a name to the type of expectation and illustrate on the right side of the figure what it might mean in terms of a restaurant you are considering. Note how important the expectation you hold will be to your eventual assessment of the restaurant's performance. Suppose you went into a restaurant for which you hold the minimum tolerable expectation, paid very little money, and were served immediately with good food. Alternatively, suppose that you went to a restaurant for which you had the highest (ideal) expectations, paid a lot of money, and were served good (but not fantastic) food. Which restaurant experience would you judge to be best? The answer is likely to depend on the reference point that you brought to the experience.

Because the idea of customer expectations is so critical to evaluation of service, it is better to start this chapter by talking about the types of expectations.

As it is shown in Figure 2.1, customers hold different types of expectations about service. For purposes of discussion in this chapter, we focus on two types. The highest expectations can be termed **desired service**: the level of service the customer hopes to receive the "wished for" level of performance. Desired service is a blend of what the customer believes "can be" and "should be." For example, consumers who sign up for an online dating service expect to find compatible, attractive, interesting people to date and perhaps even someone to marry. This expectation reflects the hopes and wishes of these consumers. In a similar way, you are likely to engage the services of your college's placement office when you are ready to graduate. What are your expectations of the service? In all likelihood you want the office to help find you a job—the right job in the right place for the right salary—because that is what you hope and wish for.

Fig.2.1 Possible Levels of Customer Expectations



The ideas presented in this figure are based upon R. K. Teas, "Expectations, Performance Evaluation, and Consumers' Perceptions of Quality," Journal of Marketing (October 1993), pp. 18–34.

However, for one or another reason you might not be entering to the instituting you might be interested in and you might not be recruited for a desired position. In this situation and in general, customers hope to achieve their service desires but recognize this is not always possible. We call the threshold level of acceptable service **adequate service**—the minimum level of service the customer will accept.

Sometimes when there is a slowdown in the economy, many college graduates who have trained for high-skilled jobs accept entry-level positions at fast-food restaurants or internships for no pay. Their hopes and desires are still high, but they recognize that they cannot attain those desires in the market that exists at the time. Their standard of adequate service from the placement office was much lower than their desired service. Some graduates accept any job for which they can earn a salary, and others agree to nonpaying, short-term positions as interns to gain experience. Adequate service expectations represents the "minimum tolerable expectation," the bottom level of performance acceptable to the customer. See Figure 2.2 that shows the two expectation standards as the upper and lower boundaries for customer expectations.

Fig.2.2 Dual Customer Expectations level



Sources: Valarie A. Zeithaml, Mary Jo Bitner and Dwayne D. Gremler. (2018). Services Marketing: Integrating Customer Focus Across the Firm. 7th ed.. McGraw-Hill Education. New York, NY

As we discussed in Chapter 1, services are heterogeneous in that performance may vary across providers, across employees from the same provider, and even with the same service employee. The extent to which customers recognize and are willing to accept this variation is called the zone of tolerance see Figure 2.3.

Fig.2.3 The Zone of Tolerance



Sources: Valarie A. Zeithaml, Mary Jo Bitner and Dwayne D. Gremler. (2018). Services Marketing: Integrating Customer Focus Across the Firm. 7th ed.. McGraw-Hill Education. New York, NY

If service drops below adequate service—the minimum level considered acceptable—customers will be frustrated and most likely dissatisfied with the company. If service performance is above the zone of tolerance at the top end—where performance exceeds desired service—customers will be very pleased and probably quite surprised as well. You might consider the zone of tolerance as the range in which customers do not particularly notice service performance. When it falls outside the range (either very low or very high), the service gets the customer's attention in either a positive or negative way. As an example, consider waiting in line to purchase movie tickets. Most customers hold a range of acceptable times for this service encounter—probably somewhere between 5 and 10 minutes. If waiting to purchase the tickets consumes that period of time, customers probably do not pay much attention to the wait. If a

customer enters the line and finds a sufficient number of movie theater personnel to serve her in the first two or three minutes, she may notice the service and judge it as excellent. On the other hand, if a customer has to wait in line for 15 minutes, he may begin to grumble and look at his watch. The more the wait falls below the zone of tolerance (10 minutes in this example), the more frustrated he becomes.

This tolerance zone, representing the difference between desired service and the level of service considered adequate, can expand and contract for a given customer. An airline customer's zone of tolerance will narrow when she is running late and is concerned about making her plane. A minute's delay for anything that occurs prior to boarding the plane seems much longer, and her adequate service level increases. On the other hand, a customer who arrives at the airport early may have a larger tolerance zone, making the wait in line far less noticeable than when he is pressed for time. This example shows that the marketer must understand not just the size and boundary levels for the zone of tolerance but also when and how the tolerance zone fluctuates for a given customer.

A customer's zone of tolerance increases or decreases depending on a number of factors, including company-controlled factors such as price. When prices increase, customers tend to be less tolerant of poor service. In this case, the zone of tolerance decreases because the adequate service level shifts upward.

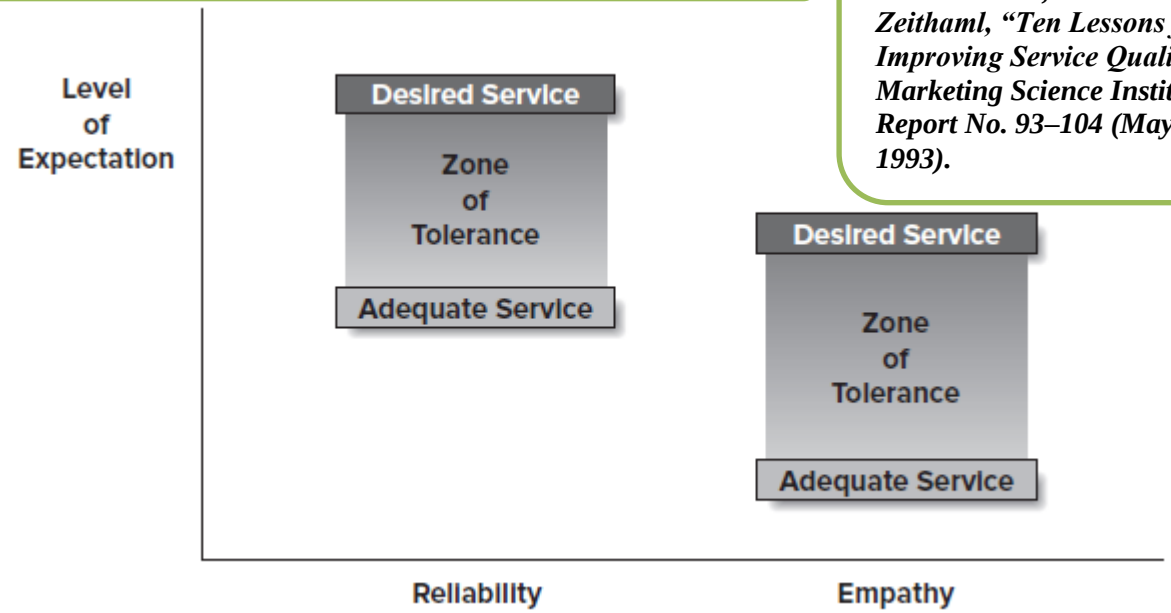
The fluctuation in a customer's zone of tolerance is more a function of changes in the adequate service level, which moves readily up and down because of situational circumstances, than in the desired service level, which tends to move upward incrementally because of accumulated experiences. Desired service is relatively stable compared with adequate service, which moves up and down and in response to competition and other factors. Fluctuation in the zone of tolerance can be likened to an accordion's movement, but with most of the gyration coming from one side (the adequate service level) rather than the other (the desired service level).

Customers' tolerance zones also vary with different service attributes or dimensions. The more important the factor, the narrower the zone of tolerance is likely to be. In general, customers are likely to be less tolerant about unreliable service (broken promises or service errors) than other service deficiencies, which means that they have higher expectations for this factor. In addition to higher expectations for the most important service dimensions and attributes, customers may relax their expectations for the less important factors, making the zone of

tolerance for the most important service dimension smaller and the desired and adequate service levels higher. Figure 2.4 portrays the likely difference in tolerance zones for the most important factor (in this case, reliability) and a factor that might be considered less important (such as empathy) for a given service.

Fig.2.4 Differing Zones of Tolerance for Different Service Dimensions

Adapted from L. L. Berry, A. Parasuraman, and V. A. Zeithaml, "Ten Lessons for Improving Service Quality," Marketing Science Institute, Report No. 93–104 (May 1993).



2.3.Factor that influence customer expectations of service

To say that expectations are reference points against which service delivery is compared is only a beginning. The level of expectation can vary widely depending on the reference point the customer holds. Because expectations play such a critical role in customer evaluation of services, marketers need to understand the factors that shape them. In this section of the chapter we describe some of the key influences on customer expectations.

2.3.1. Sources of Desired Service Expectations

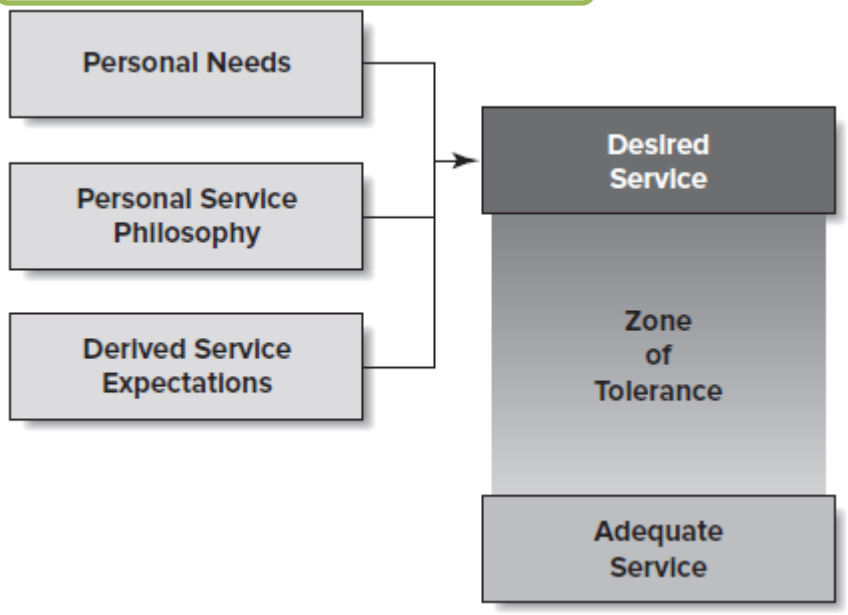
As shown in Figure 2.5, there are three major influences on desired service level. This are termed as; Personal Needs, Personal Service Philosophy and Derived Service Expectations.

2.3.1.1.Personal Needs

Personal needs, are those states or conditions essential to the physical or psychological well-being of the customer and are pivotal factors that shape what customers desire in service. Personal needs can fall into many categories, including physical, social, psychological, and

functional. A fan who regularly goes to baseball games right from work, and is therefore thirsty and hungry, hopes and desires that the food and drink vendors will pass by his section frequently, whereas a fan who regularly has dinner elsewhere has a lower level of desired service from the vendors. A customer with high social and dependency needs may have relatively high expectations for a hotel's ancillary services, hoping, for example, that the hotel has a bar with live music and dancing.

Fig.2.5 Factors that Influence Desired Service



Sources: Valarie A. Zeithaml, Mary Jo Bitner and Dwayne D. Gremler. (2018). Services Marketing: Integrating Customer Focus Across the Firm. 7th ed.. McGraw-Hill Education. New York, NY

2.3.1.2.Personal Service Philosophy

A second influence on desired service expectations is personal service philosophy—the customer's underlying generic attitude about the meaning of service highest expectations and the proper conduct of service providers. If you have ever been employed as a server in a restaurant, you are likely to have standards for restaurant service that have been shaped by your training and experience in that role. You might, for example, believe that servers should not keep customers waiting longer than 15 minutes to take their orders. Knowing the way a kitchen operates, you may be less tolerant of lukewarm food or errors in the order than customers who have not held the role of server. In general, customers who are themselves in service businesses or have worked for them in the past seem to have especially strong service philosophies.

2.3.1.3.Derived Service Expectations

Another influence on desired service expectations is called derived service expectations, which occur when customer expectations are driven by another person or group of people. A niece

from a big family who is planning a 90th birthday party for a favorite aunt is representing the entire family in selecting a restaurant for a successful celebration. Her needs are driven in part by expectations derived from the other family members. A parent choosing a vacation for the family, a spouse selecting a home-cleaning service, an employee choosing an office for the firm—all these customers' individual expectations are intensified because they represent and must answer to other parties who will receive the service. In the context of business-to-business service, customer expectations are driven by the expectations of their own customers. The head of an information technology department in an insurance company, who is the business customer of a large computer vendor, has expectations based on those of the insurance customers she serves: when the computer equipment is down, her customers complain. Her need to keep the system up and running is not just her own desire but is derived from the pressure of her firm's customers.

2.3.2. Sources of Adequate Service Expectations

A different set of determinants affects adequate service, the level of service the customer finds acceptable. In general, these influences are short-term and tend to fluctuate more than the factors that influence desired service. In this section we discuss three factors shown in Figure 2.6, which influence adequate service: perceived service alternatives, situational factors, and predicted service.

Problems with the initial service can also lead to heightened expectations. Performing a service right the first time is very important because customers value service reliability above all other dimensions. If the service fails in the recovery phase, fixing it right the second time (i.e., being reliable in service recovery) is even more critical than it was the first time. Automobile repair service provides a case in point. If a problem with your automobile's brakes sends you to a car repair provider, you expect the company to fix the brakes. If you experience further problems with the brakes after the repair, the level of service you consider to be adequate will increase. In these and other situations where temporary service intensifiers are present, the level of adequate service will increase and the zone of tolerance will narrow.

2.3.2.1.Perceived Service Alternatives

Perceived service alternatives are other providers from whom customers can, or perceive they can, obtain service. If customers believe they have multiple service providers to choose from, or if they can provide the service for themselves their levels of adequate service are higher than

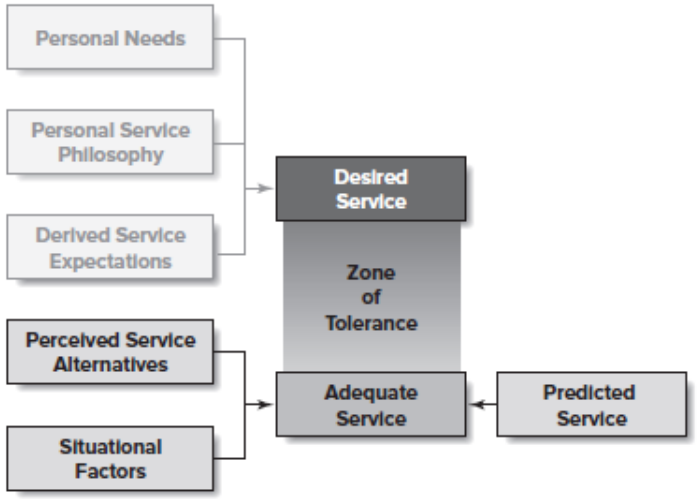
those of customers who believe it is not possible to get better service elsewhere. An airline customer who lives in a small town with a tiny airport, for example, has a reduced set of options in airline travel. This customer will be more tolerant of the service performance of the carriers in the town because few alternatives exist. She will accept the limited schedule of flights and lower levels of service more than the customer in a big city who has myriad flights and airlines from which to choose. The customer's perception that service alternatives exist raises the level of adequate service and narrows the zone of tolerance.

2.3.2.2.Situational Factors

Levels of adequate service are also influenced by situational factors that are generally considered contemporary in nature. One type is uncontrollable situational factors, which include service performance conditions that customers view as beyond the control of the service provider. For example, catastrophes that affect a large number of people at one time (tornadoes, floods or earthquakes) may lower service expectations for insurance customers in other geographic locations because they recognize that insurers are inundated with demands for their services. To make it practical, during the flood catastrophes in some part of the country, customers quickly realized that they should not expect the level of service to which they had become accustomed. Customers who recognize that situational factors are not the fault of the service company may accept lower levels of adequate service, given the context. Situational factors often temporarily lower the level of adequate service, widening the zone of tolerance.

Personal situational factors consist of short-term, individual factors that make a customer more aware of the need for service. Personal emergency situations in which service is urgently needed (such as an accident and the need for automobile insurance or a breakdown in office equipment during a busy period) raise the level of adequate service expectations, particularly in terms of the level of responsiveness required and considered to be acceptable. Company that depends on network connectivity to receive customer orders will be more demanding of its Internet service provider during peak demand periods. Any system breakdown will be tolerated less during these intense periods than at other times. For example, a college that registers students online demands the service provider to fix any network disconnections immediately.

Fig.2.6 Factors that Influence Adequate Service



Sources: Valarie A. Zeithaml, Mary Jo Bitner and Dwayne D. Gremler. (2018). Services Marketing: Integrating Customer Focus Across the Firm. 7th ed.. McGraw-Hill Education. New York, NY

2.3.2.3.Predicted Service

The final factor that influences adequate service is predicted service, the level of service that customers anticipate they are likely to get. This type of service expectation can be viewed as predictions made by customers about what is likely to happen during an impending transaction or exchange. Predicted service performance implies some objective calculation of the probability of performance or estimate of anticipated service performance level. If customers predict good service, their levels of adequate service are likely to be higher than if they predict poor service. For example, full-time residents in a college town usually predict faster restaurant service during the summer months when students are not on campus. This prediction will probably lead them to have higher standards for adequate service in restaurants during the summer than during school months. On the other hand, customers of cable service providers and utilities in a college town know that installation service from these firms will be difficult to obtain during the first few weeks of school when myriad students are setting up their apartments for the year. In this case, levels of adequate service decrease and zones of tolerance widen.

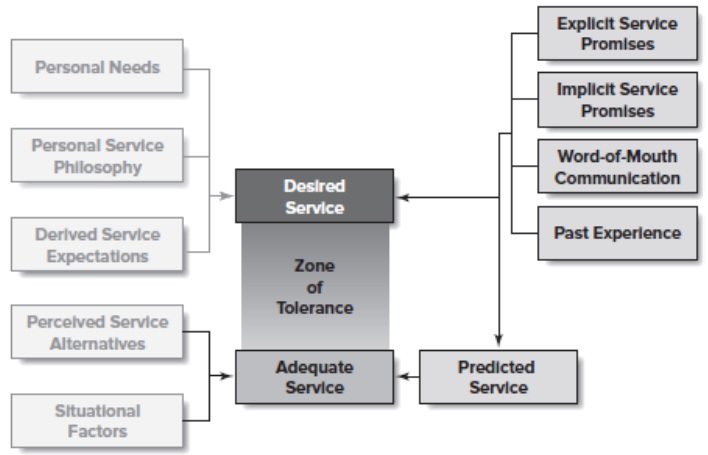
Predicted service is typically an estimate or a calculation of the service that a customer will receive in an individual transaction rather than in the overall relationship with a service provider. Whereas desired and adequate service expectations are global assessments comprising many individual service transactions, predicted service is almost always an estimate of what will happen in the next service encounter or transaction that the customer

experiences. For this reason, predicted service is viewed in this model as an influencer of adequate service.

2.3.3. Sources of both Desired and Predicted Service Expectations

When consumers are interested in purchasing services, they are likely to seek or take in information from several different sources. For example, they may call a store, ask a friend, or deliberately track newspaper advertisements to find the needed service at the lowest price. They may also receive service information by watching television, surfing the Internet, or hearing an unsolicited comment from a colleague about a service that was performed well. In addition to these active and passive types of external search for information, consumers may conduct an internal search by reviewing the information held in memory about the service. This section discusses four factors that influence both desired service and predicted service expectations: explicit service promises, implicit service promises, word-of-mouth communication, and past experience.

Fig.2.7 Factors that Influence Desired and Predicted Service



Sources: Valarie A. Zeithaml, Mary Jo Bitner and Dwayne D. Gremler. (2018). Services Marketing: Integrating Customer Focus Across the Firm. 7th ed.. McGraw-Hill Education. New York, NY

2.3.3.1.Explicit Service Promises

Promising exactly what will ultimately be delivered would seem a logical and appropriate way to manage customer expectations and ensure that reality fits the promises. However, companies and the personnel who represent them often deliberately overpromise to obtain business or inadvertently overpromise by stating their best estimates about delivery of a service in the future. In addition to overpromising, company representatives simply do not always know the appropriate promises to make because services are often customized and therefore not easily

defined and repeated; the representative may not know when or in what final form the service will be delivered.

If a firm's website promises to design an ideal home theater experience for a customer, perform audio and video set-up, and connect all of the customer's various components and home network, the customer's desires for that service (as well as the service of competitors) will be shaped by this promise.

Explicit service promises are one of the few influences on expectations that are completely within the control of the service provider. The statements are personal when they are communicated by the firm's salespeople or service personnel; they are non-personal when they come from the company's web pages, advertising, brochures, and other written publications.

Explicit service promises influence the levels of both desired service and predicted service. They shape what customers desire in general as well as what they predict will happen in the next service encounter from a particular service provider or in a certain service encounter.

2.3.3.2.Implicit Service Promises

Implicit service promises are service-related cues, other than explicit promises, that lead to inferences about what the service should and will be like. These quality cues are dominated by price and the tangibles associated with the service. In general, the higher the price and the more impressive the tangibles, the more a customer will expect from the service. Consider a customer who shops for insurance, finding two firms charging radically different prices. She may infer that the firm with the higher price should and will provide higher-quality service and better coverage. Similarly, a customer who stays at a posh hotel with a luxurious lobby is likely to desire and predict a higher standard of service than from a hotel with less impressive facilities.

2.3.3.3.Word-of-Mouth Communication

These statements made by parties other than the organization—such as those found on social networking websites—convey to customers what the service will be like and influence both predicted and desired service. Word-of-mouth communication carries particular weight as an information source because it is perceived as unbiased. Word-of-mouth communication tends to be very important in services that are difficult for customers to evaluate before purchase and before having direct experience of them. Experts (including Consumer Reports, friends, and

family) and social media (such as Facebook and Twitter) are also word-of-mouth sources that can affect the levels of desired and predicted service.

2.3.3.4.Past Experience

The customer's previous exposure to service that is relevant to the focal service, is another force in shaping predictions and desires. For example, you probably compare each stay in a particular hotel with all previous stays in that hotel. But past experience with the focal hotel is likely to be a very limited view of your past experience. You may also compare each stay with your experiences in other hotels and hotel chains. Customers also compare across industries: hospital patients, for example, compare hospital stays against the standard of hotel visits. Cable service customers tend to compare cable service with the standards set by telephone service, one reason cable service is often judged to be poor. Past experience may incorporate previous experience with the focal service provider, typical performance of similar service offerings, and experience with the last service purchased.

The different sources vary in terms of their credibility as well as their potential to be influenced by the marketer.

2.4.Customer perceptions

As we move through this chapter, keep in mind that perceptions are always considered relative to expectations. Because expectations are dynamic, evaluations may also shift over time—from person to person and from culture to culture. What is considered quality service or the things that satisfy customers today may be different tomorrow. Also keep in mind that the entire discussion of quality and satisfaction is based on customers' perceptions of the service—not some predetermined objective criteria of what service is or should be.

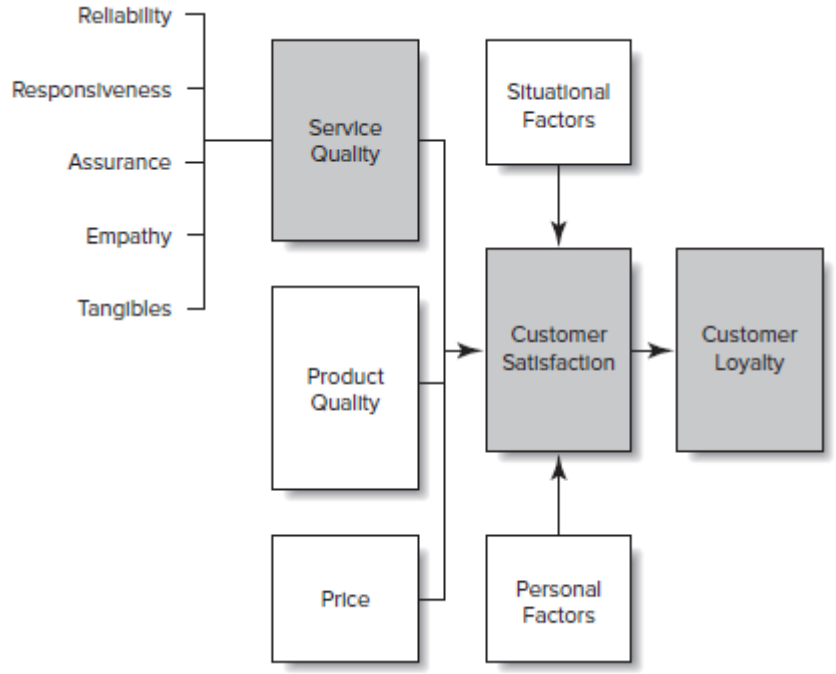
A motivated person is ready to act. How that person acts is influenced by his or her perception of the situation. In the same situation, two people with the same motivation may act quite differently based on how they perceive conditions. One person may perceive the waiters at T.G.I. Friday's as casual and unsophisticated, whereas another person may view them as spontaneous with cheerful personalities. Friday's is targeting those in the second group.

Customer's perception of service quality can generally be divided into the perception of reliability, responsiveness, assurance, empathy and tangibles. These aspects will be discussed more profound later on, as the SERVQUAL model is explained. Together with the product

price and quality, service quality forms the broader concept of customer satisfaction. Ultimately, if customer's experiences exceed their expectations, customer satisfaction together with situational and personal factors will result in customer loyalty.

It is of great importance, to win customer loyalty especially for smaller businesses. Small businesses do not have the same budget as larger companies, and keeping existing customer is by far much cheaper than finding new ones. Offering excellent customer service will not only lead to customer loyalty, it will also give smaller firms a competitive advantage against larger companies.

Fig.2.8 Customer Perceptions of Quality and Customer Satisfaction



2.5.Customer satisfaction

Customer satisfaction isn't a new concept. Just the opposite-it's at least 200 years old as long ago as the 18th century. Adam Smith clarified the fundamental premise on which free markets operate. He maintained that since human beings continually strive to maximize their utility (get the greatest benefit for the least cost), they migrate gradually but inexorably, to the suppliers that come closest to delivering it. In other words, they search out and stay with companies that do best what matters most to customers.

Satisfaction is the consumer's fulfillment response. It is a judgment that a product or service feature, or the product or service itself, provides a pleasurable level of consumption related fulfillment.

Dissatisfaction with price, quality or on-time delivery-will be communicated to a supplier clearly and without hesitation. More subtle forms of discontent, however-matters having to do with such things as customer support, billing and invoicing, delivery documentation, or any number of hundreds of possibilities-are rarely discussed. Each will nevertheless affect customer satisfaction and future purchase decisions.

Objective and accurate measures of customer satisfaction provide the best lead indicator of future loyalty. A customer satisfaction measurement programme will enable you to:

- Understand how customers perceive your organization and whether your performance meets their expectations.
- Identify PFIs (priorities for improvement)-areas where improvements in performance will produce the greatest gain in customer satisfaction.
- Undertake a cost-benefit analysis to assess the overall business impact of addressing the PFIs.
- Pinpoint 'understanding gaps' where your own staff have a misunderstanding of customers' priorities or their ability to meet customers' needs.
- Set goals for service improvement and monitor progress against a customer satisfaction index.
- Benchmark your performance against that of other organizations.
- Increase profits through improved customer loyalty and retention.

As it is shown in figure 2.8 service quality and customer satisfaction is a different concept, of course service quality is a component of satisfaction or service quality is determinant of customer satisfaction.

The followings are Determinants of Customer Satisfaction:

1. **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, the helpfulness and courtesy of staff, room price, and so forth.

2. Customer Emotions

Customers' emotions can also affect their perceptions of satisfaction with products and services. These emotions can be stable, preexisting emotions—for example, mood state or life satisfaction. Think of times when you are at a very happy stage in your life (such as when you are on vacation), and your good, happy mood and positive frame of mind have influenced how you feel about the services you experience. Alternatively, when you are in a bad mood, your negative feelings may carry over into how you respond to services, causing you to overreact or respond negatively to any little problem. The effects of emotions on satisfaction are heightened for "high emotion services" where customers have strong feelings (positive or negative) even before the service begins. Think, for example, of services associated with birth, marriage, illness, or death. In such situations, customers' emotions are particularly influential.

3. Attributions for Service Success or Failure

Attributions—the perceived causes of events—influence perceptions of satisfaction as well. When customers have been surprised by an outcome (the service is either much better or much worse than expected), they 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 the causes—was it something she did, was the diet plan ineffective, or did circumstances simply not allow her to follow the diet regimen—before determining her level of satisfaction or dissatisfaction with the weight-loss company. For many services, customers take at least partial responsibility for how things turn out.

Even when customers do not take responsibility for the outcome, customer satisfaction may be influenced by other kinds of attributions. For example, research done in a travel agency context found that customers were less dissatisfied with a pricing error made by the agent if they felt that the reason was outside the agent's control or if they felt that it was a rare mistake, unlikely to occur again.

4. 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, particularly in service recovery situations. As you will learn in Chapter 4, satisfaction with a service provider following a service failure is largely determined by perceptions of fair treatment.

5. Other Customers, Family Members, and Coworkers

In addition to product and service features and one's own feelings and beliefs, customer satisfaction is often influenced by other people. For example, family decisions about a vacation destination and satisfaction with the trip are dynamic phenomena, influenced by the reactions and emotions of individual family members. Later, what family members express in terms of satisfaction or dissatisfaction with the trip will be influenced by stories retold among the family and selective memories of the events. Similarly, the satisfaction of the rafters in the photo is certainly influenced by individual perceptions, but it is also influenced greatly by the experiences, behavior, and views of the other rafters. In a business setting, satisfaction with a new service or technology—for example, a new customer relationship management software service—will be influenced not only by individuals' personal experiences with the software itself but also by what others say about it in the company, how others use it and feel about it, and how widely it is adopted in the organization.

2.6.Service quality and Gap Model of service quality

Service quality is not the same as product quality, and the management of service quality is not the same as the management of goods quality.

Service quality is difficult to define and difficult to control, and various measures of service quality have been proposed. However, in the final analysis, the expectations and perceptions of customers are what matters in any assessment of service quality. Ultimately, the needs and expectations of customers guide the design of quality strategies in services. Service quality is an abstract and elusive concept because of the well-known features- intangibility, perishability,

heterogeneity, and inseparability of production and consumption (see chapter 1). Because of these features, definitions of quality can vary from person to person, and from situation to situation.

When purchasing physical goods, consumers employ various tangible cues to ascertain quality. These include style, color, hardness and so on. In contrast, when purchasing a service, consumers are forced to rely on a smaller number of available cues. In many cases tangible evidence is limited to the service provider's physical facilities, equipment and personnel. In a service where personal experience of quality is a high priority, consumers who are attempting to evaluate service before purchase seek and rely on information from personal (such as word-of-mouth or social media) sources rather than from non-personal sources.

If this is the case how do customers assess service quality? What parameters matter in their assessment? How can service quality be analyzed in conceptual terms? There have been various models proposed by different researchers in the field. Some of these proposed models have certain similarities to one another. Others are quite different in their ideas and arrangements of factors. The variety of conceptions in the service literature demonstrates the difficulty in developing a single acceptable model that adequately describes all aspects of service quality. There exist to be nineteen models about service quality; however, in this section we will only discuses three of the models namely: Servqual, Servperf and Gap Model.

Before discussing the models, let's see what is it that consumers evaluate when judging service quality? Over the years, service researchers have suggested that consumers judge the quality of services based on their perceptions of the technical outcome provided, the process by which that outcome was delivered, and the quality of the physical surroundings where the service is delivered. For example, in the case of a lawsuit, a legal services client will judge the quality of the technical outcome, or how the court case was resolved, as well as the quality of the interaction. Interaction quality includes such factors as the lawyer's timeliness in returning phone calls, his empathy for the client, and 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 (interaction quality). The decor and surroundings (physical environment quality) of both the law firm and the restaurant will also affect the customer's perceptions of overall service quality. To sum-up we can put it in three terminologies namely: Outcome, Interaction, and Physical Environment Quality.

2.6.1. Gap Model

It is a helpful structure to understand the service quality in an organization. The gap model includes 5 gaps; of which one is a customer gap and four are provider's gaps. The most important service quality gap is the customer gap – the contrast between customer expectations and perceptions. To narrow and possibly closing the gap between customers' expectations and their perception is vital for delivery of quality service.

This model (the Service Quality Gap Model) will help to enhance knowledge of service quality and encourage investigation of the key issues (Figure 2.9) – which has made a substantial contribution to our understanding of service quality. The gaps can be classified into two namely The Provider Gap (Gap 1-4) and The Customer Gap (Gap 5). The following is a brief account of the gaps:

2.6.1.1.The Provider Gap

Gap 1 (Customer expectation-management gap or Listening Gap) – states that many service organizations simply do not understand what customers expect and what really matters to them. The primary reason that many firms do not meet customers' expectations is that the firms lack an accurate understanding of exactly what those expectations are. Many reasons exist for managers not being aware of what customers expect: they may not interact directly with customers, they may be unwilling to ask about expectations, or they may be unprepared to address them. When people with the authority to set priorities and the responsibility to do so do not fully understand customers' service expectations, they may trigger a chain of bad decisions and suboptimal resource allocations that result in perceptions of poor service quality.

Table 2.1 Provider Gap 1 Factors

Factors for Gap 1	Detailed Challenges
Inadequate customer research orientation	➢ Insufficient customer research ➢ Research not focused on service quality ➢ Inadequate use of market research
Lack of upward communication	➢ Lack of interaction between management and customers ➢ Insufficient communication between contact employees and managers ➢ Too many layers between contact personnel and top management
Insufficient relationship focus	➢ Lack of market segmentation ➢ Focus on transactions rather than relationships ➢ Focus on new customers rather than relationship customers

Inadequate service recovery	➢ Lack of encouragement to listen to customer complaints ➢ Failure to make amends when things go wrong ➢ No appropriate recovery mechanisms in place for service failures

This gap can only be bridged through customer research and, more particularly, knowledge from front-line employees.

Gap 2 (Management perception-service quality specifications gap or the Service Design and Standards Gap) – even where customer expectations are understood, management experiences difficulty in translating that understanding into service quality specifications.

This exists because:

- Management may believe that customer expectations are unreasonable or unrealistic. A test for this remains elusive.
- Management may believe that the degree of variability inherent in service defies standardization. Ironically, reduction of variability has become a key motivator for the standardization of services.
- There is an absence of wholehearted management commitment to service quality. In the face of short-term financial deadlines many service companies are reluctant to pursue customer satisfaction or quality efforts.

Because services are intangible, they are difficult to describe and communicate. This difficulty becomes especially evident when new services are being developed. It is critical that all people involved (managers, frontline employees, and behind-the-scenes support staff) work 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 the same vision of the service and associated issues.

One of the most important ways to avoid provider gap 2 is to clearly design services without oversimplification, incompleteness, subjectivity, and bias. To do so, tools are needed to ensure that new and existing services are developed and improved in as careful a manner as possible. Chapter 6 describes the tools that are most effective in service development and design, including service blueprinting, a unique tool for services. Technology changes and improvements are particularly helpful in closing this gap.

Table 2.2 Provider Gap 2 Factors

Factors for Gap 2	Detailed Challenges
Poor service design	➢ Unsystematic new service development process ➢ Vague, undefined service designs ➢ Failure to connect service design to service positioning
Absence of customer-driven standards	➢ Lack of customer-driven service standards ➢ Absence of process management to focus on customer requirements ➢ Absence of formal process for setting service quality goals
Inappropriate physical evidence and servicescape	➢ Failure to develop tangibles in line with customer expectations ➢ Servicescape design that does not meet customer and employee needs ➢ Inadequate maintenance and updating of the servicescape

Gap 3 (Service quality specification-service delivery gap or the Service Performance Gap) – even when formal standards or specifications for maintaining service quality are in existence, the delivery of a quality service is by no means certain. This is caused by poor, inadequately deployed resources in terms of people, systems and technology. The implications for the human resource or personnel management function should be obvious.

Standards must be backed by appropriate resources (people, systems, and technology) and must be enforced to be effective—that is, employees must be measured and compensated on the basis of performance along those standards. Thus, even when standards accurately reflect customers' expectations, if the company fails to provide support for those standards—if it does not facilitate, encourage, and require their achievement—standards do no good. When the level of service delivery falls short of the standards, it falls short of what customers expect as well. Narrowing the performance gap—by ensuring that all the resources needed to achieve the standards are in place—reduces the customer gap.

Table 2.3 Provider Gap 3 Factors

Factors for Gap 3	Detailed Challenges
Deficiencies in human resource policies	➢ Ineffective recruitment ➢ Role ambiguity and role conflict ➢ Poor employee–technology job fit ➢ Inappropriate evaluation and compensation systems ➢ Lack of empowerment, perceived control, and teamwork
Customers not fulfilling roles	➢ Customers lack knowledge of their roles and responsibilities ➢ Customers negatively impact each other
Problems with service intermediaries	➢ Channel conflict over objectives and performance ➢ Channel conflict over costs and rewards ➢ Difficulty controlling quality and consistency

	➢ Tension between empowerment and control
Failure to match supply and demand	➢ Failure to smooth peaks and valleys of demand ➢ Inappropriate customer mix ➢ Overreliance on price to smooth demand

Gap 4 (Service delivery-external communication gap or the Communication Gap) – Promises made by a service company through its media advertising, sales force, and other communications may raise customer expectations, the standards against which customers assess service quality. The discrepancy between actual and promised services, therefore, can widen the customer gap. Broken promises can occur for many reasons: overpromising in advertising or personal selling, inadequate coordination between operations and marketing, and differences in policies and procedures across service outlets.

In addition to unduly elevating expectations through exaggerated claims, there are other, less obvious ways in which external communications influence customers' service quality assessments. Service companies frequently fail to capitalize on opportunities to educate customers to use services appropriately. They also neglect to manage customer expectations of what will be delivered in service transactions and relationships. The danger is that promises made are not kept. Many service organizations use the brochure or prospectus (some very glossy) for communicating with potential customers. It should be a statement of what the customer will receive, not an attractive set of promises that cannot be delivered.

Table 2.4 Provider Gap 4 Factors

Factors for Gap 4	Detailed Challenges
Lack of integrated services marketing communications	➢ Tendency to view each external communication as independent ➢ Not including interactive marketing in communications plan ➢ Absence of strong internal marketing program
Ineffective management of customer expectations	➢ Not managing customer expectation through all forms of communication ➢ Not adequately educating customers
Overpromising	➢ Overpromising in advertising ➢ Overpromising in personal selling ➢ Overpromising through physical evidence cues
Inadequate horizontal communications	➢ Insufficient communication between sales and operations ➢ Insufficient communication between advertising and operations ➢ Differences in policies and procedures across branches or units
Inappropriate pricing	➢ High prices that raise customer expectations ➢ Prices that are not tied to customer perceptions of value

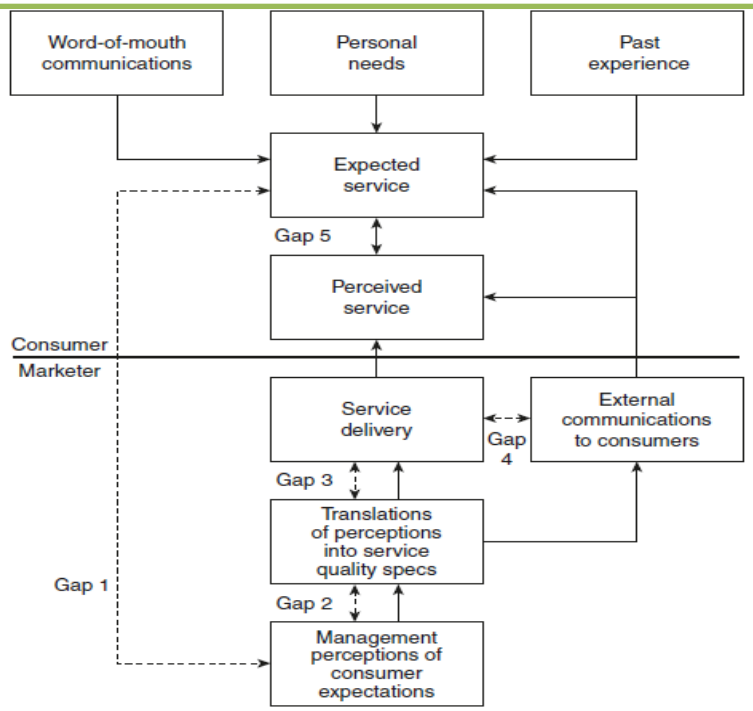
2.6.1.2.The Customer Gap

Gap 5 (Expected service-perceived service gap) – this gap represents the key challenge. To ensure good quality the provider must meet or exceed customer expectations. Perceived service quality is the result of the consumer's comparison of expected service with perceived service delivery (see SERVQUAL).

Customer expectations are standards or reference points that customers bring into the service experience, whereas customer perceptions are subjective assessments of actual service experiences. Customer expectations often consist of what a customer believes should or will happen. For example, when you visit an expensive restaurant, you expect a high level of service, one that is considerably superior to the level you would expect in a fast-food restaurant. Closing the gap between what customers expect and what they perceive is critical to delivering quality service; it forms the basis for the gaps model.

The sources of customer expectations are marketer-controlled factors (such as pricing, advertising, and sales promises) as well as factors that the marketer has limited ability to affect (innate personal needs, word-of-mouth communications, and competitive offerings).

Fig.2.9 Service Quality Gap Model. Source: Parasuraman et al. (1985)



The full conceptual model, shown in Figure 2.9, conveys a clear message to managers wishing to improve their quality of service: the key to closing the customer gap is to close provider gaps l through 4 and keep them closed. To the extent that one or more of provider gaps l through 4 exist, customers perceive service quality shortfalls. The gaps model of service quality serves as a framework for service organizations attempting to improve quality service and services marketing.

The model begins where the process of improving service quality begins: with an understanding of the nature and extent of the customer gap. Given the service organization's need to focus on the customer and to use knowledge about the customer to drive business strategy, this foundation of emphasis is warranted.

2.6.2. SERVQUAL and SERVPERF

This model is the most commonly used and cited of all of the service quality models (and it is also subject of frequent criticism!). In developing their SERVQUAL model of measuring service quality Parasurman, Zeithaml and Berry (1985) embarked on an extended, multi-staged research project designed to identify dimensions that accurately capture a measure of service quality. Early stages of their research netted ten items (see Table 2.5), which were later statically tested and reduced to five service dimensions (and 22 total items used to measure these five dimensions) that are considered highly by customers when assessing the quality of service.

Table 2.5 The original ten service quality factors from Parasuraman et al. (1985)

1. **Reliability**-consistency of performance and dependability.
2. **Responsiveness**-willingness or readiness of employees to provide service.
3. **Competence**-possession of the required skills and knowledge to perform the service.
4. **Access**-approachability and ease of contact.
5. **Courtesy**-politeness, respect, consideration and friendliness of contact personnel.
6. **Communication**-keeping customers informed in language they can understand.
7. **Credibility**-trustworthiness, believability and honesty.
8. **Security**-freedom from danger, risk or doubt.
9. **Understanding/knowing the customer**-making the effort to understand the customer's needs.
10. **Tangibles**-physical evidence of the service

The five final dimensions are:

1. **Reliability: Delivering on Promises**

Reliability is defined as the ability to perform the promised service dependably and accurately. In its broadest sense, reliability means that the company delivers on its promises—promises about delivery, service provision, problem resolution, and pricing. Customers want to do business with companies that keep their promises, particularly their promises about the service outcomes and core service attributes.

2. **Responsiveness: Being Willing to Help**

Responsiveness is the willingness to help customers and to provide prompt service. This dimension emphasizes attentiveness and promptness in dealing with customer requests, questions, complaints, and problems. Responsiveness is communicated to customers by the length of time they have to wait for assistance, answers to questions, or attention to problems.

To excel on the dimension of responsiveness, a company must view the process of service delivery and the handling of requests from the customer's point of view rather than from the company's point of view. Standards for speed and promptness that reflect the company's view of internal process requirements may be very different from the customer's requirements for speed and promptness. To truly distinguish themselves on responsiveness, companies need well-staffed customer service departments as well as responsive frontline people in all contact positions. Responsiveness perceptions are diminished when customers must wait to get through by telephone, are put through to a complex voice mail system, or have trouble accessing the firm's website.

3. **Assurance: Inspiring Trust and Confidence**

Assurance is defined as employees' knowledge and courtesy and the ability of the firm and its employees to inspire customer trust and confidence. This dimension is likely to be particularly important for services that customers perceive as high risk or for services of which they feel uncertain about their ability to evaluate outcomes—for example, banking, insurance, brokerage, medical, and legal services.

Trust and confidence may be embodied in the person who links the customer to the company, such as securities brokers, insurance agents, lawyers, or counselors. In such service contexts

the company seeks to build trust and loyalty between key contact people and individual customers. The "personal banker" concept captures this idea: customers are assigned to a banker who will get to know them individually and who will coordinate all their banking services.

4. Empathy: Treating Customers as Individuals

Empathy is defined as the caring, individualized attention that the firm provides its customers. The essence of empathy is conveying, through personalized service, that customers are unique and special and that their needs are understood. Customers want to feel understood by and important to firms that provide service to them. Personnel at small service firms often know customers by name and build relationships that reflect their personal knowledge of customer requirements and preferences. When such a small firm competes with larger firms, the ability to be empathetic may give the small firm a clear advantage.

In business-to-business services, customers want supplier firms to understand their industries and issues. Many small computer consulting firms successfully compete with large vendors by positioning themselves as specialists in particular industries. Even though larger firms have superior resources, the small firms are perceived as more knowledgeable about customers' specific issues and needs and are able to offer more customized services.

5. Tangibles: Representing the Service Physically

Tangibles are defined as the appearance of physical facilities, equipment, personnel, and communication materials. Tangibles provide physical representations or images of the service that customers, particularly new customers, will use to evaluate quality. Service industries that emphasize tangibles in their strategies include services in which the customer visits the establishment to receive the service, such as restaurants and hotels, retail stores, and entertainment companies.

2.7.Gap Model Vs SERVQUAL Vs SERVPERF

For determining service quality of a company one can use any of the models discussed so far. Even though, there is no one best way of measuring service quality it is helpful to identify how this three models cold be put in use.

2.7.1. Measuring service quality in GAP Model

To measure service quality using GAP Model as Vikram (2017) cited from (Nitin et al., 2005) explained that the service quality is the function of expectations and perception and can be presented as:

$$SQ = \sum kj(Pij - Eij)$$

Where, SQ (service quality) – overall service quality,

k – number of attributes,

Pij (perception) – perception of performances of stimulus i under the influence of attribute j, Eij(expectation)– expected service quality for attribute j compared to standards for stimulus i.

In measuring service quality first mean score for perception and expectation will be computed in each gap (Gap 1-5). Second to that using the formula $SQ = \sum kj(Pij - Eij)$ Service quality will be measured.

The lower the mean score, the larger the gap in service quality and on the other hand the higher the mean score, the smaller the gap in service quality. Gaps 1 to 4 are within the mechanism of a company and need to be investigated to regulate the sources and variations to be employed which can reduce or eliminate Gap 5, which is the gap reflecting the difference between customers perceptions and expectations of the company's level of service. Surveying of employees can help to measure the extent of Gaps 2 to 4.

The gaps model featured in this chapter is a useful way to audit the service performance and capabilities of an organization. It is the framework that many companies use as an assessment or service audit tool because it is comprehensive and it offers a way for companies to examine all the factors that influence service quality. To use it as an audit tool, a company documents what it knows about each gap and the factors that affect the size of the gap.

2.7.2. Measuring service quality in SERVQUAL Model

To measure service quality using SERVQUAL model it uses the same formula as GAP model which is $SQ = \sum kj(Pij - Eij)$ but in here the approach is identifying the mean score of only the customer gap using the five dimensions namely; Reliability, Responsiveness, Assurance, Empathy, and Tangibles.

2.7.3. Measuring service quality in SERVPERF Model

SERVPERF instrument, developed by Cronin and Taylor, which measures experiences only and does not ask respondents about their expectations. Experiences are measured over a range of attributes that the researcher has developed to describe the service as conclusively as possible. The resultant instrument may be easier to administer and the data may be easier to analyze. However, SERVPERF has not reached the same level of popularity as exists for SERVQUAL.

In summary; GAP Model measures the five gaps perception and expectation, SERVQUAL measures perception and expectation of the five dimensions only while SERVPERF measures on the perceptions of customers using the five dimensions.

Table 2.6 Service quality selected models

Service Quality Model	Researcher(s)	Description of Model	Conceptual Uniqueness of the Model
Gaps' Model	Oliber, 1980 or Parasurman, Zeithaml and Berry, 1985	Confirmation/disconfirmation-service quality is determined when customers evaluate the experience based on their expectations and perceptions.	Customer judgments occur across multiple encounters involving service design, communication, management and delivery
SERVQUAL	Parasurman, Zeithaml and Berry, 1985, 1988	A multi-item scale designed to measure customer expectations and perceptions according to five (originally 10) service quality dimensions. an extension of the Gaps model	Using the Gaps model with five specific service dimensions developed over many years of scale development.
SERVPERF	Cronin and Taylor, 1992	A multi-item scale derived from the SERVQUAL scale.	Does not measure expectations, only measures performance.

2.8.E-Service Quality

The growth of e-tailing and e-services has led many companies to wonder how consumers evaluate service quality on the Web and whether the criteria are different from those used to judge the quality of non-Internet services. A study sponsored by the Marketing Science Institute was conducted to understand how consumers judge e-service quality. In that study, E-S-QUAL is defined as the extent to which a website facilitates efficient and effective shopping, purchasing, and delivery. Through exploratory focus groups and two phases of empirical data collection and analysis, this research identified seven dimensions that are critical for core service evaluation (four dimensions) and service recovery evaluation (three dimensions).

The four core dimensions that customers use to judge websites at which they experience no questions or problems are as follows:

1. **Efficiency**: The ease and speed of accessing and using the site.
2. **Fulfillment**: The extent to which the site's promises about order delivery and item availability are fulfilled.
3. **System availability**: The correct technical functioning of the site.
4. **Privacy**: The degree to which the site is safe and protects customer information.

The study also revealed three dimensions that customers use to judge recovery service when they have problems or questions:

5. **Responsiveness**: The effective handling of problems and returns through the site.
6. **Compensation**: The degree to which the site compensates customers for problems.
7. **Contact**: The availability of assistance through telephone or online representatives.

2.9.Service Encounters or Moments of Truth

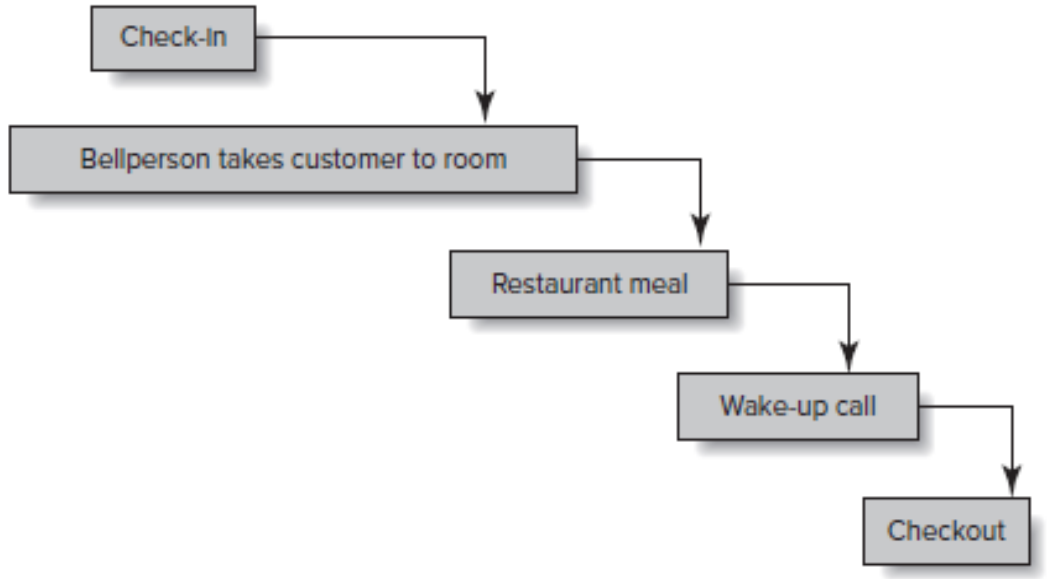
In this section of the chapter we will be discussing to what have been termed the building blocks for customer perceptions—service encounters, or "moments of truth." Service encounters are where promises are kept or broken and where the proverbial rubber meets the road—sometimes called "real-time marketing." It is from these service encounters that customers build their perceptions.

From the customer's point of view, the most vivid impression of service occurs in the service encounter, or moment of truth, when the customer interacts with the service firm. For example, among the service encounters that a hotel customer experiences are checking into the hotel,

being taken to a room by a bell person, eating a restaurant meal, requesting a wake-up call, and checking out. You could think of the linking of these moments of truth as a service encounter cascade (see Figure 2.10).

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 customer loyalty. A sequence of encounters can also be linked to form a customer experience. In the hotel example, all individual encounters would link together to comprise an "end-to-end customer experience," or "customer journey". Such a customer journey could include many encounters and extend over days—or even weeks, in the case of an extended stay. Some services have few service encounters, and others have many. Mistakes or problems that occur in the early stages of the service cascade may be particularly critical.

Fig.2.10 A Service Encounter Cascade for a Hotel Visit



In Exhibit 2.1 it is evident that customer service is one important aspect of marketing activity.

Exhibit 2.1 One Critical Encounter Destroys a 30-Year Relationship

"If you have $1 in a bank or $1 million, I think they owe you the courtesy of stamping your parking ticket," said John Barrier. One day Mr. Barrier paid a visit to his bank in Spokane, Washington. He was wearing his usual shabby clothes and pulled up in his pickup truck, parking in the lot next to the bank. After cashing a check, he

went outside to drive away and was stopped by a parking attendant who told him there was a 60-cent fee but that he could get his parking slip validated in the bank and park for free. No problem, Barrier thought and he went back into the bank (where, by the way, he had been banking for 30 years). The teller looked him up and down and refused to stamp his slip, telling him that the bank validated parking only for people who have transactions with the bank and that cashing a check wasn't a transaction. Mr. Barrier then asked to see the bank manager, who also looked him up and down, stood back, and "gave me one of those kinds of looks," also refusing to validate the parking bill. Mr. Barrier then said, "Fine. You don't need me, and I don't need you." He withdrew all his money and took it down the street to a competing bank, where the first check he deposited was for $1,000,000.

Source: "Shabby Millionaire Closes Account, Gives Bank Lesson about Snobbery", The Arizona Republic, February 21, 1989, p. A3.

2.9.1. Types of Service Encounter

A service encounter occurs every time a customer interacts with the service organization. There are three general types of service encounters: remote encounters, technology mediated encounters, and face-to-face encounters. A customer may experience any of these types of encounters, or a combination of all three, in his or her interactions with a service firm.

First, encounters can occur without any direct human contact (remote encounters), such as when a customer interacts with a bank through the ATM system, with a retailer through its website, or with a mail-order service through automated touchtone phone ordering. Remote encounters also occur when the firm sends its billing statements or communicates other types of information to customers by regular mail or e-mail. Although there is no direct human contact in these remote encounters, each represents an opportunity for the firm to reinforce or establish quality perceptions in the customer. In remote encounters the tangible evidence of the service and the quality of the technical processes and systems become the primary bases for judging quality. Retail purchases, airline ticketing, repair and maintenance troubleshooting, and package and shipment tracking are just a few examples of services available via the Internet. All these types of service encounters can be considered remote encounters.

In many organizations (such as insurance companies, utilities, and telecommunications), the most frequent type of encounter between an end-customer and the firm occurs over the telephone or via simultaneous texting, live chats, or other platforms that allow technology-based communication with a real person in real time (technology mediated encounters). Almost all firms (whether goods manufacturers or service businesses) rely on basic telephone encounters to some extent for customer service, general inquiry, or order-taking functions. The

judgment of quality in phone encounters is different than in 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. For real time e-mail or text exchanges or live chat encounters, where there is no human voice to rely on for cues, the actual words chosen and tone of the communication will determine perceptions of quality.

A third type of encounter is the one that occurs between an employee and a customer in direct personal contact (face-to-face encounters). At a Clinic for instance, face-to-face encounters occur between patients and reception staff, nurses, doctors, lab technicians, food service workers, pharmacy staff, and others. For a company such as IBM, in a business-to-business setting, direct encounters occur between the business customer and salespeople, delivery personnel, maintenance representatives, and professional consultants. 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 (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 behavior during the interaction.

2.9.2. Sources of Pleasure and Displeasure in Service Encounters

On the basis of research that documents thousands of service encounter stories, four common themes—recovery (after failure), adaptability, spontaneity, and coping—have been identified as the sources of customer satisfaction/dissatisfaction in memorable service encounters. The themes encompass service behaviors in encounters spanning a wide variety of industries.

Table 2.7 General Service Behaviors Based on Service Encounter Themes—Dos and Don'ts

Theme	Do	Don't
Recovery-Employee Response to Service Delivery System Failures	➢ Acknowledge problem ➢ Explain causes ➢ Apologize ➢ Compensate/upgrade ➢ Lay out options ➢ Take responsibility	➢ Ignore customer ➢ Blame customer ➢ Leave customer to fend for himself or herself ➢ Downgrade ➢ Act as if nothing is wrong

		➢ "Pass the buck"
Adaptability-Employee Response to Customer Needs and Requests	➢ Recognize the seriousness of the need ➢ Acknowledge ➢ Anticipate ➢ Attempt to accommodate ➢ Adjust the system ➢ Explain rules/policies ➢ Take responsibility	➢ Ignore ➢ Promise but fail to follow through ➢ Show unwillingness to try ➢ Embarrass the customer ➢ Laugh at the customer ➢ Avoid responsibility ➢ "Pass the buck"
Spontaneity-Unprompted and Unsolicited Employee Actions	➢ Take time ➢ Be attentive ➢ Anticipate needs ➢ Listen ➢ Provide information ➢ Show empathy	➢ Exhibit impatience ➢ Ignore ➢ Yell/laugh/swear ➢ Steal from customers ➢ Discriminate
Coping-Employee Response to Problem Customers	➢ Listen ➢ Try to accommodate ➢ Explain ➢ Let go of the customer	➢ Take customer's dissatisfaction personally ➢ Let customer's dissatisfaction affect others

Summary

Using a conceptual framework of the nature and determinants of customer expectations of service, we showed in this chapter that customers hold two types of service expectations: desired service, which reflects what customers want, and adequate service, or the minimum level of service customers are willing to accept. The desired service level is less subject to change than the adequate service level. A zone of tolerance separates these two levels of expectations. This zone of tolerance varies across customers and can expand or contract for the same customer.

Customer expectations are influenced by a variety of factors. Desired service expectations are influenced by personal needs, personal service philosophy, derived service expectations, explicit service promises, implicit service promises, word-of mouth communication, and the

customer's past experience. Adequate service expectations are influenced by perceived service alternatives and situational factors. These sources of expectations are the same for end consumers and business customers, for pure service and product-related service, and for experienced customers and inexperienced customers.

This chapter described customer perceptions of service by first introducing two critical concepts: customer satisfaction and service quality. These critical customer perceptions were defined and discussed in terms of the factors that influence each of them. Customer satisfaction is a broad perception influenced by features and attributes of the product as well as by customers' emotional responses, their attributions, and their perceptions of fairness. Service quality, the customer's perception of the service component of a product, is also a critical determinant of customer satisfaction. Sometimes, as in the case of a pure service, service quality may be the most critical determinant of satisfaction. Perceptions of service quality are based on five dimensions: reliability, assurance, empathy, responsiveness, and tangibles. Regarding the service quality model besides SERVQUAL and SERVPERF, this chapter also presented the integrated gaps model of service quality (shown in Figure 2.9), a framework for understanding and improving service delivery. The model focuses on five pivotal gaps in delivering and marketing service:

The customer gap (Gap 5): Difference between customer expectations and perceptions

Provider gap l: the listening gap

Provider gap 2: the service design and standards gap

Provider gap 3: the service performance gap

Provider gap 4: the communication gap

The gaps model positions the key concepts, strategies, and decisions in service marketing in a manner that begins with the customer and builds the organization's tasks around what is needed to close the gap between customer expectations and perceptions.

Another major purpose of the chapter was to introduce the idea of service encounters, or "moments of truth," as the building blocks for both satisfaction and quality. Every service encounter (whether remote, technology-mediated, or in person) is an opportunity to build

customer perceptions of quality and satisfaction. The underlying themes of pleasure and displeasure in service encounters were also described.

Summary Questions

1. What is the difference between desired service and adequate service? Why would a service marketer need to understand both types of service expectations?
2. 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.
3. Discuss the differences between perceptions of service quality and customer satisfaction.
4. List and define the five dimensions of service quality. Describe the services provided by a firm you do business with (e.g., your bank, your doctor, your favorite restaurant) on each of the dimensions. In your mind, has this organization distinguished itself from its competitors on any particular service quality dimension? Discuss gap model.
5. Describe a remote encounter, a technology-mediated encounter (phone, real-time texting, or live chat), and a face-to-face encounter that you have had recently. How did you evaluate the encounter, and what were the most important factors determining your satisfaction/dissatisfaction in each case?
6. Describe an "encounter cascade" for an airplane flight. In your opinion, what are the most important encounters in this cascade for determining your overall impression of the quality of the airline?
7. Assume that you are a manager of a health club. Discuss general strategies you might use to maximize customers' positive perceptions of your club. How would you know if you were successful?
8. Should service marketers delight their customers?

CHAPTER THREE

BUILDING CUSTOMER RELATIONSHIP

It has been called the decade of the customer, the customer millennium, and virtually every name that can incorporate "customer" within. There's nothing new about businesses focusing on customers or wanting to be customer-centered. However, in today's marketplace just saying an enterprise is "customer-centric" is not enough. It is a promise that organizations must keep. The problem is that most organizations still fall short of this goal. Positive customer relations can result in an array of benefits for your company including more potential leads and higher customer retention rates.

This chapter will address customer management and the variety of techniques used in customer relationship building, nurturing, loyalty, retention, and reactivation. These include Customer Relationship Management (CRM), and Relationship Value of Customers. The objective of these techniques is to help organizations coax the greatest value from their customers. While the strategies are different, all of these methods use the tools and techniques of direct marketing in their execution.

Before starting the discussion on the chapter can you define what customer relationship is and what customer relationship management (CRM)? Can you come up with a solution to retail customers once they start purchasing your service?

Chapter Objectives: After completing this chapter students will be able to;

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

3.1.Relationship Marketing

Over the past few decades' firms have shifted from a transaction focus to a relationship focus in their marketing efforts. Customers have become partners and cocreators as firms have made

"long-term commitments to maintaining those relationships with quality, service, and innovation."

Relationship marketing essentially represents a paradigm shift within marketing—away from an acquisitions/transaction focus toward a retention/relationship focus. Relationship marketing (or relationship management) is a philosophy of doing business, a strategic orientation, that focuses on keeping and improving relationships with current customers rather than on acquiring new customers. This philosophy assumes that many consumers and business customers prefer to have an ongoing relationship with one organization rather than to switch continually among providers in their search for value. Building on this assumption and another that suggests it is usually less expensive to keep a current customer than to attract a new one, successful marketers develop effective strategies for retaining customers.

It has been suggested that firms frequently focus on attracting customers (the "first act") but then pay little attention to what they should do to keep them (the "second act"). Ideas expressed in an interview with James Schorr, then executive vice president of marketing at Holiday Inns, illustrate this point. In the interview he referred to the "bucket theory of marketing." By this he meant that marketing can be thought of as a big bucket: it is what the sales, advertising, and promotion programs do that pours customers into the top of the bucket. As long as these programs are effective, the bucket stays full. However, "There's only one problem," he said, "there are holes in the bucket." When the business is running well and the hotel is delivering on its promises, any holes are small and few customers are leaving. As indicated in Figure 3.1, when the operation is weak and customers are not satisfied with what they are getting—and therefore the relationship is weak—people start falling out of the bucket through the holes faster than they can be poured in through the top.

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. There are often fewer (or no) rewards for retaining current accounts. Thus, even when people see the logic of customer retention, the existing organizational systems may not support its implementation.

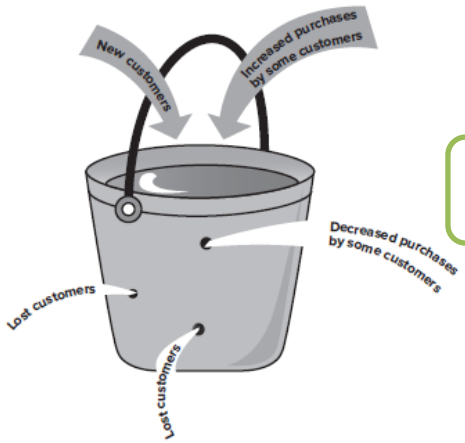


Fig.3.1 Holes in the Bucket: Why Relationship Development Makes Sense

3.2.The Evolution of Customer Relationships

Firms' relationships with their customers, like other social relationships, tend to evolve over time. Scholars have suggested that marketing exchange relationships between providers and customers often have the potential to evolve from strangers to acquaintances to friends to partners.

3.2.1. Customers as Strangers

Strangers are those customers who have not yet had any transactions (interactions) with a firm and may not even be aware of the firm. At the industry level, strangers may be conceptualized as customers who have not yet entered the market; at the firm level, they may include customers of competitors. Clearly the firm has no relationship with the customer at this point. Consequently, the firm's primary goal with these potential customers ("strangers") is to initiate communication with them to attract them and acquire their business. Thus, the primary marketing efforts directed toward such customers deal with familiarizing those potential customers with the firm's offerings and, subsequently, encouraging them to give the firm a try.

3.2.2. Customers as Acquaintances

Once customer awareness and trial are achieved, familiarity is established and the customer and the firm become acquaintances, creating the basis for an exchange relationship. A primary goal for the firm at this stage of the relationship is satisfying the customer. In the acquaintance stage, firms are generally concerned about providing a value proposition to customers comparable with that of competitors. For a customer, an acquaintanceship is effective as long as the customer is relatively satisfied and what is being received in the exchange is perceived as fair value. With repetitive interactions, the customer gains experience and becomes more

familiar with the firm's offerings. These encounters can help reduce uncertainty about the benefits expected in the exchange and, therefore, increase the attractiveness of the company relative to the competition. Repetitive interactions improve the firm's knowledge of the customer, helping to facilitate marketing, sales, and service efforts. Thus, an acquaintance relationship facilitates transactions primarily through the reduction of the customer's perceived risk and the provider's costs.

3.2.3. Customers as Friends

As a customer continues to make purchases from a firm and to receive value in the exchange relationship, the firm begins to acquire specific knowledge of the customer's needs, allowing it to create an offering that directly addresses the customer's situation. The provision of a unique offering, and thus differential value, transforms the relationship from acquaintance to friendship. This transition, particularly in-service exchange relationships, requires the development of trust. Because customers may not be able to assess a service outcome prior to purchase and consumption, they may not be able to discern service performance even after experiencing it and, therefore, must trust the provider to do what is promised. As customers become friends, they not only become familiar with the company but also come to trust that it provides superior value.

A primary goal for firms at the friendship stage of the relationship is customer retention. A firm's potential to develop sustainable competitive advantage through friends should be higher than for acquaintances because the offering is more unique (and more difficult for competition to imitate) and the customer comes to trust that uniqueness.

3.2.4. Customers as Partners

As a customer continues to interact with a firm, the level of trust often deepens and the customer may receive more customized product offerings and interactions. The trust developed in the friendship stage is a necessary but not sufficient condition for a customer–firm partnership to develop. That is, the creation of trust leads to (ideally) the creation of commitment—and that is the condition necessary for customers to extend the time perspective of a relationship. The deepening of trust and the establishment of commitment reduce the customer's need to solve problems in the traditional sense of "finding a better alternative." Thus, to move the relationship into a partner relationship, a firm must use customer knowledge and information systems to deliver highly personalized and customized offerings.

At the partnership stage, the firm is concerned with enhancing the relationship. Customers are more likely to stay in the relationship if they feel that the company understands their changing needs and is willing to invest in the relationship by constantly improving and evolving its product and service mix. By enhancing these relationships, the firm expects such customers to be less likely to be lured away by competitors and more likely to buy additional products and services from the company over time. These loyal customers not only provide a solid base for the organization, they may represent growth potential.

3.3.The Goal of Relationship Marketing

The discussion of the evolution of customer relationships demonstrates how a firm's relationship with its customers might be enhanced as customers move further along this relationship continuum. As the relationship value of a customer increases, the provider is more likely to pursue a closer relationship. Thus, the primary goal of relationship marketing is to build and maintain a base of committed customers who are profitable for the organization. Figure 3.2 graphically illustrates the goals of relationship marketing. The overriding goal is to move customers up the ladder (i.e., along the relationship continuum) from the point at which they are strangers that need to be attracted through to the point at which they are highly valued, long-term customers whose relationship with the firm has been enhanced. From a customer's problem-solving perspective, the formation of satisfaction, trust, and commitment corresponds to the customer's willingness to more fully engage in an exchange relationship as an acquaintance, friend, and partner, respectively. From a firm's resource-allocation perspective, the delivery of differential, and perhaps customized, value corresponds to the extent of its ability and/or desire to create an acquaintance, friend, or partner relationship with the customer. As customers make the transition from satisfaction-based acquaintanceships to trust-based friendships to commitment-based partnerships, increases are required in both the value received and the level of cooperation.

Fig.3.1 The Goal of Relationship Marketing: Moving Customers Up the Ladder



3.4.Relationship Value of Customers

Relationship value of a customer is a concept or calculation that looks at customers from the point of view of their lifetime revenue and/or profitability contributions to a company. This type of calculation is needed when companies start thinking of building long-term relationships with their customers. Just what is the potential financial value of those long-term relationships? Or, to put it another way, what are the financial implications of losing a customer?

The lifetime or relationship 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 services over time, referrals generated by the customer over time, and costs associated with serving the customer. Lifetime value sometimes refers to lifetime revenue stream only; when costs are considered, the more appropriate term to use is lifetime profitability.

"If companies knew how much it really costs to lose a customer, they would be able to make accurate evaluations of investments designed to retain customers. Unfortunately, today's accounting systems do not capture the value of a loyal customer." One way of documenting the dollar value of loyal customers is to estimate the increased value or profits that accrue for each additional customer who remains loyal to the company rather than defecting to the competition.

A research on a lifetime value of a customer showed that a 20- person office (firm 'X') had approximately Br1, 500 per month in business with company 'Z'. Assuming a 10-year average lifetime for a customer, the value of a firm to company 'Z' becomes:

Br 1,500/month * 12 months/year * 10 years = Br 180,000

Further an assumption is drawn that a happy customer will create at least one new customer via word of mouth that makes total income:

Br 180,000 * 2 = Br 360,000

If the company has got 40 customers of firm 'X's size, the portfolio of life time business for the company would be:

Br 360,000 * 40 = Br 14,000,000

3.5.Foundation for relationship strategies

The preceding discussion should have convinced you that it is good business to focus on current customers, to understand them, and to build strategies around retaining their business. Later in the chapter we describe specific retention strategies that firms use to keep their current customers.

But first, in this section, we discuss the foundations needed to begin focusing on retention strategies:

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

3.5.1. 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. This doesn't necessarily mean that the firm has to be the very best among its competitors, or "world class" in terms of quality and customer satisfaction. It must be competitive, however, and frequently better than that.

3.5.2. Market Segmentation, Targeting and Positioning

A second basic foundation of relationship marketing is market segmentation - learning and defining who the organization wants to have relationships with. In earlier chapters we discussed consumers of services and described their behavior, expectations, and perceptions. If we were to aggregate all the behavior, expectation, and perception information for all the customers in a particular market, we would probably be overwhelmed with the variations across customers. At one extreme, services firms historically those with a relatively small number of customers, each of whom is vitally important treat customers as individuals and develop individual marketing plans for each customer. For example, a law firms, an advertising agency, or even a large manufacturer like the Boeing Airplane Company will develop service offerings customized specifically and individually for their large corporate clients.

At the other extreme, some service firms offer one service to all potential customers as if their expectations, needs and preferences were homogeneous. Providers of gas or electricity, for example, often view the needs of customers as varying only in terms of quantity purchased; for this reason, their marketing approach is standardized. Between these two extremes are options that most service marketers choose – offering different groups of customers. To do this effectively companies need market segmentation and targeting.

Segmenting, targeting and positioning are strategic fundamentals of marketing used to generate competitive advantage, which can be translated into business opportunities that form the success story of organization.

Defining a market is the basis of segmentation. Service firms vary widely in their abilities of serving. It would then, not be wise to compete in an entire market. Instead, organizations should focus on the set of customers they can serve best.

For a service organization, the company's focus can be described on two dimensions- the service focus and the market focus. Taking the two variables of service offered and the market served, organization can be grouped into four types: -

I. Unfocused: it is when a service provider company provides with many services for many types of customers. For example, assume a hotel that provides with restaurants, room accommodations, spa services, gym services, swimming pool services and theatres. In this case the hotel provides a wider range of services in which each service could be separately sold for

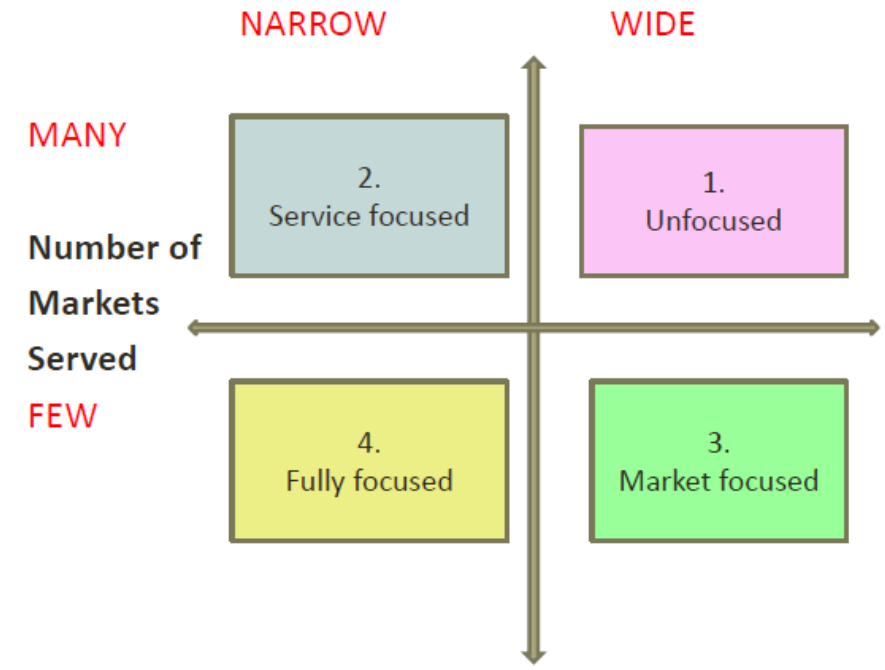
customers. In this case the hotel is not focused in one or two service with this its customers varies too.

II. Service focused: in this category a company specializes at one or few service provisions. For example, assume an auto repair service provider. It only sales a service in repairing automobiles and sale nothing else. In this case the company is specialized and focused only on provides one type of service which cannot be separately provided for customers.

III. Market focused: here a company designs a wider range of services but for specific types of customers. For example, assume a company that provides auto repair, car décor, training, and car wash but these services are provided targeting only high-income customers.

IV. Fully focused: in this category a company provides narrower range of services for targeted few customers. For example, assume a company that provides only cash wash services for only high-income customers.

Fig.3.3 Types of Organization based on the two variables



3.5.2.1. A Process for Market Segmentation and Targeting in Services

Many aspects of segmentation and targeting for services are the same as those for manufactured goods, there are differences, however. The most powerful difference involves 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 services is that service providers have a far greater ability to customize service offerings in real time than manufacturing firms have.

The steps involved in segmenting and targeting services, and a brief discussion of each step follows.

- **Identify Bases for Segmenting the Market:** Market segments are formed by grouping customers who share common characteristics that are in some way meaningful to the design, delivery, promotion, or pricing of the service.
- **Develop Profiles of Resulting Segments:** Once the segments have been identified it is critical to develop profiles of them. In consumer markets these profiles usually involve demographic characterizations or psychographics or usage segments. Of most importance in this stage clearly understands how and whether the segments differ from each other in terms of their profiles. If they are not different from each other, the benefits to be derived from segmentation will not be realized.
- **Develop Measures of Segment Attractiveness:** The fact that segments of customers exist does not justify a firm's choice of them as targets. Segments must be evaluated in terms of their attractiveness. The size and purchasing power of the segments must be measurable so that the company can determine if the segments are worth the investment in marketing and relationship costs associated with the group. The chosen segments also must be accessible, meaning that advertising or marketing vehicles must exist to allow the company to reach the customers in the segments.
- **Select the Target Segments:** Based in part on the evaluation criteria in the section above; the services marketer will select the target segment or segments for the service. The firm must decide if the segment is large enough and trending toward growth. Market size will be estimated and demand forecasts completed to determine whether the segment provides strong potential. Finally, the firm must decide whether serving the segment is consistent with company objectives and resources.
- **Ensure That the Target Segments Are Compatible:** This step, of all the steps in segmentation strategy, is arguably more critical for service companies than for goods companies. Because services are often performed in the presence of the customer, the services marketer must be certain that the customers are compatible with each other. If

during the non-peak season, a hotel chooses to serve two segments that are incompatible with each other- for example, families who are attracted by the discounted prices and college students on their vacation- it may find that the two groups do not merge well. It may be possible to manage the segments in this example so that they do not directly interact with each other, but if not, they may negatively influence each other's experiences, hurting the hotel's future business. In identifying segments, it is thus important to think through how they will use the service and whether segments will be compatible. Later in this course we will examine specific strategies for balancing demand for service while serving the right segments and strategies for managing the customer mix.

3.5.2.2. Positioning of Services

Positioning Strategy is a strategy that maintains and establishes a distinctive place in the Consumer mind. The concept of Positioning is not Limited to service it is also used in to goods. Positioning is the act of designing the Company's offering and image to occupy a meaningful and distinct competitive position in the target consumers' mind. It is the battle for the consumers' mind.

3.5.2.3. Methods of positioning

- Services can be positioned in six different ways. They can be service attributes, use or application, price/ quality relationship, service class, service user or competitor.
- Service attributes involve positioning the service in terms of what it does best. Example firm tries to position itself as the best firm for "overnight delivery" or" "package delivery"
- Use or application can be used for positioning Example fitness center can positioned some centers cater individual who want to reduce weight, other position themselves for individual who want to exercise but may/may not seek weight loss.
- Price/ quality relationship –can also be used for positioning a firm, some chosen its position as the low price but other position themselves by offering quality service with the highest price. Example, Southwest chosen its position as the low price because it believes that travelers will sacrifices meals and assign seating for cheaper fares. At the other extreme is Scandinavian Airlines positioned in the business traveler market; they believe travelers will pay more for high quality service.

- Service class is the fourth positioning method. Example, pizza Hut is positioned as a "dine –in – restaurant", not a fast-food restaurant, the advertisement state they are "The best dines in restaurant in the pizza industry" This position show that they compete with other dine in restaurants, not fast food.
- Some service position according to service users. Some position toward the business sector, other position toward leisure peoples.
- Service provider can also position themselves relative to a competitor. This is the strategy chosen by Avis when they were near the bottom of the rental car industry. They embarked on an advertising campaign where they compared them in to the number one firm, Hertz. As a result, consumer saw Avi's as an alternative to Hertz. The image of Avis improved as consumers came to believe that Avi as good as Hertz. The result of the advertising campaign was a rise for Avi from near the bottom to number two, next to Hertz.

3.5.2.4. Positioning maps

A useful technique in determining a positioning strategy is position mapping, position mapping involves graphically mapping a firm's and its competitor respective to the two major purchase criteria. To be of benefit the axis of the graph need to be the two most important criteria consumers use in choosing a vendor within an industry. For trucking firms, the two most important criterion may be on time delivery rate and cost. For a professional service such as surgery the two most important criterion may be competence and availability.

There are six steps to determine the correct positioning for service.

- The first step in determining the correct positioning for service is to identify firm's competitors. It is important to see competitors from a consumer viewpoint. In making a purchase decision, what venders do consumers consider?
- The second step in the process is to assess consumer's perceptions of each firm in the industry. It means assess the criteria that consumer's use to evaluate each firms.
- Based on the information gained from consumers, the third step is to plot the map and determine the position of each firm within the industry. The map allows firms to see where they are relative to their competitor.

- The fourth step in determining the correct consumer position is to anticipate consumer preference. This information is difficult to obtain but is important to make position decision. Why consumer prefers one firm over another?
- The fifth step is making a position decision. The decision may be to remain positioned. However, if a firm is unhappy with the position it occupies in consumers mind it may want to reposition itself. In choosing a new position firms must be very careful. Changing the position of the firm in consumer mind is very difficult since positions become very deep-rooted. Consumers have to be convinced that what they believe about the firm in reference to its competition is wrong or that is must be modified.
- The final step in the process is to develop a strategy to employment the new position or to reinforce the current position.



Fig.3.4 Services position map

This figure shows an example of position mapping using quality and price as an important criterion for the company

3.5.2.5. Role of Service Positioning Map

- The position map allows a company to see what position they occupy in the mind of consumers relative to their competitor.
- For a potential new entrant into the market the position map will show possible gaps that are not currently being served by any one
- The positioning maps suggest a new position for a firm that is currently in the market.

3.5.3. 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 (at a minimum)

annual customer relationship survey 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. The following information forms the foundation of a customer database.

- Knowing who the organization's current customers are (names, addresses, phone numbers, etc,),
- What customers buying behavior is,
- The revenue customers generate,
- The related costs to serve customers, customers preferences, and
- Relevant segmentation information (e.g., demographics, lifestyle, usage patterns) forms the foundation of a customer database.

The two basics (relationship survey and customer database) combined with a variety of other types of marketing research are means for monitoring relationships. With a foundation of customer knowledge combined with quality offerings and value, a firm can engage in relation strategies to hold on to its customers.

3.6. Retention Strategies

- Financial Bonds
- Social Bonds
- Customization bonds
- Material (structural) bonds

To this point in the chapter we have focused on the rational for relationship marketing, the benefits of customer retention, and the importance of identifying the right market segment(s) for relationship building. In this section we look at some of the specific strategies and tactics used by firms to build relationships and tie customers closer to the firm. That is, once a firm has carefully identified its market segments and developed quality services, what are some of

the specific tactics it can use to accomplish the goal of retaining its customers? Leonard Berry and A. Parasuraman have developed a framework for understanding types of retention strategies. The four types of retention strategies built on foundations of quality services, market segmentation, and monitoring of changing relationship needs over time are:

Level 1- financial bonds

At level 1, 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. Examples of level 1 relationship marketing are not hard to find. Think about the airline industry and related travel service industries like hotels and car rental companies. Frequent flyer programs provide financial incentives and rewards for travelers who bring more of their business to a particular airline. Hotels and car rental companies do the same.

Other types of retention strategies that depend primarily on financial rewards are focused on bundling and cross selling of services. Frequent flyer programs again provide a common example. Most airlines now link their reward programs with hotel chains, and auto rentals.

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 receives through serving them over time.

While widely and increasingly used as retention tactics, cautions are warranted when implementing a financial rewards loyalty program.

As pointed out earlier, these programs are often easily imitated. Thus, any increased usage or loyalty from customers may be short lived.

Second, these strategies are not likely to be successful unless they are structured so that they truly lead to repeat or increased usage rather than serving as means to attract new customers and potentially causing endless switching among competitors. Finally, these strategies will not be successful long term unless they build customers' perceptions of increased value received from the service.

Level 2-Social Bonds

Level 2 strategies bind customers to the firm through more than financial incentives. While price is still assumed to be important, level 2 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. For example, in a study of customer/firm relationships in the insurance industry, it was found that behaviors such as staying in touch with clients to assess their changing needs, 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.

Social, interpersonal bonds are common among professional service providers (e.g., lawyers, accountants, and teachers) and their clients as well as among personal care providers (hairdressers, counselor's health care providers) and their clients. A dentist who takes a few minutes to review her patient's file before coming in to the exam room is able to jog her memory on personal facts about the patient (occupation, family details, interests, dental health history). By bringing these personal details into the conversation, the dentist reveals her genuine interest in the patient as an individual and builds social bonds.

Sometimes relationships are formed with the organization due to the social bonds that develop among customers rather than between customers and the provider of the service. This is frequently the case in health clubs, country clubs, educational settings, and other service environments where customers interact with each other. People who exercise together regularly at a health club may develop social ties and friendships that bind them to each other and to the particular fitness center where they work out.

While social bonds alone may not tie the customer permanently to the firm, they are much more difficult for competitors to imitate than are price incentives. 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 incentives, social bonding strategies may be very effective.

Level 3- Customization Bonds

Level 3 strategies involve more than social ties and financial incentives, although there are commonly elements of level 1 and 2 strategies encompassed within a customization strategy and vice versa.

Two commonly used terms within the customization bonds approach are:

- Mass customization and
- Customer intimacy.

Both of these strategies suggest that customer loyalty can be encouraged through intimate knowledge of individual customers and though 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 customizations 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.

Level 4 Structural Bonds

Level 4 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.

Summary

In this chapter we focused on the rationale for, benefits of, and strategies for developing long-term relationships with customers. It should be obvious by now that organizations that focus only on acquiring new customers may well fail to understand their current customers; thus, while a company may be bringing customers in through the front door, equal or greater numbers

may be exiting. Estimates of lifetime relationship value accentuate the importance of retaining current customers.

The particular strategy that an organization uses to retain its current customers can and should be customized to fit the industry, the culture, and the customer needs of the organization. However, in general, customer relationships are driven by a variety of factors that influence the development of strong customer relationships, including (1) the customer's overall evaluation of the quality of a firm's core service offering, (2) the switching barriers that the customer faces in leaving a relationship, and (3) the relationship bonds the firm has developed with that customer. By developing strong relationships with customers and by focusing on factors that influence customer relationships, the organization will accurately understand customer expectations over time and consequently will narrow service quality gap 1 (see Chapter two).

Summary Questions

1. Discuss how relationship marketing or retention marketing is different from the traditional emphasis in marketing.
2. Describe how a firm's relationships with customers may evolve over time. For each level of relationship discussed in the chapter, identify a firm with which you have that level of relationship, and discuss how its marketing efforts differ from those of other firms.
3. 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?
4. With regard to the same service organization, what are the benefits to the organization of keeping you as a customer? Calculate your "lifetime value" to the organization.
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 FOUR

SERVICE RECOVERY

Mistakes are a critical part of every service. Hard as they try, even the best service companies can't prevent the occasional late flight, burned steak, or missed delivery. The fact is, in services, often performed in the customer's presence, errors are inevitable.

The preceding two chapters have given you a foundation for understanding customers' service expectations through research as well as through knowing them as individuals and developing strong relationships with them. These strategies, matched with effective service design, delivery, and communication—treated in other chapters—form the foundations for service success. But in all service contexts—whether customer service, consumer services, or business-to-business services—service failure is inevitable. Failure is inevitable even for the best of firms with the best of intentions, even for those with world-class service systems.

To fully understand and retain their customers, firms must know what customers expect when service failures occur and must implement effective strategies for service recovery.

In this chapter of the course, we will be discussing the main pointes in how to retain customers through service recovery. We will also be discussing the icebergs theory and service recovery paradox.

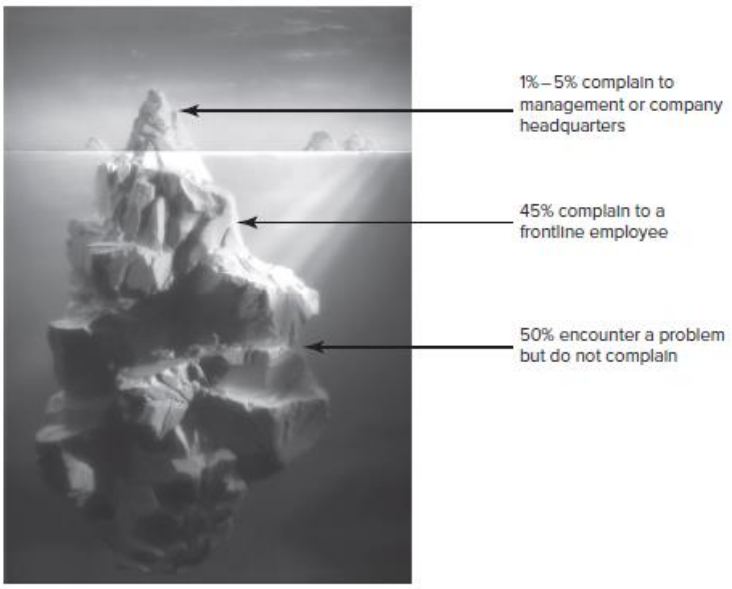
Explain what service failure is? what solutions do you suggest to recover the failed service? How do you see customers complaint (positively or negatively)? If you come across with a customer who is shy, how do you deal with him/her so that he/she won't leave your company? Do you agree it would be better to fail the service intentionally and compensate customers so as for them to be loyal customers?

Chapter Objectives: After completing this chapter students will be able to;

- Explain the impact of service failure and recovery
- Identify the courses of action that are opened to dissatisfied consumer
- Classify types of customer complains and
- Analyze how managers design a service recovery system

4.1.The impact of service failure and recovery

Fig.4.1 Complaining Customers: The Tip of the Iceberg



A service failure is generally described as service performance that falls below a customer's expectations in such a way that leads to customer dissatisfaction. Service recovery refers to the actions taken by an organization in response to a service failure to improve the situation for the customer. Failures occur for all kinds of reasons—the service may be unavailable when promised, it may be delivered late or too slowly, the outcome may be incorrect or poorly executed, or employees may be rude or uncaring. Although these types of failures bring about negative feelings from customers, research suggests that only a portion (45 percent) of customers who experience a problem with service delivery actually complain to the employees serving them, and a very small number (1–5 percent) complain to management or the company headquarters. This phenomenon, commonly referred to as the "tip of the iceberg" and demonstrated in Figure 4.1, suggests every complaint that management actually receives represents 20–100 other customers who experienced the problem and did not complain. Service failures left unfixed can result in customers leaving, telling other customers about their negative experiences, and even challenging the organization through consumer rights organizations or legal channels.

4.2.Service Recovery Effects

Research has shown that resolving customer problems effectively has a strong impact on customer satisfaction, loyalty, word-of-mouth communication, and bottom-line performance.

That is, customers who experience service failures, but who are ultimately satisfied based on recovery efforts by the firm, will be more loyal than those whose problems are not resolved. That loyalty translates into profitability. Among customers from service businesses who complain and have their problems satisfactorily resolved, 41 percent indicate they would definitely purchase again from the same provider—illustrating the power of good service recovery. Occasionally, as described in Exhibit 4.1, firms do so well in their service recovery that customers end up more satisfied than they would have been if the firm had never failed in the first place—a situation referred to as the "service recovery paradox."

A well-designed service recovery strategy also provides information that can be used to improve service as part of a continuous improvement effort. By making adjustments to service processes, systems, and outcomes based on previous service recovery experiences, companies increase the likelihood of "doing it right the first time." In turn, this reduces costs of failures and increases initial customer satisfaction.

Exhibit 4.1 The Service Recovery Paradox

Occasionally some businesses have customers who are initially dissatisfied with a service experience and then experience a high level of excellent service recovery, seemingly leading them to be even more satisfied and more likely to repurchase than if no problem had occurred at all; that is, some customers appear to be more satisfied after they experience a service failure than they otherwise would have been! To illustrate, consider a rental car customer who arrives to check in and finds that no automobile is available of the size reserved and the price quoted. In an effort to recover, the car rental agent immediately upgrades this customer to a much better vehicle at the original price. The customer, thrilled with this compensation, reports that she is extremely satisfied with this experience, is even more impressed with the firm than she was before, and vows to be loyal into the future. Although such extreme instances are relatively rare, this idea—that an initially disappointed customer who has experienced good service recovery might be even more satisfied and loyal as a result—has been labeled the recovery paradox.

So should a firm "screw up" just a little, so that it can "fix the problem" superbly? If doing so would actually lead to more satisfied customers, is this strategy worth pursuing? The logical, but not very rational, conclusion is that companies should plan to disappoint customers, so they can recover well and (hopefully) gain even greater loyalty from them!

What are the problems with such an approach?

- As we indicated earlier in this chapter, a vast majority of customers do not complain when they experience a problem. The possibility of a recovery exists only in situations in which the firm is aware of a problem and is able to recover well; if customers do not make the firm aware of the failure—and most do not—dissatisfaction is most likely to be the result.
- It is expensive to fix mistakes; re-creating or reworking a service may be quite costly to a firm.
- It would appear somewhat ludicrous to encourage service failures—after all, reliability ("doing it right the first time") is the most critical determinant of service quality across most industries.

- Research suggests that even if a customer's satisfaction with the firm increases as a result of the great service recovery, repurchase intentions and image perceptions of the firm do not increase—that is, customers do not necessarily think more highly of the firm in the long run.
- Although the recovery paradox suggests that a customer may end up more satisfied after experiencing excellent recovery, there is certainly no guarantee that the customer actually will end up more satisfied.

The recovery paradox is highly dependent on the context and situation; although one customer may find it easy to forgive a restaurant that provides him with a gift certificate for a later date for having lost his dinner reservation, another customer who had planned to propose marriage to his date over dinner may not be all that happy with the same recovery scenario.

The intrigue stimulated by the recovery paradox has led to empirical research specifically on this issue. Although anecdotal evidence provides some support for the recovery paradox, research seems to indicate that this phenomenon is not pervasive. In one study, researchers found that only the very highest levels of customers' service recovery ratings resulted in increased satisfaction and loyalty. This research suggests that customers weigh their most recent experiences heavily in their determination of whether to buy again. If the most recent experience is negative, overall feelings about the company will decrease, and repurchase intentions will diminish significantly. Unless the recovery effort is absolutely superlative, it cannot overcome the negative impression of the initial experience enough to build repurchase intentions beyond the point at which they would be if the service had been provided correctly in the first place. Other studies suggest the conditions under which a service recovery paradox is most likely to occur is when the failure is not considered by the customer to be severe, the customer has not experienced prior failures with the firm, the cause of the failure is viewed as unstable by the customer, or the customer perceives that the company had little control over the cause of the failure. Apparently, conditions must be just right in order for the recovery paradox to be present.

Given the mixed opinions on the extent to which the recovery paradox exists, "doing it right the first time" is still a firm's best and safest strategy in the long run. However, when a failure does occur, then every effort at a superior recovery should be made to mitigate its negative effects. If the failure can be fully overcome, if the failure is less critical, or if the recovery effort is clearly superlative, it may be possible to observe evidence of the recovery paradox.

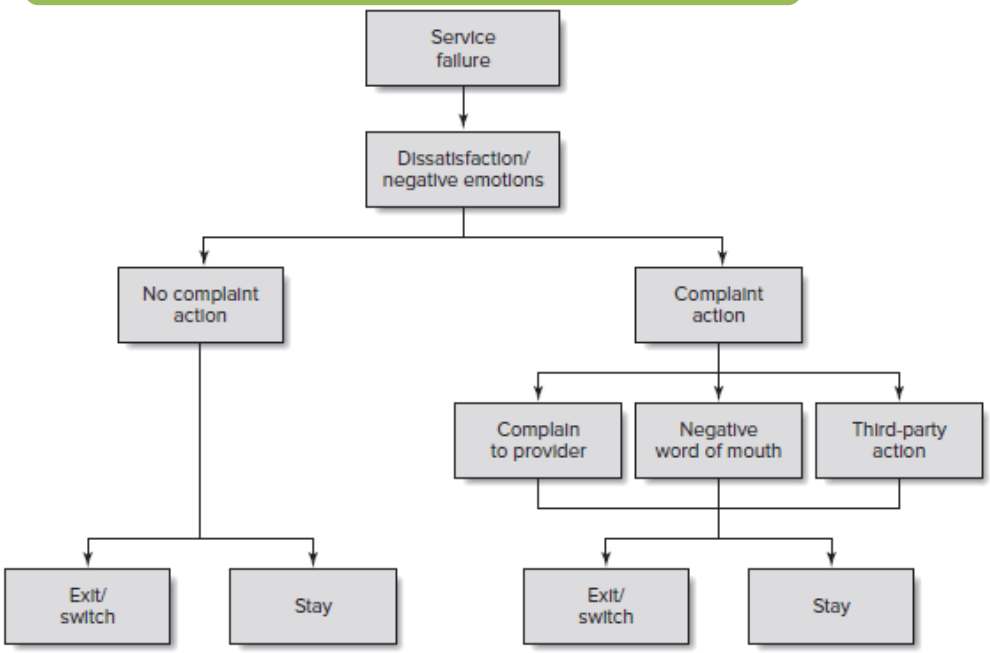
4.3.How customers respond for service failure

Customers who experience service failures can respond in a variety of ways, as illustrated in Figure 4.2. It is assumed that, following a failure, dissatisfaction at some level will occur for the customer. In fact, research suggests that a variety of negative emotions can occur following a service failure, including such feelings as anger, discontent, disappointment, self-pity, anxiety, and regret. These initial negative responses will affect how customers evaluate the service recovery effort and presumably their ultimate decision to return to the provider or not.

Many customers are very passive about their dissatisfaction, simply saying or doing nothing. Whether they take action or not, at some point the customers will decide whether to stay with that provider or switch to a competitor. As we already have pointed out, customers who do not

complain are not very likely to return. For companies, customer passivity in the face of dissatisfaction is a threat to future success.

Fig.4.2 Customer Complaint Actions Following Service Failure



4.4.Why do (and don't) people complain.

Customers who are unlikely to take any action—the majority of customers in most situations—have many reasons for not doing anything. They often see complaining as a waste of their time and effort. They do not believe anything positive will occur for them or others based on their actions. Many customers may have no confidence in the complaint process and thus refrain from complaining because they do not think it will do any good. Sometimes customers do not know how to complain—they do not understand the process or may not realize that avenues are open to them to voice their complaints. Sometimes customers believe it is too difficult to report a complaint to a firm and, in some cases, may feel like they are being punished by having to do too much to make a complaint. In some cases non-complainers may engage in "emotion focused coping" to deal with their negative experiences. This type of coping involves self-blame, denial, and possibly seeking social support. They may feel that the failure was somehow their fault and that they do not deserve redress.

Some customers are more likely to complain than others for a variety of reasons. These customers believe that positive consequences may occur and that there are social benefits of complaining, and their personal norms support their complaining behavior. They believe they

should and will be provided compensation for the service failure in some form. They believe that fair treatment and good service are their due and that, in cases of service failure, someone should make good. In some cases they feel a social obligation to complain—to help others avoid similar situations or to punish the service provider. A very small number of customers have "complaining" personalities—they just like to complain or cause trouble.

Personal relevance of the failure can also influence whether people complain. If the service failure is really important, if the failure has critical consequences for the customer, or if the customer has much ego involvement in the service experience, then he or she is more likely to complain.

Customers are more likely to complain about expensive, high-risk, and ego involving services (like vacation packages, airline travel, and medical services) than they are about less expensive, frequently purchased services (fast-food drive-through service, a cab ride, a call to a customer service help line). These latter services are often simply not important enough to warrant the time to complain. Unfortunately, even though the experience may not be important to the customer at the moment, a dissatisfying encounter can still drive him or her to a competitor the next time the service is needed.

4.5.Types of Customer Complaint Actions

If customers initiate actions following service failure, the action can be of various types. A dissatisfied customer can choose to complain on the spot to the service provider, giving the company the opportunity to respond immediately. This reaction is often the best-case scenario for the company because it has a second chance right at that moment to satisfy the customer, keep his or her business in the future, and potentially avoid any negative word of mouth. Customers who do not complain immediately may choose to complain later to the provider by phone, in writing, via the Internet, or through social media. Again, the company has a chance to recover. Researchers refer to these proactive types of complaining behavior as voice responses or seeking redress.

Some customers choose not to complain directly to the provider but rather spread negative word of mouth about the company to friends, relatives, and coworkers. This negative word-of-mouth communication can be extremely detrimental because it can reinforce the customer's feelings of negativism and spread that negative impression to others. Further, the company has no chance to recover unless the negative word of mouth is accompanied by a complaint directly

to the company. In recent years, customers have taken to complaining via the Internet or through social media. A variety of websites, including web-based consumer opinion platforms, blogs, and a variety of social media (including Twitter and Facebook), have been created to facilitate customer complaints, and in doing so, provide customers with the possibility of spreading negative word-of-mouth communication to a much broader audience. Some customers become so dissatisfied with a product or service failure that they construct websites targeting the firm's current and prospective customers. On these "gripe sites", angry customers convey their grievances against the firm in ways designed to convince other customers of the firm's incompetence and evil.

Finally, customers may choose to complain to third parties such as to a licensing authority, to a professional association, or to a private attorney. No matter the action (or inaction), ultimately the customers determine whether to patronize the service provider again or to switch to another provider.

4.6.Types of Complainers

Research suggests that people can be grouped into four categories based on how they respond to failures: passives, voicers, irates, and activists. Although the proportion of the types of complainers is likely to vary across industries and contexts, it is likely that these four types of complainers will be relatively consistent and that each type can be found in all companies and industries.

- **Passives**: This group of customers is least likely to take any action. They are unlikely to say anything to the provider, less likely than others to spread negative word of mouth, and unlikely to complain to a third party. They often doubt the effectiveness of complaining, thinking that the consequences will not merit the time and effort they will expend. Sometimes their personal values or norms argue against complaining.
- **Voicers**: These customers actively complain to the service provider, but they are less likely to spread negative word of mouth, switch patronage, or go to third parties with their complaints. These customers should be viewed as the service provider's best friends. They actively complain and, by doing so, give the company a second chance. They tend to believe complaining has social benefits and therefore do not hesitate to voice their opinions. They believe that the consequences of complaining to the provider can be very positive, and they believe less in other types of complaining such as

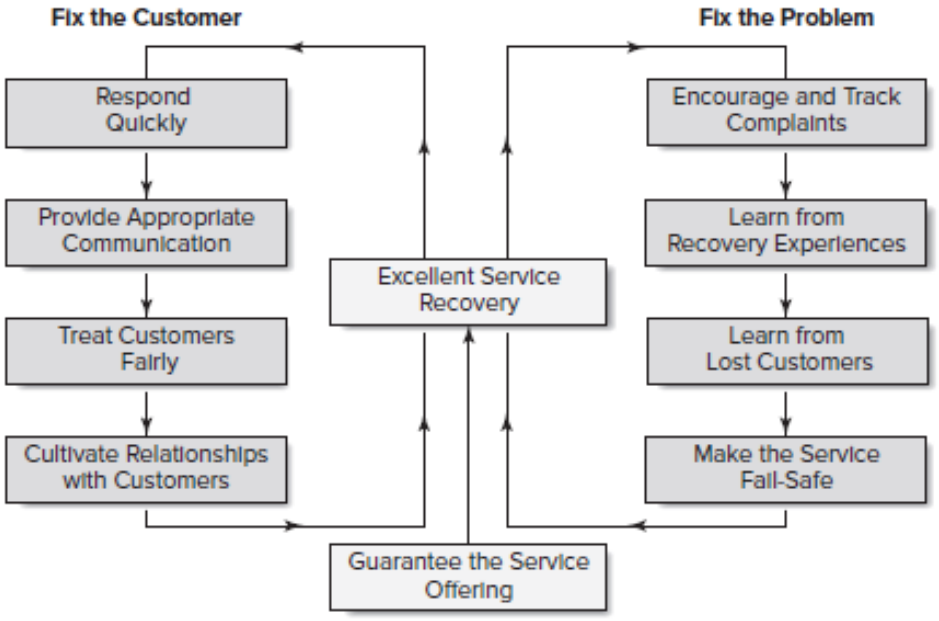
spreading negative word of mouth or talking to third parties. Their personal norms are consistent with complaining.

- **Irates**: These customers are more likely than others to engage in negative word-of-mouth communication with friends and relatives and to switch providers. They are about average in their propensity to complain to the provider and are unlikely to complain to third parties. As their label suggests, they are quite angry with the provider, although they do believe that complaining to the provider can have social benefits. They are less likely to give the service provider a second chance and instead will switch to a competitor, spreading the word to friends and relatives along the way. Such customers are more likely than the other types to go to the trouble of creating websites, blogs, or YouTube videos to share their frustrations with others.
- **Activists**: These customers are characterized by above-average propensity to complain on all dimensions: they will complain to the provider, they will tell others, and they are more likely than any other group to complain to third parties or express their opinions via social media (such as Twitter). Complaining fits with their personal norms. They have a very optimistic sense of the potential positive consequences of all types of complaining.

4.7.Service recovery strategies

Many companies have learned the importance of providing excellent recovery for disappointed customers. In the next two sections we examine their strategies and share examples of benchmark companies and what they are doing. It will become clear that excellent service recovery is really a combination of a variety of strategies, illustrated in Figure 4.3. Generally speaking, service recovery strategies fall into two general types. One type includes the actions taken by the firm to restore the relationship with the customer—that is, to "fix the customer." The second type is the actions taken to correct the problem and, ideally, to prevent it from recurring—that is, to "fix the problem." Clearly both types of actions are important, but in many situations fixing the customer needs to be done before fixing the problem. Thus, we begin by examining strategies that involve fixing the customer.

Fig.4.3 Service Recovery Strategies



When they take the time and effort to complain, customers generally have high expectations. They not only expect a response, but also expect the firm to be accountable. They expect to be helped quickly. They expect to be compensated for their grief and for the hassle of being inconvenienced. They expect to be treated nicely in the process. And they expect the issue to be satisfactorily resolved.

4.7.1. Service Recovery Strategy: fixing the customer

Starting from this point on wards we will be discussing strategies related to fixing the customer.

4.7.1.1.Respond Quickly

Complaining customers want quick responses. Thus, when the company has service failures or receives complaints from customers, it must be prepared to act on them quickly. As research conducted on service customers has found that more than one-third of all customers who have problems resolved immediately or within 24 hours are "completely satisfied" with the action taken by the company. Unfortunately, many companies require customers to contact multiple employees (a practice often referred to as "ping-ponging") before getting a problem resolved; one study found that an average of 4.2 contacts is typically needed to resolve a complaint. This study also found that, if a problem can be handled by the first contact, customers are satisfied with the firm's response 35 percent of the time; however, once three or more contacts are needed the percentage of customers who are satisfied with the response drops to 9 percent.

The ability to provide immediate responses requires not only systems and procedures that allow quick action but also empowered employees. That is, to enable them to respond quickly, employees should be trained and empowered to solve problems as they occur. A problem not solved can quickly escalate. Empowerment of employees, can often allow for quick responses, reduce (or eliminate) ping-ponging, and help placate dissatisfied customers.

Another way that problems or complaints can be handled quickly is by building systems that allow customers to actually solve their own service needs and fix their own problems. Typically, this approach is done through technology. Customers directly interact with the company's technology to perform their own customer service, which provides them with instant answers.

4.7.1.2.Provide Appropriate Communication

4.7.1.2.1. Display Understanding and Accountability

In many service failure situations, customers are not looking for extreme actions from the firm; however, they are looking to understand what happened and for firms to be accountable for their actions (or inactions). Research by the Customer Care Measurement, depicted in Table 4.1, has identified the twelve most common "remedies" that customers seek when they experience a serious problem; four of these remedies are to have the product repaired or service fixed, to receive their money back, to be reimbursed for the hassle of having experienced a problem, and to receive a free product or service in the future. However, the other eight remedies—including an explanation by the firm as to what happened, assurance that the problem will not be repeated, a thank you for the customer's business, an apology from the firm, being treated with dignity, being talked to in everyday language, for the offending company to put itself in the customer's shoes, and providing an opportunity for the customer to vent his or her frustrations to the firm—cost the firm very little to provide.

Table. 4.1. Top 12 Remedies Customers Seek From Firms in Responding to Service Failures

Remedy	% Desired	% Received
To be treated with dignity	93%	32%
Offending company put itself in my shoes	83%	19%
An assurance that my problem would not be repeated	81%	15%
My product repaired/service fixed	80%	25%
An explanation of why the problem occurred	80%	18%
To be talked to in everyday language; not scripted response	79%	29%
A thank you for my business	76%	27%

An apology	75%	28%
Just to express my anger/tell my side of the story	58%	35%
My money back	57%	18%
A free product or service in the future	44%	8%
Financial compensation for my lost time, inconvenience, or injury	42%	5%

Note: Gray shading indicates non-monetary remedy.

Source: 2015 Customer Rage Study, conducted by Customer Care Measurement and Consulting and the Center for Services Leadership at Arizona State University.

4.7.1.2.2. Supply Adequate Explanation

In many service failures, customers try to understand why the failure occurred. Explanations can help to diffuse negative reactions and convey respect for the customer. Research suggests that when the firm's ability to provide an adequate outcome is not successful, further dissatisfaction can be reduced if an adequate explanation is provided to the customer. For an explanation to be perceived as adequate, it must possess two primary characteristics. First, the content of the explanation must be appropriate; relevant facts and pertinent information are important in helping the customer understand what occurred. Second, the style of the delivery of the explanation, or how the explanation is delivered, can also reduce customer dissatisfaction. Style includes the personal characteristics of the explanation givers, including their credibility and sincerity. Explanations perceived by customers as honest, sincere, and not manipulative are generally the most effective. For example, if a customer were to be kept waiting at the doctor's office for a long time, the customer may start to feel undervalued or disregarded if there is no explanation for the wait. However, if an employee came and apologized for the wait and kindly explained that a patient with an emergency had come in, then the customer would be more likely to understand the extenuating circumstances and be more tolerant of the wait.

4.7.1.3.Treat Customers Fairly

Customers also want justice and fairness in handling their complaints. Service recovery experts Steve Brown and Steve Tax have documented three specific types of justice that customers are looking for following their complaints: outcome fairness, procedural fairness, and interactional fairness. Outcome fairness concerns the results that customers receive from their complaints; procedural fairness refers to the policies, rules, and timeliness of the complaint process; and interactional fairness focuses on the interpersonal treatment received during the complaint process.

4.7.1.4.Cultivate Relationships with Customers

In previous chapters we discussed the importance of developing long-term relationships with customers. One additional benefit of relationship marketing is that if the firm fails in service delivery, those customers who have a strong relationship with the firm are often more forgiving of service failures and more open to the firm's service recovery efforts. That is, it may be easier to "fix the customer" if the firm has established a strong relationship with that customer; indeed, research suggests that strong customer–firm relationships can help shield the firm from the negative effects of failures on customer satisfaction.

4.7.2. Service Recovery Strategy: fixing the problem

Often the most pressing and immediate need in service recovery is to "fix the customer." However, in many situations the actual problem created by the poor service delivery also needs to be fixed. This may require reworking, redoing, or redelivering the service, if possible, to provide what the customer initially expected. And, if the problem is likely to recur for this or other customers, then the service delivery process may need to be fixed, too. This section highlights strategies that can be used to help the firm "fix the problem" both in the short term and in the long term.

4.7.2.1.Encourage and Track Complaint

Even if an organization aims for 100 percent service quality, failures occur. A critical component of a service recovery strategy is thus to encourage and track complaints. Firms can utilize a number of ways to encourage and track complaints. Customer research can be designed specifically for this purpose through satisfaction surveys, critical incident studies, and lost customer research. As an alternative to using toll-free call centers and e-mail, in recent years customers have taken to social media to complain. Firms are using a variety of new technologies to track, analyze, sort, and even respond to customer complaints made online. For example, Amazon uses artificial intelligence to identify key words in online complaints and then suggests an appropriate response to the complainer.

In some cases technology can anticipate problems and complaints before they happen, allowing service employees to diagnose problems before the customer recognizes they exist. At companies such as IBM, John Deere, and Caterpillar, "smart" systems have been implemented to anticipate equipment failures and to send out an electronic alert to the local field technician

with the nature of the problem as well as which parts and tools will be needed to make the repair—a repair the customer does not yet know is needed.

4.7.2.2.Learn from Recovery Experiences

Service recovery situations are more than just opportunities to fix flawed services and strengthen ties with customers. They can also provide valuable information for improving service delivery. By tracking service recovery efforts and solutions, managers can often learn about systematic problems in the delivery system that need fixing. By conducting root-cause analysis, firms can identify the sources of the problems and modify processes, sometimes almost eliminating the need for recovery.

4.7.2.3.Learn from Lost Customers

Another key component of an effective service recovery strategy is to learn from the customers who defect or decide to leave. Formal marketing research to discover the reasons customers have left can assist in preventing failures in the future. This type of research is difficult, even painful for companies. No one really likes to examine their failures. Yet such examination is essential for preventing the same mistakes and losing more customers in the future.

4.7.2.4.Make the Service Fail-Safe—Do It Right the First Time!

The first rule of service quality, and arguably the best service recovery strategy, is to do it right the first time. In this way recovery is unnecessary, customers get what they expect, and the costs of redoing the service and compensating for errors can be avoided. As you have already learned, reliability, or doing it right the first time, is the most important dimension of service quality across industry contexts. Indeed, research suggests that many customers stay in a relationship because they have not experienced a (negative) critical incident.

4.7.3. Service Guarantees

A guarantee is a particular type of recovery tool that can be used to both "fix the customer" and "fix the problem." In a business context, a guarantee is a pledge or assurance that a product offered by a firm will perform as promised, and if not then some form of reparation will be undertaken by the firm. Although guarantees are relatively common for manufactured products, they have only recently been used for services. Traditionally, many people believed that a service simply could not be guaranteed, given its intangible and variable nature. What would

be guaranteed? With a tangible product, the customer is guaranteed that it will perform as promised and, if not, that it can be returned. With a service, it is generally not possible to receive a return or to "undo" what has been performed. The skepticism about service guarantees is being dispelled, however, as more and more companies find they can guarantee their service and that there are tremendous benefits for doing so.

4.7.3.1.Characteristics of Effective Guarantees

At a minimum, a service guarantee should include a promise regarding the service and appropriate remuneration if the promise is broken. With these two elements in mind, certain characteristics tend to make some guarantees more effective than others. The most effective guarantees tend to have similar characteristics, including having limited restrictions, as well as being meaningful, easy to understand, and easy to invoke.

4.7.3.1.1. Limited Restrictions and Exclusions

Effective guarantees should be free of the "if, and, or but" conditions and exclusions associated with many legal documents. Service guarantees with a limited number of restrictions are easier for customers to understand and easier for a firm to communicate than guarantees that have numerous exclusions or conditions.

4.7.3.1.2. Meaningful

An effective guarantee should be meaningful. Guaranteeing what is obvious or expected is not meaningful to customers. For example, a water delivery company offered a guarantee to deliver water on the day promised or a free jug of water would be provided next time. In that industry, delivery on the day scheduled was an expectation nearly always met by every competitor—thus, the guarantee was not meaningful to the customer. It was a bit like guaranteeing four wheels on an automobile! The payout, if a problem occurs, should also be meaningful. Customers expect to be reimbursed in a manner that fully compensates them for their dissatisfaction, their time, and even for the hassle involved. One of us has offered university students a guarantee in our Service Marketing, classes; compensation for poor service, which includes reimbursement for the cost of the three-credit course, is generally perceived by students as quite meaningful.

4.7.3.1.3. Easy to Understand

A firm's guarantee should also be easy to understand and communicate to both customers and employees. If the wording is confusing or the language within the guarantee is verbose, neither customers nor employees may be clear as to what is being guaranteed. If restaurants guarantee that lunch will be served quickly—within 15 minutes with its Lunch Crunch guarantee. The promise "It's Fast or It's Free" makes it clear to customers that they will not have to spend a lot of time waiting for lunch; the guarantee also makes it clear to employees that lunches should take no longer than 15 minutes to get to customers.

4.7.3.1.4. Easy to Invoke

Similarly, an effective guarantee should be easy to invoke. To invoke the guarantee, customers merely have to inform the wait-staff that they prefer their old "favorite" dish, and it is provided at no additional charge. Requiring customers to write a detailed letter and/or provide documented proof of service failure are common pitfalls that make invoking a guarantee time-consuming and not worth it to the customer, particularly if the dollar value of the service is relatively low.

4.7.3.2.Types of Service Guarantees

Service guarantees can be unconditional satisfaction guarantees or service attribute guarantees. For unconditional satisfaction guarantees, any aspect of the service, whether related to the outcome or the delivery process, should be to the customer's liking—there are no limits or conditions. In the service attribute guarantees there are limits "if….then" types.

Summary

In this chapter we focused on service recovery, the actions taken by an organization in response to a service failure to improve the situation for the customer.

You learned in this chapter the importance of an effective service recovery strategy for retaining customers and increasing positive word-of-mouth communication. Another major benefit of an effective service recovery strategy is that the information it provides can be useful for service improvement. The potential downsides of poor service recovery are tremendous—negative word of mouth, lost customers, and declining business when quality issues are not addressed.

In this chapter you learned how customers respond to service failures and why some complain, while others do not. You learned that customers expect to be treated fairly when they complain—not just in terms of the actual outcome or compensation they receive but also in terms of the procedures used and how they are treated interpersonally. We pointed out in this chapter that there is tremendous room for improvement in service recovery effectiveness across firms and industries.

The second half of the chapter focused on two types of strategies that firms are using for service recovery. To "fix the customer" after a service failure, firms should (1) respond quickly; (2) provide appropriate communication with customers after the service has failed; (3) treat customers fairly throughout the service recovery process; and (4) cultivate relationships with customers to perhaps create a buffer when failures do occur. To "fix the problem" and prevent future recurrences of a service failure, firms should (1) encourage and track complaints; (2) learn from recovery experiences; (3) learn from lost customers; and, ideally, (4) make the service fail-safe by doing it right the first time. The chapter ended with a discussion of service guarantees as a tool used by many firms to facilitate service recovery and to listen to customers—thereby helping to close the listening gap. You learned the elements of a good guarantee, the benefits of service guarantees, and the pros and cons of using guarantees under various circumstances.

Summary Questions

1. Why is it important for a service firm to have a strong recovery strategy? Think of a time when you received less-than-desired service from a particular service organization. Was any effort made to recover? What did the firm do to "fix the customer"? What was done to "fix the problem"? What should/could have been done differently? Do you still buy service from the organization? Why or why not? Did you tell others about your experience?
2. Explain the recovery paradox, and discuss its implications for a service firm manager.
3. Discuss the types of actions that customers can take in response to a service failure. What type of complainer are you? Why? As a manager, would you want to encourage your customers to be voicers? If so, how?
4. Explain the logic behind these two quotes: "a complaint is a gift" and "the customer who complains is your friend."
5. Choose a firm you are familiar with. Describe how you would design an ideal service recovery strategy for that organization.

CHAPTER FIVE

THE SERVICES MARKETING MIX

In this chapter, we focus on the key roles that employees play in service delivery and strategies that ensure they are effective in their roles. Issues of particular concern include employees who feel in conflict in their position between customers and company management, having the wrong employees or inadequate technology, inappropriate compensation and recognition, and lack of empowerment and teamwork.

Next to that, we discuss the variability in service performance caused by customers. If customers do not perform appropriately—if they do not follow instructions or if they disturb other customers receiving service at the same time—service quality is jeopardized. Effective service organizations understand the roles of customers in service delivery and co-creation of service experiences and develop strategies to help their customers perform effectively in these roles.

Before starting the chapter try to identify the marketing mix in services industry. Can you identify the different strategies to be used by a marketer in running a service company?

Chapter Objectives: After completing this chapter students will be able to;

- Identify the traditional and extended marketing mix
- Illustrate the critical importance of service employees in creating customer satisfaction and service quality
- Explain customers role is delivering quality service
- Provide examples of strategies for creating customer-oriented service delivery
- Describe concept of integrated service marketing communication
- Identify reasons for service communication problems
- Design strategies to match service promises with service delivery
- Differentiate the role of price as an indicator of service quality
- Analyze approaches to pricing service
- Discuss strategies used by companies to price services

4.1.The traditional mix for service (4P's)

Successful marketing depends upon addressing a number of key issues. These include: what a company is going to produce; how much it is going to charge; how it is going to deliver its products or services to the customer; and how it is going to tell its customers about its products and services.

Traditionally, these considerations were known as the 4Ps-Product, Price, Place and Promotion. As marketing became a more sophisticated discipline, a fifth 'P' was added-People. After that, two further 'P's were added, mainly for service industries-process and Physical evidence.

These considerations are now known as the 7Ps of marketing it is also referred to as the marketing mix.

4.1.1. Delivering and Performing Service

In the gaps model of service quality, provider gap 3 (the service performance gap) is the discrepancy between customer-driven service design and standards and actual service delivery (see the accompanying concept in chapter two). Even when guidelines exist for performing service well and treating customers correctly, high-quality service performance is not a certainty. This chapter deals with all the ways in which companies ensure that services are performed according to customer-defined designs and standards.

4.1.1.1.Employee's role in service delivery

In this part we focus on service employees and human resource practices that facilitate delivery of quality services. Even when customer expectations are well understood (gap 1) and services have been designed and specified to conform to those expectations (gap 2), there may still be discontinuities in service quality when the service is not delivered as specified. These discontinuities are labeled gap 3—the service performance gap—in the service quality framework. Because employees frequently deliver or perform the service, human resource issues are a major cause of this gap. By focusing on the critical role of service employees and by developing strategies that lead to effective customer-oriented service, organizations can begin to close the service performance gap.

An often-heard quotation about service organizations goes like this: "In a service organization, if you're not serving the customer, you'd better be serving someone who is." People—frontline

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 service marketing mix, which we described in Chapter 1 as all the 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.

The key focus in this chapter is on customer-contact service employees because:

- **They are the service.**
- **They are the organization in the customer's eyes.**
- **They are the brand.**
- **They are marketers.**

In many cases, the contact employee is the service—there is nothing else. For example, in most personal and professional services (like haircutting, personal trainers, child care, limousine services, counseling, and legal services) the contact employee provides the entire service singlehandedly. The offering is the employee. Thus, investing in the employee to improve the service parallels making a direct investment in the improvement of a manufactured product.

Even if the contact employee does not perform the service entirely, he or she may still personify the firm in the customer's eyes. All 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. Even off-duty employees, such as flight attendants or restaurant employees on a break, reflect the organizations they represent. If they are unprofessional or make rude remarks about or to customers, customers' perceptions of the organization will suffer, even though the employee is not on duty. The Disney Corporation insists that its employees maintain "onstage" attitudes and behaviors whenever they are in front of the public; employees may relax these behaviors only when they are truly behind the scenes or "backstage" in underground tunnels where guests cannot see them in their off-duty times.

Service employees are the brand. An Edward Jones financial advisor, a Nordstrom sales associate, a Southwest Airlines flight attendant, an Abercrombie & Fitch retail employee—in each case, the primary image that a customer has of the firm is formed by the interactions the customer has with the employees of that firm. A customer sees Edward Jones as a good provider of financial services if the employees she interacts with are knowledgeable,

understanding, and concerned about her financial situation and goals. Similarly, a customer sees Nordstrom as a professional and empathetic company because of interactions he has with its sales associates. South-west Airlines seeks employees who are outgoing and fun-loving and Abercrombie & Fitch looks to hire people who have a certain "look." Online shoe retailer Zappos makes the hiring process a primary focus of its branding strategy and evaluates potential employees on their ability to serve as brand ambassadors. These companies understand that the brand image is not just built and maintained by the products sold and the advertising: it is a function of the people who work for them. Strategies that recognize the power of employees to create the brand have been referred to as "branded customer service." For firms using such strategies, employees truly "are the brand" and epitomize the company image that each is attempting to create in the minds of its customers.

Because contact employees represent the organization and can directly influence customer satisfaction, they perform the role of marketers. They physically embody the product and are walking billboards from a promotional standpoint. Some service employees may also perform more traditional selling roles. For example, bank tellers are often called on to cross-sell bank products, a departure from the traditional teller role of focusing on operational functions only.

4.1.1.1.1. The effect of Employee Behaviors on Service Quality Dimensions

Customers' perceptions of service quality are affected by the customer-oriented behaviors of employees. In fact, all 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 frontline employees. Even in the case of services delivered primarily through technology (such as airline or hotel check-in kiosks, banking apps on smart phones, or self-checkout in retail stores), behind-the-scenes employees are critical for making sure all the systems are working properly. When services fail or errors are made, employees are essential for setting things right and using their judgment to determine the best course of action for service recovery.

Frontline employees directly influence customer perceptions of responsiveness through their personal willingness to help and their promptness in serving customers. Consider the range of responses you receive from different retail store clerks when you need help finding a particular item of clothing. One employee may ignore your presence, whereas another offers to help you

search and calls other stores to locate the item. One may help you immediately and efficiently, whereas another may move slowly in accommodating even the simplest request.

The assurance dimension of service quality is highly dependent on employees' ability to communicate their credibility and to inspire the customer's trust and confidence in the firm. The reputation of the organization will help, but in the end, individual employees with whom the customer interacts confirm and build trust in the organization or detract from its reputation and ultimately destroy trust. For startup or relatively unknown organizations, credibility, trust, and confidence will be tied totally to employee actions.

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. For example, research documents that when employees are customer oriented, have good rapport with customers, display emotional competence, and exhibit perceptive and attentive listening skills, customers will evaluate the service more highly and are more likely to return. Employee appearance and dress are important aspects of the tangibles dimension of quality, along with many other factors that are independent of service employees (the service facility, decor, brochures, signage, and so on).

4.1.1.1.2. Strategies for Delivering Service Quality through People

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. These strategies for enabling service promises are often referred to as internal marketing, as shown on the Figure 1.3 in chapter 1. By approaching human resource decisions and strategies with the primary goal to motivate and enable employees to deliver customer-oriented promises successfully, an organization will move toward delivering service quality through its people. The strategies presented here are organized around four basic themes. To build a customer-oriented, service-minded workforce, an organization must (1) hire the right people, (2) develop people to deliver service quality, (3) provide the needed support systems, and (4) retain the best people. Within each of these basic strategies are a number of specific sub strategies for accomplishing the goal.

4.1.1.2.Roles of customers in service delivery

In this part of the chapter we examine the unique and varied roles played by customers in creating and co-creating service value. In some cases, service customers are present in the "factory" (the place the service is produced and/or consumed), interacting with employees and other customers. For example, in a classroom or training situation, students (the customers) are sitting in the factory (the classroom), interacting with the instructor and other students as they co-create educational services. Because they are present during service production, customers can contribute to or detract from the successful co-creation and to their own satisfaction. In contrast, in a manufacturing context, rarely does the production facility contend with customer presence on the factory floor, nor does it rely on the customer's immediate, real-time input to manufacture the product. Service customers can actually create and co-create services themselves and to some extent are responsible for their own satisfaction.

Because customers are participants in service production and value creation, they can contribute to the widening of gap 3, the service performance gap. That is, customers themselves can influence whether the service meets customer-defined specifications. Sometimes customers contribute to gap 3 because they lack understanding of their roles and exactly what they can or should do in a given situation, particularly if the customer is confronting a service concept for the first time. In other situations, customers may understand their roles but be unwilling or unable to perform. In a health club context, members may understand that to get into good physical shape they must follow the workout guidelines set up by the trainers. If work schedule, illness, or lack of motivation keeps members from living up to their part of the guidelines, the service will not be successful because of customer inaction. In a different service situation, customers may choose not to perform the roles defined for them because they are not rewarded in any way for contributing their effort. For example, many grocery store customers choose not to use the automated self-checkout because they see no benefit in terms of speed or convenience. When service customers are enticed through price reductions, greater convenience, or some other tangible benefit, they are more likely to perform their roles willingly.

Finally, the service performance gap may be widened not through actions or inactions on the part of the customer but because of what other customers do. Other customers who are in the service factory either receiving the service simultaneously (passengers on an airplane flight or students in a classroom) or waiting their turn to receive the service sequentially (bank

customers waiting in line) can influence whether the service is delivered effectively and efficiently.

The following sections examine in more detail three major roles played by customers in service co-creation and delivery: customers as productive resources; customers as contributors to quality, satisfaction, and value; and customers as competitors.

1. **Customers as Productive Resources:**

Service customers have been referred to as "partial employees" of the organization—human resources who contribute to the organization's productive capacity. Some management experts have suggested that the organization's boundaries be expanded to consider the customer as part of the service system. In other words, if customers contribute effort, time, or other resources to the service production process, they should be considered as part of the organization.

Customer inputs can affect the organization's productivity through both the quality of what they contribute and the resulting quality and quantity of output generated.

Customer participation in service production raises a number of issues for organizations. Because customers can influence both the quality and the quantity of production, some experts believe the delivery system should be isolated as much as possible from customer inputs to reduce the uncertainty they can bring into the production process. This view sees customers as a major source of uncertainty—in the timing of their demands and the uncontrollability of their attitudes and actions. The logical conclusion is that any service activities that do not require customer contact or involvement should be performed away from customers: the less direct contact there is between the customer and the service production system, the greater the potential for the system to operate at peak efficiency.

Other experts believe that services can be delivered most efficiently if customers are truly viewed as partial employees and their coproduction roles are designed to maximize their contributions to the service creation process. The logic behind this view is that organizational productivity can be increased if customers are educated to perform service-related activities they currently are not doing or to perform more effectively the tasks they are doing.

2. Customers as Contributors to Quality, Satisfaction, and Value

Another role customers can play is that of contributor to their own satisfaction and the ultimate quality and value of the services they experience. In this sense, customers are creators and co-creators of value. Customers may care little that they have increased the productivity of the organization through their participation, but they likely care a great deal about whether their needs are fulfilled. Effective customer participation can increase the likelihood that needs are met and that the benefits the customer seeks are actually attained, especially for services such as health care, education, personal fitness, and weight loss, in which the service outcome is highly dependent on customer participation.

Research in education has shown that active participation by students—as opposed to passive listening—increases learning (a desired service outcome) significantly. The same is true in health care; patient compliance, in terms of taking prescribed medications or changing diet or other habits, can be critical to whether patients regain their health (the desired service outcome). Other research in financial and medical service settings has shown that effective participation and co-creation by customers leads to higher perceptions of service quality, improved wellbeing, and greater loyalty to the service provider. Effective customer participation and co-creation can be just as important in business-to-business contexts.

3. Customers as Competitors

A third 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," they can also partially or entirely perform the service for themselves and not need the provider at all. Thus, customers in a sense are competitors of the companies that supply the service. Whether to produce a service for themselves (internal exchange)—for example, child care, home maintenance, or car repair— or have someone else provide the service for them (external exchange) is a common dilemma for consumers. Similar internal versus external exchange decisions are made by organizations. Firms frequently choose to outsource service activities such as payroll, data processing, research, accounting, maintenance, and facilities management. They find it advantageous to focus on their core businesses and leave these support services to others with greater expertise. Alternatively, a firm may decide to stop purchasing services externally and bring the service production process in-house.

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. A proposed model of internal/external exchange suggests that such decisions depend on the following:

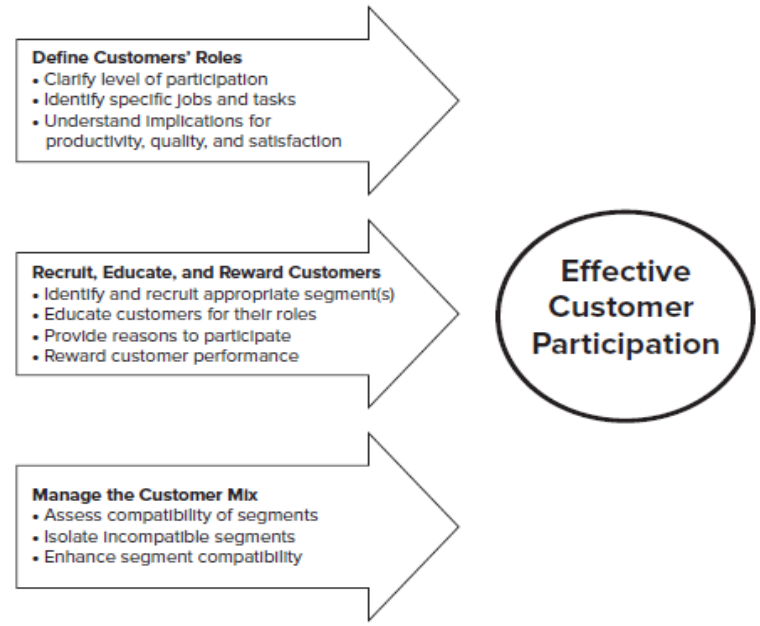
- **Expertise capacity**. The likelihood of producing the service internally is increased if the household or firm possesses the specific skills and knowledge needed to produce it. Having the expertise will not necessarily result in internal service production, however, because other factors (available resources and time) will also influence the decision. (For firms, making the decision to outsource is often based on recognizing that, although they may have the expertise, someone else can do it better.)
- **Resource capacity**. To decide to produce a service internally, the household or firm must have the needed resources, including people, space, money, equipment, and materials. If the resources are not available internally, external exchange is more likely.
- **Time capacity**. Time is a critical factor in internal/external exchange decisions. Households and firms with adequate time capacity are more likely to produce services internally than are groups with time constraints.
- **Economic rewards**. The economic advantages or disadvantages of a particular exchange decision will be influential in choosing between internal and external options. The actual monetary costs of the two options will sway the decision.
- **Psychic rewards**. Rewards of a noneconomic nature have a potentially strong influence on exchange decisions. Psychic rewards include the degree of satisfaction, enjoyment, gratification, or happiness associated with the external or internal exchange.
- **Trust**. In this context, trust means the degree of confidence or certainty the household or firm has in the various exchange options. The decision will depend to some extent on the level of self-trust in producing the service versus trust of others.
- **Control**. The household or firm's desire for control over the process and outcome of the exchange will also influence the internal/external choice. Entities that desire and can implement a high degree of control over the task are more likely to engage in internal exchange.

The important thing to remember from this section is that, in many service scenarios, customers can and often do choose to fully or partially produce the service them-selves. Thus, in addition to recognizing that customers can be productive resources and co-creators of quality and value, organizations also need to recognize the customer's role as a potential competitor.

4.1.1.3.Strategies for enhancing customer participation

The level and the nature of customer participation in the service process are strategic decisions that can impact an organization's productivity, its positioning relative to competitors, its service quality, and its customers' satisfaction. The overall goals of a customer participation strategy will typically be to increase organizational productivity and customer satisfaction while decreasing uncertainty due to unpredictable customer actions. The following figure summarizes the strategies for enhancing customer participation.

Fig.5.1 Strategies for Enhancing Customer Participation



4.1.1.4.Concept of service intermediaries

Intermediaries, if used between the service company and the customer, play a vital role in services marketing. They provide services on behalf of the service company to consumers. Consumers may not identify the intermediary as a separate entity. They may consider them part of the service company and whatever they perceive, in terms of the quality of the services provided by the intermediary, applies to the service company. Intermediaries need to serve the company and work responsibly. They can potentially damage the image of the company if they fail in providing the services promised by the company. Selecting intermediaries; motivating and supporting them; promoting good understanding, encouraging loyalty and customer orientation, responsible behavior towards consumers are the critical tasks of the service

company. Intermediaries can add value to the company if the relationships are managed effectively.

4.1.1.5.Concept of electronic channels and its challenges in services industry

1. Consistent delivery for standardized services: Generally, channels with human interaction are likely to alter the service. But electronic channels ensure consistent delivery of services without any alteration. Moreover, Services Marketing electronic delivery does not interpret the service. Its delivery is the same in all transmissions. For example, television programmes and radio stations ensure standardized electronic distribution. TV stations deliver what is fed to them through the networks.

2. Low cost: Electronic media may prove to be more efficient in terms of delivery. For example, the cost of reaching buyers using direct sales force is exorbitant. But the use of electronic media such as television or radio costs less. However, it must be remembered that personal interaction is powerful and effective. Interactive media can be used to answer individual questions or tailor the service for individuals.

3. Customer convenience: Electronic channels enable customers to access a firm's service at any place at any time. E-commerce is changing the way people shop. Electronic channels allow access to a large customer-base which would otherwise be inaccessible to the service principals.

4. Wide distribution: Through electronic channels, the service provider is able to interact with a large number of end users and intermediaries.

5. Customer choice: Electronic channels offer a wide variety of services to customers. If a customer wants to renovate his kitchen, he may go to internet sites, specify his requirements and place an order. Electronic channels enjoy the ability to customize the services by offering a wide variety of choices to the customer.

6. Quick customer feedback: The major strength of e-commerce is rapid customer feedback. Companies can find out immediately what customers think of their services. Quick customer feedback enables the service principal to change their service offerings immediately and address their problems quickly.

4.1.2. Integrated Services Marketing Communications

The fourth provider gap, shown in the second chapter, illustrates the difference between service delivery and the service provider's external communications. Promises made by a service company through its media advertising, sales force, and other communications may raise customer expectations that serve as the standard against which customers assess service quality. Broken promises can occur for many reasons: ineffective marketing communications, overpromising in advertising or personal selling, inadequate coordination between operations and marketing, and differences in policies and procedures across service outlets.

In service companies, a fit between communications about service and actual service delivery is necessary. This section of the chapter is devoted to the topic of integrated service marketing communications—careful integration and organization of all of a service marketing organization's external and interactive communications channels. The chapter describes why this communication is necessary and how companies can do it well. Successful company communications are the responsibility of both marketing and operations: marketing must accurately but beguilingly reflect what happens in actual service encounters, and operations must deliver what is promised in marketing communication. If communications set up unrealistic expectations for customers, the actual encounter will disappoint the customer.

4.1.2.1.Concept of integrated services marketing communications

A major cause of poorly perceived service is the difference between what a firm promises about a service and what it actually delivers. Customer expectations are shaped by both uncontrollable and company-controlled factors. Word-of-mouth communication, social media, publicity, customer-generated media, customer experiences with other service providers, and customer needs are key factors that influence customer expectations and are rarely controllable by the firm. Controllable factors such as company advertising, personal selling, and promises made by service personnel also influence customer expectations. In this chapter, we discuss both types of communication but focus more heavily on the controllable factors because these factors can be influenced by the company. Accurate, coordinated, and appropriate company communication—advertising, personal selling, and online and other messages that do not overpromise or misrepresent— is essential to delivering services that customers perceive as high in quality.

Because company communications about services promise what people do and because people's behavior cannot be standardized, as can physical goods produced by machines, the potential for a mismatch between what is communicated and perceptions of actual service delivery (provider gap 4, the communications gap) is high. By coordinating communication within and outside the organization, companies can minimize the size of this gap.

4.1.2.2.Reasons for service communication problems

Discrepancies between what is communicated about a service and what a customer receives—or perceives that she receives—can powerfully affect consumer evaluations of service quality. The factors that contribute to these communication challenges include (1) service intangibility, (2) management of service promises, (3) management of customer expectations, (4) customer education, and (5) internal marketing communication. In this chapter, we first describe the challenges stemming from these factors and then detail strategies firms have found useful in dealing with them.

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.

Banwari Mittal described the difficulties associated with intangibility by dividing it into five properties, each of which has implications for service marketing communication. In his view, intangibility involves incorporeal existence, abstractness, generality, non-searchability, and mental impalpability:

- **Incorporeal existence**. The service product neither is made out of physical matter nor occupies physical space. Although the delivery mechanism may occupy space, the service itself (car servicing and oil change) does not. The implication is that showing the service is difficult, if not impossible.

- **Abstractness**. Service benefits such as financial security, fun, and 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 deliverables they are seeking.
- **Generality**. Generality refers to a class of things, persons, events, or properties whereas specificity refers to particular objects, people, or events. Many services 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, an air-conditioning repair firm, a personal trainer, or virtually any service, we cannot search with certainty 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 Internet may 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 automobile 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 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.

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, business-to-business salespeople often sell services, particularly new business services, before

their actual availability 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 difficult to predict. The traditional functional structure in many companies (often called silos) also makes communication about promises and delivery difficult internally.

3. Management of Customer Expectations

Appropriate and accurate communication about services is the responsibility of both marketing and operations. Marketing must accurately (and 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 service offerings. In promoting and differentiating the service, however, the company cannot afford to raise expectations above the level at which its consultants can consistently perform. If advertising, personal selling, or any other external communication sets up unrealistic expectations, actual encounters will disappoint customers.

Many product and service companies also find themselves in the position of having to actively manage customer expectations downward—to tell customers that service previously provided will be discontinued or available only at a higher price. Airlines cancel flights that are not full and charge for food. Credit card companies that offer multiple value-added services when interest rates are high withdraw these services when interest rates drop. Health care insurers cut back on service while raising prices, and hospital patients experience far shorter stays and fewer diagnostic procedures than in the past. In these situations—perhaps more than any others—the need to manage customer expectations is critical.

4. Customer Education

Service companies must educate their customers. If customers are unclear about how 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 disappointed, they will often hold the service company, not themselves, responsible. These 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.

For services high in credence properties—expert services that are difficult for customers to evaluate even after they have received the services—many customers do not know the criteria by which they should judge the service. For high-involvement services, such as long-term medical treatment or purchase of a first home, customers are also unlikely to comprehend and anticipate the service process. First-time home buyers rarely understand the complex set of services (inspection, title services, insurance) and processes (securing a mortgage, offers and counteroffers, escrow) that will be involved in their purchases. Professionals and other providers of high-involvement services often forget that customers who are novices must be educated about each step in the process. They assume that an overview at the beginning of the service, or a manual or set of instructions, will equip the customer. Unfortunately, these steps are rarely sufficient, and customers defect because they can neither understand the process nor appreciate the value received from the service.

5. Internal Marketing Communication

Multiple functions in the organization, such as marketing and operations, must be coordinated to achieve the goal of quality 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 marketing communication 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.

Not all service organizations advertise, but all need coordination or integration across departments or functions to deliver quality service. All need internal communication between the sales force and service providers. Horizontal communication also must occur between the human resource and marketing departments. To deliver excellent customer service, firms must be certain to inform and motivate employees to deliver what their customers expect. If marketing and sales personnel who understand customer expectations do not communicate this information to contact employees, the lack of knowledge for these employees will affect the quality of service that they deliver.

A final form of internal coordination central to providing service excellence is consistency in policies and procedures across departments and branches. If a service organization operates many outlets under the same name, whether franchised or company owned, customers expect

similar performance across those outlets. If managers of individual branches or outlets have significant autonomy in procedures and policies, customers may not receive the same level of service quality across the branches.

4.1.2.3.Strategies to match service promises with service delivery

Fig.5.2 Five Major Approaches to Overcome Service Communication Channels

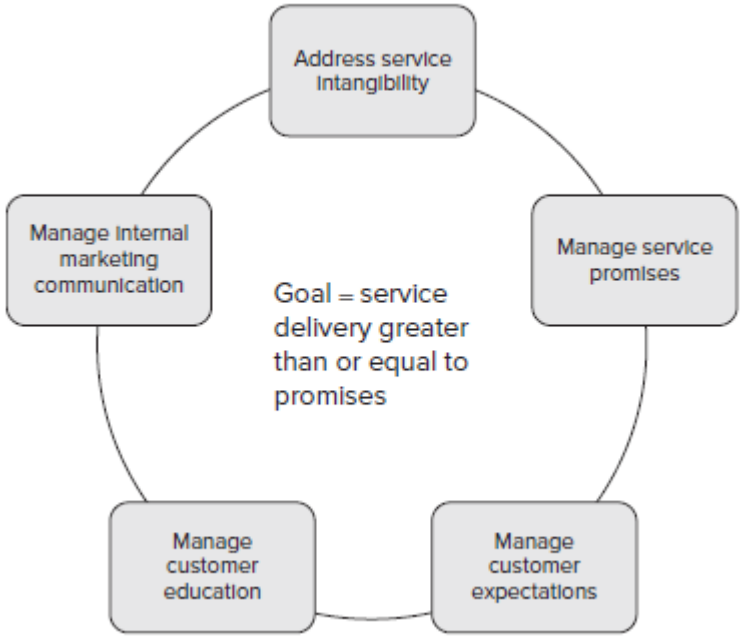


Figure 5.2 shows the major approaches to overcome the service communication challenges that we just described. The goal is to deliver service that is greater than or equal to promises made, and all three sides of the triangle must be addressed to do so.

1. **Address Service Intangibility**

Approaches to address service intangibility are (1) advertising and other communication strategies that clearly communicate service attributes and benefits to consumers and (2) strategies designed to encourage word-of-mouth communication.

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, 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.

3. Manage Customer Expectation

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 to make realistic promises; to offer service guarantees, options, and tiered-value offerings; and to communicate criteria customers can use to assess service.

4. Educate Customers

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.

5. Manage Internal Marketing Communication

The fifth major category of strategies necessary to match service delivery with promises is 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. A third strategy is internal branding, which consists of various strategies to sell the brand inside the company. Other strategies, include creating effective upward communication, aligning back-office and support personnel with external customers, and creating cross-functional teams.

4.1.3. Pricing of Services

This part of the chapter deals with another issue related to managing promises, the pricing of services. In packaged goods (and even in durable goods), many customers possess enough price knowledge before purchase to be able to judge whether a price is fair or in line with competition. With services, customers often have no internal reference point for prices before purchase and consumption. Techniques for developing prices for services are more

complicated than those for pricing tangible goods, and all the approaches for setting prices must be adapted for the special characteristics of services.

4.1.3.1.Concept of value to customers

Value is an amorphous business term, like quality, service, and excellence. It has many meanings to many people.

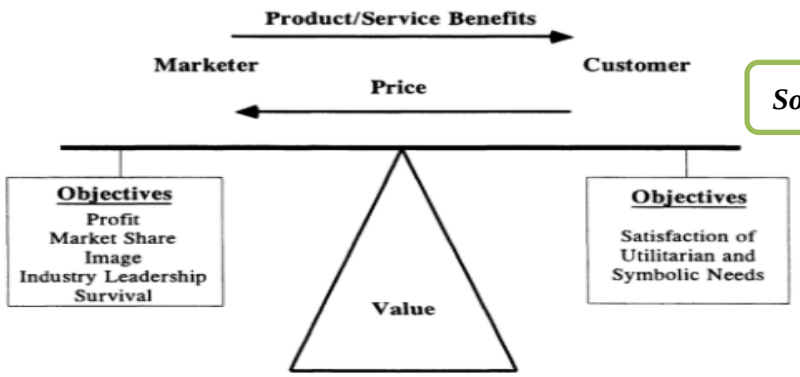
In early barter transactions, buyers carefully evaluated sellers' offerings; they agreed to do business only if the benefits (received products) relative to the cost (traded items) was perceived as a fair (or better) value.

Value may be best defined from the customer's perspective as a tradeoff between the benefits received from the offer versus the sacrifices to obtain it (e.g., costs, stress, time, etc.).

According to woodruff and Gardial, a three-stage value hierarchy exists that consists of attributes, consequences, and desired end states. These levels of abstraction describe the product/service, the user/product interaction, and the goals of the buyer (person or organization), respectively.

Delivering customer value, in the short term, can add up to a double bind for marketers, often resulting in added production and marketing costs and selling at lower unit prices. Successful firms, in terms of making proactive approach by determining how value works and how consumers perceive value. However, when a company makes an "investment" in research and development, personnel, and capital, the company is able to drive down costs through productivity and develop quality products and services through technology and reliability. The long-run results will be better value for both the buyer and seller.

Fig.5.3 The value exchange



Sources: Bill Dodds. (2003)

4.1.3.2.Role of 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 face consumers 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 medical treatment or management consulting, the customer may look to price as a surrogate for quality.

In summary, the basic conditions that must exist for customers to use price as an indicator of quality are if one or more of the following apply:

- There is little or no product information available to the customer. In other words, the customer is essentially naïve about the product, is unable to make an informed judgment and if the purchase is important enough, it's enough to make sure that they get it right, therefore, they will use price to inform their behavior.
- There either may be no other evaluative criteria available or there are perceived to be major quality differences between brands.
- The issue is the word 'perceived'. The service marketer's battleground is in the mind of the customer and it is their perceptions, as we have seen elsewhere, that govern their behavior.
- If the cost consequences of making bad decisions are great, and/or if the product has a high level of socio-economic significance. In both these situations the customer is apt to perceive a high level of risk.
- The buyers and/or other important members of the decision-making unit have confidence that price in their marketplace is an indicator of quality.

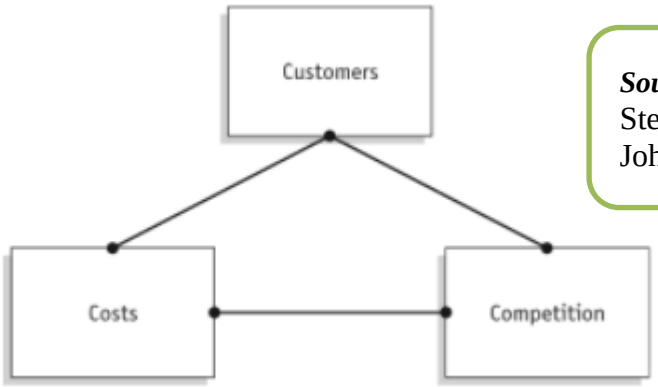
Because customers depend on price as a cue to quality and because price sets expectations of quality, service prices must be determined carefully. In addition to being chosen to cover costs or match competitors, prices must be selected to convey the appropriate quality signal. Pricing too low can lead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

4.1.3.3.Approaches to pricing services

Pricing strategies, driven by pricing objectives, are linked to the service organization's overall marketing strategy. All service organizations (except nonprofits and government agencies) focus pricing strategies on covering costs and making a profit.

The two types of pricing objectives are profit-oriented objectives and volume-oriented objectives. Profit-oriented objectives stress generating high returns on the service's investments in resources and labor; volume-oriented objectives stress processing large numbers of customers or their possessions. Organizations can develop strategies to accomplish these objectives by approaching price determination in three ways as indicated in Figure 5.4.

Fig.5.3 Three approaches to price determination



Sources: Raymond P. Fisk, Stephen J. Grove, Joby John. (2013)

4.1.3.4.Strategies used by companies to price services

I. Basics of Pricing Strategies

a. 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

Price = Direct costs + Overhead costs + 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).

The challenge in using this pricing in service is first, costs are difficult to trace or calculate in service businesses, particularly where multiple services are provided by the firm. 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.

b. Completion 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.

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.

c. 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.

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.

II. 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.

The following pricings are used when customers define value as low price;

d. Discount

Service providers offer discounts to communicate to price-sensitive buyers that they are receiving value.

e. Odd Pricing

Odd pricing is the practice of pricing services just below the exact dollar amount to make buyers perceive that they are getting a lower price. Dry cleaners charge $2.98 for a shirt rather than $3.00, health clubs have dues priced at $33.90 per month rather than $34, and haircuts are

$9.50 rather than $10.00. Odd prices suggest discounting and bargains and are appealing to customers for whom value means low price.

f. Synchro-Pricing

Synchro-pricing is the use of price to manage demand for a service by capitalizing on customer sensitivity to prices. Certain services, such as tax preparation, passenger transportation, hotels, and theaters, have demand that fluctuates over time as well as constrained supply at peak times. For companies in these and other industries, setting a price that provides a profit over time can be difficult. Pricing can, however, play a role in smoothing demand and synchronizing demand and supply. Time differentials (involve price variations that depend on when the service is consumed. Telephone service after 9:00 P.M.), place differentials (used for services in which customers have a sensitivity to location. The front row at concerts….), quantity differentials (are usually price decreases given for volume purchasing), and incentive differentials (are lower prices for new or existing clients in the hope of encouraging them to be regular users or more frequent users) have all been used effectively by service firms.

g. Penetration Pricing

Penetration pricing is a strategy in which new services are introduced at low prices to stimulate trial and widespread use. The strategy is appropriate when (1) sales volume of the service is very sensitive to price, even in the early stages of introduction; (2) it is possible to achieve economies in unit costs by operating at large volumes; (3) a service faces threats of strong potential competition very soon after introduction; and (4) there is no class of buyers willing to pay a higher price to obtain the service. Penetration pricing can lead to problems when companies then select a "regular" increased price. Care must be taken not to penetrate with so low a price that customers feel the regular price is outside the range of acceptable prices.

III. 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.

h. Prestige Pricing

Prestige pricing is a special form of demand-based pricing by service marketers who offer high-quality or status services. For certain services—restaurants, health clubs, airlines, and hotels—a higher price is charged for the luxury end of the business.

i. 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. In this situation, customers are more concerned about obtaining the service than about the cost of the service, allowing service providers to skim the customers most willing to pay the highest prices.

IV. 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.

j. Value Pricing

Value pricing has come to mean "giving more for less." In current usage, it involves assembling a bundle of services desirable to a wide group of customers and then pricing them lower than they would cost alone.

k. 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. This form of pricing is based on the premise that segments show different price elasticities of demand and desire different quality levels.

V. 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.

l. 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. Customers naturally look for price anchors as well as familiar services against which to judge focal services. If they accept the anchors, they view the price and service package favorably.

m. 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). When customers find value in a package of interrelated services, price bundling is an appropriate strategy. Bundling, which means pricing and selling services as a group rather than individually, has benefits to both customers and service companies. Customers find that bundling simplifies their purchase and payment, and companies find that the approach stimulates demand for the firm's service line, thereby achieving cost economies for the operations as a whole while increasing net contributions. Bundling also allows the customer to pay less than when purchasing each of the services individually, which contributes to perceptions of value.

The effectiveness of price bundling depends on how well the service firm understands the bundles of value that customers or segments perceive and on the complementarity of demand for these services. Effectiveness also depends on the right choice of services from the firm's point of view. Because the firm's objective is to increase overall sales, the services selected for bundling should be those with a relatively small sales volume without the bundling to minimize revenue loss from discounting a service that already has a high sales volume.

n. Complementary Pricing

Services that are highly interrelated can be leveraged by using complementary pricing. This pricing includes three related strategies—captive pricing, two-part pricing, and loss leadership. In captive pricing, the firm offers a base service or product and then provides the supplies or peripheral services needed to continue using the service. In this situation the company could off-load some part of the price for the basic service to the peripherals. For example, cable services often drop the price for installation to a very low level, then compensate by charging

enough for the peripheral services to make up for the loss in revenue. With service firms, this strategy is often called two-part pricing because the service price is broken into a fixed fee plus variable usage fees (also found in telephone services, health clubs, and commercial services such as rentals). Loss leadership is the term typically used in retail stores when providers place a familiar service on special largely to draw the customer to the store and then reveal other levels of service available at higher prices. Cleaners, for example, will offer a special low price to launder men's shirts to draw customers in to pay the higher regular prices for other items.

o. 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. In personal injury lawsuits, for example, clients value the settlement they receive at the conclusion of the service. In these and other situations, an appropriate value-based pricing strategy is to price on the basis of results or outcome of the service.

The most commonly known form of results-based pricing is a practice called contingency pricing, used by lawyers. Contingency pricing is the major way that personal injury and certain consumer cases are billed. In this approach, lawyers do not receive fees or payment until the case is settled, when they are paid a percentage of the money that the client receives. Therefore, only an outcome in the client's favor is compensated. From the client's point of view, the pricing makes sense in part because most clients in these cases are unfamiliar with and possibly intimidated by law firms. Their biggest fears are high fees for a case that may take years to settle. By using contingency pricing, clients are ensured that they pay no fees until they receive a settlement. In these and other instances of contingency pricing, the economic value of the service is hard to determine before the service, and providers develop a price that allows them to share the risks and rewards of delivering value to the buyer.

4.2.The expanded mix for service (3P's)

In the service industry there exist three additional marketing mixes known as expanded marketing mix. This marketing mixes includes; process, physical evidence and that of people.

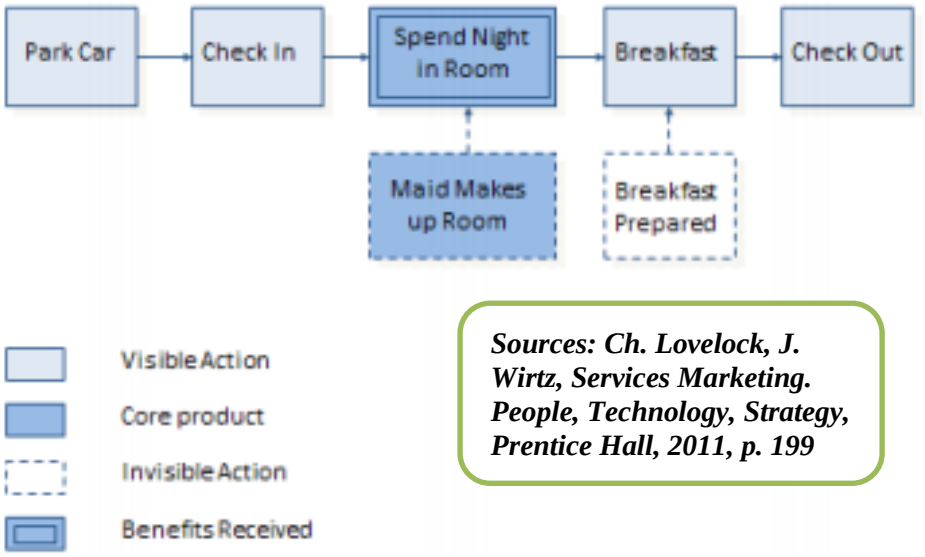
4.2.1. Process

From the customer's perspective a service is an experience, but from the service company's perspective a service is a process which should be designed and managed to create a desired

customer's experience. Additionally, it can be an important component of a company's competitive strategy and a way to differentiate it from competitors. Service process is also linked with service quality evaluations and service outcome is linked with customer satisfaction evaluations. For all of these reasons, a service process should be examined in detail as well as the techniques used to display all elements of service delivery. A very simple form of describing a service process is a flowchart. It is a tool, which shows a sequence of encounters that customers have with a service company.

Figure 5.4 shows a flowchart for delivery of a service - stay at a motel. It involves several steps such as parking a car, checking-in, spending night in a room, having breakfast, and checking-out. Flowcharting helps to distinguish service elements like the core product and supplementary services and enables to assess the level of customer involvement in the service delivery process. A more sophisticated form than a flowchart and one of the most common techniques used to design new services or redesign existing ones is blueprinting (blueprinting will be discussed in chapter six).

Fig.5.4 A flowchart for delivery of a service – stay at a motel



Sources: Ch. Lovelock, J. Wirtz, Services Marketing. People, Technology, Strategy, Prentice Hall, 2011, p. 199

4.2.2. Physical Evidence

The physical environment affects customers' experience during the service encounter enhancing or undermining customer satisfaction. In some services such as theme parks, restaurants, cafes, and hotels service environment might even be a key to customer satisfaction, making great impression and leaving long-lasting memories. Thus, physical evidence is an

important component of a service company marketing-mix strategy and overall value proposition. Due to the intangibility of services, customers rely on physical evidence when assessing the expected quality level, so careful design of all tangible elements can increase perceived value of the market offering.

Physical evidence can fall into three main categories: **facility exterior, facility interior, and other tangibles**. The facility exterior includes the surrounding environment, parking facilities, the firm's entrance, and signage. When deciding about a location of the service company, especially with regard to high-contact services, it is important to consider the accessibility, safety, visibility and compatibility of the service site and market offering with the surrounding environment. The facility interior is composed of such elements as interior design, signage, equipment and other devices necessary for service performance which are complemented by ambient conditions like music, scents, temperature, and colors. Some of these elements are visible to customers and play an important role in the service delivery process, but other ones are much more subtle and they are essential in creating certain mood and atmosphere of the service outlet. Other tangible elements include stationery, business cards, billing statements, personnel uniforms, promotional material and are a part of visual identity of a company. Since customers perceive all service elements holistically, it is important to ensure that they are carefully designed to create a consistent image and a unique brand experience.

The company's physical evidence may serve different purposes. It differentiates the firm from its competitors, communicates its image through tangible clues, facilitate the performance of the service, and socialize customers and employees. The servicescape can be used as a part of the company's value proposition enhancing customer experience. Nicely designed interiors along with equipment of good quality and well-dressed personnel make good impression on customers. Such service environments, conversely to poorly designed interiors, are more likely to attract customers and offered services are usually perceived as professional. However, service companies which offer low-price services can emphasize the functional aspect of their outlets.

Table.5.1 The associations and human responses to colors

Color	Degree of Warmth	Association and response to color
Red	Warm	Increases enthusiasm, stimulates energy, passion, and excitement, encourages action and confidence, increase arousal levels, blood pressure, and pulse rate
Orange	Warmest	Stimulates emotions, expression, warmth, activity and appetite, encourages socialization, noted for its ability to encourage verbal expression of emotions
Yellow	Warm	Mentally stimulating, activates memory, and encourages communication, instill optimism, clarity, and intellect, bright yellow often noticed for its mood-enhancing ability
Green	Cool	Nurturing, healing, relaxing mentally and physically, helps alleviate depression, nervousness, and anxiety, second to blue as favorite color
Purple	Cool	Calms the mind and nerves, reduces stress and can create and inner feeling of calm, offers the sense of spirituality, encourages creativity
Blue	Coolest	Calming, cooling and relaxing, lowers blood pressure, healing color for nervous disorders and for relieving headaches, blue is the overwhelming favorite color

Source: www.sensationalcolor.com

4.2.3. People

Service personnel plays a very important role in the success and profitability of the company, it can also be an important source of differentiation as well as a competitive advantage. It is a challenge for service companies to differentiate from other similar companies since they tend to offer the same bundle of benefits. Service employees and the way they deal with customers are harder to be duplicated comparing to other service features, therefore they can be used to distinguish one company from another. Frontline staff is also crucial for creating customer's satisfaction and delivering service excellence. A number of studies have shown that employee satisfaction and customer satisfaction are clearly related, therefore service companies should employ effective human resources policies, which would result in high satisfaction of employees. Thus, in the services context, human resources management should be linked to the marketing management in order to meet customers' needs as well as company's objectives.

Service personnel perform many tasks and is expected to achieve both operational and marketing goals. The sales people have to be fast and efficient and delight customers at the same time. Additionally, they are involved in selling, cross-selling, and up-selling and

company's promotional activities. Since the first-line employees perform different functions including representing the company, creating service quality, improving productivity, and making sales, they are vital for business success. For this reason, the entire company should focus on the front line and support them in their tasks of delivering services.

Summary

The Services Marketing Mix consists of a set of tactics that a company can use to promote and encourage potential customers to buy their service. The Services Marketing Mix is also known as the 7 P's of Marketing.

The Services Marketing Mix is unique to services. The model is an extension of Product Marketing Mix (also known as the 4 P's of Marketing). All four tactics of the Product Marketing Mix used to market products remain, but three new tactics are added. The additional 3 P's (or tactics) are needed to adequately capture the options available to market and promote services.

Without the proper development of this marketing mix or 7Ps'namely; Product, Price, Promotion, Placement (delivery), People, Process and Physical evidence, the sustenance of the service company is in question.

In a nutshell, the Services Marketing Mix provides seven tactics that can be adjusted to help you attract and keep customers to any services business. When using the tool, the aim is to find the right balance between all seven tactics so your service is a success in the marketplace (the sweet spot).

Summary Questions

1. Why are service employees critical to the success of any service organization?
2. Using your own personal examples, discuss the general importance of customers in the successful creation and delivery of service experiences.
3. Why might customer actions and attitudes cause the service performance gap to occur? Use your own examples to illustrate your understanding.
4. Describe a time when your satisfaction in a particular situation was increased because of something another customer did. Could (or does) the organization do anything to ensure that this experience happens routinely? What does it do? Should it try to make this situation a routine occurrence?

5. 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.
6. What is physical evidence and what is its importance in service firm?
7. How can an effective physical evidence strategy help close provider gap 2? Explain
8. Describe the physical environment of your favorite restaurant in terms of the three categories of servicescape dimensions: ambient conditions; spatial layout and functionality; and signs, symbols, and artifacts.
9. Which approach to pricing (cost-based, competition-based, or demand-based) is the most fair to customers? Why?
10. Is it possible to use all three approaches simultaneously when pricing services? If you answer yes, describe a service that is priced this way and if you answer no, what is the reason.
11. 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?
12. Consider the specific pricing strategies for each of the four customer value definitions. Which of these strategies could be adapted and used with another value definition?

CHAPTER SIX

SERVICE DEVELOPMENT AND DESIGN

Service professionals traditionally think about a new service product as something that a centralized marketing department creates for its customers on the basis of understanding a new customer need. The success of the new service product depends, therefore, on the accuracy of understanding customer needs, the ability to create or customize the service to meet specific needs of customers, and the competitive speed at which the service is delivered. In most service categories, the traditional approach may take many weeks, months, or years. This traditional approach often is too slow and unresponsive to meet the rapidly changing needs of customers in today's technological environment and its high level of customer empowerment.

Technological advances in a number of fields, however, make it possible to develop new service products in real time, that is, at the customer's point of requirement (i.e., the customers place and time). Real-time products and services meet the needs of individual customers at the first time of use and also as those needs change over time. This approach is known as real time because it involves adapting the service product dynamically to both the specific customer segment (i.e., customer space) and the constantly evolving needs of the customer (i.e., customer time). Developing real-time service products implies both individualizing the service product and vesting it with the power to adapt itself to changing customer needs. This approach is now feasible owing to decreasing costs of technologies in a broad range of areas.

The development of enterprise services involves making design decisions at different levels, ranging from strategic to infrastructural choices, and concerning many different aspects, ranging from customer interaction to information registration concerns.

Before starting the topic can you address the following questions. Why do you think it is important to develop a service? What makes developing a service more difficult than developing goods? What is service blueprint and what is its importance?

Chapter Objectives: After completing this chapter students will be able to;

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

- Design service blueprinting using HOQ model

6.1.Challenges of service and design

The services marketing firms will have to take care of the following risks and challenges while introducing new services.

1. Competitor firms handling similar services will always be on the look out to get a sneak into their competitors' research and development activities. Should they get secret information about a new product or service being innovated; they many prior to this launch appropriate the new product or service and bring out a cheaper version or even importing better and cheaper substitutes much earlier than actually planned by the innovating firm.
2. The targeted group of customers for the new service may not take to the new innovation in the same manner in which it was planned and expected. The service may fail to live up to quality expectations or on the perceived value for money deliverance.
3. The customer mindset may not yet be fully developed to accept a highly advanced innovative service due to lack of information on the new technology.
4. The market may not be able to provide the required levels logistical, administrative, after-sales service or sericescapes' supports.
5. Test marketing new innovative services will need legal and other related sanctions.

Professor John T. Gourville wrote in 2004 that successful new product/services offer plenty of new benefits while requiring little change in consumer behavior. As illustrated in the model below, new offerings like Google became successful as it provided a powerful search engine vehicle requiring no change in customer's way of searching the internet.

Table 6.1 Criteria for success of New Offerings

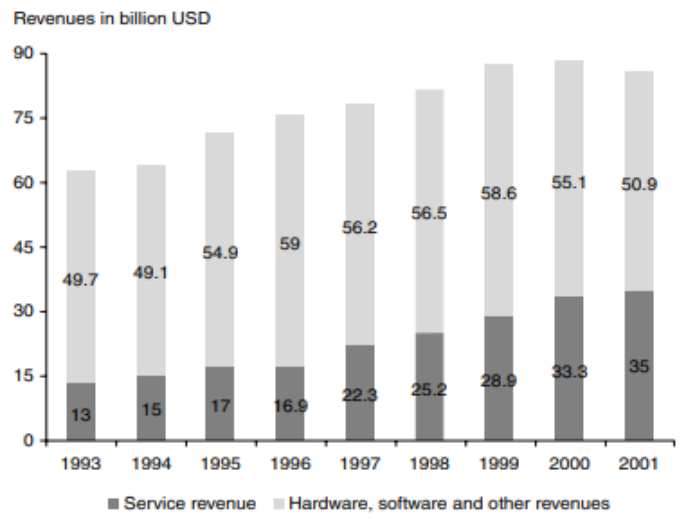
		New Benefit Provided	
Change in customer Behavior		**Few**	**Large**
	High	Sure Failures	Long Hauls
	Low	Easy Sells	Smash Hits

6.2.New service development

Exhibit 6.1 The moves made by IBM towards improved service and new value creation logic

Revenues from IBM hardware in 2001 for the first time; since then IBM has invested intensively in software businesses. In 2010, software created around 23 percent of their total revenue and services around 56.5 percent. Services are divided into two parts: The Global Technology Services and Global Business Services. The former accounted for 38.3 percent and the latter for 18.2 percent. Systems & Technology created about 18.0 percent and the remaining revenue share of 0.8 percent is attributed to global financing and other business activities. It is interesting to note that IBM's service business (The Global Technology Services and Global Business Services) departs from the argumentation that services are more profitable than products: examination of the gross margins suggests that systems & Technology and Software outperform Global Business Services and Global Technology Services.

With respect to IBM's pre-tax income in 2010, hardware accounted for only 8 percent ($1.6 billion) and financing for 9 percent ($2.0 billion). Most of the income was generated by software (44 percent, i.e. approx. $9.1 billion) and services (39 percent, i.e. approx. $8.1 billion).



IBM-revenue shares and gross margins in 2010

Note: total revenue of 99.8 billion USD. IBM (2010)

The underlying rationale of these various steps lies in establishing a strategic leadership framework. This defines the strategy process clearly in terms of assigning the company's general managers the task of constantly identifying (1) performance gaps between the results expected and those achieved, and (2) opportunity gaps between current business results (e.g. revenue growth per customer in existing markets) and those achievable with a new business design (e.g. by providing solutions to generate new revenues and thereby profits).

Services are one of the main bases for profitable businesses today. In the service-driven economy, companies try to increase their competitiveness by introducing new products and services that create value for existing customers and that attract new customers. New service

concepts are created, for example, by involving existing or potential customers in new and fruitful ways during different phases of the service development process.

Research studies have also shown that market fit, that is, the correct understanding and translation of customer needs, is one of the key ingredients in new service development. New service development thus relies on the difficult task of understanding current customer needs and anticipating future needs, which cannot be achieved by means of traditional market research. Hence, merely listening to the voice of the customer is seldom sufficient; interacting with potential customers in the development process becomes critical to understanding the customers'' true needs. By getting close to their customers', it is hypothesized that firms will reach a deeper understanding of current as well as latent customer needs. Closeness is rarely achieved by interviews; we need to have a deeper knowledge of aspects such as our customers' values, networks, and habits. A customer involvement approach has therefore been suggested.

According to Professor G. L. Shostack (1984), services are intangible so new service development system should have the following four characteristics:

- It must be objective, not subjective
- It must be precise, not vague
- It must be fact driven, not opinion driven
- It must be methodological, not philosophical

6.2.1. Types of new services

Competitive intensity and customer expectations are increasing in nearly all service industries. Thus, success lies not only in providing existing services well, but also in creating new approaches to service. Because the outcome and process aspects of a service often combine to create the experience and benefits obtained by customers, both aspects must be addressed in new service development.

The word "new" is popular in marketing because it's a good way to attract people's attention. However, there are different degrees of "newness" in new service development. In fact, we can identify seven categories of new services, ranging from major innovations to simple style changes.

1. **Major Service innovations** are new core products for markets that have not been previously defined. They usually include both new service characteristics and radical

new processes. Examples include FedEx's introduction of overnight, nationwide, express package delivery in 1971, the advent of global news service from CNN, and eBay's launch of online auction services.

2. **Major process innovations** consist of using new processes to deliver existing core products in new ways with additional benefits. For example, the University of Phoenix competes with other universities by delivering undergraduate and graduate degree programs in a nontraditional way. It has no permanent campus; instead its courses are offered online or at night in rented facilities.

   Its students get most of the core benefits of a college degree in half the time and at a much lower price than other universities. The existence of the Internet has led to the creation of many start-up businesses employing new retailing models that exclude the use of traditional stores, saving customer's time and travel costs. Often, these models add new, information-based benefits such as greater customization, the opportunity to visit chat rooms with fellow customers, and suggestions for additional products that complement what has already been purchased.

3. **Product line extensions** are additions to current product lines by existing firms. The first company in a market to offer such a product may be seen as an innovator, but the others are merely followers who are often acting defensively. These new services may be targeted at existing customers to serve a broader array of needs, designed to attract new customers with different needs, or both. Starbucks, known for its coffee shops, has extended its offerings to include light lunches (See Figure 6.1 below).

   Major computer manufacturers like Compaq, Hewlett-Packard, and IBM are going beyond their traditional business definitions to offer integrated "e-solutions" based on consulting and customized service. Telephone companies have introduced numerous value-added services such as caller ID, call waiting, and call forwarding. Cable television providers are starting to offer broadband Internet access. Many banks sell insurance products in the hope of increasing the number of profitable relationships with existing customers.

4. **Process line extensions** are less innovative than process innovations. But they do often represent distinctive new ways of delivering existing products, either with the intent of offering more convenience and a different experience for existing customers or of

attracting new customers who find the traditional approach unappealing. Most commonly, they involve adding a lower-contact distribution channel to an existing high-contact channel, as when a financial service firm develops telephone-based or Internet-based services or a bricks-and-mortar retailer adds catalog sales or a Web site.

For example, Barnes and Noble, the leading bookstore chain in the United States, added a new Internet subsidiary, BarnesandNoble.com, to help it compete against Amazon.com. Creating self-service options for customers to complement delivery by service employees is another form of process line extension.

Fig 6.1 Starbucks Coffee new service promotion



5. **Supplementary service innovations** involve adding new facilitating or enhancing service elements to an existing core service, or significantly improving an existing supplementary service. Low-tech innovations for an existing service can be as simple as adding parking at a retail site or agreeing to accept credit cards for payment. Multiple improvements may have the effect of creating what customers perceive as an altogether new experience, even though it is built around the same core.

   Theme restaurants like the Rainforest Cafe are examples of enhancing the core with new experiences. The cafes are designed to keep customers entertained with aquariums,

live parrots, waterfalls, fiberglass monkeys, talking trees that spout environmentally related information, and regularly timed thunderstorms, complete with lightning.

6. **Service improvements** are the most common type of innovation. They involve modest changes in the performance of current products, including improvements to either the core product or to existing supplementary services. For instance, a movie theater might renovate its interior, adding ergonomically designed seats with built-in cup holders to increase both comfort and convenience for customers during the show or an airline might add power sockets for laptops in its business-class cabins.
7. **Style changes** represent the simplest type of innovation, typically involving no changes in either processes or performance. However, they are often highly visible, create excitement, and may serve to motivate employees. Examples include repainting retail branches and vehicles in new color schemes, outfitting service employees in new uniforms, introducing a new bank check design, or making minor changes in service scripts for employees.

As you can see, service innovation can occur at many different levels. It's important to recognize that not every type of innovation has an impact on the characteristics of the core product or results in a significant change in the customer's experience.

6.2.2. Stages in new service development

Table 6.2 New Service Development (NSD) Stages

Front-end planning	1	Business Strategy Review		
	2	Developing new service strategy		
	3	Idea generation	Screen ideas against new service strategy	Drop
	4	Concept development and evaluation	Test concept with customers and employees	Drop
	5	Developing the business case	Test for feasibility and profitability	Drop
Implementation	6	Service development and testing	Conduct service prototype test	Drop
	7	Market testing	Test service and mix elements	Drop
	8	Commercialization		
	9	Post-introduction evaluation		

Service design is not typically a simple task. Most new services involve compromises, because there are usually limits to what most prospective customers are willing to pay. And service providers must be careful not to lose control of their costs in coming up with superior performance levels on the product characteristics that customer's desire.

So how can product planners determine what features and price will create the best value for target customers? It's hard to know without asking prospective users hence the need for research. Let's examine how the Marriott Corporation employed market research to help develop a new service concept in the lodging industry.

Marriott had identified a niche in the business travel market between full-service hotels and inexpensive motels. The opportunities were seen as especially attractive in locations where demand was not high enough to justify a large full-service hotel. Having confirmed the presence of a niche where there was unmet market demand, Marriott executives set out to develop a product to fill that gap.

As a first step, the company hired marketing research experts to help establish an optimal design concept. Since there are limits to how much service and how many amenities can be offered at any given price, Marriott needed to know how customers would make trade-offs in order to arrive at the most satisfactory compromise in terms of value for money. The intent of the research was to get respondents to trade off different hotel service features to see which ones they valued most.

A sample of 601 consumers (who were part of the business travel market) from four metropolitan areas participated in the study. Researchers used a sophisticated technique known as conjoint analysis that asks survey respondents to make trade-offs between different groupings of attributes.

The objective is to determine which mix of attributes at specific prices offers the highest degree of utility. The 50 attributes in the Marriott study were divided into the following seven factors (or sets of attributes), each containing a variety of different features based on detailed studies of competing offerings:

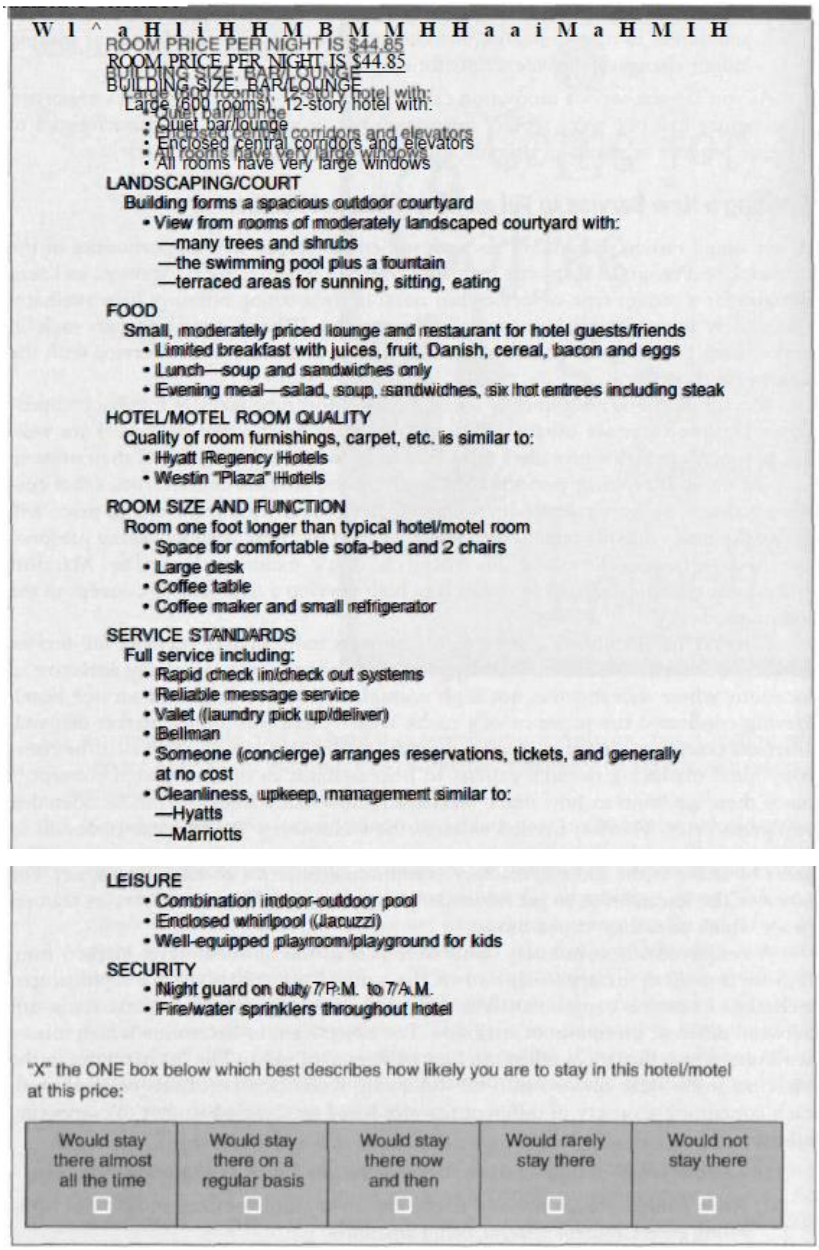
External factors building shape, landscaping, pool type and location, hotel size

Room features room size and decor, climate control, location and type of bathroom, entertainment systems, and other amenities

Food-related services type and location of restaurants, menus, room service, vending machines, guest shop, in-room kitchen

Lounge facilities location, atmosphere, type of guests

Services reservations, registration, check-out, airport limo, bell desk, message center, secretarial services, car rental, laundry, valet.



ROOM PRICE PER NIGHT IS $44.85

BUILDING SIZE, BAR/LOUNGE

Large (600 rooms), 12-story hotel with:
- Quiet bar/lounge
- Enclosed central corridors and elevators
- All rooms have very large windows

LANDSCAPING/COURT

Building forms a spacious outdoor courtyard
- View from rooms of moderately landscaped courtyard with:
  - —many trees and shrubs
  - —the swimming pool plus a fountain
  - —terraced areas for sunning, sitting, eating

FOOD

Small, moderately priced lounge and restaurant for hotel guests/friends
- Limited breakfast with juices, fruit, Danish, cereal, bacon and eggs
- Lunch—soup and sandwiches only
- Evening meal—salad, soup, sandwiches, six hot entrees including steak

HOTEL/MOTEL ROOM QUALITY

Quality of room furnishings, carpet, etc. is similar to:
- Hyatt Regency Hotels
- Westin "Plaza" Hotels

ROOM SIZE AND FUNCTION

Room one foot longer than typical hotel/motel room
- Space for comfortable sofa-bed and 2 chairs
- Large desk
- Coffee table
- Coffee maker and small refrigerator

SERVICE STANDARDS

Full service including:
- Rapid check in/check out systems
- Reliable message service
- Valet (laundry pick up/deliver)
- Bellman
- Someone (concierge) arranges reservations, tickets, and generally at no cost
- Cleanliness, upkeep, management similar to:
  - —Hyatts
  - —Marriotts

LEISURE
- Combination indoor-outdoor pool
- Enclosed whirlpool (Jacuzzi)
- Well-equipped playroom/playground for kids

SECURITY
- Night guard on duty 7 P.M. to 7 A.M.
- Fire/water sprinklers throughout hotel

"X" the ONE box below which best describes how likely you are to stay in this hotel/motel at this price:

Would stay there almost all the time	Would stay there on a regular basis	Would stay there now and then	Would rarely stay there	Would not stay there
☐	☐	☐	☐	☐

Leisure facilities sauna, whirlpool, exercise room, racquetball and tennis courts, game room, children's playground

Security guards, smoke detectors, 24-hour video camera

For each of these seven factors, respondents were presented with a series of stimulus cards displaying different levels of performance for each attribute. For instance, the "Rooms" stimulus card displayed nine attributes, each of which had three to five different levels. Thus, amenities ranged from "small bar of soap" to "large soap, shampoo packet, shoeshine mitt" to "large soap, bath gel, shower cap, sewing kit, shampoo, special soap" and then to the highest level, "large soap, bath gel, shower cap, sewing kit, special soap, toothpaste, etc."

In the second phase of the analysis, respondents were shown cards depicting a number of alternative hotel profiles, each featuring different levels of performance on the various attributes contained in the seven factors. They were asked to indicate on a five-point scale how likely they would be to stay at a hotel with these features, given a specific room price per night. Figure shows one of the 50 cards that were developed for this research. Each respondent received five cards.

The research yielded detailed guidelines for the selection of almost 200 features and service elements, representing those attributes that provided customers in the target segment with the highest utility for the prices they were willing to pay.

An important aspect of the study was that it focused not only on what travelers wanted, but also identified hat they liked but weren't prepared to pay for. (There's a difference, after all, between wanting something and being willing to pay for it!) Using these inputs, the design team was able to meet the specified price while retaining the features most desired by the study participants, who represented the desired business traveler market.

Marriott was sufficiently encouraged by the findings to build three prototype hotels that were given the brand name, "Courtyard by Marriott." After testing the concept under real-world conditions and making some refinements, the company developed a large chain whose advertising slogan became "Courtyard by Marriott the hotel designed by business travelers."

The new hotel concept filled a gap in the market with a product that represented the best balance between the price customers were prepared to pay and the physical and service features they most desired. The success of this project subsequently led Marriott to develop additional customer-driven products airfield Inn and Marriott Suites sing the same research methodology.

6.3.Service blueprinting

A service blueprint is an operational planning tool that provides guidance on how a service will be provided, specifying the physical evidence, staff actions, and support systems / infrastructure needed to deliver the service across its different channels. For example, to plan how you will loan devices to users, a service blueprint would help determine how this would happen at a service desk, what kinds of maintenance and support activities were needed behind the scenes, how users would learn about what's available, how it would be checked in and out, and by what means users would be trained on how to use the device.

A blueprint specifies how a service process should be constructed and includes detailed description of all activities visible and invisible to customers showing the linkages between them. When developing a blueprint, first it's necessary to identify key activities involved in a service process, distinguishing those which are experienced by customers and those which are other actions and support processes essential for service delivery. Between the front-stage and back-stage activities there is a line of visibility. For companies which take into account the customers' perspective, a very important aspect of designing a blueprint is identifying the interactions between customers and employees.

A blueprint enables managers to identify potential fail points in the service process and modify the procedures to enhance the customers' experience and increase productivity. It is usually presented as a sequence of actions involving several stages and is similar to a theatrical script.

Service Blueprints may take different forms – some more graphic than others – but should show the different means/channels through with services are delivered and show the physical evidence of the service, front line staff actions, behind the scene staff actions, and support systems. They are completed using an iterative process – taking a first pass that considers findings from personas, journey maps, and location planning and then coming back to the blueprint to refine it over time. Often blueprints raise questions that cannot be readily answered and so need to be prototyped; for instance, by acting out an interaction or mocking up a product. Generally, one blueprint should be created for each core service, according to the right level of detail for each.

Figure 6.2 and 6.3 shows a part of the experience of dinner at a restaurant and for overnight hotel stay. It shows first interactions between customers and a service company, beginning with making a reservation, then parking a car, to leaving coats in the coatroom. For each of these

activities' scripts should be prepared to ensure that customers' expectations are met. Below the line of visibility all actions essential for performing front-stage activities are presented as well as supporting processes. Service environment represents a stage, which includes the exterior and interior of the restaurant with such elements as furnishings, staff uniforms, lighting, music, and table settings.

Fig 6.2 A blueprint for a restaurant experience

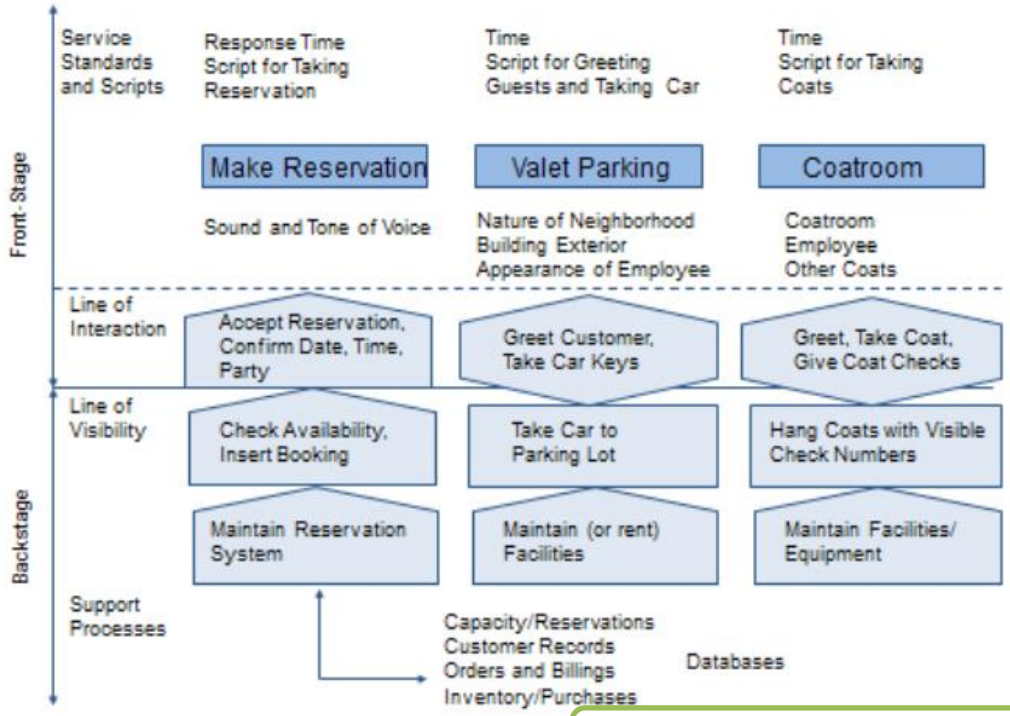
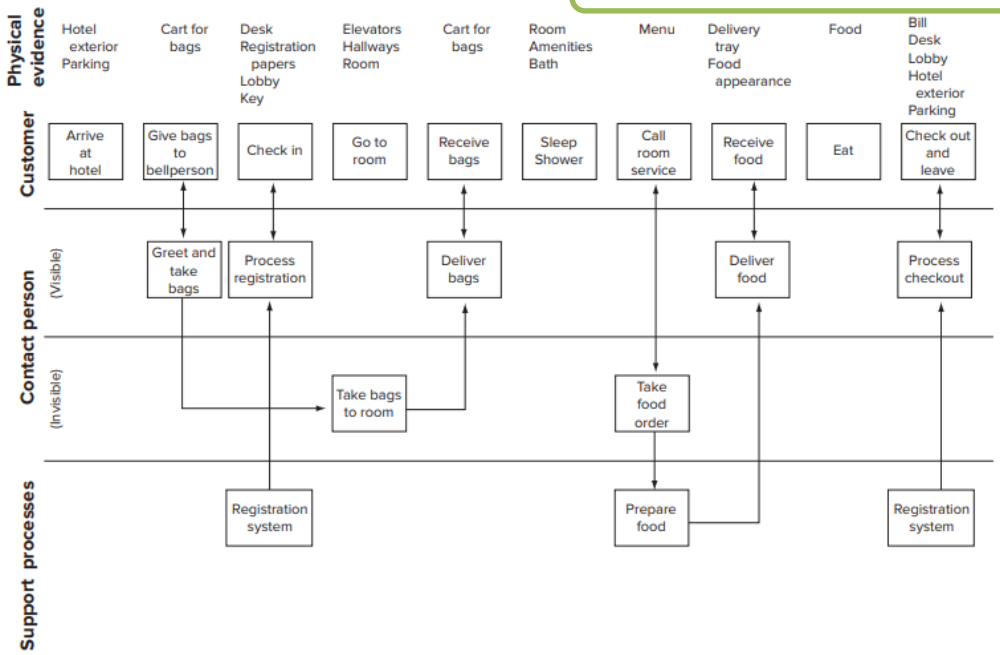


Fig 6.3 Blueprint for Overnight Hotel Stay Service



When designing a blueprint, it is also important to consider the type of a service encounter (please read chapter 2 for service encounter) that a customer has with a service company, since it causes several implications for the service delivery process.

High-contact encounters, such as hairdressing, healthcare, fitness and beauty services, require physical presence of a customer and are highly tangible. As this type of encounter is the most intense, all elements of blueprint, including front-stage and back-stage activities, support processes, scripts and stage itself, should be carefully designed. The services which are based on low contact with customers, like broadcasting and telephone services do not need to have scripts prepared as well as other stage elements. This is because customers are not present during an encounter with a service provider.

Another type of a service encounter includes those services which are performed on customers' objects, for example appliances repair services or transportation of goods services. In such cases customers do not have to be involved in the service delivery process. Although the technical skills of staff and timing seem to be of high importance, the manner in which service personnel deals with customers during pre- and after- service stages is also significant and has an impact on overall customer satisfaction. The last category of service encounters in made up of services performed on customers' intangible assets such as banking, insurance and consulting services. Here, customers mostly judge the service on its outcome, however, professionalism of the service personnel and the image of a service company also play an important role in the assessment of a service.

6.4.Quality Function Deployment (QFD)

Quality Function Deployment (QFD) is a product development methodology that "deploys" the Voice of the Customer throughout the product development process. A cross-functional team implements QFD by creating a series of one or more matrices, the first of which is referred to as the House of Quality (HOQ). These matrices relate customer wants and needs to an extensive set of product features. A set of metrics is developed to measure how well sets of product features are meeting customer needs, and the product's design specifications are identified and prioritized.

QFD is believed to have been developed in the early 1970s at a Japanese shipbuilding firm. Its objective was to provide a systematic way of dealing with the many complexities and trade-offs inherent in all of the design decisions faced by product developers. After considerable

study and a number of improvements by several important Japanese academics, it later migrated to the Japanese auto industry and then to the US auto industry by the mid-1980s. Today, it is used in almost every type of industry and application imaginable – products and services, consumer (B2C) and commercial (B2B), high tech and low tech, etc.

QFD enables the entire product development team to prioritize their development activities in a systematic, analytical way. It helps them work together to achieve a common view of the relationship between customer needs and product design. It provides an "audit trail" which reminds people, both new and old to the project, as to why past decisions were made. The QFD process stretches the product development team's thinking as to which activities are most critical toward creating a winning product or service. It also improves communication among members of the product development team. The result is a product that is thoughtfully designed right from the beginning, cutting down the need for later rework and reducing development time and costs.

In QFD, the focus is on designing quality in a product or process while in quality assessment; the focus is on assuring quality in the service process. QFD stresses knowing your customers and meeting their needs; quality assessment stresses meeting the information needs of all constituents. QFD emphasizes the enterprise functioning as a whole; quality assessment emphasizes all aspects of the educational environment. QFD requires multi-disciplinary teams; quality involves representatives from all constituents of the service.

The House of Quality (HOQ) is defined as a product planning matrix that is built to show how customer requirements relate directly to the ways and methods companies can use to achieve those requirements. House of Quality diagrams use a design that resembles the outline of a house and can be created using technical and competitive benchmarking data. HOQ is considered the primary tool used during quality function deployment to help facilitate group decision making.

Benefits of building a House of Quality include:

- A customer's needs and requirements are established, then used to build and prioritize service offerings and products.
- Identifying customer needs and requirements, then ensuring they are achieved, leads to customer satisfaction and loyalty.

- Improving a company's understanding of its customers, which leads to better customer utilization, overall sales, and share of wallet.

House of Quality diagrams rely heavily on identifying and maintaining the voice of the customer (VOC). VOC is a way of obtaining and implementing the customer's stated needs and requirements for their services or products.

Technical benchmarking means determining how well both your organization and the competition fulfill customer needs in terms of design requirements. This work is usually performed by design staff to ascertain the capabilities of products or services, especially in comparison to the products or services of leading competitors. You can plot this evaluation as a score on the vertical axis of a House of Quality, as shown in the figure 6.4 below. Some people score the design requirements on a scale of one to four, with four being the best. This method results in a plot across the bottom of the House of Quality.

Competitive benchmarking compares one company against a selection of leading competitors. The company is evaluated based on how well or poorly it's doing by examining and understanding the important aspects associated with its product or services.

Add another "room" on the right side of the House of Quality to reflect how well your organization and the competition satisfy customer requirements (identified on the vertical axis on the left side of the matrix). As in the case of technical benchmarking, plot this evaluation as a graph. You can also add more columns to the right side of the matrix to include other information as needed.

Comparing the results of the technical and competitive benchmarking data should show a consistency. If a product scores high in the competitive comparison, it should also score high on the technical comparison. Treat inconsistencies as flags signaling a potential problem with a design requirement.

This completes the House of Quality. Each of the appropriate organizations and ad hoc teams developing the products and services can put this information to use. The integrated product and process development team then manages the development of the other matrices to ensure the complete and effective design and development of the customer offering.

Fig 6.4 Benchmarking Using House of Quality

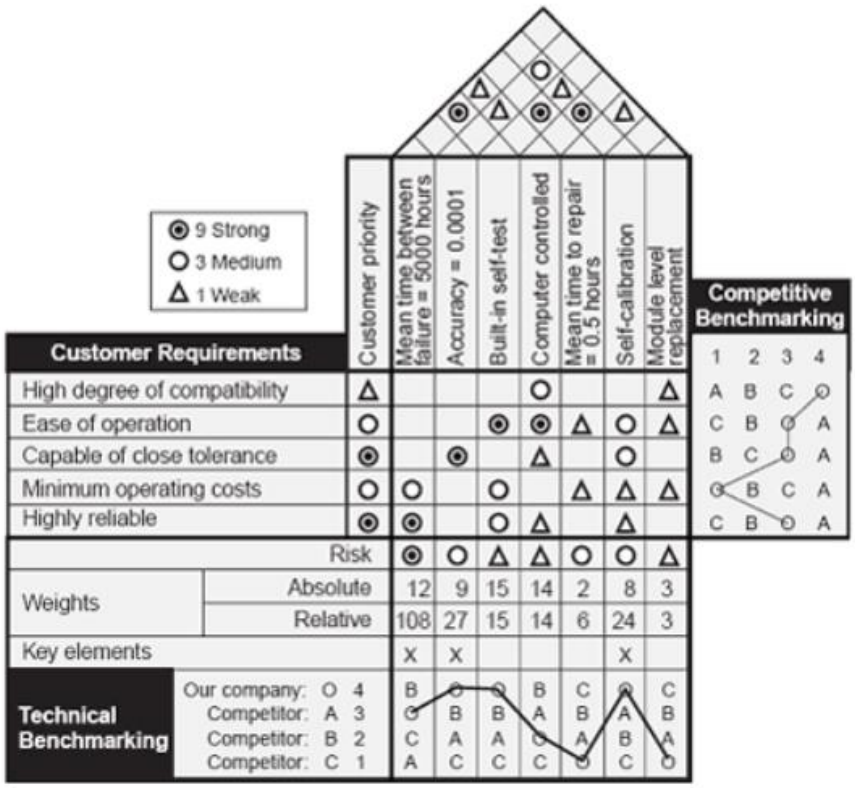
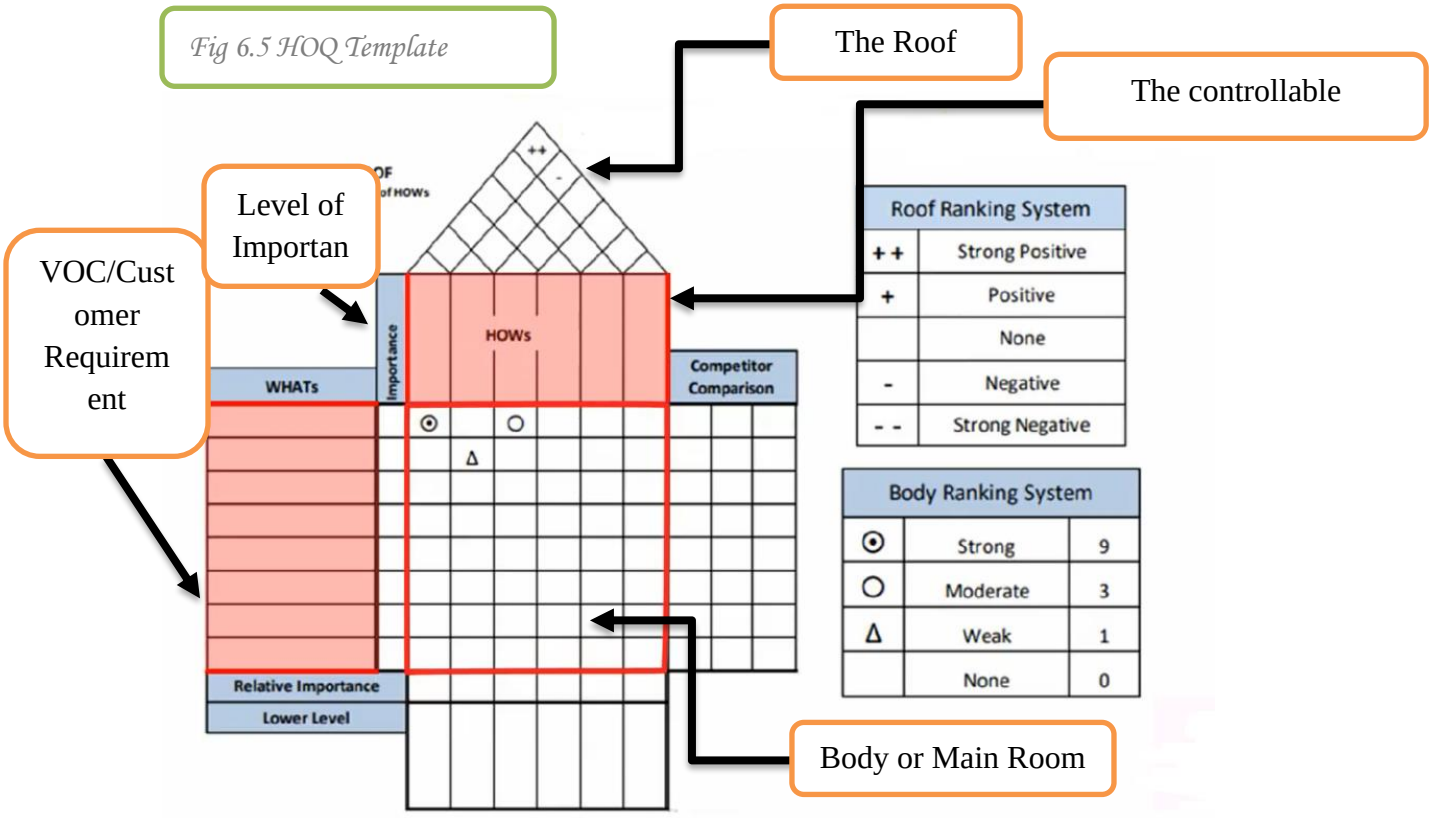
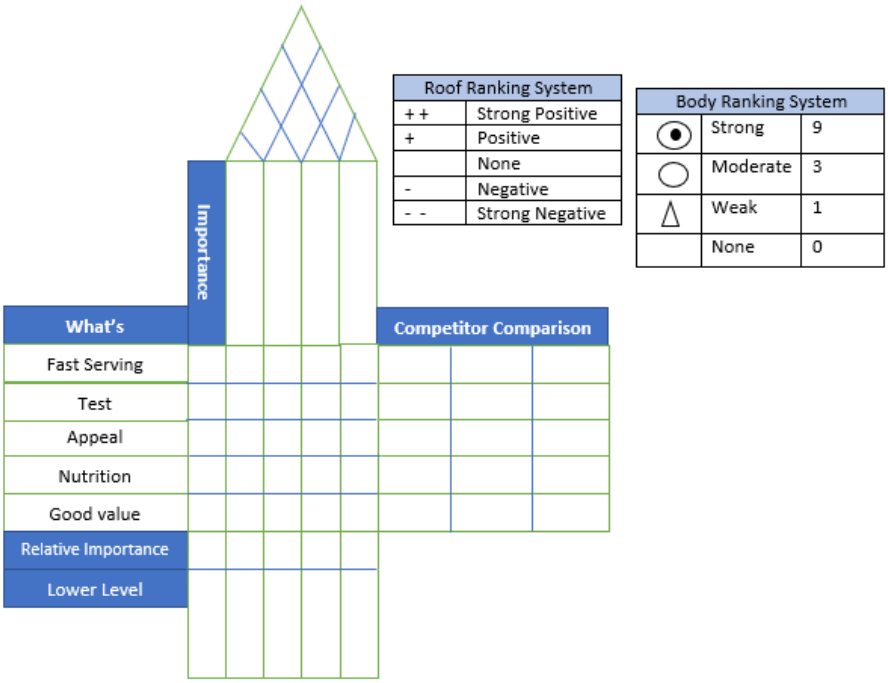


Illustration of HOQ design step by step:

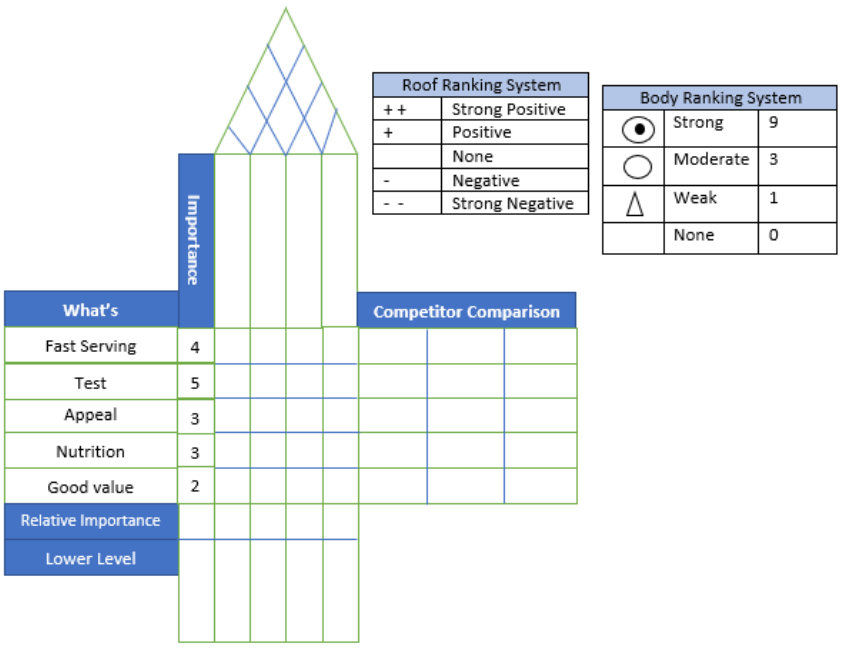
Fig 6.5 HOQ Template



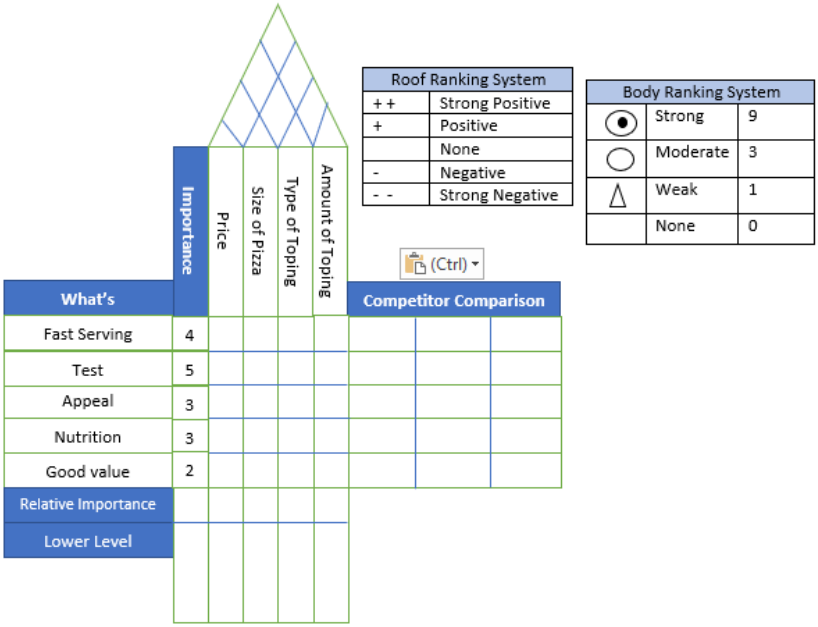
Step 1: first "What's" should be identified. Meaning you need to understand VOC. Assume you want to design HOQ for Pizza business, the VOC could be fast serving, test, appeal, nutrition and good value.



Step 2: you should identify the importance factors. Rate each of the functions based on their level of importance. In many cases 1-5, 1 being lowest to 5 being highest. Assume fast serving has a level of importance of 4, test has importance of 5, appeal with importance of 3, nutrition with importance of 3 and good value with importance of 2.



Step 3: you should know the "How" meaning you should identify the design features and technical requirements of the product aligned with VOC. Assume Price, Size of Pizza, Type of Toping and Amount of Toping be the design and technical requirements.

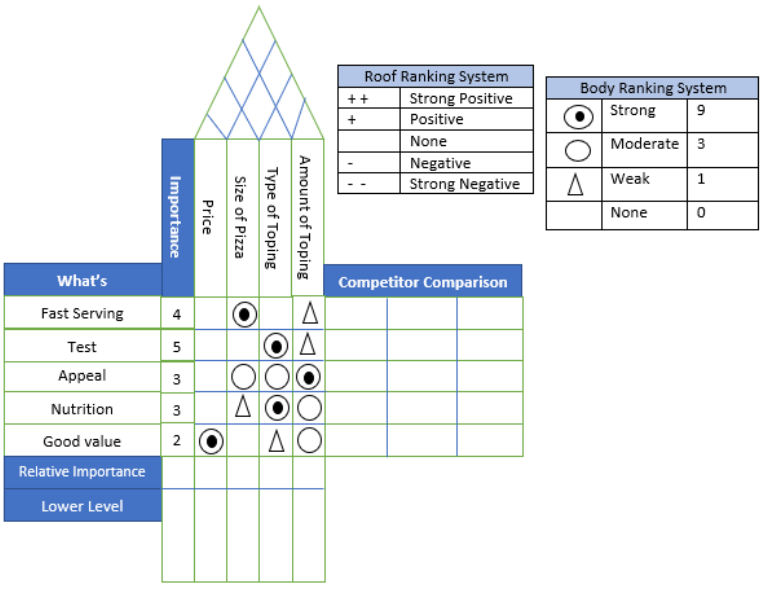


Roof Ranking System	
+ +	Strong Positive
+	Positive
	None
-	Negative
- -	Strong Negative

Body Ranking System		
◉	Strong	9
○	Moderate	3
△	Weak	1
	None	0

What's	Importance	Price	Size of Pizza	Type of Toping	Amount of Toping	Competitor Comparison		
Fast Serving	4							
Test	5							
Appeal	3							
Nutrition	3							
Good value	2							
Relative Importance								
Lower Level								

Step 4: Body or Main Room should be identified meaning the "How's" are ranked according to their correlation of fulfilling each of the "What's" as Strong, Moderate or Weak and blank space represents no correlation. Assume that price and Fast Serving has no relation, size of pizza and fast serving has strong relation, fast serving and type of toping has no relation, fast serving and amount of toping has weak relation, test and price has no relation, size of pizza and test has no relation too and so on as example.

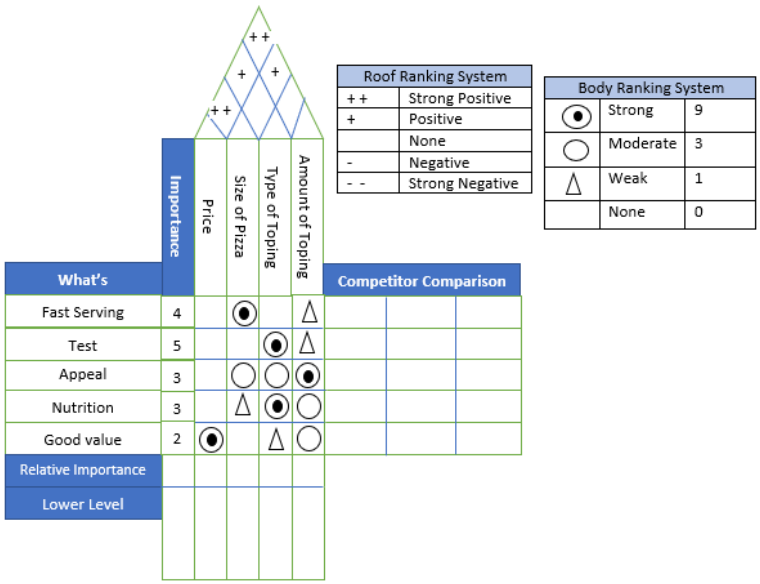


Roof Ranking System	
+ +	Strong Positive
+	Positive
	None
-	Negative
- -	Strong Negative

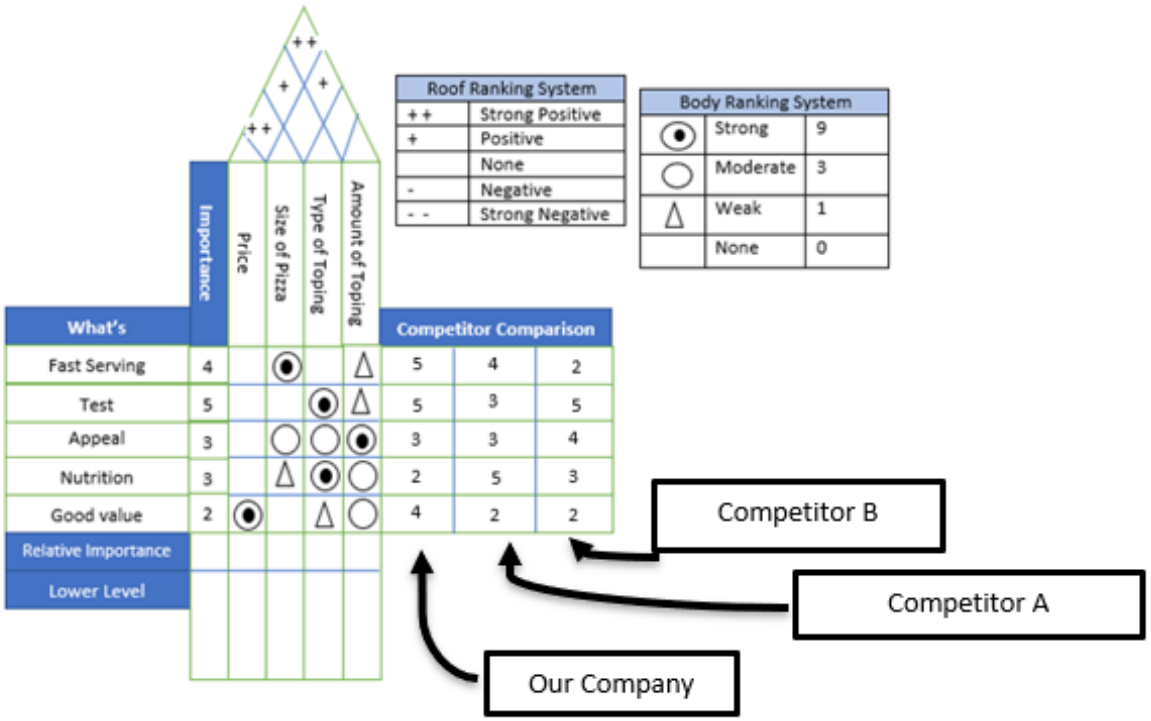
Body Ranking System		
◉	Strong	9
○	Moderate	3
△	Weak	1
	None	0

What's	Importance	Price	Size of Pizza	Type of Toping	Amount of Toping	Competitor Comparison		
Fast Serving	4		◉		△			
Test	5			◉	△			
Appeal	3		○	○	◉			
Nutrition	3		△	◉	○			
Good value	2	◉		△	○			
Relative Importance								
Lower Level								

Step 5: identify the Roof. This used to indicate how the design requirements interact with each other. It ranges from Strong Positive interaction to Strong Negative interaction; the blank space represents no interaction. Assume price and size of pizza has Strong Positive interaction, price and type of togging has positive correlation and so on.

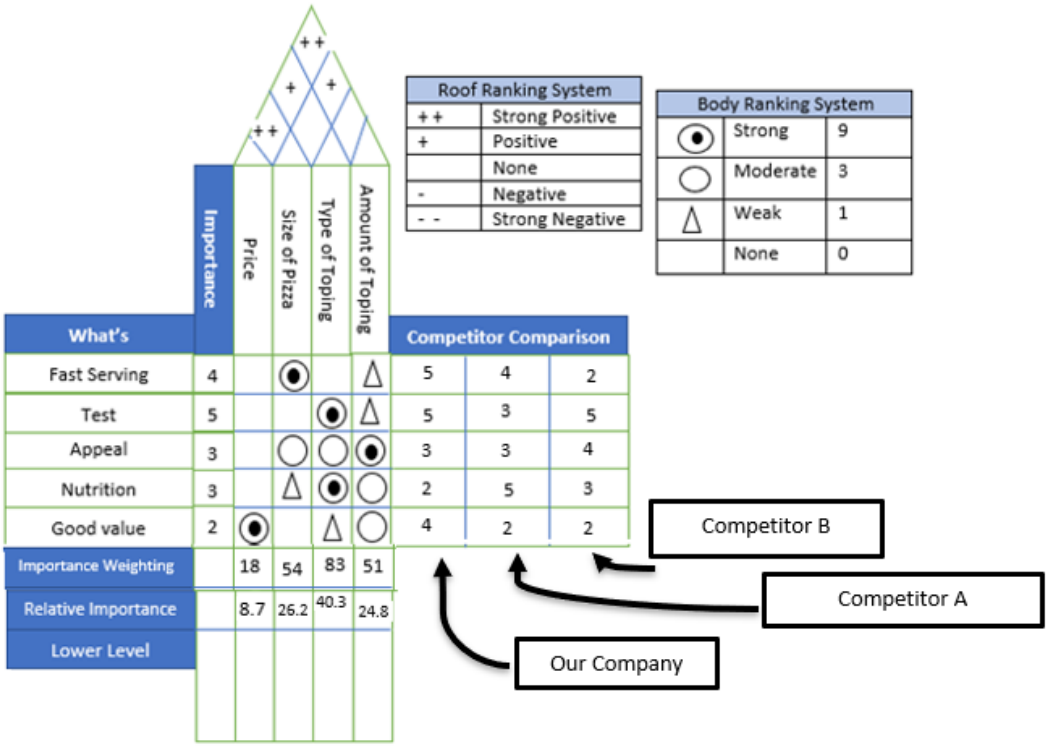


Step 6: competitor comparison, this section visualizes a comparison of the competitor's product in regards to fulfilling the "What's". in many cases 1-5 scale is used 1 representing Highly Dissatisfied to 5 Highly Satisfied. This is obtained from customer survey.



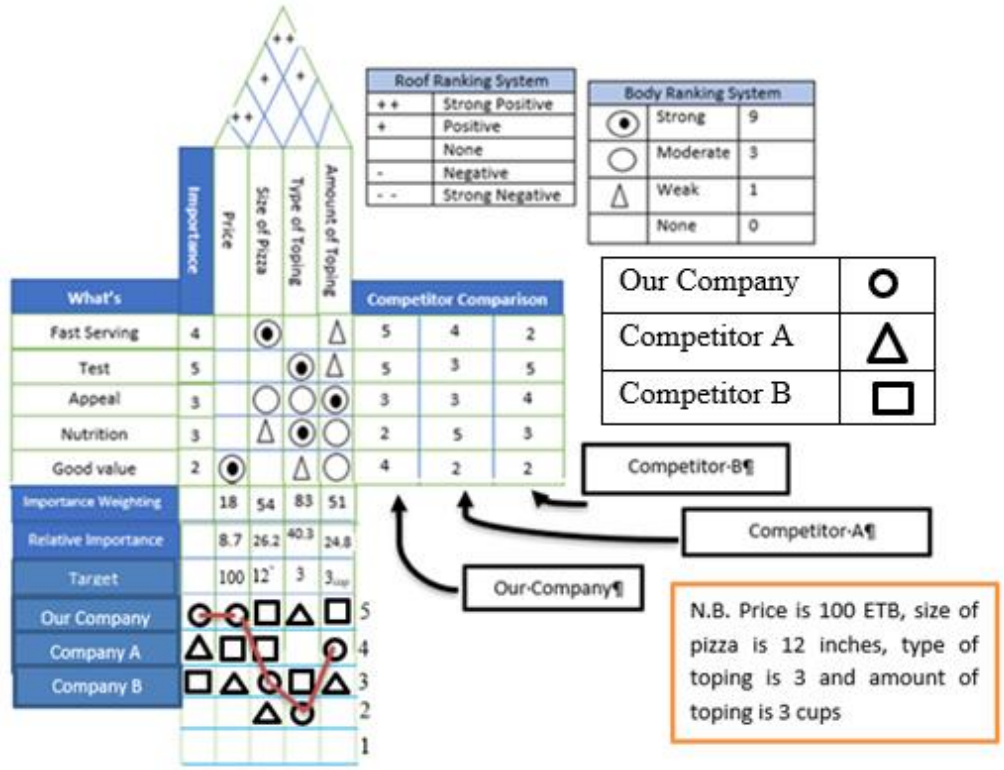
Step 7: Relative importance, this section contains the result of calculating the total of the sums of each column when multiplied by the importance factor. The data is useful for ranking each of the "How's" and determining where to allocate the most resources.

In our example first let's calculate importance weighting by multiplying each of the importance with its correlation and sum it together; with this (4*0)+(5*0)+(3*0)+(3*0)+(2*9)=18. Then Relative importance is calculated by dividing importance of weighting by all technical requirements which is (18/206)*100=8.7 approximately



Step 8: Lower Level/Foundation, lists more specific target values for technical specifications relating to the "How's" used to satisfy VOC.

In the lower section targets should be identified for each of the technical design requirements namely; Price, Size of Pizza, Type of Toping and Amount of Toping. After that each competitors' as well as our company capacity to achieve the target should be determined. The value is from 1-5, 1 being low capacity to achieve and 5 being high capacity to achieve. After assigning a symbol for our company as well as competitors as follows, we can finalize the rest of HOQ by connecting the values for our company. Let's say the companies are represented by;



By using HOQ a company develop a service based on customers requirement or VOC and identifying the correlations with technical requirements or the "How's". The company could also identify the capabilities and in which technical aspects should the company improve compared to its competitors. HOQ is also helpful to understand the competitors capacity and customers satisfaction between self-company and competitors.

Summary

Service providers must effectively match customer expectations to new service innovations and actual service process designs. However, because of the very nature of services—specifically, their intangibility, variability, and cocreation elements—the design and development of service offerings are complex and challenging. Many services are only vaguely defined before their introduction to the marketplace. This chapter outlines some of the challenges involved in innovating and designing services and strategies for effectively overcoming the challenges.

Through adaptations of the new product development process that is commonplace in goods production and manufacturing companies, service providers can not only make their offerings and service solutions more explicit but also avoid failures. The service development process presented in the chapter includes nine stages, beginning with the development of a business

and new service strategy and ending with post introduction evaluation of the new service. Between these initial and ending stages are a number of steps and checkpoints designed to maximize the likelihood of innovation success. Carrying out the stages requires the inclusion of customers, contact employees, business partners, and anyone else who will affect or be affected by the new service.

Service blueprinting, a particularly useful technique for service innovation and design, is described in detail in this chapter. A blueprint can make a complex service concrete through its visual depiction of all the steps, actors, processes, and physical evidence of the service. The key feature of service blueprints is the focus on the customer—the customer's experience is documented first and is kept fully in view as the other features of the blueprint are developed.

Summary Questions

1. Why is it challenging to innovate, design, and develop services?
2. Why is service innovation so critical for firms and countries?
3. What are the risks of attempting to describe services in words alone?
4. Find and discuss your own examples of the different types of service innovations presented in the "Types of Service Innovation".
5. Assume that you are a multiproduct service company that wants to grow through adding new services. Describe a logical process you might use to introduce a new service to the marketplace. What steps in the process might be most difficult and why? How might you incorporate service blueprinting into the process?
6. Think of a new service you would like to develop if you were an entrepreneur. How would you go about it? Describe what you would do and where you would get your information.
7. Find a new and interesting service in your local area or a service offered on your campus. Document the service process via a service blueprint. To do this exercise, you will probably need to interview one of the service employees and experience the service yourself, if possible. After you have documented the existing service, use blueprinting concepts to redesign the service or change it in some way.
8. What is Quality Function Deployment (QFD) and House of Quality (HOQ)?
9. Identify any service provider in your locality and design HOQ for that specific firm in using the step provided above and show all the steps. You need to identify the competitors, identify VOC, level of importance, the controllable.

Reference

Alan Wilson, Valarie A. Zeithaml, Mary Jo Bitner and Dwayne D. Gremler. (2016). **Services Marketing: Integrating Customer focus across the firm**, Third European edition, McGraw-Hill Education, Berkshire

Arash Shahin. (2006). **SERVQUAL and Model of Service Quality Gaps: A Framework for Determining and Prioritizing Critical Factors in Delivering Quality Services**, The ICGAI University Peres

Art Weinstein. (2012). Superior Customer Value: strategies for Winning and Retaining Customers, Third Edition, CRC Press, New York

Bill Dodds. (2003). **Managing Customer Value: Essentials of Product Quality, Customer Service, and Price Decisions**, University Press of America, New York

Bo Edvardsson. (2006). **Involving Customers in New Service Development**, World Scientific, imperial college press

Deba Prasad Rath and Raj Rajesh. (2006). **Analytics and Implications of Services Sector Growth in Indian Economy**, The Journal of Income and Wealth, Volume 28, No.1

Dr. Rupesh Gupta, Dr. Sheifali Gupta and Kuldeep Nagi. (2012). **Analysis & Designing an Engineering Course Using QFD**, International Journal of Modern Engineering Research (IJMER), Vol.2, Issue.3, May-June 2012 pp-896-901, https://www.researchgate.net/publication/269698098

Emma Aspfors. (2010). **Customer perception of service, store image and product assortment – from an interior store perspective**, VAASA UNIVERSITY OF APPLIED SCIENCES

Ian Ruskin-Brown. (2005). **Marketing Your Service Business**, Thorogood Publishing Ltd, London

James Fitzsimmons, Mona J. (ed). (2000). **New Service Development: Creating Memorable Experiences,** Sage publication Inc, Thousand Oaks, California

Jochen Wirtz Christopher Lovelock. (2016). **SERVICES MARKETING: People Technology Strategy**, Eighth edition, World Scientific Publishing Co. Inc, USA

John R. Hauser, Abbie Griffin, Robert L. Klein, Gerald M. Katz, and Steven P. Gaskin. (2010). **QUALITY FUNCTION DEPLOYMENT (QFD)**, https://www.researchgate.net/publication/228014887

Kristin R. Fritsche. (2011). **What is Service Design?:A simplified guide to aid in today's confusion about a new discipline of business**,

Lovelock, Christopher H. and Wirtz, Jochen. (2016). **Services marketing: people, technology, strategy**, Eighth edition, World Scientific Publishing Co. Inc., New Jersey

Maik Seyring Dr. Utz Dornberger. (2009). **Service Blueprinting: HANDBOOK**,

Marc Lankhorst (ed). (2012) **Agile Service Development: Combining Adaptive Methods and Flexible Solutions.** Springer Science & Business Media, Berlin

Maria Johann. (2015). **Services Marketing**, ResearchGate, https://www.researchgate.net/publication/314949424

Maria Johann. (2017). **Services Marketing**, Szkoła Główna Handlowa w Warszawie, https://www.researchgate.net/publication/314949424

Meeting of the OECD Council at Ministerial Level. (2005). **Growth in Services: Fostering Employment, Productivity and Innovation**

Mohammad Toufiqur Rahman, Mohammad Shyfur Rahman Chowdhury & Mohammad Rokibul Kabir. (2013). **Customer Perceptions and Expectations Regarding Service Qualities in Govt. Owned Commercial Banks of Chittagong City-A Study on Janata Bank Limited, Bangladesh**, ResearchGate, https://www.researchgate.net/publication/316582420

Nnamdi O. Madichie. (2012). Consumer Perception, ResearchGate, https://www.researchgate.net/publication/328676646

Ramneek Kapoor, Justin Paul and Biplab Halder. (2011). **Service Marketing: Concepts & Practices**, Tata McGraw-Hill Education, New Delhi

Raymond P. Fisk, Stephen J. Grove, Joby John. (2013). **Services Marketing Interactive Approach**, Fourth Edition, Cengage Learning

SujayVikram Singh. (2017). **Customer Perception and Application of Gap Model in Service Quality of Star-Category hotels in Varanasi**, International Journal of Hospitality and Tourism Research, Vol 5, Issue 1

Tsietsi Mmutle and Last Shonhe. (2017). **Customers' perception of Service Quality and its impact on reputation in the Hospitality Industry**, African Journal of Hospitality, Tourism and Leisure, Volume 6 (3)

Valarie A. Zeithaml, Mary Jo Bitner and Dwayne D. Gremler. (2018). **Services Marketing: Integrating Customer Focus Across the Firm**, seventh edition, McGraw-Hill Education, New York, NY