


# Competing through superior service and customer relationships

# 14



*Thank you for your call . . . (The Four Seasons)  
. . . all our operators are busy at present . . .  
(The Blue Danube) . . . your call is valuable to  
us . . . (Dvořák's New World Symphony) . . .  
please hold while I try to connect you to an  
operator . . . (Vivaldi's Flute Concerti) . . . we  
value your call, please hold . . . (Scott Joplin's  
The Entertainer) . . . your call is next on the list  
and will be answered shortly . . . (John Williams  
plays Cavatina) . . . please hold while I try to  
connect you . . . (The Thorn Birds) . . . thank you  
for your understanding . . . (Chariots of Fire) . . .  
we will answer your call shortly . . . (The Flight  
of the Valkyrie) . . .*

## Introduction

One of the most significant trends in marketing thinking and practice during the last few years has been the shift in focus from achieving single transactions to establishing longer-term relationships with customers (see, for example, Gummesson, 1987; Webster, 1992; Grönroos, 1994; Morgan and Hunt, 1994; Payne; Zielke and Pohl, 1996; Vargo and Lusch, 2004). While transactional marketing is concerned with making a single sale, relationship marketing is more concerned with establishing a rapport with the customer that will result in repeat business and opportunities for further business development.

Many markets in developed countries are now mature, or at best growing only slowly, and there are fewer new customers to compete for. Competition is intense, and the costs of attracting new customers are high. It has been estimated that the costs of attracting new customers can be up to five times as much as the costs of adequately serving existing ones to ensure that they stay with you. As the RSA (1994)

put it: 'The fundamental strategic battle is for the customer: only those companies which have as their goal the winning and retention of customers will succeed.'

Customer retention is becoming a key predictor of profitability. Reichheld and Sasser (1990) showed the value to companies operating in a variety of markets of cutting customer defections (lost customers) by as little as 5 per cent. For an automobile service chain a 5 per cent cut in customer defections resulted in a 30 per cent increase in profits, for an industrial laundry a 47 per cent increase in profits, for an insurance brokerage a 51 per cent increase and for a bank branch a staggering 84 per cent increase. Customers that have been with a company longer tend, on average, to spend more on each transaction, offer more opportunities for cross-selling (selling them other products and services), and give better recommendations to their friends and colleagues. In the bank, customer relationships of ten years or more accounted for 29 per cent of the account base but 71 per cent of the profits. Lancôme, for example, a premium beauty brand, created an exclusive loyalty card called 'Rendez-vous' and found that members now spend 13.5 per cent more than before they were members.

A recent survey of 500 marketing practitioners for *Marketing Business* (Wells, 1994/5) showed the most important driver of success to be customer loyalty. Forty-nine per cent of respondents placed this as the single most important success driver in their business, compared with only 13 per cent for second-placed new product development.

However, in all this it is important that we distinguish between customer retention and customer loyalty, together with the relationship each of these has with customer satisfaction. There is a danger, in practice, that these concepts become confused. Customer retention is essentially a measure of repeat purchase behaviour and there are many reasons why customers may come back even if we have failed to provide them with a high level of satisfaction – they may have no choice or they may not know any better. Customer loyalty, however, is more to do with how customers feel about us: Do they trust us? Do they actively want to do business with us? Will they recommend us to others? Customer loyalty in this sense is more closely related to customer satisfaction.

To confuse retention and loyalty can be dangerous. Retention may be achieved through a 'bribe' – discounts for repeat purchase, and so on. Achieving high customer loyalty is likely to be far more difficult and requires greater long-term investment. The practical difference is great. Elements of the 'customer loyalty' card schemes at House of Fraser's and Sainsbury's are more about customer retention than loyalty and satisfaction, and it is likely that their effects will last only until there is a better offer available. On the other hand, the John Lewis Partnership achieves high customer loyalty through satisfaction building above and beyond such 'loyalty cards'. This is expressed in their strategic statement: 'The Partnership should recruit and retain loyal customers through their continued trust and confidence in our reputation for value, choice, service and honesty and for behaving

as good citizens' ([www.johnlewispartnership.com](http://www.johnlewispartnership.com)). As airlines have discovered, for example, if all competitors offer the same thing, then customer 'loyalty' programmes such as frequent flyer awards become a cost of being in business rather than a differentiator. Many frequent fliers will have loyalty cards with both Star Alliance and One World networks.

To build customer retention for the major financial benefits it brings, let alone longer-term customer loyalty, requires companies to invest in strategies focused on these goals, not just on sales volume. It is suggested that retention is not enough as an absolute concept and that these strategies should also be about correcting any downward migration in customers' spending habit long before they defect. A recent two-year study of attitudes of US households about companies in 16 diverse industries shows that 'improving the management of migration as a whole by focusing not only on defections, but also on smaller changes in customer spending can have as much as ten times more value than preventing defections alone' (Coyles, S. and Gokey, T.C., 2005).

This may involve brand building (of the type practised at Virgin) or specific programmes (such as the retailer 'loyalty' card schemes or product innovation), but increasingly it involves emphasis on achieving excellence in the service activities that augment the basic product offering.

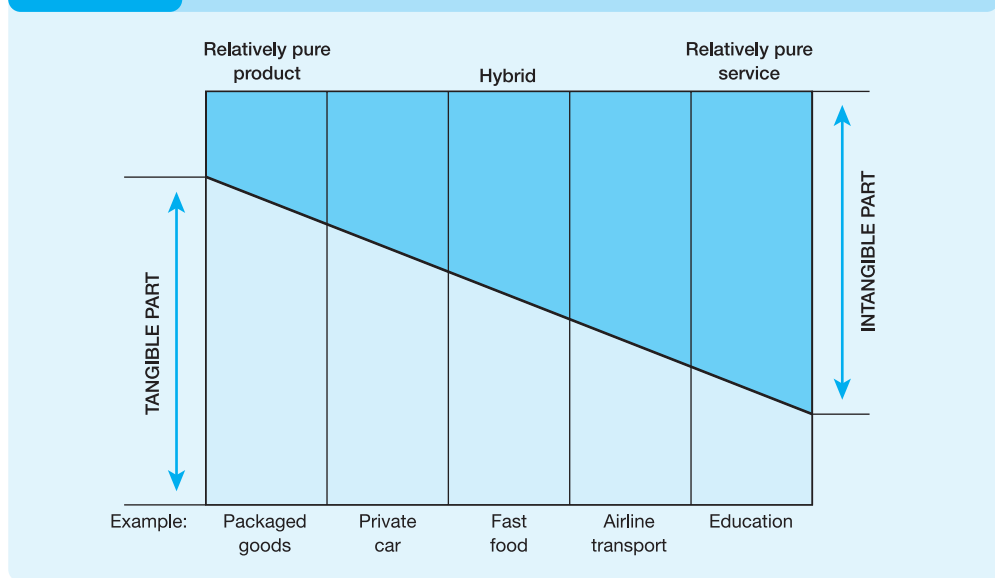
This chapter explores the concept of 'service' and examines methods for competing through providing superior service.

## 14.1 The goods and services spectrum

Most offerings in the marketplace are some combination of tangible and intangible elements. This is shown diagrammatically in Figure 14.1.

Tangible elements can be seen, touched, smelled, heard or tasted. They constitute the physical aspects of the offer, such as the product itself and the surroundings in which it is bought or consumed. The intangible elements are often more elusive. They comprise the level of service offered in support of the tangible and the image or beliefs that surround the product.

At the left-hand end of the spectrum the offer to customers is primarily physical and hence tangible. Examples include packaged goods such as baked beans and batteries, and consumer durables such as stereos and televisions. From the customers' perspective, however, the benefits derived from purchase and consumption may well be less tangible – baked beans defeat hunger, batteries provide portable light, stereos provide entertainment and televisions are the 'opiate of the people'! The distinguishing factor is that these benefits are primarily delivered by the physical features and characteristics of the product. There are also, of course, even less tangible elements to these purchases. Physical products are sold through retail outlets where sales staff may provide advice and demonstrations. Individual brands, through their media advertising and other promotional activities, will have established images and reputations in the minds of customers that may enhance value to them.

**Figure 14.1** The goods–services spectrum


At the right-hand end of the spectrum the relative importance of intangibles and tangibles is reversed. In education, for example, the essence of the ‘offer’ is intangible. It is concerned with the service provided to the student/customer and the way in which the student interacts with teachers, colleagues and course materials. There are some tangible, physical elements involved, such as textbooks, audio-visual aids and the physical surroundings. The essence of education, however, is the intangible process that takes place in the development of skills, knowledge or understanding of the student. Ultimately the success of the educational process is determined by the way the student responds to and interacts with the educational service provided.

Between these two extremes lie offers that combine tangible and intangible elements in more equal proportions. In fast-food outlets, for example, the offer is a combination of the physical food (tangible) together with the ambience of the restaurant and the speed of the service provided (intangible).

As more companies have embraced quality control and assurance techniques in the production of their physical products so the scope for differentiation between one supplier and another on the tangible elements of offer has diminished. Total quality management (TQM) has been increasingly applied to the physical element of products, reducing variability, tightening tolerances and ensuring fewer defects (or even approaching the cherished goal of zero). Increasingly, companies operating at the left-hand end of the spectrum are looking to enhance differentiation through focus on the intangible elements of offer. These include branding the offer and the delivery of service to augment the physical product offer. At the right-hand end of the spectrum companies and other service providers are recognising that the type and quality of the service they offer is their major means of differentiation. The line between tangible and intangible elements is becoming blurred and moving

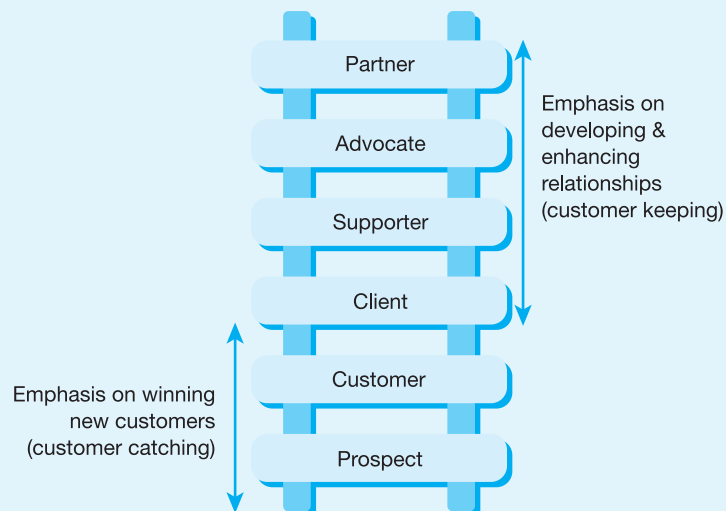
downwards, so that the intangible elements are becoming increasingly important across the whole spectrum.

## 14.2 Relationship marketing

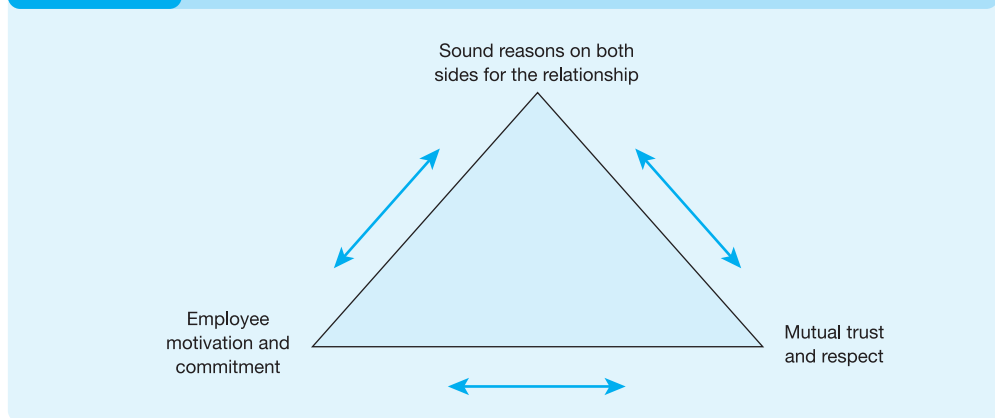
To improve the probability of retaining customers organisations are increasingly turning to the techniques of relationship marketing. The focus of relationship marketing is on building bonds and ties between the organisation and its customers to improve feedback and ultimately enhance the prospects of customer loyalty.

Figure 14.2 shows the 'relationship marketing ladder' developed by Payne *et al.* (1995). The ladder shows graphically a number of identifiable stages in relationship building. At the bottom of the ladder is the prospect, or the target customer. The initial emphasis will be to secure the prospect as a customer. To achieve this, marketing effort is concentrated on customer catching. Once the customer has been caught, however, the emphasis shifts to securing a longer-term, ongoing relationship. While a customer may be essentially nameless and have done business with the company once or only occasionally, a client is more individual and does business on a repeat basis. Clients may, however, be ambivalent or neutral towards the supplier company. Relationship marketing seeks to convert clients into becoming supporters, those who have positive feelings towards the supplier, and even advocates, those who may actively recommend the supplier to others. The top rung of the ladder is partner. At this level the supplier and the customer are working together for mutual benefit. The focus of relationship marketing is moving customers up the ladder, finding ways of enhancing the value both parties get from the relationship.

Figure 14.2 The relationship marketing ladder



Source: Payne, Christopher, Clark and Peck (1995) *Relationship Marketing for Competitive Advantage*.

**Figure 14.3** Cornerstones of relationship marketing


Not all customers will be equally worth the effort needed to move them up the ladder, however. Critical to a successful relationship marketing strategy is the targeting of customers of sufficient value (current or potential) to warrant the investment in creating a relationship with them. IBM, for example, has identified its top 1,000 customers and puts great effort into identifying their current and future needs. The firm has combined its customer relationship management processes with its opportunity management system and ranked these customers according to their estimated lifetime value to IBM. When a high-ranking customer launches a big project with opportunities for IBM to tender it is given highest priority across the organisation (Eisenstat *et al.*, 2001).

For relationship marketing to be effective requires sound reasons on both sides for the relationship (Figure 14.3). In some markets, such as rail travel, customers may not see advantages in becoming ‘partners’ and may prefer to stay at arm’s length from the supplier. One respondent filling in a customer satisfaction questionnaire on a train was overheard to say: ‘I wish I could go back to being just a passenger rather than a customer!’

One recent commentary suggests that there is an element of spuriousness about the relationship offering made by some companies. From the customers’ perspective, the British Airways relationship does not offer more seat room, and the Sainsbury’s relationship does not offer much more than a bribe to come back next time. The only tangible aspect of the customers’ relationship with these companies seems to be becoming the target of large quantities of junk mail selling financial services (Piercy, 1997). These can be the result of poorly designed loyalty programmes based on weak value propositions (see Capizzi and Ferguson, 2005). In fact, a recent survey conducted by IBM of about 1,000 customers of 10 major retailers uncovered that factors relating to overall customer experience were far more relevant to customer satisfaction than price and value (Chu, 2002).

In other markets firms may misjudge the value customers would put on a relationship. In financial services, for example, attempts to create closer relationships with individual clients may have been naive in assuming the client will automatically see a value in having a ‘personal banking manager’. Fundamental to establishing a

relationship is to determine what each party gets, or could get, from that relationship. Too many organisations still look primarily from their own perspective, recognising the value to them of customer retention or loyalty, but not thinking through clearly what the customer will get from the deal.

In contrast, other firms are now coming to realise that the type of relationship customers want with a supplier can in itself be an effective way of segmenting markets around fundamental customer needs. This can lead to focusing relationship-building resources on those customer groups where this is mutually advantageous, and significantly cut the cost and the ill-will created through more scatter-gun approaches. In business markets, for example, Narayandas (2005) suggests four types of customers depending on their location on the loyalty ladder and the sellers' costs of serving them.

- **Commodity buyers** are only interested in obtaining the lowest price and are unlikely to be worthy of education to go up the relationship ladder.
- **Underperformers** should not be allowed to remain in that position as they have low loyalty and are expensive to service.
- **Partners** are expensive to run but high on the ladder and normally rewarding financially. Their management requires ongoing care to prevent them from becoming underperformers.
- **Most valuable customers** (normally accounting for less than 10 per cent of revenues) are as loyal as partners but cheaper to service.

Essential for more advanced relationships such as partnering, or awarding most valuable customer status, is the establishment of mutual trust and respect between the parties (Crosby *et al.*, 1990). This involves being prepared to share sometimes commercially sensitive information.

Recent research in the United States suggests that the challenge to companies in business-to-business markets is no longer simply to sell, but to become the 'out-source of preference' through a collaborative relationship between vendor and customer, where the customer expects the vendor to know the customer's business well enough to create products and services that the customer could not have designed and created, and to give proof in hard evidence that the supplier has added value in excess of price. The excellent suppliers are those which add value to the customer's business by being close enough to measure the customer's needs, develop added services to improve the customer's business performance, and prove to the customer that this has been done. This is a long way removed from simple, transaction-based business (H.R. Chally Group, 1996).

The third cornerstone of relationship marketing stems from employee involvement and commitment to the relationship building and maintaining process. While companies may set strategies in the boardroom for relationship marketing, the success of those strategies ultimately rests with the employees who are charged with putting them into practice. Employees, from front-line sales staff through accounts personnel to car park attendants, need to understand their role in relationship building, be committed to it and be motivated to achieve it. In many situations, as far as the customer is concerned, the employee they meet at the point of sales or service delivery *is* the company and its brand. We shall consider the importance of this relationship in examining the growing importance of internal marketing in Chapter 17.



## 14.2.1 Building relationships with customers

A number of methods have been suggested for building closer links with customers, and hence moving them higher up the relationship marketing ladder. These can be grouped into three main categories: building enhanced benefits of loyalty; creating structural ties; and creating delighted customers.

### *Building enhanced benefits of loyalty*

A basic approach to building relationships is through the development of enhanced benefits of loyalty for customers. These might be financial benefits or social benefits.

Financial benefits give the customer a financial reason to enter into a longer-term relationship and remain loyal to the supplier. These might include discounts for bulk or repeat purchases or other rewards for loyalty. Typical examples include store loyalty cards, where shoppers build credits towards free purchases, or the collection of Air miles through the use of National Westminster Bank credit cards.

Social benefits might include the establishment of regular social groupings such as the Weight Watchers Clubs sponsored by Heinz and used to promote its own brand of low-calorie foods. Other social benefits might include corporate hospitality or social events sponsored by a firm where its clients can meet other clients with a view to developing their mutual business interests. British Airways operates a 'Premier Club' for senior executives and other influential decision-makers. The club is limited to 1,000 members, by invitation only, and offers exclusive VIP treatment in airports and in the air. Members also receive preferential treatment in seat bookings and a service whereby their favourite wine can be provided in flight.

Land Rover also wanted to build loyalty and encourage purchase in the 4 × 4 vehicle market. It wanted to involve customers more in the brand. Market research showed that the Land Rover customers had a desire to drive off-road – but few actually did. Once they had experienced off-road driving, however, they were likely to become advocates of the brand. A loyalty programme was devised around 'adventure' and brochures mailed regularly to Land Rover owners with opportunities to take part in off-road events in the United Kingdom and abroad. The programme was used initially in 44 countries and produced in five different languages, and has enjoyed huge success, with all overseas events sold out soon after publication. Overall 1999 sales increased by about 2 per cent on 1998 levels (RoyalMail.com, November 2001). The programme is still an ongoing success and now takes different forms.

### Land Rover's 'adventures' programme



Getty Images/Car Culture



### *Creating structural ties and bonds*

Through offering enhanced benefits companies may create structural ties with their clients, which then make it difficult, or costly, for their clients to defect (Storbacka *et al.*, 1994). Professional medical equipment supply companies, for example, provide hospital surgeons with the equipment needed to help perform knee and hip implants with their own make of implant. The equipment works poorly with competitors' implants and is hence a major incentive for the surgeons to remain loyal. Sponsorship of the surgeons at symposia and conferences to enable them to stay up to date with medical advances also helps to strengthen their relationship with the supplier and build corporate goodwill.

In some industries the structural ties might be based on legal agreements and commitments, particularly where the use of protected patents is concerned. Ties are also created through the sharing of knowledge and expertise to which the client would otherwise not have access.

When structural ties are strong even dissatisfied clients may stay loyal due to the high switching costs involved (Gronhaug and Gilly, 1991). Clark and Payne (1995) discuss 'strategic bundling', whereby companies build barriers to customer defections through offering groups of interrelated products. Banks, for example, may offer several different types of accounts, together with mortgage and loan facilities. Despite dissatisfaction with one or more of these services the costs to the customer of switching to a competitor may be substantial when all the services are taken into account. The growing significance of collaborative relationships with customers and the formation of networks of collaborative organisations is discussed in more detail in Chapter 16 on strategic alliances and networks.

### *Creating delighted customers*

Perhaps most fundamental as a basis for establishing a lasting relationship with clients, and moving them up the ladder to become supporters, advocates or even partners is to ensure that customers get more from the relationship than they were originally looking for.

Research has shown that merely satisfying customers is rarely enough to give them a reason for staying loyal and becoming advocates rather than merely clients (Jones and Sasser, 1995; Reichheld, 1993). Depending on the level of competition in the market that can directly impact the level of choice available to the customer, and the degree of involvement the customer feels with the product or service, customer retention rates among 'satisfied' customers may vary dramatically. British Airways has found, for example, that its retention rate is exactly the same among satisfied and dissatisfied customers. As noted earlier, customer retention is not the same thing as customer satisfaction and loyalty. Reichheld (1993) reports that 65–85 per cent of customers who defect say they were satisfied with their former supplier. Among dissatisfied customers (with freedom of choice) retention rates rarely exceed 20 per cent, and among the seriously dissatisfied, 'terrorists' or 'well poisoners' can pose a significant threat to the business as they tell others about their poor experiences.

To improve the probability of customer retention it is now necessary to go beyond what is expected and deliver even greater value to customers. Among very satisfied

or delighted customers retention rates are significantly higher, and they are more likely to become 'apostles', or advocates, telling others of their good experiences.

Creating delighted customers demands that a high priority be given to customer service, both in the strategies the organisation designs and the actions it takes in the marketplace.

### 14.3 The three Ss of customer service

There are three critical ingredients to successful service provision. These have been called the 'three Ss of service': strategy, systems and staff.

First, there is a need to have a clear service strategy that is communicated throughout the organisation so that everyone knows their role in providing service to customers and clients. The strategy needs to demonstrate the company's commitment to service and its role in overall corporate strategy. Increasingly companies are using customer satisfaction measures alongside financial and other criteria for measuring overall performance, signalling the higher priority they now give to creating customer satisfaction. Indeed, some of these companies now promote and reward staff on the basis of customer satisfaction ratings achieved.

Not only do firms need to be committed to superior service in their strategies, but they need to put in place the systems to enable their staff to deliver service to their clients (Payne, 1993). This may entail computer systems to share information rapidly and easily throughout the firm, or more mundane but no less critical queuing practices. A hallmark of good service providers in the 1990s has been their ability to embrace and use (rather than be swamped by) new technologies to improve service to customers.

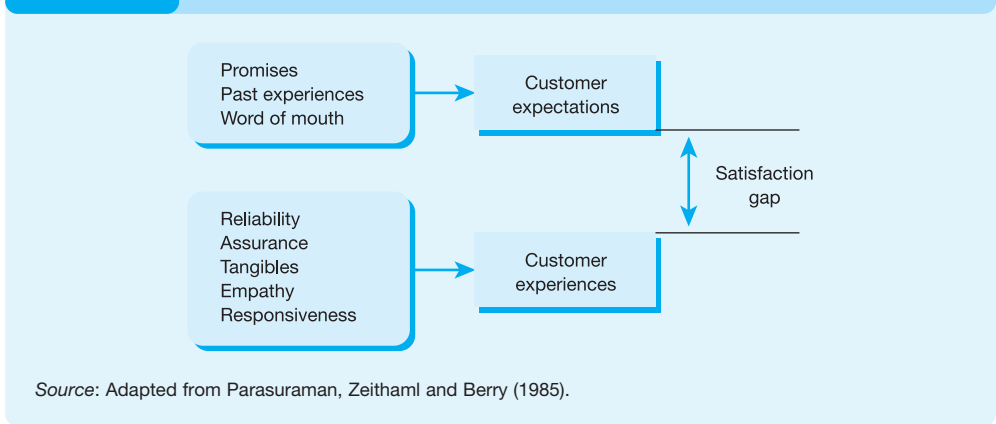
Third, and perhaps most important of all, the staff must recognise the importance of customer service and be committed to providing it. That means recruiting, training and empowering employees to provide the levels of service that will create customer delight and then rewarding them appropriately. Bowen and Lawler (1992) suggest a number of factors in empowering employees to deliver excellent service. Central is the provision of information, both on what customers require and how well the organisation is doing in providing that level of service. Also important is the power to make decisions that will affect the level of service provided.

### 14.4 Providing superior service

There has now been a great deal of research published in the United States (e.g. Berry and Parasuraman, 1991) and in Europe (e.g. Gummesson, 1987; Grönroos, 1994; Payne *et al.*, 1995) looking at the nature of 'service' and what constitutes excellent or superior service in the eyes of customers.

Much of the literature on customer satisfaction measurement (e.g. Berry and Parasuraman, 1991) concludes that customers measure their experiences against a benchmark of the service they expect to receive. The quality of a service provision, and subsequently the level of satisfaction of the customer, is directly related to the difference (or 'gap') between expectations and experiences (see Figure 14.4).

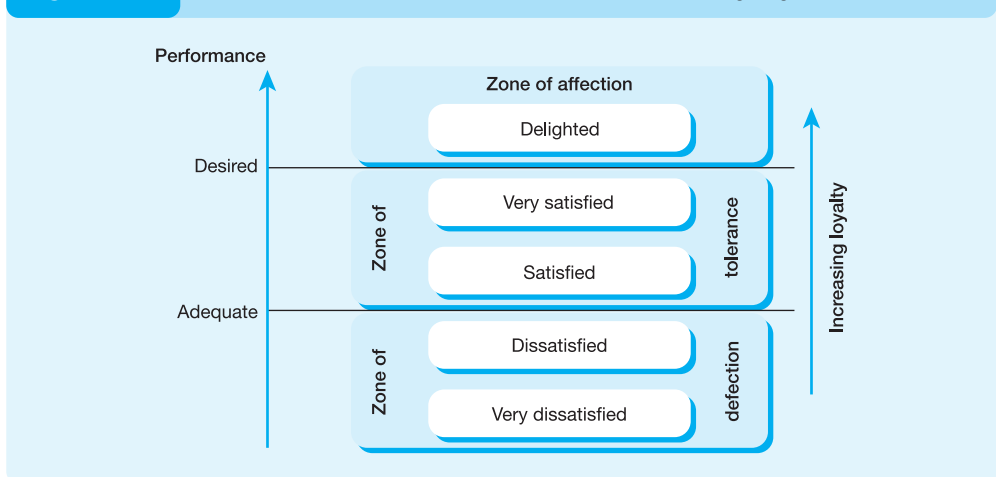
**Figure 14.4** Assessing customer satisfaction



### 14.4.1 Expectations

Berry and Parasuraman (1991) discuss two different ways in which expectations may be used as comparison standards. First are expectations of what customers believe will occur in a service encounter. These they call predictive expectations. Second are what customers want from the service encounter, their desires. These two levels constitute adequate and desired levels of service. Between these two levels Berry and Parasuraman (1991) suggest lies a 'zone of tolerance'. A performance level above the zone of tolerance will pleasantly surprise the customer and strengthen loyalty, while performance below the zone of tolerance will create customer dissatisfaction, frustration and may ultimately lead to decreased customer loyalty (see Figure 14.5). Their research showed that both types of expectations are dynamic – over time expectations generally increase. There was some suggestion, however, that desired levels change more slowly than adequate levels.

**Figure 14.5** Performance, satisfaction and customer loyalty



A number of factors have been found to influence expectations, ranging from the personal needs of the customer, through the alternative services considered, to the specific promises made by service providers in their bid to win business in the first place. Word-of-mouth communications with influencers and the customers' past experiences also affect the service level expectations.

Prior experiences of the service provider, or of similar providers, are often the starting point in creating expectations. When customers step into a restaurant they are often judging the experience based on other restaurants they have visited. They typically make verbal comparisons: 'It was more relaxed than . . .' 'The food was better than at . . .' In addition to their own prior experiences expectations are also often affected by the opinions of friends, relatives or colleagues, who have related their own experiences. Depending on the standing of these opinion makers in the customer's esteem they can have a significant influence on what is expected, and even deter trial of a particular service.

A third major determinant of expectations are the promises the company itself makes prior to customers using it. These promises, by way of advertising messages, sales pitches and general image created through pricing strategies and so on, set standards that the company is expected to live up to. Pitching them can be difficult. Promising too little may result in failing to attract the customers in the first place (they may be seduced by more attractive competitor promises); promising more than can be delivered may result in dissatisfied customers. The smarter companies manage their customers' expectations at each of the steps of the service encounter so that they expect what the firm can actually deliver (Coye, R.W., 2004)

### *Managing and exceeding customer expectations*

From Figure 14.5 it can be seen that, in order to create delighted customers, organisations need to exceed customer expectations. There are two main ways to achieve this: provide an excellent service or manage customer expectations downwards so that they *can* be exceeded. They are not, of course, mutually exclusive but should be used together. Berry and Parasuraman (1991) offer a number of suggestions for managing customer expectations.

- **Ensure promises reflect reality:** Explicit and implicit promises are directly within the control of the organisation yet many promise what they can never deliver in the desire to win business. Promises should be checked beforehand with the personnel responsible for delivering them to ensure they are achievable and attention paid to methods that might be employed to demonstrate to customers that promises have been kept (or exceeded).
- **Place a premium on reliability:** Below we discuss the main elements of service evaluation. A key aspect of most services is reliability: doing what you say you will do when you say you will do it. Where services are reliably performed they may fall down on other criteria (e.g. the manner of their performance), but overall evaluation is likely to be acceptable. Where services are reliably performed they also reduce the need for rework, or redoing the service, a highly visible indicator of poorly performed service. During rework customer expectations are likely to be raised and the chances of successful completion diminished.

- **Communicate with customers:** Keeping in touch with customers to understand their expectations and explain the limits of service possibilities can be a powerful way of managing their expectations. Communication can encourage tolerance, demonstrate concern for the customer and may serve to widen the tolerance zone. Phoning ahead to warn a customer of being late for an appointment is a simple example of communication being used to reduce the probability of customer frustration (though not a guarantee it will be eliminated altogether!).

### 16.4.2 Evaluations

Against expectations customers evaluate the performance of a service provider. Again, there are a number of factors that customers typically take into account when evaluating the service they have received. The most enduring classification is the five-dimensional model proposed by Parasuraman *et al.* (1988) and easily remembered by the acronym RATER: Reliability, Assurance, Tangibles, Empathy and Responsiveness.

- **Reliability** is the ability of the provider to perform the promised service dependably and accurately. In other words it is conformance to specification – doing what you said you would do when you said you would do it. In many service situations reliability has been shown to be the single most important aspect to many customers. Besides contributing to customer satisfaction or delight reliable service reduces the costs of redoing the service and can contribute to employee morale and enthusiasm (Berry and Parasuraman, 1991).
- **Assurance** stems from the knowledge and courtesy of employees and their facility to convey trust and confidence in their technical abilities. Customers want to be assured that the chef in the restaurant can cook without endangering their life, that the garage mechanic can fix the car, and that their accountant will not have them convicted for tax evasion. Assurance stems from professional competence. It is not enough, however, merely to have a high level of competence. It must also be demonstrated to the customers, often through the use of tangible cues.
- **Tangibles** are the appearance of physical features: equipment, personnel, reports, communications materials, and so on. Chartered accountants, for example, are critically aware of the impression their physical appearance creates with their clients. Care and attention is exercised when choosing company cars for partners and managers. Too expensive or luxurious a car might signal to clients that they are paying too high a fee for the services they are getting, while too cheap a car might signal that the firm is not particularly successful. Tangibles can be used in this way as indicators of professional competence.
- **Empathy** is the provision of caring, individualised attention to customers. It is the quality good doctors have of being able to convince patients that they really care about their welfare beyond addressing the current ailment. Empathy implies treating customers as individual clients and being concerned with their longer-term interests.
- **Responsiveness** is the ability of the organisation to react positively and in time to customer requests and requirements. Some businesses, such as Richardson

Sheffield Ltd which makes kitchen knives under the Laser brand, have built their positions on being more responsive to the customer than their competitors. The company claims to respond to written enquiries within the day, faxed enquiries within minutes, and telephone enquiries instantly. They can also provide samples of products the next working day, even to new specifications. In some markets instantaneous, or near-instantaneous, responsiveness is critical. In Japan, for example, a key factor for success in the elevator business is the speed with which faults are fixed as the Japanese hate to get stuck in a faulty lift! Responsiveness typically requires flexibility. Customer requests can often be off-beat, unexpected. The highly responsive organisation will need to predict where possible, but build into its systems and operations capacity to respond to the unpredictable.

These five main dimensions of service quality have been found in many different service situations, from banking to restaurants, construction to professional services (Parasuraman *et al.*, 1988). The relative importance of each might vary, and the way in which each is manifest in any situation will be different, but time and again these factors have been shown to be relevant to customers in their evaluation of the services they receive.

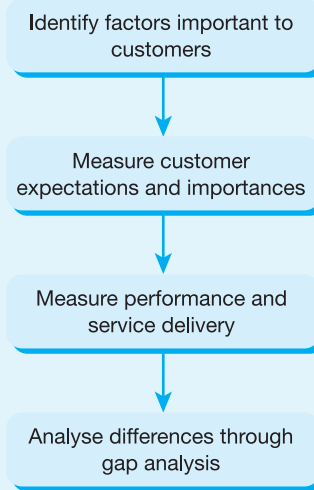
## 14.5 Measuring and monitoring customer satisfaction

A start to measuring customer satisfaction can be made through complaint and suggestion systems. These catch those highly dissatisfied customers who bother to complain. The problem, of course, is that it may be too late to retrieve the situation, though swift attention to customer problems has actually been shown to help bond closer relationships – what Berry and Parasuraman (1991) refer to as ‘doing the service *very* right the second time’ (see also Hart *et al.*, 1990).

For every dissatisfied customer who complains, however, it is estimated that around 12 others will be equally dissatisfied but not bother to complain. They will simply take their business elsewhere and may even tell others about their bad experiences (the ‘well poisoners’). There is, therefore, a need for a more systematic assessment of customer satisfaction rather than sitting back and waiting for problems to emerge.

A more systematic approach is the use of regular customer satisfaction surveys, as now used by many service providers from railway companies to the leading international accounting firms. A four-step approach is typically adopted (Figure 14.6).

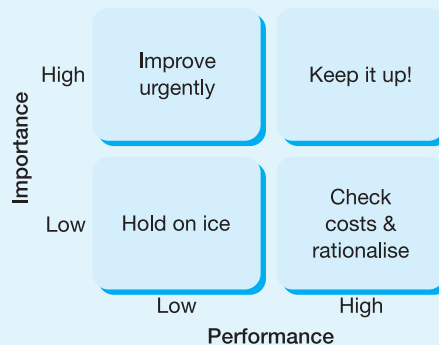
- 1 Identify the factors that are important to customers. These are not necessarily the same as the factors that managers think are important. Qualitative research techniques such as group discussions and depth interviews can be useful here. Depth interviews with the clients of a large accountancy firm showed that partners demonstrating that they really cared about the development of the client’s business (showing empathy) was critical to building a long-term relationship.
- 2 Assess the relative importance of the factors identified and measure customer expectations on those factors. While some clients may expect their problems to

**Figure 14.6** Monitoring customer satisfaction levels

be dealt with immediately, others may have more relaxed expectations. While for some reliability may be paramount, for others cost could be more critical.

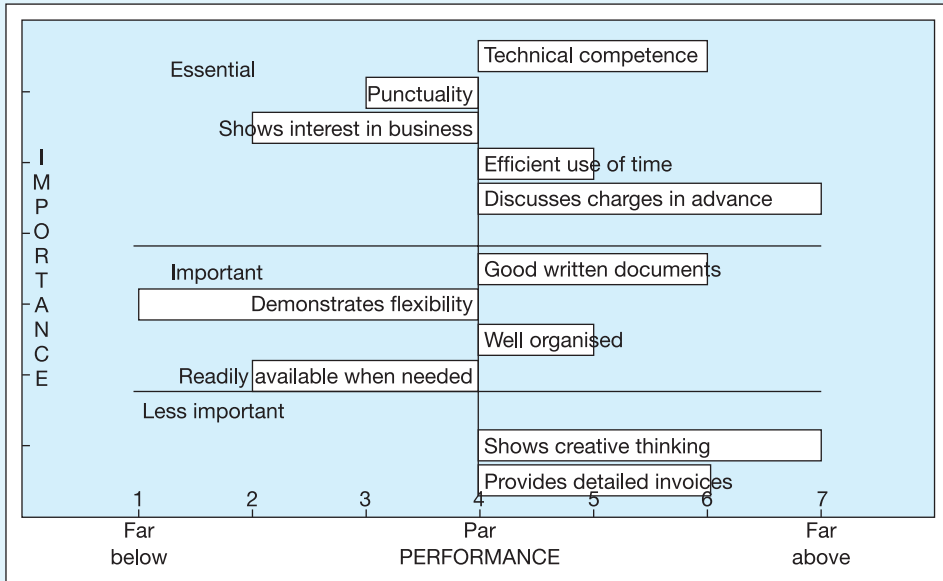
- 3 Assess performance of the service provider on the factors important to the clients. Here it can be useful to assess performance relative to expectations directly (Parasuraman *et al.*, 1994). Did performance live up to, fall short of, or exceed expectations? At this stage a useful summary can be made of the factors under consideration in a performance–importance matrix (Figure 14.7). Here the factors are plotted in terms of their importance to customers and the performance of the firm on them.

A typical example is shown in Figure 14.8 for a firm of chartered accountants (disguised data). The evaluations were made by a client, a finance director of a

**Figure 14.7** Performance–importance matrix



**Figure 14.8** Performance summary (chartered accountant)



large national company. The factors were identified through depth interviews and the evaluations of performance made against ‘what would be expected of a leading firm of accountants’. The matrix can be used to focus attention on those aspects of the service of particular importance (‘essential’) to the client but where performance is judged to be below par.

In the example five elements of service were identified as being ‘essential’ to this client. On three of the factors performance exceeded expectations, while on two it fell below. Technical competence (‘assurance’ of technical ability to perform the audits), efficient use of the client’s time (‘reliability’ in taking the time originally specified) and discussing charges in advance (and ‘reliably’ keeping to them) all constitute differentiators for this firm with their client. Where they fall down, however, are in showing an interest in the client’s business (a lack of ‘empathy’) and some problems in the punctuality of staff or reports (‘unreliable’ delivery). Clearly these factors need to be addressed as a priority.

At the next level of importance the firm is poor at demonstrating flexibility (‘responsiveness’ to client requirements, especially when they change) and in being readily available to help when needed (again, a lack of ‘responsiveness’ to the client). On the other hand, they are well organised and have a good standard of written documents (‘tangibles’). Again, areas for action are suggested.

Finally, the chart also shows that the firm excels in areas less important to the client. They rate highly on showing creative thinking and in providing detailed invoices. It may be that providing these less important aspects of service is distracting attention from getting the basics right on the more important factors, and hence might be candidates for rationalisation. As a warning, however, we

should note that sometimes factors are not important to customers until they start to go wrong. If the detailed invoices were not provided, for example, it could be that they start to become 'essential'!

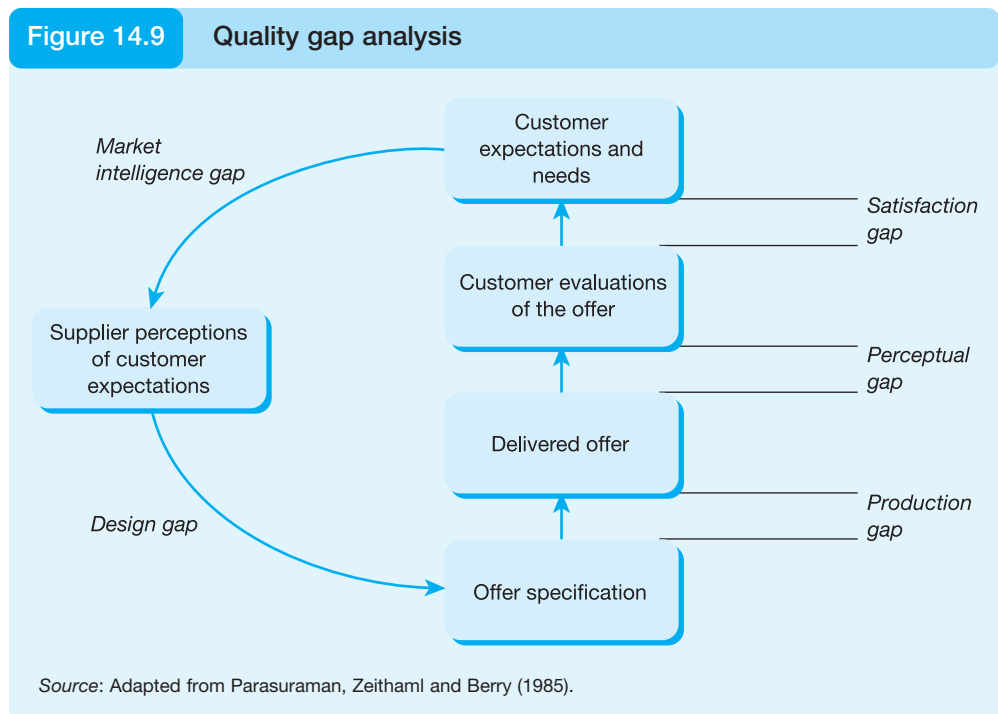
- 4 Analyse the differences between expectations and performance through gap analysis. For important factors, where there is a significant gap, there is a need to identify the reasons behind it and identify suitable remedial action.

### 14.5.1 Gap analysis

Figure 14.9 shows the ways in which a satisfaction gap could have arisen. By working systematically through the framework the root causes of dissatisfaction can be identified and dealt with.

A starting point is to determine whether the provider really understood the expectations and needs of the client in the first place. The market intelligence gap is the difference between customer expectations and supplier understanding, or perception, of those expectations. This could be brought about through inadequate research of customer wants and needs, or through arrogance on the part of the supplier in assuming knowledge of the customer. It could also be brought about through poor internal communications such that customer requirements are not passed on from the marketing researchers through to those responsible for designing the service that will be provided.

Where customer expectations are understood, they may still not be adequately catered to in the service specification. The design gap is the difference between what the supplier believes the customers expect and the service specification. This



could typically be caused by resource constraints, where a service provider is too stretched to provide the service he or she knows the customer expects. Rather than increase the resource, or admit that the expected service cannot be provided, the service provider attempts to get as close as possible to customer expectations.

Even where the service specification is closely aligned to customer expectations there is a possibility that the actual service delivered falls short. The production gap is the difference between the service specification and the service that is actually delivered to the customer. There are a number of reasons why there may be a gap here. First, the service design might be so complex as to make accurate delivery unlikely. Service promises may be unrealistic given the resources put into them. Response times planned for telephone enquiries, for example, may be unrealistic given the number of staff available to answer the phone or the number of lines available to take the calls. Second, staff may not have the skills or the systems back-up to deliver the service as specified. Poor employee training, poor technology provision or even inadequate internal communications can result in frustrated employees unable to deliver the service as specified to the customer. Third, a major problem in service provision is the very heterogeneity of services. The quality of service can vary from employee to employee, and from time to time for the same employee. Quality control systems are more difficult to implement in services than in manufacturing; they can be no less important, however.

The final gap that can lead to a satisfaction gap is the perceptual gap. Here it may be that the service has been delivered to specification and that the specification was in tune with customer expectations, but that the client, for one reason or another, does not believe the service has been delivered as expected. This could be brought about through poor use of tangible cues, lack of reinforcement of delivery, poor delivery manner or through the intercession of external influencers. In many ways a perceptual gap is the easiest to rectify. It requires the service provider to demonstrate to the client that the service really has been delivered to original expectations.

## Summary

This chapter has examined the recent recognition by many companies that successful positioning is increasingly about creating ongoing relationships with selected target customers rather than relying on more sporadic transactions. Relationship marketing seeks to build longer-term relationships with selected customers, moving them up the relationship marketing ladder from customers to clients to supporters to advocates and ultimately, where applicable, to partners. A major factor in creating longer-term relationships is the provision of superior service, beyond original customer expectations.

Customer satisfaction monitoring is suggested as a means of assessing the quality of the service offered. Where there is a gap between expectations and customer evaluations of the service provided, a systematic gap analysis can be used to identify and eliminate the causes.

## Pret a Manger

**FT**

## Case Study

Getty Images News



Julian Metcalfe asks how often I ‘go to eat in the fast food industry’. He makes it sound like a slightly seedy activity, which is odd coming from the co-founder of Pret a Manger, which, for all its classy, freshly prepared sandwiches, is indisputably a fast food chain – one, moreover, part-owned by McDonald’s.

I eat fast food almost every day, I tell him – lunch for me usually being a sandwich at my desk. He probes a little further. ‘But would you go to the very inexpensive Mexican places or Burger King? No.’ It is time to get the awkwardness over. I think Pret is very good and its staff are unfailingly friendly but the nearest branch is a fair walk from the office. So, I tell him, I buy my lunch from Eat, Pret’s fierce rival, which is just next to the FT.

Metcalfe looks downcast. ‘Right. The fundamental difference between Eat and us is that their food is made in a big depot, a factory, and then it’s shipped around the country. It’s quite an efficient system, I should think.’ Efficient? ‘Quite efficient, yeah. I’m sure accountants would like it.’

Pret’s food is all made on the premises, each branch putting together its own sandwiches, sushi boxes and salads. I concede that Pret probably has the edge over Eat – although I doubt I would be able to tell the difference in a blind tasting. Metcalfe sharply assures me that I would. His management team have no problem picking out their own food in blind tastings. So they bring in their competitor’s food to compare? ‘All the time. If we don’t win hands-down, we’ll freak out.

We’d have people practically commit hara-kiri.’ The last time they did a blind tasting, he says, ‘our brownie won five stars. Eat’s brownie got no star.’

We are talking in a windowless room at Pret’s head office at the side of Victoria Station, just near where Metcalfe and Sinclair Beecham, a fellow chartered surveyor, launched their first branch of Pret 21 years ago – spurred on by their frustration at not being able to buy a decent sandwich in London. It took them five years to get the formula right. Today there are 163 Pret branches in the UK and 11 in New York. Pret also has 11 restaurants in Hong Kong and one in Singapore. The business generated total sales of £193m last year. Beecham remains a non-executive director and he and Metcalfe jointly own the majority of shares in the company. But Beecham, who has gone into the hotel business, is no longer involved in day-to-day management, whereas Metcalfe is there every day, as creative director.

Creative director sounds like an advertising agency job rather than a food industry one. In fact, the 47-year-old Metcalfe, with his dark suit, white open-necked shirt and fashionably boxy glasses, could pass for an ad man. What does Pret’s creative director actually do? ‘The creative director title was given to me, or I took it on, about four or five years ago. I believe that creativity plays a huge role in what we do at Pret – creativity with regard to the food, the packaging, the design of the stores, the way people are hired and motivated and trained.’ He is also there, he says, ‘to stand back and try and help the CEO and other directors’.

On cue, the door opens and Clive Schlee, Pret’s chief executive, peers in. ‘Are you in full flow?’ he asks. ‘Come in, join us,’ Metcalfe says. We are talking about how Metcalfe interacts with you, I tell Schlee, who is wearing the same dark suit-white shirt combination as his creative director.

What appears to excite Metcalfe most, though, is the nitty-gritty of food making. ‘I like the detail of Pret,’ he says. ‘You have to enjoy redoing the carrot cake 50 times.’ Once a year, Pret head

office closes for three or four days and everyone heads off to work in one of the restaurants. Metcalfe's last stint was in London's Fleet Street. 'I was in my jeans, in my cap, in my white shirt, getting to grips with the difficulty of putting a warm chocolate croissant on the tray. Anyone can put a bad chocolate croissant from the oven on to a tray, but our chocolate croissants, we bake them in the shop, they are warm, and I can assure you they're kept warm. The only way you really get to grips with that is by doing it yourself, reminding yourself how difficult it is to bake a croissant perfectly, how easy the instructions are, how easy it is to open the box.'

If customers are unhappy, Metcalfe says, he hears about it. 'We have a customer service department, and if you were to ring up today saying I've just bought an avocado wrap and there's too much salt and I'm very angry and I want to speak to Julian Metcalfe, I guarantee you'll be put through to me without a quibble. You try and do that now to British Airways on a £4,000 ticket. Go on. Say there was some chewing gum on my seat and I want to speak to the managing director of British Airways. You'll never get through.'

Metcalfe says Pret does no customer service training. So how does he persuade his staff to be so friendly? Potential recruits are assessed for the quality of their English, their warmth, their right to work in the UK and what Metcalfe calls their 'Pretability'. Those who get past those barriers do a day's paid work in a Pret branch, after which the staff are asked what they think of them. If the staff like them, they will get a job offer. (Schlee proudly tells me that his nephew tried out for a job, incognito, and the staff turned him down.)

There is not much to the Pret corporate structure apart from customer service and recruitment. There is no marketing department. Pret does no advertising. It also has no public relations department to prepare Metcalfe for interviews, which is why he is fretting about a book he was supposed to mention to me. What book? 'The Pret book,' Metcalfe says. What Pret book? 'The recipe book.' Fortunately, I have seen the book of Pret recipes on display in the restaurant I popped into that morning for research purposes.

The publisher, Murdoch Books, had told him he would be speaking to a journalist about the book. Metcalfe thought that was me. And it wasn't, I tell him. 'No, but I don't mind,' he says. 'I mean, after my gaffe the other day.' The 'gaffe' was telling a journalist that Pret was considering a stock exchange listing. It all happened by accident, Metcalfe explains. The journalist, who was there to talk about the book, said how good it would be to be able to buy shares in Pret and Metcalfe recalls saying: 'Oh, one day, maybe.' After which, all the papers excitedly reported that Pret was considering a listing and speculated on how much money Metcalfe might make out of it. He is philosophical about the fuss he caused. 'Suddenly, this thing: Pret floats. It doesn't really matter.'

But it might matter. He seems to be considering it. 'It's being considered. It may take some time. I don't know.' The company will talk about it next month and then in July. Why do it? Well, Pret might want to expand more quickly, he says. 'In our three-year plan, we're talking about going into Boston in 2009 or 2010. There's no doubt we could have three or four stores built in Boston and they would work, but this takes money.' Also, he is not averse to realising some of his 21-year investment. 'I don't want to die with all my shares wrapped up in Pret.'

Wouldn't a listing change the way Pret operated? Wouldn't investors think it more efficient and profitable to make food centrally rather than in each restaurant? 'As long as we go on pleasing our customers, the financial industry is not silly. They're very smart. All we need are customers who care about what they eat and if we look after our customers, we'll be fine,' Metcalfe says.

The last time people speculated about Pret floating, in 2001, it sold a one-third stake to McDonald's for £50m instead. 'We got them in to learn how on earth you build an infrastructure which works internationally. At the time we did the deal with McDonald's, we'd just opened a shop in New York but we were pretty scared. It's all very well two young entrepreneurs thinking they can make a difference to food in New York but, let's face it, Sinclair and I knew perfectly well it was going to be hard. McDonald's at that stage

had 30,000 places, I think, worldwide, so they had an infrastructure. In Asia, they really helped us legally: property, law, building, everything. We couldn't have done it without them.'

How did he feel when people accused Pret of selling its soul? 'From a PR point of view, it probably wasn't the smartest move but we knew we were in charge of our recipes. We knew we were in charge of the destiny of the food and our staff.'

Pret is not Metcalfe's only business. Together with Schlee, he owns Itsu, a small chain of Japanese restaurants, run along similar lines to Pret. When the FT asked Metcalfe about Itsu last September, he refused to talk about it, saying: 'The higher the monkey climbs the tree, the more you see of its arse.'

But Itsu soon got more publicity than Metcalfe ever wanted, and it happened in the cruellest way. When Alexander Litvinenko, the former Russian spy, was poisoned last November, police initially thought – incorrectly, as it turned out – that he had swallowed his fatal dose of polonium-210 at Itsu in London's Piccadilly. 'We were rung up by the police in the middle of the night and told to be there,' Metcalfe says. 'It was horrible for the staff because they had to endure a week of not knowing whether they were ill or not. As it turned out . . . they were given the all-clear.'

Metcalfe is disappointed that I have never eaten at Itsu and Schlee is deputed to take me there for lunch. We walk through Pret's vast open-plan office, where the windows overlook the Victoria Station platforms and where staff work under large banners decorated with the Pret logo and improving exhortations from the likes of Abraham Lincoln, Martin Luther King and Andy Warhol. (Andy Warhol? Yes, he apparently said: 'They always say that time changes things, but you actually have to change them yourself.')

As Schlee and I stroll past Buckingham Palace and through Green Park, he says what I had already been thinking: how un-English the old Harrovian Metcalfe seems. Schlee is talking about Metcalfe's directness. I was thinking about the unembarrassed way Metcalfe says things such as, 'It's about being inclusive and about hope,' or, 'I think as human beings we need to be able to know we're making a difference.'

Itsu Piccadilly is heaving with customers. Schlee takes me and my sushi box to a quieter table downstairs. The food is excellent. As we re-emerge on to Piccadilly, Schlee informs me that we had just sat at Litvinenko's table. I suppress my momentary queasiness by telling myself the place would not be open if the authorities hadn't declared it safe, that the staff who were there six months ago hadn't been affected, and that Schlee would hardly have sat at the same table if he thought there was the slightest danger. No, I persuade myself, this was just Metcalfe and Schlee wanting to show off their food and not some devilish punishment devised for people who eat at Eat.

*Source: Michael Skapinker, 'Thinking outside the sandwich box', The Financial Times, 19 May 2007.*

## Discussion questions

- 1 How can 'customer service' be a differentiator in the service industry?
- 2 How does Pret use the three Ss of customer service to improve customer satisfaction? What else could they do?
- 3 If the company does expand more quickly, how can the managers ensure they maintain customer service? Should they reconsider having a marketing department?