

Chapter 13

In This Chapter, We Will Address the Following **Questions**

1. How do we define and classify services, and how do they differ from goods?
2. What are the new services realities?
3. How can we achieve excellence in services marketing?
4. How can we improve service quality?
5. How can goods marketers improve customer-support services?

The unconventional Cirque du Soleil organization creates memorable experiences for its audiences through its creative redefinition of the circus concept.



Designing and Managing Services

As product companies find it harder and harder to differentiate their physical products, they turn to service differentiation. Many in fact find significant profitability in delivering superior service, whether that means on-time delivery, better and faster answering of inquiries, or quicker resolution of complaints. Top service providers know these advantages well and also how to create memorable customer experiences.¹



In its 25-year history, Cirque du Soleil (French for “circus of the sun”) has continually broken loose from circus convention. It takes traditional ingredients such as trapeze artists, clowns, muscle men, and contortionists and places them in a nontraditional setting with lavish costumes, new age music, and spectacular stage designs. And it eliminates other commonly observed circus elements—there are no animals. Each production is loosely tied together with a theme such as “a tribute to the nomadic soul” (Varekai) or “a phantasmagoria of urban life” (Saltimbanco). The group has grown from its Quebec street-performance roots to become a half-billion-dollar global enterprise, with 3,000 employees on four continents entertaining audiences of millions annually.

Part of its success comes from a company culture that encourages artistic creativity and innovation and carefully safeguards the brand. One new production is created each year—always in-house—and is unique: There are no duplicate touring companies. In addition to Cirque’s mix of media and local promotion, an extensive interactive e-mail program to its million-plus-member Cirque Club creates an online community of fans—20 percent to 30 percent of all ticket sales come from club members. Generating \$800 million in revenue annually, the Cirque du Soleil brand has expanded to encompass a record label, a retail operation, and resident productions in Las Vegas (five in all), Orlando, Tokyo, and other cities.²

Because it is critical to understand the special nature of services and what that means to marketers, in this chapter we systematically analyze services and how to market them most effectively.

The Nature of Services

The Bureau of Labor Statistics reports that the service-producing sector will continue to be the dominant employment generator in the economy, adding about 14.6 million jobs through 2018, or 96 percent of the expected increase in total employment. By 2018, the goods-producing sector is expected to account for 12.9 percent of total jobs, down from 17.3 percent in 1998 and 14.2 percent in 2008. Manufacturing lost 4.1 million jobs from 1998 through 2008 and is expected to lose another 1.2 million jobs between 2008 and 2018.³ These numbers and others have led to a growing interest in the special problems of marketing services.⁴

Service Industries Are Everywhere

The *government sector*, with its courts, employment services, hospitals, loan agencies, military services, police and fire departments, postal service, regulatory agencies, and schools, is in the service business. The *private nonprofit sector*—museums, charities, churches, colleges, foundations, and hospitals—is in the service business. A good part of the *business sector*, with its airlines, banks, hotels, insurance companies, law firms, management consulting firms, medical practices, motion picture companies, plumbing repair companies, and real estate firms, is in the service business. Many workers in the *manufacturing sector*, such as computer operators, accountants, and legal staff, are really service providers. In fact, they make up a “service factory” providing services to the “goods factory.” And those in the *retail sector*, such as cashiers, clerks, salespeople, and customer service representatives, are also providing a service.

A **service** is any act or performance one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product. Increasingly, manufacturers, distributors, and retailers are providing value-added services, or simply excellent customer service, to differentiate themselves. Many pure service firms are now using the Internet to reach customers; some are purely online. Monster.com’s Webby-award-winning site offers online career advice and employment recruiting. Done right, improvements or innovations in customer service can have a big payoff, as Zipcar found.



Zipcar Car sharing started in Europe as a means to extend public transportation. In the United States the appeal of Zipcar, the market leader and pioneer, is both environmental and economic. With a \$50 membership fee and rates that total less than \$100 a day—which includes gas, insurance, and parking—a typical family could save \$3,000 to \$4,000 a year by substituting Zipcar use for car ownership. Zipcar’s fleet includes all types of popular models—BMWs, Volvos, pickup trucks, and even MINI Coopers and the Toyota Prius hybrid—and the firm estimates that every car it adds keeps up to 20 private cars off the road. Consumers—and an increasing number of universities and businesses—book online and use a sophisticated reservation system to reserve a specific car in their neighborhood. There are a number of rules for car care (such as no smoking) and logistics (such as calling to extend a reservation if running late). As CEO Scott Griffith states, “Our business model depends on the kindness of others.” To help increase awareness, Zipcar slaps its logo on the side of all but the high-end luxury models. Unusual marketing stunts such as a contest to guess how many Swedish meatballs had been stuffed into a MINI Cooper parked in an IKEA parking lot also help to spread the word. Targeting major cities and college towns, the company is growing about 30 percent a year.⁵

Zipcar offers its fast-growing customer base a practical, environmentally friendly alternative to car ownership.

cars by the hour. by the day.
by the surprise client meeting. **zipcar.**
wheels when you want them.

join at zipcar.com with promo code mbtaorange2010 for \$50 in FREE driving.

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Categories of Service Mix

The service component can be a minor or a major part of the total offering. We distinguish five categories of offerings:

1. **Pure tangible good**—a tangible good such as soap, toothpaste, or salt with no accompanying services.
2. **Tangible good with accompanying services**—a tangible good, like a car, computer, or cell phone, accompanied by one or more services. Typically, the more technologically advanced the product, the greater the need for high-quality supporting services.
3. **Hybrid**—an offering, like a restaurant meal, of equal parts goods and services. People patronize restaurants for both the food and its preparation.

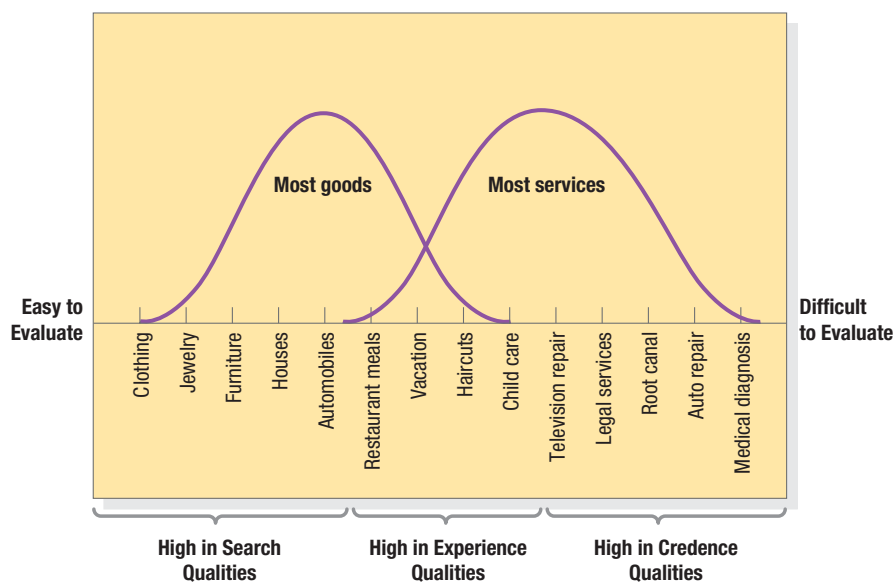
4. **Major service with accompanying minor goods and services**—a major service, like air travel, with additional services or supporting goods such as snacks and drinks. This offering requires a capital-intensive good—an airplane—for its realization, but the primary item is a service.
5. **Pure service**—primarily an intangible service, such as babysitting, psychotherapy, or massage.

The range of service offerings makes it difficult to generalize without a few further distinctions.

- Services vary as to whether they are *equipment based* (automated car washes, vending machines) or *people based* (window washing, accounting services). People-based services vary by whether unskilled, skilled, or professional workers provide them.
- Service companies can choose among different *processes* to deliver their service. Restaurants offer cafeteria-style, fast-food, buffet, and candlelight service formats.
- Some services need the *client's presence*. Brain surgery requires the client's presence, a car repair does not. If the client must be present, the service provider must be considerate of his or her needs. Thus beauty salon operators will invest in décor, play background music, and engage in light conversation with the client.
- Services may meet a *personal need* (personal services) or a *business need* (business services). Service providers typically develop different marketing programs for these markets.
- Service providers differ in their *objectives* (profit or nonprofit) and *ownership* (private or public). These two characteristics, when crossed, produce four quite different types of organizations. The marketing programs of a private investor hospital will differ from those of a private charity hospital or a Veterans Administration hospital.⁶

Customers typically cannot judge the technical quality of some services even after they have received them. ▲ Figure 13.1 shows various products and services according to difficulty of evaluation.⁷ At the left are goods high in *search qualities*—that is, characteristics the buyer can evaluate before purchase. In the middle are goods and services high in *experience qualities*—characteristics the buyer can evaluate after purchase. At the right are goods and services high in *credence qualities*—characteristics the buyer normally finds hard to evaluate even after consumption.⁸

Because services are generally high in experience and credence qualities, there is more risk in their purchase, with several consequences. First, service consumers generally rely on word of mouth rather than advertising. Second, they rely heavily on price, provider, and physical cues to judge quality. Third, they are highly loyal to service providers who satisfy them. Fourth, because switching costs are high, consumer inertia can make it challenging to entice business away from a competitor.



[Fig. 13.1] ▲

Continuum of Evaluation for Different Types of Products

Source: Valarie A. Zeithaml, "How Consumer Evaluation Processes Differ between Goods and Services," James H. Donnelly and William R. George, eds., *Marketing of Services* (Chicago: American Marketing Association, 1981). Reprinted with permission of the American Marketing Association.

Distinctive Characteristics of Services

Four distinctive service characteristics greatly affect the design of marketing programs: *intangibility*, *inseparability*, *variability*, and *perishability*.⁹

INTANGIBILITY Unlike physical products, services cannot be seen, tasted, felt, heard, or smelled before they are bought. A person getting cosmetic surgery cannot see the results before the purchase, and the patient in the psychiatrist's office cannot know the exact outcome of treatment. To reduce uncertainty, buyers will look for evidence of quality by drawing inferences from the place, people, equipment, communication material, symbols, and price. Therefore, the service provider's task is to "manage the evidence," to "tangibilize the intangible."¹⁰

Service companies can try to demonstrate their service quality through *physical evidence* and *presentation*.¹¹ Suppose a bank wants to position itself as the "fast" bank. It could make this positioning strategy tangible through any number of marketing tools:

1. **Place**—The exterior and interior should have clean lines. The layout of the desks and the traffic flow should be planned carefully. Waiting lines should not get overly long.
2. **People**—Employees should be busy, but there should be a sufficient number to manage the workload.
3. **Equipment**—Computers, copy machines, desks, and ATMs should look like, and be, state of the art.
4. **Communication material**—Printed materials—text and photos—should suggest efficiency and speed.
5. **Symbols**—The bank's name and symbol could suggest fast service.
6. **Price**—The bank could advertise that it will deposit \$5 in the account of any customer who waits in line more than five minutes.


Service marketers must be able to transform intangible services into concrete benefits and a well-defined experience.¹² Disney is a master at "tangibilizing the intangible" and creating magical fantasies in its theme parks; so are companies such as Jamba Juice and Barnes & Noble in their respective retail stores.¹³  Table 13.1 measures brand experiences in general along sensory, affective, behavioral, and intellectual dimensions. Applications to services are clear.

TABLE 13.1  Dimensions of Brand Experience

Sensory

- This brand makes a strong impression on my visual sense or other senses.
- I find this brand interesting in a sensory way.
- This brand does not appeal to my senses.

Affective

- This brand induces feelings and sentiments.
- I do not have strong emotions for this brand.
- This brand is an emotional brand.

Behavioral

- I engage in physical actions and behaviors when I use this brand.
- This brand results in bodily experiences.
- This brand is not action-oriented.

Intellectual

- I engage in a lot of thinking when I encounter this brand.
- This brand does not make me think.
- This brand stimulates my curiosity and problem solving.

Source: Joško Brakus, Bernd H. Schmitt, and Lia Zarantonello, "Brand Experience: What Is It? How Is It Measured? Does It Affect Loyalty?" *Journal of Marketing* 73 (May 2009), pp. 52–68. Reprinted with permission from *Journal of Marketing*, published by the American Marketing Association.

Because there is no physical product, the service provider's facilities—its primary and secondary signage, environmental design and reception area, employee apparel, collateral material, and so on—are especially important. All aspects of the service delivery process can be branded, which is why Allied Van Lines is concerned about the appearance of its drivers and laborers, why UPS has developed such strong equity with its brown trucks, and why Hilton's Doubletree Hotels offers fresh-baked chocolate chip cookies to symbolize care and friendliness.¹⁴

Service providers often choose brand elements—logos, symbols, characters, and slogans—to make the service and its key benefits more tangible—for example, the “friendly skies” of United, the “good hands” of Allstate, and the “bullish” nature of Merrill Lynch.

INSEPARABILITY Whereas physical goods are manufactured, then inventoried, then distributed, and later consumed, services are typically produced and consumed simultaneously.¹⁵ A haircut can't be stored—or produced without the barber. The provider is part of the service. Because the client is also often present, provider–client interaction is a special feature of services marketing. Buyers of entertainment and professional services are very interested in the specific provider. It's not the same concert if Taylor Swift is indisposed and replaced by Beyoncé, or if a corporate legal defense is supplied by an intern because antitrust expert David Boies is unavailable. When clients have strong provider preferences, the provider can raise its price to ration its limited time.


Several strategies exist for getting around the limitations of inseparability. The service provider can work with larger groups. Some psychotherapists have moved from one-on-one therapy to small-group therapy to groups of over 300 people in a large hotel ballroom. The service provider can work faster—the psychotherapist can spend 30 more efficient minutes with each patient instead of 50 less-structured minutes and thus see more patients. The service organization can train more service providers and build up client confidence, as H&R Block has done with its national network of trained tax consultants.

VARIABILITY Because the quality of services depends on who provides them, when and where, and to whom, services are highly variable. Some doctors have an excellent bedside manner; others are less empathic.

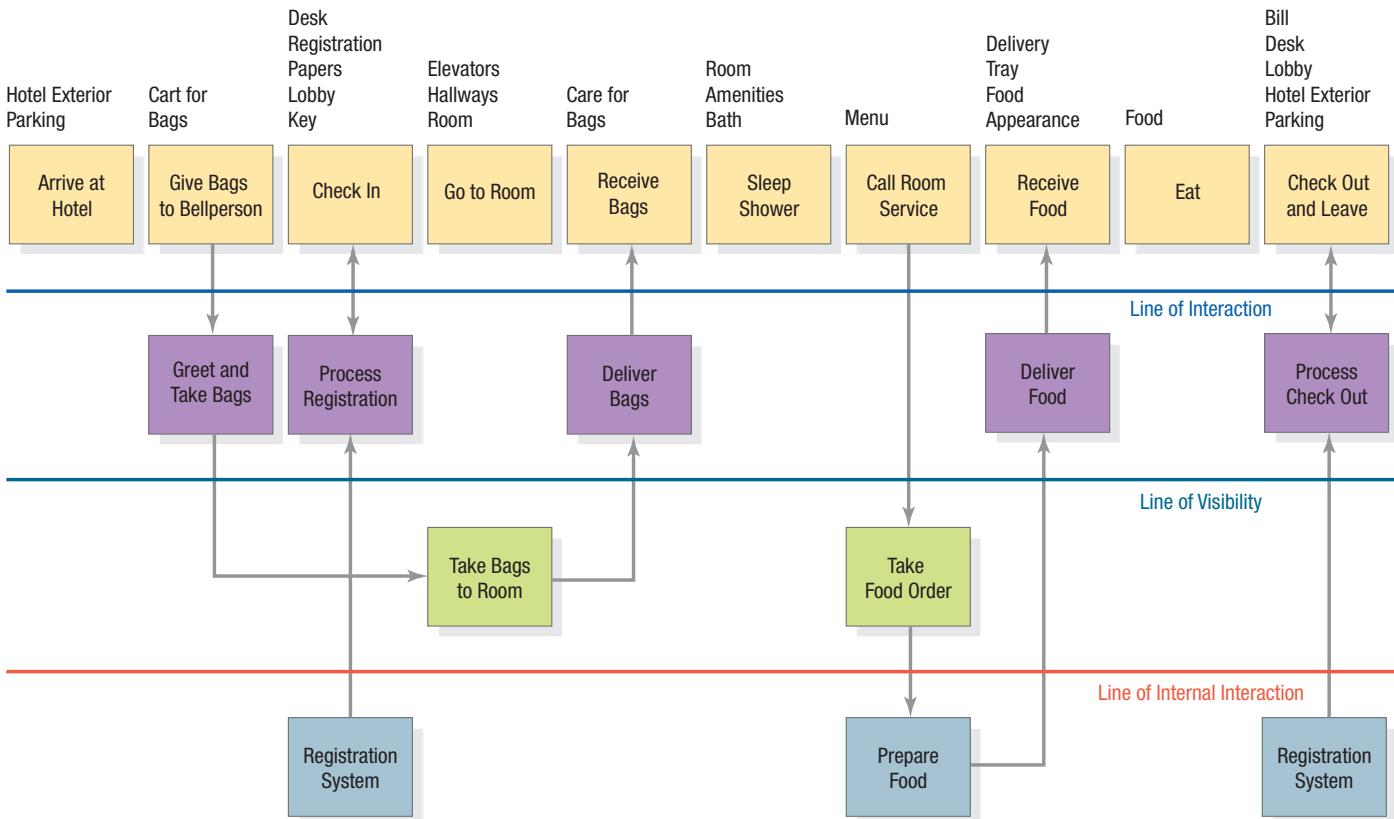


A different entertainer creates a different concert experience—a Beyoncé concert is not the same as a Taylor Swift concert.

Service buyers are aware of this variability and often talk to others before selecting a service provider. To reassure customers, some firms offer *service guarantees* that may reduce consumer perceptions of risk.¹⁶ Here are three steps service firms can take to increase quality control.

1. **Invest in good hiring and training procedures.** Recruiting the right employees and providing them with excellent training is crucial, regardless of whether employees are highly skilled professionals or low-skilled workers. Better-trained personnel exhibit six characteristics: Competence, courtesy, credibility, reliability, responsiveness, and communication.¹⁷ Given the diverse nature of its customer base in California, banking and mortgage giant Wells Fargo actively seeks and trains a diverse workforce. The average Wells Fargo customer uses 5.2 different bank products, roughly twice the industry average, thanks in part to the teamwork of its highly motivated staff.¹⁸
2. **Standardize the service-performance process throughout the organization.** A *service blueprint* can map out the service process, the points of customer contact, and the evidence of service from the customer's point of view.¹⁹  Figure 13.2 shows a service blueprint for a guest spending a night at a hotel.²⁰ Behind the scenes, the hotel must skillfully help the guest move from one step to the next. Service blueprints can be helpful in developing new service, supporting a zero-defects culture, and devising service recovery strategies.
3. **Monitor customer satisfaction.** Employ suggestion and complaint systems, customer surveys, and comparison shopping. Customer needs may vary in different areas, allowing firms to develop region-specific customer satisfaction programs.²¹ Firms can also develop customer information databases and systems for more personalized service, especially online.²²

Because services are a subjective experience, service firms can also design marketing communication and information programs so consumers learn more about the brand than what they get from service encounters alone.



|Fig. 13.2| 

Blueprint for Overnight Hotel Stay

PERISHABILITY Services cannot be stored, so their perishability can be a problem when demand fluctuates. Public transportation companies must own much more equipment because of rush-hour demand than if demand were even throughout the day. Some doctors charge patients for missed appointments because the service value (the doctor's availability) exists only at the time of the appointment.

Demand or yield management is critical—the right services must be available to the right customers at the right places at the right times and right prices to maximize profitability. Several strategies can produce a better match between service demand and supply.²³ On the demand side:

- **Differential pricing** will shift some demand from peak to off-peak periods. Examples include low matinee movie prices and weekend discounts for car rentals.²⁴
- **Nonpeak demand** can be cultivated. McDonald's pushes breakfast service, and hotels promote minivacation weekends.
- **Complementary services** can provide alternatives to waiting customers, such as cocktail lounges in restaurants and automated teller machines in banks.
- **Reservation systems** are a way to manage the demand level. Airlines, hotels, and physicians employ them extensively.

On the supply side:

- **Part-time employees** can serve peak demand. Colleges add part-time teachers when enrollment goes up; stores hire extra clerks during holiday periods.
- **Peak-time efficiency** routines can allow employees to perform only essential tasks during peak periods. Paramedics assist physicians during busy periods.
- **Increased consumer participation** frees service providers' time. Consumers fill out their own medical records or bag their own groceries.
- **Shared services** can improve offerings. Several hospitals can share medical-equipment purchases.
- **Facilities for future expansion** can be a good investment. An amusement park buys surrounding land for later development.

Many airlines, hotels, and resorts e-mail short-term discounts and special promotions to self-selected customers. After 40 years of making people stand in line at its theme parks, Disney instituted FASTPASS, which allows visitors to reserve a spot in line and eliminate the wait. Polls revealed 95 percent like the change. Disney's vice president, Dale Stafford, told a reporter, "We have been teaching people how to stand in line since 1955, and now we are telling them they don't have to. Of all the things we can do and all the marvels we can create with the attractions, this is something that will have a profound effect on the entire industry."²⁵



Disney's innovative FASTPASS system helps to match supply and demand for its Disney World theme park rides.

The New Services Realities

Service firms once lagged behind manufacturers in their use of marketing because they were small, or they were professional businesses that did not use marketing, or they faced large demand or little competition. This has certainly changed. Some of the most skilled marketers now are service firms. One that wins praise for its marketing success is Singapore Airlines.



Singapore Airlines (SIA) Singapore Airlines is consistently recognized as the world's "best" airline—it wins so many awards, it has to update its Web site monthly to keep up to date—in large part due to its stellar holistic marketing. Famous for pampering passengers, SIA continually strives to create a "wow effect" and surpass customers' expectations. It was the first to launch individual video screens at airplane seats.

Thanks to the first-of-its-kind \$1 million simulator SIA built to mimic the air pressure and humidity inside a plane, the carrier found that taste buds change in the air and that, among other things, it needed to cut back on spices in its food. SIA places a high value on training; its "Transforming Customer Service (TCS)" program includes staff in five key operational areas: cabin crew, engineering, ground services, flight operations, and sales support. The TCS culture is also embedded in all management training, company-wide. It



Singapore Airlines goes to extraordinary lengths to ensure that every aspect of the passenger experience exceeds expectations.

Customer service dissatisfaction increasingly goes viral—Canadian singer Dave Carroll’s musical frustration with United Airlines was downloaded by millions.



applies a 40-30-30 rule in its holistic approach to people, processes, and products: 40 percent of resources go to training and invigorating staff, 30 percent to reviewing process and procedures, and 30 percent to creating new product and service ideas. With its innovatively designed Boeing 777-300 ERS and Airbus A380 planes, SIA set new standards of comforts in all classes of service, from eight private minirooms in first class to wider seats, AC power supplies, and USB ports in coach.²⁶

A Shifting Customer Relationship

Not all companies, however, have invested in providing superior service, at least not to all customers. In many service industries, such as airlines, banks, stores, and hotels, customer satisfaction in the United States has not significantly improved—or in some cases actually dropped—in recent years.²⁷ Customers complain about

inaccurate information; unresponsive, rude, or poorly trained workers; and long wait times. Even worse, many find their complaints never actually reach a live human being because of slow or faulty phone or online reporting systems.

It doesn’t have to be that way. Fifty-five operators handle 100,000 calls a year on Butterball Turkeys’ 800 number—10,000 on Thanksgiving Day alone—about how to prepare, cook, and serve turkeys. Trained at Butterball University, the operators have all cooked turkeys dozens of different ways and can handle the myriad queries that come their way, including why customers shouldn’t stash turkeys in snow banks or thaw them in bathtubs.²⁸

Savvy services marketers are recognizing the new services realities, such as the importance of the newly empowered customer, customer coproduction, and the need to engage employees as well as customers.

CUSTOMER EMPOWERMENT Customers are becoming more sophisticated about buying product-support services and are pressing for “unbundled services.” They may desire separate prices for each service element and the right to select the elements they want. Customers also increasingly dislike having to deal with a multitude of service providers handling different types of equipment. Some third-party service organizations now service a greater range of equipment.

Most importantly, the Internet has empowered customers by letting them vent their rage about bad service—or reward good service—and send their comments around the world with a mouse click. Although a person who has a good customer experience is more likely to talk about it, someone who has a bad experience will talk to more people.²⁹ Ninety percent of angry customers reported sharing their story with a friend. Now, they can share their stories with strangers too. At PlanetFeedback.com, shoppers can send a complaint, compliment, suggestion, or question directly to a company, with the option to post comments publicly on the site as well.



United Breaks Guitars When Canadian singer Dave Carroll faced \$1,200 in damages to his \$3,000 Gibson guitar after a United flight, he put his creative energy to good use. He created a humorous video, *United Breaks Guitars*, and launched it on YouTube with this catchy refrain:

“United, you broke my Taylor guitar. United, some big help you are. You broke it, you should fix it. You’re liable, just admit it. I should have flown with someone else or gone by car ‘cuz United breaks guitars.”

Viewed over 5 million times, his follow-up video focused on his frustrating efforts to get United to pay for the damage. United got the message. It donated a check for \$1,200 to a charity Carroll designated and now uses the incident in training baggage handlers and customer-service representatives.³⁰

Most companies respond quickly. Comcast allows contact 24/7 by phone and e-chat but also reaches out to customers and monitors blogs, Web sites, and social media. If employees see a customer report a problem on a blog, they get in touch and offer help. E-mail responses to customers must be implemented properly to be effective. One expert believes companies should (1) send an automated reply to tell customers when a more complete answer will arrive (ideally within 24 hours), (2) ensure the subject line always contains the company name, (3) make the message easy to scan for relevant information, and (4) give customers an easy way to respond with follow-up questions.³¹

More important than simply responding to a disgruntled customer, however, is preventing dissatisfaction from occurring in the future. That may mean simply taking the time to nurture customer relationships and give customers attention from a real person. Columbia Records spent \$10 million to improve its call center, and customers who phone the company can now opt out to reach an operator at any point in their call. JetBlue took a service disaster and used it to improve its customer service approach.



JetBlue CEO David Neeleman set the bar high for responding to enraged customers after the company's drastic Valentine's Day failure of 2007. During storms in New York City, JetBlue left hundreds of passengers stranded aboard grounded aircraft—some for longer than 9 hours without amenities—and cancelled more than 1,000 flights. JetBlue had built its reputation on being a more responsive, humane airline in an era of minimal services and maximal delays.

Neeleman knew he had to act fast to stem another kind of storm: a whirlwind of customer defections. Within 24 hours, he had placed full-page ads in newspapers nationwide in which he personally responded to JetBlue's debacle. "We are sorry and embarrassed," the ads declared, "But most of all we are deeply sorry." JetBlue gave concrete reparations to passengers. Neeleman announced a new "customer bill of rights" that promised passengers travel credits for excessive waits. For instance, passengers who are unable to disembark from an arriving flight for 3 hours or more would receive vouchers worth the full value of their round-trip ticket. JetBlue will also hand out vouchers for the full amount of passengers' round trips if a flight is cancelled within 12 hours of a scheduled departure. The apology, backed by concrete benefits for the angry and inconvenienced passengers, netted kudos for the company from both the business press and JetBlue's own true blue customers. Neeleman eventually stepped down as new management was brought in to address some of the growth challenges the airline faced.³²

CUSTOMER COPRODUCTION The reality is that customers do not merely purchase and use a service; they play an active role in its delivery.³³ Their words and actions affect the quality of their service experiences and those of others, and the productivity of frontline employees.

Customers often feel they derive more value, and feel a stronger connection to the service provider, if they are actively involved in the service process. This coproduction can put stress on employees, however, and reduce their satisfaction, especially if they differ culturally or in other ways from customers.³⁴ Moreover, one study estimated that one-third of all service problems are caused by the customer.³⁵ The growing shift to self-service technologies will likely increase this percentage.

Preventing service failures is crucial, since recovery is always challenging. One of the biggest problems is attribution—customers often feel the firm is at fault or, even if not, that it is still responsible for righting any

JetBlue weathered a customer service disaster and continues to receive kudos from its passengers.

JETBLUE AND YOU SITTING IN A TREE

For the fifth year in a row, J.D. Power and Associates named JetBlue "Highest in Customer Satisfaction Among Low-Cost Carriers in North America." Thanks for the love. The feeling's mutual. Fly now at jetblue.com

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JetBlue received the highest numerical score among five low-cost carriers in the proprietary J.D. Power and Associates 2008-2010 North America Airline Satisfaction Study™. Study based on responses from 12,375 passengers who flew on a major North American airline between April 2009 and April 2010. Proprietary study results are based on experiences and perceptions of consumers surveyed from May 2009 to April 2010. Your experiences may vary. Visit jdpower.com.

wrongs. Unfortunately, although many firms have well-designed and executed procedures to deal with their own failures, they find managing *customer* failures—when a service problem arises from a customer’s lack of understanding or ineptitude—much more difficult. ▲ Figure 13.3 displays the four broad causes of customer failures. Solutions come in all forms, as these examples show:³⁶

1. **Redesign processes and redefine customer roles to simplify service encounters.** One of the keys to Netflix’s success is that it charges a flat fee and allows customers to return DVDs by mail at their leisure, giving customers greater control and flexibility.
2. **Incorporate the right technology to aid employees and customers.** Comcast, the largest cable operator by subscribers in the United States, introduced software to identify network glitches before they affected service and to better inform call-center operators about customer problems. Repeat service calls dropped 30 percent as a result.
3. **Create high-performance customers by enhancing their role clarity, motivation, and ability.** USAA reminds enlisted policyholders to suspend their car insurance when they are stationed overseas.
4. **Encourage “customer citizenship” so customers help customers.** At golf courses, players can not only follow the rules by playing and behaving appropriately, they can encourage others to do so.

SATISFYING EMPLOYEES AS WELL AS CUSTOMERS Excellent service companies know that positive employee attitudes will promote stronger customer loyalty.³⁷ Instilling a strong customer orientation in employees can also increase their job satisfaction and commitment, especially if they have high customer contact. Employees thrive in customer-contact positions when they have an internal drive to (1) pamper customers, (2) accurately read customer needs, (3) develop a personal relationship with customers, and (4) deliver quality service to solve customers’ problems.³⁸

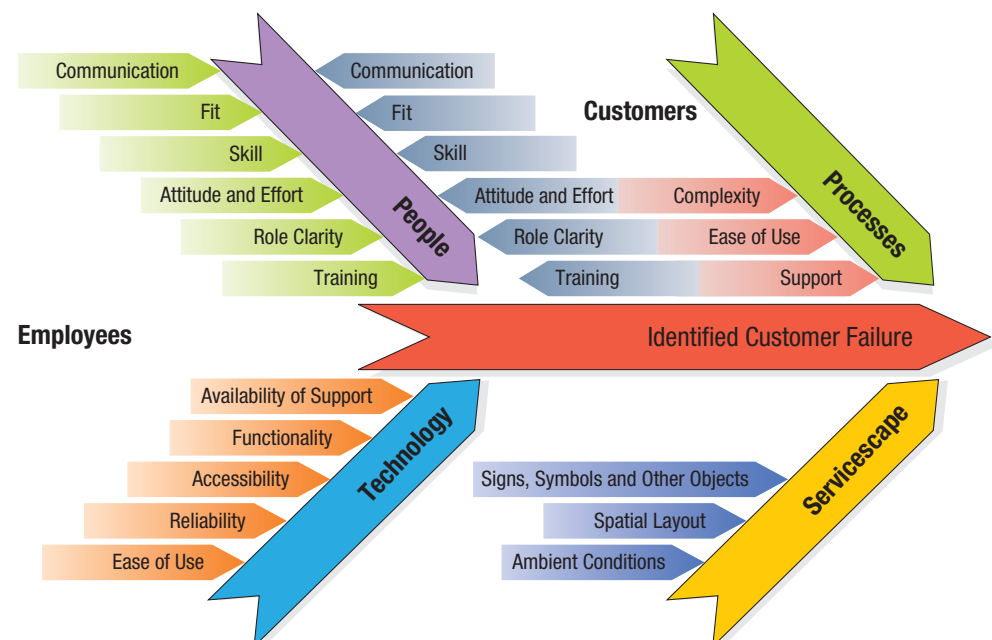
Consistent with this reasoning, Sears found a high correlation between customer satisfaction, employee satisfaction, and store profitability. In companies such as Hallmark, John Deere, and Four Seasons Hotels, employees exhibit real company pride. The downside of not treating employees right is significant. A survey of 10,000 employees from the largest 1,000 companies found that 40 percent of workers cited “lack of recognition” as a key reason for leaving a job.³⁹

Given the importance of positive employee attitudes to customer satisfaction, service companies must attract the best employees they can find. They need to market a career rather than just a job. They must design a sound training program and provide support and rewards for good performance. They can use the intranet, internal newsletters, daily reminders, and employee roundtables to reinforce customer-centered attitudes. Finally, they must audit employee job satisfaction regularly.

[Fig. 13.3] ▲

Root Causes of Customer Failure

Source: Stephen Tax, Mark Colgate, and David Bowen, *MIT Sloan Management Review* (Spring 2006): pp. 30–38. ©2006 by Massachusetts Institute of Technology. All rights reserved. Distributed by Tribune Media Services.



The Panda Express restaurant chain has management turnover that's half the industry average, due in part to a combination of ample bonuses and health benefits with a strong emphasis on worker self-improvement through meditation, education, and hobbies. Special wellness seminars and get-to-know-you events outside work help to create a caring, nurturing atmosphere.⁴⁰

Achieving Excellence in Services Marketing

The increased importance of the service industry has sharpened the focus on what it takes to excel in the marketing of services.⁴¹ Here are some guidelines.

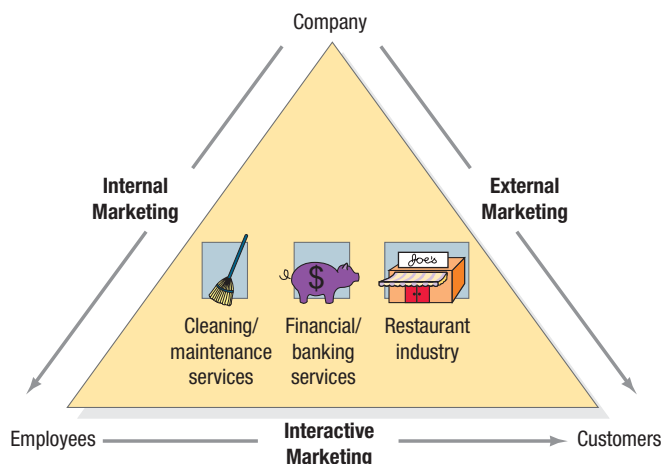
Marketing Excellence

Marketing excellence with services requires excellence in three broad areas: external, internal, and interactive marketing (see ▲ Figure 13.4).⁴²

- **External marketing** describes the normal work of preparing, pricing, distributing, and promoting the service to customers.
- **Internal marketing** describes training and motivating employees to serve customers well. The most important contribution the marketing department can make is arguably to be “exceptionally clever in getting everyone else in the organization to practice marketing.”⁴³
- **Interactive marketing** describes the employees' skill in serving the client. Clients judge service not only by its *technical quality* (Was the surgery successful?), but also by its *functional quality* (Did the surgeon show concern and inspire confidence?).⁴⁴

A good example of a service company achieving marketing excellence is Charles Schwab.

Charles Schwab Charles Schwab, one of the nation's largest discount brokerage houses, uses the telephone, Internet, and wireless devices to create an innovative combination of high-tech and high-touch services. One of the first major brokerage houses to provide online trading, Schwab today services more than 8 million individual and institutional accounts. It offers account information and proprietary research from retail brokers, real-time quotes, an after-hours trading program, the Schwab learning center, live events, online chats with customer service representatives, a global investing service, and market updates delivered by e-mail. Besides the discount brokerage, the firm offers mutual funds, annuities, bond trading, and now mortgages through its Charles Schwab Bank. Schwab's success has been driven by its efforts to lead in three areas: superior service (online, via phone, and in local branch offices), innovative products, and low prices. Daily customer feedback reports are reviewed and acted on the next day. If customers have trouble filling out a form or experience an unexpected delay, a Schwab representative calls to ask about the source of the problem and how it can be solved.⁴⁵



[Fig. 13.4] ▲

Three Types of Marketing in Service Industries

In interactive marketing, teamwork is often key, and delegating authority to frontline employees can allow for greater service flexibility and adaptability through better problem solving, closer employee cooperation, and more efficient knowledge transfer.⁴⁶

Technology also has great power to make service workers more productive. When US Airways deployed handheld scanners to better track baggage in 2008, mishandled baggage decreased almost 50 percent from the year before. The new technology paid for itself in the first year and helped contribute to a 35 percent drop in complaints.⁴⁷

Sometimes new technology has unanticipated benefits. When BMW introduced Wi-Fi to its dealerships to help customers pass the time more productively while their cars were being serviced, more customers chose to stay rather than use loaner cars, an expensive item for dealers to maintain.⁴⁸

Companies must avoid pushing productivity so hard, however, that they reduce perceived quality. Some methods lead to too much standardization. Service providers must deliver “high touch” as well as “high tech.” Amazon.com has some of the most amazing technological innovations in online retailing, but it also keeps customers extremely satisfied when a problem arises even if they don’t actually talk to an Amazon.com employee.⁴⁹

The Internet lets firms improve their service offerings and strengthen their relationships with customers by allowing for true interactivity, customer-specific and situational personalization, and real-time adjustments of the firm’s offerings.⁵⁰ But as companies collect, store, and use more information about customers, they have also raised concerns about security and privacy.⁵¹ Companies must incorporate the proper safeguards and reassure customers about their efforts.

Best Practices of Top Service Companies

In achieving marketing excellence with their customers, well-managed service companies share a strategic concept, a history of top-management commitment to quality, high standards, profit tiers, and systems for monitoring service performance and customer complaints.

STRATEGIC CONCEPT Top service companies are “customer obsessed.” They have a clear sense of their target customers and their needs and have developed a distinctive strategy for satisfying these needs. At the Four Seasons luxury hotel chain, employees must pass four interviews before being hired. Each hotel also employs a “guest historian” to track guest preferences. With more branch offices in the United States than Starbucks has, Edward Jones brokerage stays close to customers by assigning a single financial advisor and one administrator to each office. Although costly, maintaining such small teams fosters personal relationships.⁵²

TOP-MANAGEMENT COMMITMENT Companies such as Marriott, Disney, and USAA have a thorough commitment to service quality. Their managements look monthly not only at financial performance, but also at service performance. Ray Kroc of McDonald’s insisted on continually measuring each McDonald’s outlet on its conformance to QSCV: quality, service, cleanliness, and value. Some companies insert a reminder along with employees’ paychecks: “Brought to you by the customer.” Sam Walton of Walmart required the following employee pledge: “I solemnly swear and declare that every customer that comes within 10 feet of me, I will smile, look them in the eye, and greet them, so help me Sam.”

HIGH STANDARDS The best service providers set high quality standards. Citibank aims to answer phone calls within 10 seconds and customer letters within 2 days. The standards must be set *appropriately* high. A 98 percent accuracy standard may sound good, but it would result in 64,000 lost FedEx packages a day; 6 misspelled words on each page of a book; 400,000 incorrectly filled prescriptions daily; 3 million lost USPS mail pieces each day; no phone/Internet/electricity 8 days per year or 29 minutes per day; 1,000 mislabeled or (mispriced) products at a supermarket; and 6 million people unaccounted for in a U.S. census.

PROFIT TIERS Firms have decided to raise fees and lower services to those customers who barely pay their way, and to coddle big spenders to retain their patronage as long as possible. Customers in high-profit tiers get special discounts, promotional offers, and lots of special service; customers in

lower-profit tiers may get more fees, stripped-down service, and voice messages to process their inquiries.

When the recent recession hit, Zappos decided to stop offering complimentary overnight shipping to first-time buyers and offer it to repeat buyers only. The money saved was invested in a new VIP service for the company's most loyal customers.⁵³ Companies that provide differentiated levels of service must be careful about claiming superior service, however—customers who receive lesser treatment will bad-mouth the company and injure its reputation. Delivering services that maximize both customer satisfaction and company profitability can be challenging.

MONITORING SYSTEMS Top firms audit service performance, both their own and competitors', on a regular basis. They collect *voice of the customer (VOC) measurements* to probe customer satisfiers and dissatisfiers. They use comparison shopping, mystery or ghost shopping, customer surveys, suggestion and complaint forms, service-audit teams, and customers' letters to the president.

We can judge services on *customer importance* and *company performance*. *Importance-performance analysis* rates the various elements of the service bundle and identifies required actions. Table 13.2 shows how customers rated 14 service elements or attributes of an automobile dealer's service department on importance and performance. For example, "Job done right the first time" (attribute 1) received a mean importance rating of 3.83 and a mean performance rating of 2.63, indicating that customers felt it was highly important but not performed well. The ratings of the 14 elements are divided into four sections in Figure 13.5.

- Quadrant A in the figure shows important service elements that are not being performed at the desired levels; they include elements 1, 2, and 9. The dealer should concentrate on improving the service department's performance on these elements.

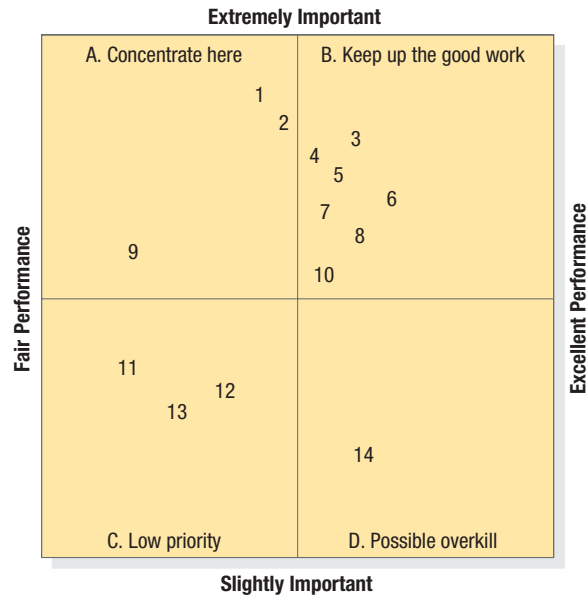
Number Attribute	Attribute Description	Mean Importance Rating ^a	Mean Performance Rating ^b
1	Job done right the first time	3.83	2.63
2	Fast action on complaints	3.63	2.73
3	Prompt warranty work	3.60	3.15
4	Able to do any job needed	3.56	3.00
5	Service available when needed	3.41	3.05
6	Courteous and friendly service	3.41	3.29
7	Car ready when promised	3.38	3.03
8	Perform only necessary work	3.37	3.11
9	Low prices on service	3.29	2.00
10	Clean up after service work	3.27	3.02
11	Convenient to home	2.52	2.25
12	Convenient to work	2.43	2.49
13	Courtesy buses and cars	2.37	2.35
14	Send out maintenance notices	2.05	3.33

^a Ratings obtained from a four-point scale of "extremely important" (4), "important" (3), "slightly important" (2), and "not important" (1).

^b Ratings obtained from a four-point scale of "excellent" (4), "good" (3), "fair" (2), and "poor" (1). A "no basis for judgment" category was also provided.

[Fig. 13.5] ▲

Importance-Performance Analysis



- Quadrant B shows important service elements that are being performed well; the company needs to maintain the high performance.
- Quadrant C shows minor service elements that are being delivered in a mediocre way but do not need any attention.
- Quadrant D shows that a minor service element, “Send out maintenance notices,” is being performed in an excellent manner.

Perhaps the company should spend less on sending out maintenance notices and use the savings to improve performance on important elements. Management can enhance its analysis by checking on the competitors’ performance levels on each element.⁵⁴

SATISFYING CUSTOMER COMPLAINTS On average, 40 percent of customers who suffer through a bad service experience stop doing business with the company.⁵⁵ But if those customers are willing to complain first, they actually offer the company a gift if the complaint is handled well.

Companies that encourage disappointed customers to complain—and also empower employees to remedy the situation on the spot—have been shown to achieve higher revenues and greater profits than companies without a systematic approach for addressing service failures.⁵⁶ Pizza Hut prints its toll-free number on all pizza boxes. When a customer complains, Pizza Hut sends a voice mail to the store manager, who must call the customer within 48 hours and resolve the complaint.

Getting frontline employees to adopt *extra-role behaviors*, and to advocate the interests and image of the firm to consumers, as well as take initiative and engage in conscientious behavior in dealing with customers, can be a critical asset in handling complaints.⁵⁷ Customers evaluate complaint incidents in terms of the outcomes they receive, the procedures used to arrive at those outcomes, and the nature of interpersonal treatment during the process.⁵⁸

Companies also are increasing the quality of their *call centers* and their *customer service representatives* (CSRs). “Marketing Insight: Improving Company Call Centers” illustrates what top companies are doing.

Differentiating Services

Finally, customers who view a service as fairly homogeneous care less about the provider than about the price. Marketing excellence requires service marketers to continually differentiate their brands so they are not seen as a commodity.

PRIMARY AND SECONDARY SERVICE OPTIONS Marketers can differentiate their service offerings in many ways, through people and processes that add value. What the customer



Improving Company Call Centers

Many firms have learned the hard way that demanding, empowered customers will no longer put up with poor service when contacting companies.

After Sprint and Nextel merged, they set out to run their call centers as cost centers, rather than a means to enhance customer loyalty. Employee rewards were based on keeping customer calls short, and when management started to monitor even bathroom trips, morale sank. With customer churn spinning out of control, Sprint Nextel began a service improvement plan at the end of 2007 to put more emphasis on service over efficiency. Among other changes that accompanied the appointment of the firm's first chief service officer, call center operators were rewarded for solving problems on a customer's first call, rather than for keeping their calls short. The average customer contacted customer service four times in 2008, a drop from eight times in 2007.

Some firms are getting smarter about the type of calls they send overseas to off-shore call centers. They are investing more in training as

well as returning more complex calls to highly trained domestic customer service reps. *Homesourcing* occurs when a customer service rep works from home with a broadband line and computer. These at-home reps often provide higher-quality service at less cost and with lower turnover.

Firms have to manage their number of customer service reps carefully. One study showed that cutting just four reps at a call center of three dozen sent the number of customers put on hold for four minutes or more from zero to eighty. Firms can also try to reasonably get more from each rep. USAA cross-trains its call center reps so that agents who answer investment queries can also respond to insurance-related calls, reducing the number of transfers between agents and increasing productivity as a result. USAA and other firms such as KeyBank and Ace Hardware have also consolidated call center operations into fewer locations, allowing them to maintain their number of reps in the process.

Finally, keeping call center reps happy and motivated is obviously also a key to their ability to offer excellent customer service. American Express lets call center reps choose their own hours and swap shifts without a supervisor's approval.

Sources: Michael Sanserino and Cari Tuna, "Companies Strive Harder to Please Customers," *Wall Street Journal*, July 27, 2009, p. B4; Spencer E. Ante, "Sprint's Wake-Up Call," *BusinessWeek*, March 3, 2008, pp. 54–57; Jena McGregor, "Customer Service Champs," *BusinessWeek*, March 5, 2007; Jena McGregor, "When Service Means Survival," *BusinessWeek*, March 2, 2009, pp. 26–30.

expects is called the *primary service package*. Vanguard, the second-largest no-load mutual fund company, has a unique client ownership structure that lowers costs and permits better fund returns. Strongly differentiated from many competitors, the brand grew through word of mouth, PR, and viral marketing.⁵⁹

The provider can add *secondary service features* to the package. In the hotel industry, various chains have introduced such secondary service features as merchandise for sale, free breakfast buffets, and loyalty programs.

The major challenge is that most service offerings and innovations are easily copied. Still, the company that regularly introduces innovations will gain a succession of temporary advantages over competitors. Schneider National keeps a step ahead of its competitors by never standing still.



Schneider National Schneider National is the world's largest long-haul truckload freight carrier, with \$3.7 billion in revenues and more than 54,000 bright orange tractors and trailers on the roads. Although its core benefit is to move freight from one location to another, Schneider sees

itself in the *customer solutions* business. Its service guarantees are backed by monetary incentives for drivers who meet tight schedules; driver-training programs improve performance. Schneider was the first to introduce in-cab satellite technology and mobile technology to every driver. In 2009, it had its biggest award-winning year, garnering 43 awards for strong customer service, solutions, and commitment to the environment from shippers, government organizations, and industry media. To actively recruit the best drivers, Schneider advertises on television shows such as

Long-haul truckload freight carrier Schneider National goes to great lengths to satisfy its customers and build its brand.



Treatments: Price listed <u>or</u> your insurance co-pay			
Strep Throat, Rapid Test	\$48	Ringworm	\$25
<small>(with Overnight Culture add \$14)</small>		Athlete's Foot	\$25
Seasonal Allergies <small>(ages 6+)</small>	\$44	Ear Infections	\$44
Bronchitis <small>(ages 10-65)</small>	\$44	Swimmer's Ear	\$44
Flu Treatment <small>(ages 10-65)</small>	\$78	Deer Tick Bites	\$25
Female Bladder Infections <small>(ages 12-65)</small>	\$48	Cold Sores	\$25
Poison Ivy <small>(ages 3+)</small>	\$44	Sinus Infections	\$44
Pink Eye & Styes	\$44	Laryngitis	\$44
Mono	\$51	Allergy Testing	\$99
Minor Skin Infections	\$44		
Prescriptions written when clinically appropriate.			
Vaccines: Price listed <u>or</u> your insurance co-pay			
Td <small>(Tetanus, Diphtheria)</small>	\$38	Pneumonia	\$25
Hepatitis B <small>(adult)</small>	\$60	Flu <small>Fall 2005</small>	
Hepatitis B <small>(child)</small>	\$45		

Retail health clinics are reinventing patient care for minor illnesses and injuries.

Trick My Truck, on satellite radio, in newspapers, and online; employs Webinars and PR; and partners with AARP, local organizations, and veterans' groups. Even painting the trucks Omaha orange was part of a branding strategy to improve safety and create awareness.⁶⁰

INNOVATION WITH SERVICES Innovation is as vital in services as in any industry. After years of losing customers to its Hilton and Marriott hotel competitors, Starwood decided to invest \$1.7 billion in its Sheraton chain of 400 properties worldwide to give them fresher décor and brighter colors, as well as more enticing lobbies, restaurants, and cafés. In explaining the need for the makeover, one hospitality industry expert noted, "There was a time when Sheraton was one of the leading brands. But it lagged in introducing new design and service concepts and developed a level of inconsistency."⁶¹

On the other hand, consider how these relatively new service categories emerged and how, in some cases, organizations created creative solutions in existing categories.⁶²

- **Online Travel.** Online travel agents such as Expedia and Travelocity offer customers the opportunity to conveniently book travel at discount prices. However, they make money only when visitors go to their Web sites and book travel. Kayak is a newer online travel agency that applies the Google business model of collecting money on a per-click basis. Kayak's marketing emphasis is on building a better search engine by offering more alternatives, flexibility, and airlines.
- **Retail Health Clinics.** One of the hardest areas in which to innovate is health care. But whereas the current health care system is designed to treat a small number of complex cases, retail health clinics address a large number of simple cases. Retail health clinics such as Quick Care, RediClinic, and MinuteClinic are often found in drugstores and other retail chain stores such as Target and Walmart. They typically use nurse practitioners to handle minor illnesses and injuries such as colds, flu, and ear infections, offer various health and wellness services such as physicals and exams for high school sports, and perform vaccinations. They seek to offer convenient, predictable service and transparent pricing, without an appointment, seven days a week. Most visits take no more than 15 minutes, and costs vary from \$25 to \$100.
- **Private Aviation.** Initially, private aviation was restricted to owning or chartering a private plane. Fractional ownership pioneered by NetJets allowed customers to pay a percentage of the cost of a private plane plus maintenance and a direct hourly cost. Marquis Jets further innovated with a simple idea of combining prepaid time on the world's largest, best-maintained fleet, offering the consistency and benefits of fractional ownership without the long-term commitment.

Many companies are using the Web to offer primary or secondary service features that were never possible before. Salesforce.com uses cloud computing—centralized computing services delivered over the Internet—to run customer-management databases for companies. Häagen-Dazs estimated it would have had to spend \$65,000 for a custom-designed database to stay in contact with the company's retail franchises across the country. Instead, it spent only \$20,000 to set up an account with Salesforce.com and pays \$125 per month for 20 users to remotely monitor franchises via the Web.⁶³

Managing Service Quality

The service quality of a firm is tested at each service encounter. If employees are bored, cannot answer simple questions, or are visiting each other while customers are waiting, customers will think twice about doing business there again. One business that understands how to treat customers right is USAA.



USAA From its beginnings, USAA focused on selling auto insurance, and later other insurance products, to those with military service. It increased its share of each customer's business by launching a consumer bank, issuing credit cards, opening a discount brokerage, and offering a selection of no-load mutual funds. Though it now conducts transactions for more than 150 products and services on the phone or online, USAA boasts one of the highest customer satisfaction ratings of any company in the United States. It was the first bank to allow iPhone deposits for its military customers, to routinely text balances to soldiers in the field, and to heavily discount customers' car insurance when they are deployed overseas. A leader in virtually every customer service award or survey, the company inspired one industry expert to comment: "There is nobody on this earth who understands their customer better than USAA."⁶⁴

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NOT YOUR EXPECTATIONS.**

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By relentlessly focusing on its military customers, USAA has created extraordinary levels of customer satisfaction.

Service outcome and customer loyalty are influenced by a host of variables. One study identified more than 800 critical behaviors that cause customers to switch services.⁶⁵ These behaviors fall into eight categories (see Table 13.3).

A more recent study honed in on the service dimensions customers would most like companies to measure. As Table 13.4 shows, knowledgeable frontline workers and the ability to achieve one-call-and-done rose to the top.⁶⁶

Flawless service delivery is the ideal state for any service organization. "Marketing Memo: Recommendations for Improving Service Quality" offers a comprehensive set of guidelines to

TABLE 13.3 Factors Leading to Customer Switching Behavior

Pricing

- High price
- Price increases
- Unfair pricing
- Deceptive pricing

Inconvenience

- Location/hours
- Wait for appointment
- Wait for service

Core Service Failure

- Service mistakes
- Billing errors
- Service catastrophe

Service Encounter Failures

- Uncaring
- Impolite
- Unresponsive
- Unknowledgeable

Response to Service Failure

- Negative response
- No response
- Reluctant response

Competition

- Found better service

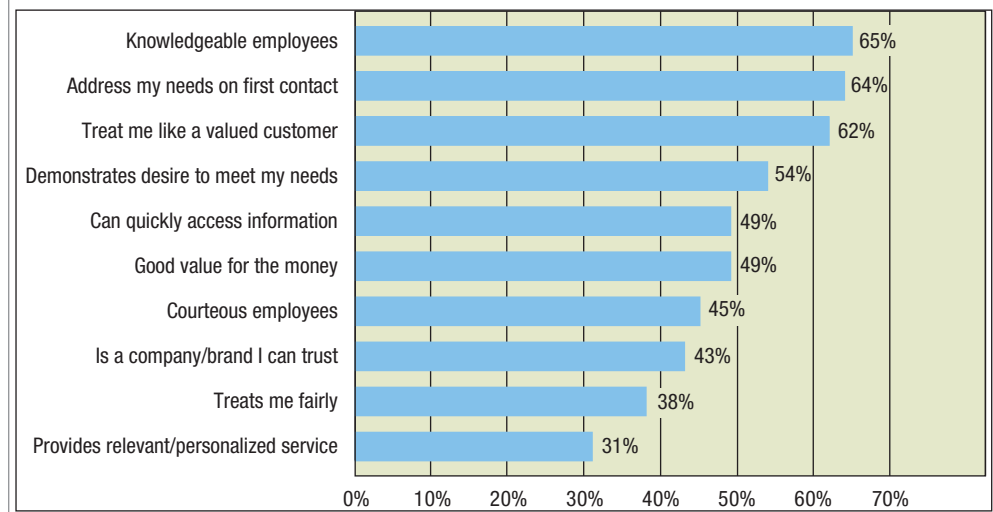
Ethical Problems

- Cheat
- Hard sell
- Unsafe
- Conflict of interest

Involuntary Switching

- Customer moved
- Provider closed

Source: Susan M. Keaveney, "Customer Switching Behavior in Service Industries: An Exploratory Study," *Journal of Marketing* (April 1995), pp. 71–82. Reprinted with permission from *Journal of Marketing*, published by the American Marketing Association.

TABLE 13.4 Dimensions of Service Customers Want Companies to Deliver


Source: Convergys 2008 U.S. Customer Scorecard

marketing Memo

Recommendations for Improving Service Quality

Pioneers in conducting academic service research, Berry, Parasuraman, and Zeithaml offer 10 lessons they maintain are essential for improving service quality across service industries.


- 1. Listening**—Service providers should understand what customers really want through continuous learning about the expectations and perceptions of customers and noncustomers (for instance, by means of a service-quality information system).
- 2. Reliability**—Reliability is the single most important dimension of service quality and must be a service priority.
- 3. Basic service**—Service companies must deliver the basics and do what they are supposed to do—keep promises, use common sense, listen to customers, keep customers informed, and be determined to deliver value to customers.
- 4. Service design**—Service providers should take a holistic view of the service while managing its many details.
- 5. Recovery**—To satisfy customers who encounter a service problem, service companies should encourage customers to complain (and make it easy for them to do so), respond quickly and personally, and develop a problem-resolution system.
- 6. Surprising customers**—Although reliability is the most important dimension in *meeting* customers' service expectations, process dimensions such as assurance, responsiveness, and empathy are most important in *exceeding* customer expectations, for example, by surprising them with uncommon swiftness, grace, courtesy, competence, commitment, and understanding.
- 7. Fair play**—Service companies must make special efforts to *be* fair, and to *demonstrate* fairness, to customers and employees.
- 8. Teamwork**—Teamwork is what enables large organizations to deliver service with care and attentiveness by improving employee motivation and capabilities.
- 9. Employee research**—Marketers should conduct research with employees to reveal why service problems occur and what companies must do to solve problems.
- 10. Servant leadership**—Quality service comes from inspired leadership throughout the organization; from excellent service-system design; from the effective use of information and technology; and from a slow-to-change, invisible, all-powerful, internal force called corporate culture.

Sources: Leonard L. Berry, A. Parasuraman, and Valarie A. Zeithaml, "Ten Lessons for Improving Service Quality," *MSI Reports Working Paper Series, No.03-001* (Cambridge, MA: Marketing Science Institute, 2003), pp. 61–82. See also, Leonard L. Berry's books, *On Great Service: A Framework for Action* (New York: Free Press, 2006) and *Discovering the Soul of Service* (New York: Free Press, 1999), as well as his articles; Leonard L. Berry, Venkatesh Shankar, Janet Parish, Susan Cadwallader, and Thomas Dotzel, "Creating New Markets through Service Innovation," *Sloan Management Review* (Winter 2006): 56–63; Leonard L. Berry, Stephan H. Haeckel, and Lewis P. Carbone, "How to Lead the Customer Experience," *Marketing Management* (January–February 2003), pp. 18–23; and Leonard L. Berry, Kathleen Seiders, and Dhruv Grewal, "Understanding Service Convenience," *Journal of Marketing* (July 2002), pp. 1–17.

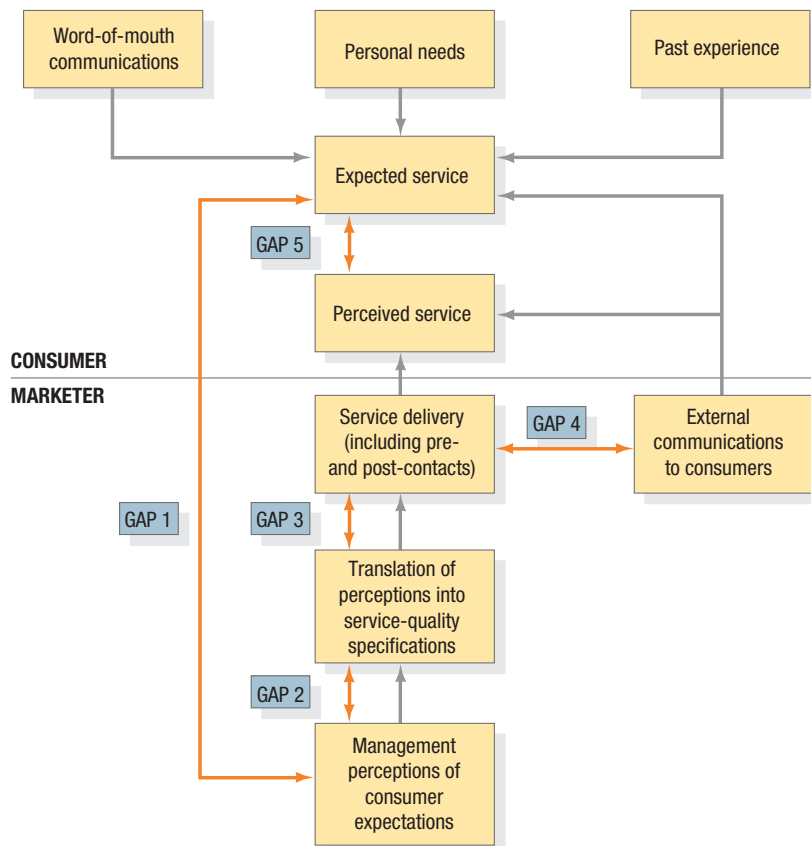
which top service marketing organizations can adhere. Two important considerations in service delivery are managing customer expectations and incorporating self-service technologies.

Managing Customer Expectations

Customers form service expectations from many sources, such as past experiences, word of mouth, and advertising. In general, customers compare the *perceived service* with the *expected service*.⁶⁷ If the perceived service falls below the expected service, customers are disappointed. Successful companies add benefits to their offering that not only *satisfy* customers but surprise and *delight* them. Delighting customers is a matter of exceeding expectations.⁶⁸

The service-quality model in  Figure 13.6 highlights the main requirements for delivering high service quality.⁶⁹ It identifies five gaps that cause unsuccessful delivery:

1. **Gap between consumer expectation and management perception**—Management does not always correctly perceive what customers want. Hospital administrators may think patients want better food, but patients may be more concerned with nurse responsiveness.
2. **Gap between management perception and service-quality specification**—Management might correctly perceive customers' wants but not set a performance standard. Hospital administrators may tell the nurses to give "fast" service without specifying it in minutes.
3. **Gap between service-quality specifications and service delivery**—Employees might be poorly trained, or incapable of or unwilling to meet the standard; they may be held to conflicting standards, such as taking time to listen to customers and serving them fast.
4. **Gap between service delivery and external communications**—Consumer expectations are affected by statements made by company representatives and ads. If a hospital brochure shows a beautiful room but the patient finds it to be cheap and tacky looking, external communications have distorted the customer's expectations.



[Fig. 13.6] 


Service-Quality Model

Sources: A. Parasuraman, Valarie A. Zeithaml, and Leonard L. Berry, "A Conceptual Model of Service Quality and Its Implications for Future Research," *Journal of Marketing* (Fall 1985), p. 44. Reprinted with permission of the American Marketing Association. The model is more fully discussed or elaborated in Valarie Zeithaml, Mary Jo Bitner, and Dwayne D. Gremler, *Services Marketing: Integrating Customer Focus across the Firm*, 4th ed. (New York: McGraw-Hill, 2006).

5. **Gap between perceived service and expected service**—This gap occurs when the consumer misperceives the service quality. The physician may keep visiting the patient to show care, but the patient may interpret this as an indication that something really is wrong.

Based on this service-quality model, researchers identified five determinants of service quality, in this order of importance:⁷⁰

1. **Reliability**—The ability to perform the promised service dependably and accurately.
2. **Responsiveness**—Willingness to help customers and provide prompt service.
3. **Assurance**—The knowledge and courtesy of employees and their ability to convey trust and confidence.
4. **Empathy**—The provision of caring, individualized attention to customers.
5. **Tangibles**—The appearance of physical facilities, equipment, personnel, and communication materials.

Based on these five factors, the researchers developed the 21-item SERVQUAL scale (see  Table 13.5).⁷¹ They also note there is a *zone of tolerance*, or a range where a service dimension would be deemed satisfactory, anchored by the minimum level consumers are willing to accept and the level they believe can and should be delivered.

The service-quality model in Figure 13.6 highlights some of the gaps that cause unsuccessful service delivery. Subsequent research has extended the model. One *dynamic process model* of service quality was based on the premise that customer perceptions and expectations of service quality change over time, but at any one point they are a function of prior expectations about what *will* and what *should* happen during the service encounter, as well as the *actual* service delivered during the last contact.⁷² Tests of the dynamic process model reveal that the two different types of expectations have opposite effects on perceptions of service quality.

1. *Increasing* customer expectations of what the firm *will* deliver can lead to improved perceptions of overall service quality.
2. *Decreasing* customer expectations of what the firm *should* deliver can also lead to improved perceptions of overall service quality.

TABLE 13.5  SERVQUAL Attributes

Reliability

- Providing service as promised
- Dependability in handling customers' service problems
- Performing services right the first time
- Providing services at the promised time
- Maintaining error-free records
- Employees who have the knowledge to answer customer questions

Empathy

- Giving customers individual attention
- Employees who deal with customers in a caring fashion
- Having the customer's best interests at heart
- Employees who understand the needs of their customers
- Convenient business hours

Responsiveness

- Keeping customer informed as to when services will be performed
- Prompt service to customers
- Willingness to help customers
- Readiness to respond to customers' requests

Tangibles

- Modern equipment
- Visually appealing facilities
- Employees who have a neat, professional appearance
- Visually appealing materials associated with the service

Assurance

- Employees who instill confidence in customers
- Making customers feel safe in their transactions
- Employees who are consistently courteous

Much work has validated the role of expectations in consumers' interpretations and evaluations of the service encounter and the relationship they adopt with a firm over time.⁷³ Consumers are often forward-looking with respect to their decision to keep or switch from a service relationship. Any marketing activity that affects current or expected future usage can help to solidify a service relationship.

With continuously provided services, such as public utilities, health care, financial and computing services, insurance, and other professional, membership, or subscription services, customers have been observed to mentally calculate their *payment equity*—the perceived economic benefits in relationship to the economic costs. In other words, customers ask themselves, “Am I using this service enough, given what I pay for it?”

Long-term service relationships can have a dark side. An ad agency client may feel that over time the agency is losing objectivity, becoming stale in its thinking, or beginning to take advantage of the relationship.⁷⁴

Incorporating Self-Service Technologies (SSTs)

Consumers value convenience in services.⁷⁵ Many person-to-person service interactions are being replaced by self-service technologies (SSTs). To the traditional vending machines we can add automated teller machines (ATMs), self-pumping at gas stations, self-checkout at hotels, and a variety of activities on the Internet, such as ticket purchasing, investment trading, and customization of products.

Not all SSTs improve service quality, but they can make service transactions more accurate, convenient, and faster. Obviously, they can also reduce costs. One technology firm, Comverse, estimates the cost to answer a query through a call center at \$7, but only 10 cents online. One of its clients was able to direct 200,000 calls a week through online self-service support, saving \$52 million a year.⁷⁶ Every company needs to think about improving its service using SSTs.

Marketing academics and consultants Jeffrey Rayport and Bernie Jaworski define a *customer-service interface* as any place at which a company seeks to manage a relationship with a customer, whether through people, technology, or some combination of the two.⁷⁷ They feel that although many companies serve customers through a broad array of interfaces, from retail sales clerks to Web sites to voice-response telephone systems, the whole often does not add up to the sum of its parts, increasing complexity, costs, and customer dissatisfaction as a result. Successfully integrating technology into the workforce thus requires a comprehensive reengineering of the front office to identify what people do best, what machines do best, and how to deploy them separately and together.

Some companies have found that the biggest obstacle is not the technology itself, but convincing customers to use it, especially for the first time. Customers must have a clear sense of their roles in the SST process, must see a clear benefit, and must feel they can actually use it.⁷⁸ SST is not for everyone. Although some automated voices are actually popular with customers—the unfailingly polite and chipper voice of Amtrak's “Julie” consistently wins kudos from callers—many can incite frustration and even rage.

Managing Product-Support Services

No less important than service industries are product-based industries that must provide a service bundle. Manufacturers of equipment—small appliances, office machines, tractors, mainframes, airplanes—all must provide *product-support services*. Product-support service is becoming a major battleground for competitive advantage.

Chapter 12 described how products could be augmented with key service differentiators—ordering ease, delivery, installation, customer training, customer consulting, maintenance, and repair. Some equipment companies, such as Caterpillar Tractor and John Deere, make a significant percentage of their profits from these services.⁷⁹ In the global marketplace, companies that make a good product but provide poor local service support are seriously disadvantaged.

Many product companies have a stronger Web presence than they had before. They must ensure that they offer adequate—if not superior—service online as well. “Marketing Memo: Assessing E-Service Quality” reviews two models of online service quality.

Identifying and Satisfying Customer Needs

Traditionally, customers have had three specific worries about product service.⁸⁰

- They worry about reliability and *failure frequency*. A farmer may tolerate a combine that will break down once a year, but not two or three times a year.
- They worry about *downtime*. The longer the downtime, the higher the cost. The customer counts on the seller’s *service dependability*—the seller’s ability to fix the machine quickly or at least provide a loaner.⁸¹
- They worry about *out-of-pocket costs*. How much does the customer have to spend on regular maintenance and repair costs?

A buyer takes all these factors into consideration and tries to estimate the **life-cycle cost**, which is the product’s purchase cost plus the discounted cost of maintenance and repair less the discounted salvage value. A one-computer office will need higher product reliability and faster repair service than an office where other computers are available if one breaks down. An airline needs 100 percent reliability in the air. Where reliability is important, manufacturers or service providers can offer guarantees to promote sales.

marketing Memo

Assessing E-Service Quality

Academic researchers Zeithaml, Parasuraman, and Malhotra define online service quality as the extent to which a Web site facilitates efficient and effective shopping, purchasing, and delivery. They identified 11 dimensions of perceived e-service quality: access, ease of navigation, efficiency, flexibility, reliability, personalization, security/privacy, responsiveness, assurance/trust, site aesthetics, and price knowledge. Some of these service-quality dimensions were the same online as offline, but some specific underlying attributes were different. Different dimensions emerged with e-service quality too. Empathy didn’t seem to be as important online, unless there were service problems. Core dimensions of regular service quality were efficiency, fulfillment, reliability, and privacy; core dimensions of service recovery were responsiveness, compensation, and real-time access to help.

Another set of academic researchers, Wolfinbarger and Gilly, developed a reduced scale of online service quality with four key dimensions: reliability/fulfillment, Web site design, security/privacy, and customer service. The researchers interpret their study findings to suggest that the most basic building blocks of a “compelling online experience” are reliability and functionality to provide time savings, easy transactions, good selection, in-depth information, and the “right” level of personalization. Their 14-item scale looks like this:

Reliability/Fulfillment

The product that came was represented accurately by the Web site.

You get what you ordered from this Web site.

The product is delivered by the time promised by the company.

Web Site Design

This Web site provides in-depth information.

The site doesn’t waste my time.

It is quick and easy to complete a transaction at this Web site.

The level of personalization at this site is about right, not too much or too little.

This Web site has good selection.

Security/Privacy

I feel that my privacy is protected at this site.

I feel safe in my transactions with this Web site.

This Web site has adequate security transactions.

Customer Service

The company is willing and ready to respond to customer needs.

When you have a problem, the Web site shows a sincere interest in solving it.

Inquiries are answered promptly.

Sources: Mary Wolfinbarger and Mary C. Gilly, “E-TailQ: Dimensionalizing, Measuring, and Predicting E-Tail Quality,” *Journal of Retailing* 79 (Fall 2003), pp. 183–98; Valarie A. Zeithaml, A. Parasuraman, and Arvind Malhotra, “A Conceptual Framework for Understanding E-Service Quality: Implications for Future Research and Managerial Practice,” *Marketing Science Institute Working Paper*, Report No. 00-115, 2000.

To provide the best support, a manufacturer must identify the services customers value most and their relative importance. For expensive equipment, manufacturers offer *facilitating services* such as installation, staff training, maintenance and repair services, and financing. They may also add *value-augmenting services* that extend beyond the functioning and performance of the product itself. Johnson Controls reached beyond its climate control equipment and components business to manage integrated facilities by offering products and services that optimize energy use and improve comfort and security.

A manufacturer can offer, and charge for, product-support services in different ways. One specialty organic-chemical company provides a standard offering plus a basic level of services. If the customer wants additional services, it can pay extra or increase its annual purchases to a higher level, in which case additional services are included. Many companies offer *service contracts* (also called *extended warranties*), in which sellers agree to provide free maintenance and repair services for a specified period of time at a specified contract price.

Product companies must understand their strategic intent and competitive advantage in developing services. Are service units supposed to support or protect existing product businesses or to grow as an independent platform? Are the sources of competitive advantage based on economies of scale or economies of skill?⁸² See ▲ Figure 13.7 strategies of different service companies.

Postsale Service Strategy

The quality of customer service departments varies greatly. At one extreme are departments that simply transfer customer calls to the appropriate person or department for action with little follow-up. At the other extreme are departments eager to receive customer requests, suggestions, and even complaints and handle them expeditiously. Some firms even proactively contact customers to provide service after the sale is complete.⁸³

CUSTOMER-SERVICE EVOLUTION Manufacturers usually start by running their own parts-and-service departments. They want to stay close to the equipment and know its problems. They also find it expensive and time consuming to train others and discover they can make good money from parts and service if they are the only supplier and can charge a premium price. In fact, many equipment manufacturers price their equipment low and compensate by charging high prices for parts and service.

[Fig. 13.7] ▲

Service Strategies for Product Companies

		Strategic Intent	
		Protect or Enhance Product	Expand Independent Service
Source of Competitive Advantage	Economies of scale	<ul style="list-style-type: none"> • Apple's iPod music download and transaction management service (iTunes) • Otis Elevator's remote monitoring and diagnostics services • General Motors' OnStar auto remote diagnostics service • Symantec's virus protection and data security services 	<ul style="list-style-type: none"> • Cardinal Healthcare's hospital inventory-management services • Cincinnati Bell's billing services (now part of Convergys) • IBM's data-center-outsourcing services • Johnson Controls' integrated facilities-management services
	Economies of skill	<ul style="list-style-type: none"> • Cisco's network integration and maintenance services • EMC's storage-management and maintenance services • SAP Systems' integration services • UTC's utilities field support services 	<ul style="list-style-type: none"> • Cincinnati Bell's call-center-management services (now part of Convergys) • General Electric's aircraft-engine-maintenance services • GE Healthcare's hospital equipment—support and diagnostics services for hospital equipment • IBM's systems integration services

Source: Byron G. Augustine, Eric P. Harmon, and Vivek Pandit, "The Right Service Strategies for Product Companies," *The McKinsey Quarterly*, no. 1 (2006), pp. 41–51. All rights reserved. Reprinted by permission of McKinsey & Company.

Over time, manufacturers switch more maintenance and repair service to authorized distributors and dealers. These intermediaries are closer to customers, operate in more locations, and can offer quicker service. Still later, independent service firms emerge and offer a lower price or faster service. A significant percentage of auto-service work is now done outside franchised automobile dealerships by independent garages and chains such as Midas Muffler, and Sears. Independent service organizations handle mainframes, telecommunications equipment, and a variety of other equipment lines.

THE CUSTOMER-SERVICE IMPERATIVE Customer-service choices are increasing rapidly, however, and equipment manufacturers increasingly must figure out how to make money on their equipment, independent of service contracts. Some new-car warranties now cover 100,000 miles before servicing. The increase in disposable or never-fail equipment makes customers less inclined to pay 2 percent to 10 percent of the purchase price every year for a service. A company with several hundred laptops, printers, and related equipment might find it cheaper to have its own service people on-site.

Summary

1. A service is any act or performance that one party can offer to another that is essentially intangible and does not result in the ownership of anything. It may or may not be tied to a physical product.
2. Services are intangible, inseparable, variable, and perishable. Each characteristic poses challenges and requires certain strategies. Marketers must find ways to give tangibility to intangibles, to increase the productivity of service providers, to increase and standardize the quality of the service provided, and to match the supply of services with market demand.
3. Marketing of services faces new realities in the 21st century due to customer empowerment, customer co-production, and the need to satisfy employees as well as customers.
4. In the past, service industries lagged behind manufacturing firms in adopting and using marketing concepts and tools, but this situation has changed. Achieving excellence in service marketing calls not only for external marketing but also for internal marketing to motivate employees, as well as interactive marketing to emphasize the importance of both “high tech” and “high touch.”
5. Top service companies excel at the following practices: a strategic concept, a history of top-management commitment to quality, high standards, profit tiers, and systems for monitoring service performance and customer complaints. They also differentiate their brands through primary and secondary service features and continual innovation.
6. Superior service delivery requires managing customer expectations and incorporating self-service technologies. Customers’ expectations play a critical role in their service experiences and evaluations. Companies must manage service quality by understanding the effects of each service encounter.
7. Even product-based companies must provide post-purchase service. To offer the best support, a manufacturer must identify the services customers value most and their relative importance. The service mix includes both presale services (facilitating and value-augmenting services) and postsale services (customer service departments, repair and maintenance services).

Applications

Marketing Debate

Is Service Marketing Different from Product Marketing?

Some service marketers maintain that service marketing is fundamentally different from product marketing and relies on different skills. Some traditional product marketers disagree, saying “good marketing is good marketing.”

Take a position: Product and service marketing are fundamentally different *versus* Product and service marketing are highly related.

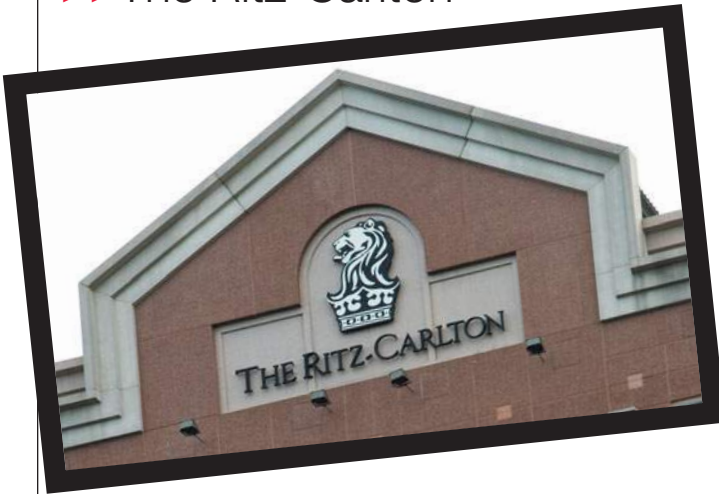
Marketing Discussion

Educational Institutions

Colleges, universities, and other educational institutions can be classified as service organizations. How can you apply the marketing principles developed in this chapter to your school? Do you have any advice as to how it could become a better service marketer?

Marketing Excellence

>>The Ritz-Carlton



Few brands attain such a high standard of customer service as the luxury hotel, The Ritz-Carlton. The Ritz-Carlton dates back to the early 20th century and the original Ritz-Carlton Boston, which revolutionized the way U.S. travelers viewed and experienced customer service and luxury in a hotel. The Ritz-Carlton Boston was the first of its kind to provide guests with a private bath in each guest room, fresh flowers throughout the hotel, and an entire staff dressed in formal white tie, black tie, or morning coat attire.

In 1983, hotelier Horst Schulze and a four-person development team acquired the rights to the Ritz-Carlton name and created the Ritz-Carlton concept as it is known today: a company-wide concentration on both the personal and the functional side of service. The five-star hotel provides impeccable facilities but also takes customer service extremely seriously. Its credo is, "We are Ladies and Gentlemen serving Ladies and Gentlemen." According to the company's Web site, The Ritz-Carlton "pledge(s) to provide the finest personal service and facilities for our guests who will always enjoy a warm, relaxed, yet refined ambience."

The Ritz-Carlton fulfills this promise by providing impeccable training for its employees and executing its Three Steps of Service and 12 Service Values. The Three Steps of Service state that employees must use a warm and sincere greeting always using the guest's name, anticipate and fulfill each guest's needs, and give a warm good-bye again using the guest's name. Every manager carries a laminated card with the 12 Service Values, which include bullets such as number 3: "I am empowered to create unique, memorable and personal experiences for our guests," and number 10: "I am proud of my professional appearance, language and behavior." Simon Cooper, the company

president and chief operating officer, explained, "It's all about people. Nobody has an emotional experience with a thing. We're appealing to emotions." The Ritz-Carlton's 38,000 employees at 70 hotels in 24 countries go out of their way to create unique and memorable experiences for their guests.

While The Ritz-Carlton is known for training its employees on exceptional customer service, the hotel also reinforces its mission and values to its employees on a daily basis. Each day, managers gather their employees for a 15-minute "line up." During this time, managers touch base with their employees, resolve any impending problems, and spend the remaining time reading and discussing what The Ritz-Carlton calls "wow stories."

The same "wow story" of the day is read to every single employee around the world. These true stories recognize an individual employee for his or her outstanding customer service and also highlight one of the 12 Service Values. For example, one family staying at the Ritz-Carlton, Bali, needed a particular type of egg and milk for their son who suffered from food allergies. Employees could not find the appropriate items in town, but the executive chef at the hotel remembered a store in Singapore that sold them. He contacted his mother-in-law, who purchased the items and personally flew them over 1,000 miles to Bali for the family. This example showcased Service Value 6: "I own and immediately resolve guests' problems."

In another instance, a waiter overheard a man telling his wife, who used a wheelchair, that it was too bad he couldn't get her down to the beach. The waiter told the maintenance crew, and by the next day they had constructed a wooden walkway down to the beach and pitched a tent at the far end where the couple had dinner. According to Cooper, the daily wow story is "the best way to communicate what we expect from our ladies and gentlemen around the world. Every story reinforces the actions we are looking for and demonstrates how each and every person in our organization contributes to our service values." As part of company policy, each employee is entitled to spend up to \$2,000 on a guest to help deliver an anticipated need or desire.

The hotel measures the success of its customer service efforts through Gallup phone interviews, which ask both functional and emotional questions. Functional questions ask "How was the meal? Was your bedroom clean?" while emotional questions uncover a sense of the customer's well-being. The Ritz-Carlton uses these findings as well as day-to-day experiences to continually enhance and improve the experience for its guests.

In less than three decades, The Ritz-Carlton has grown from 4 locations to over 70 and earned two Malcolm Baldrige Quality Awards—the only company ever to win the prestigious award twice.

Questions

1. How does The Ritz-Carlton match up to competitive hotels? What are the key differences?
2. Discuss the importance of the “wow stories” in customer service for a luxury hotel like The Ritz-Carlton.

Sources: Robert Reiss, “How Ritz-Carlton Stays at Top,” *Forbes*, October 30, 2009; Carmine Gallo, “Employee Motivation the Ritz-Carlton Way,” *BusinessWeek*, February 29, 2008; Carmine Gallo, “How Ritz-Carlton Maintains Its Mystique,” *BusinessWeek*, February 13, 2007; Jennifer Robison, “How The Ritz-Carlton Manages the Mystique,” *Gallup Management Journal*, December 11, 2008; *The Ritz Carlton*, www.RitzCarlton.com.

Marketing Excellence**>> Mayo Clinic**

Mayo Clinic is the first and largest integrated not-for-profit medical group practice in the world. William and Charles Mayo founded the clinic over 100 years ago as a small outpatient facility and pioneered the concept of a medical group practice—a model that is widely used today.

Mayo Clinic provides exceptional medical care and leads the nation in many specialties such as cancer, heart disease, respiratory disorders, and urology. It consistently ranks at the top of *U.S. News & World Report's* Best Hospitals list and enjoys 85 percent brand recognition among U.S. adults. It has reached this level of success by taking a different approach from most clinics and hospitals and putting a relentless focus on the patient's experience. The clinic's two interrelated core values trace back to its founders and are at the heart of all the organization does: placing the patient's interests above all others and practicing teamwork.

Every aspect of the patient's experience is considered at Mayo Clinic's three campuses in Rochester (MN), Scottsdale (AZ), and Jacksonville (FL). The moment a patient walks into one of Mayo Clinic's facilities, he or she feels the difference. New patients are welcomed by professional greeters who walk them through the administrative processes. Returning patients are greeted by name

and with a warm smile. The buildings have been designed so that, in the words of the architect of one, “patients feel a little better before they see their doctors.” The 21-story Gonda Building in Rochester has spectacular wide-open spaces with the capability of adding 10 more floors. Fine art hangs on the walls, and doctor's offices are designed to feel cozy and comforting rather than sterile and impersonal.

The lobby of the Mayo Clinic hospital in Scottsdale has an indoor waterfall and a wall of windows overlooking mountains. In pediatric exam rooms, resuscitation equipment is hidden behind a large cheery picture. Hospital rooms feature microwave ovens and chairs that really do convert to beds because, as one staff member explained, “People don't come to the hospital alone.” The newest emergency medical helicopter was customized to incorporate high-tech medical equipment and is one of the most advanced aircraft in the world.

The other significant difference in serving patients is Mayo Clinic's concept of teamwork. A patient can come to Mayo Clinic with or without a physician's referral. At that time, the patient's team is assembled, which can include the primary physician, surgeons, radiation oncologists, radiologists, nurses, residents, or other specialists with the appropriate skill, experience, and knowledge.

Teams of medical professionals work together to diagnose patients' medical problems, including debating test results for hours to determine the most accurate diagnosis and best treatments. Once a team consensus has been reached, the leader meets with the patient and discusses his or her options. Throughout the process, patients are encouraged to take part in the discussion. If surgery is necessary, the procedure is often scheduled to take place within 24 hours, a dramatic difference from the long wait patients experience at many hospitals. Mayo Clinic's doctors understand that those who seek their care want action as soon as possible.

Mayo's doctors are put on salary instead of being paid by the number of patients seen or tests ordered. As a result, patients receive more individualized attention and care, and physicians work together instead of against each other. As one pediatrician at Mayo explained, “We're very comfortable with calling colleagues for what I call

‘curbside consulting.’ I don’t have to make a decision about splitting a fee or owing someone something. It’s never a case of quid pro quo.”

Mayo Clinic is a not-for-profit, so all its operating income is invested back into the clinic’s research and education programs. Breakthrough research is quickly implemented into the quality care of the patients. Mayo Clinic offers educational programs through its five schools, and many of its physicians come up through these programs with Mayo’s philosophies engrained in their heads, including Mayo’s motto: “The best interest of the patient is the only interest to be considered.”

President Obama often cites Mayo Clinic as a key example in health care reform. Mayo Clinic has been recognized by third parties for decades for its independent thinking, outstanding service and performance, and core focus on patient care and satisfaction.

Questions

1. Explain why Mayo Clinic is so good at customer service. Why has it been so successful practicing medicine differently from other hospitals?
2. Do conflicts of interest exist between wanting to make your patient happy and providing the best medical care possible? Why or why not?

Sources: Avery Comarow, “America’s Best Hospitals,” *U.S. News & World Report*, July 15, 2009; Chen May Yee, “Mayo Clinic Reports 2007 Revenue Grew 10%,” *Star Tribune*, March 17, 2008; Leonard L. Berry and Kent D. Seltman, *Management Lessons from Mayo Clinic* (New York: McGraw-Hill, 2008); Leonard L. Berry, “Leadership Lessons from Mayo Clinic,” *Organizational Dynamics* 33 (August 2004), pp. 228–42; Leonard L. Berry and Neeli Bendapudi, “Clueing in Customers,” *Harvard Business Review*, February 2003, pp. 100–106; John La Forgia, Kent Seltman, and Scott Swanson, “Mayo Clinic: Sustaining a Legacy Brand and Leveraging Its Equity in the 21st-Century Market,” Presentation at the Marketing Science Institute’s Conference on Brand Orchestration, Orlando, FL, December 4–5, 2003; Paul Roberts, “The Agenda—Total Teamwork,” *Fast Company*, March 31, 1999.