CHAPTER 9

Designing and Managing Services



In line with its vision to be a globally respected corporation, Infosys has set very high standards in business and transactions to be an exemplar for the industry. Its tagline 'Powered by Intellect, Driven by Values' focused on competence and values. Surpassing client expectations consistently has resulted in the software giant earning an impressive customer loyalty with repeat business generating 93% of its $13.56 bn topline in 2021.
Source: Infosys

Learning Objectives After studying this chapter you should be able to:

9.1 Define the distinctive characteristics of services.
9.2 Explain the new realities that service firms face.
9.3 Identify the key strategies to achieve service excellence.
9.4 Explain how service firms can manage quality effectively.

As companies find it harder to differentiate their physical products, they turn to service differentiation, whether that involves on-time delivery, better and faster response to inquiries, or quicker resolution of complaints. Top service providers are well aware of the advantages of service differentiation and its value in creating memorable customer experiences.[1] One service business that understands how to keep customers satisfied is Infosys.

Narayana Murthy and the founding team of six engineers started Infosys in 1981 with an initial capital of $250 to develop software for a US-based client. Over the next four decades, the firm set a new standard for transparent value systems, ethical business practices and principles in the software service industry.[2] The company differentiated itself on a strong foundation of core value system 'C-LIFE – Client focus, Leadership by example, Integrity and transparency, Fairness, and Excellence. Following a value system based on legal, ethical, and transparent business is believed not to be a very prevalent practice in India. But the leadership at Infosys persisted and earned the trust of investors, clients and other stakeholders. Complementing its vision to be India's one of the most respected companies delivering best-of-breed technology solutions and employing best-in-class professionals, Infosys followed a consistent strategy for brand building. As Narayana Murthy explained, *"Strategy is what we have to do to create and maintain sustainable differentiation vis-à-vis competitors. One aspect of our differentiation is our emphasis on values. Our values give our clients confidence that we will deliver on our promises, stand by them in every situation, and that we will spare no efforts to make them look good in front of their customers. Still, values cannot be just part of the strategy process; they have to be second nature for everyone in the organization."*[3] With its ethical and transparent image, Infosys gained clients' trust and many of whom continue to do business with Infosys for more than a decade.[4] Infosys has now turned

onto one of the most valuable companies with market capitalization of US $100 billion as of 2021.[5]

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

A **service** is an act that one entity performs for 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. Increasingly, manufacturers, distributors, and retailers are providing value-added services, or simply excellent customer service, to differentiate themselves.

Services 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.

THE SERVICE ASPECT OF AN OFFERING

Service can be a major or minor component of a company's offering. Based on the degree to which they involve a service, we distinguish five categories of offerings:

- **A pure tangible good**, such as soap, toothpaste, or salt, with virtually no accompanying services.
- **A tangible good with accompanying services**, like a car, computer, or cell phone with a warranty or specialized customer-service contract. Typically, the more technologically advanced the product, the greater the need for high-quality supporting services.
- **A hybrid offering**, like a restaurant meal, of equal parts goods and services. People patronize restaurants for both the food and its preparation.
- **A major service with accompanying minor goods and services**, like air travel with 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.
- **A pure service**, primarily an intangible service, such as consulting, babysitting, psychotherapy, or massage.

Restaurants are good examples of hybrid offerings combining products and services. Narayana Health is one of the most successful Indian healthcare brands

> **Narayana Health** Narayana Health was founded in 2001 by Dr. Devi Shetty as Narayana Hrudalaya—a super-speciality cardiac hospital engaged in offering affordable services related to heart health. Eventually, Dr. Shetty's mission translated into a broader perspective of delivering high-quality affordable healthcare services through a chain of hospitals in India. Dr. Shetty banked on the transformative power of technology to develop an asset-light business model, and strategically worked with governments and private owners for land lease and renting premises, respectively. The healthcare group's purpose-driven approach helped it commission hospitals and clinics rapidly to bring the promise of quality healthcare at reasonable budget to the doorstep of the country's millions. Presently, it offers care in over 30 specialties including cardiology, oncology, neurology, orthopedics, nephrology and gastroenterology across its 21 hospitals with 6000 beds. Narayana Health optimizes productivity while minimizing costs by combining innovative technology with a highly efficient delivery system, thereby enabling its healthcare facilities increase treatment capacity and expand the number of specialty services offered[6]. The low investment and low cost, high-volume model coupled with an assembly line approach to operations helped the healthcare group leverage

> economies of scale while delivering high quality. Attracting large number of patients through innovative schemes such as micro-insurance and telemedicine ensured higher utilization of capital-intensive diagnostic equipment and operation theatres. Treating more patients enhance quality as skills of doctors and surgeons improve with more practice. Higher volumes enable reduction in unit cost of surgeries. Standardization of procedures, centralized purchasing, digitization, data driven business intelligence model, and motivated doctors and skilled employees drive improvements in patient outcomes and satisfaction.[7] Narayana Health has won the admiration of health system leaders through its innovative care delivery model that lowers costs, improves quality, and increases access to its services.[8]

Customers sometimes cannot judge the quality of some services even after they have received them. Based on the difficulty of evaluation, service benefits can be classified into three categories. *Search benefits* are characteristics the buyer can evaluate before purchase, *experience benefits* are characteristics the buyer can evaluate after purchase, and finally, *credence benefits* are characteristics the buyer finds hard to evaluate even after consumption.[9]



Narayana Health has achieved success by combining high quality with affordable price to improve healthcare access.
Source: ©Narayana Health, used with permission

Because services are generally high in experience and credence qualities, there is more risk involved 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. Finally, because switching costs are high, consumer inertia can make it challenging to entice business away from a competitor.



Carnival found out the hard way how quickly a company's image and customer loyalty can be undermined when an engine fire on its Carnival Triumph left more than 3,000 passengers with limited access to food, water, and working toilets.
Source: Debbie Ann Powell/Alamy Stock Photo

Although customer loyalty can be strong for services, in today's modern communications environment, a service failure can be a PR nightmare and undermine that loyalty, as Carnival Cruises found.

> **Carnival** The *Carnival Triumph* was on the third day of a four-day cruise from Galveston, Texas, to Mexico when an engine room fire disabled the boat and set it adrift, leaving 3,100 passengers with little access to food, water, and restrooms. Waste spilled into the hallways, and decks below became insufferably hot. When the boat returned to shore after a long five days, the CEO greeted passengers as they disembarked and gave each of them $500, a free flight home, a refund for the trip, and credit for another cruise. Nevertheless, given the publicity surrounding what the media called the "poop cruise," the damage had been done. Public opinion of

cruises as a whole dropped. Carnival found its bookings declining by a hefty 20 percent, forcing the company to pass along steep discounts to fill boats. To avoid future problems, the cruise line invested $600 million to upgrade its fleet and hired a new VP of Technical Operations to oversee its safety initiatives. Seven years later, amid the COVID outbreak in March 2020, Carnival faced a similar challenge when it experienced several high-profile outbreaks on its ships, which spurred a congressional inquiry into the company's safety practices.[10]

DISTINCTIVE CHARACTERISTICS OF SERVICES

Researchers delineate four key characteristics that distinguish services from products: *intangibility, inseparability, variability*, and *perishability*.[11] Understanding these unique aspects of service delivery is important, because they can greatly affect the design of marketing programs. We discuss these four aspects of services in more detail next.

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 beforehand, 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."[12]

Service companies can try to demonstrate their service quality by emphasizing their tangible aspects. Because there is no physical product, the service provider's facilities—such as its primary and secondary signage, environmental design and reception area, employee apparel, and collateral material—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 Doubletree by Hilton Hotels &

Resorts offers fresh-baked chocolate chip cookies to symbolize care and friendliness.

Service providers often choose brand elements such as logos, symbols, characters, and slogans to make the service and its key benefits more tangible; consider the "friendly skies" of United, the "good hands" of Allstate, and the "bullish" nature of Merrill Lynch. Disney is a master at "tangibilizing the intangible" and creating magical fantasies in its theme parks. So are retailers such as Dick's Sporting Goods and Bass Pro Shops.[13] Apple tangibilized its customer service by creating its "Genius Bar"—a tech support station inside Apple's stores, aiming to provide concierge-style customer support.

Banks and financial institutions are particularly inclined to add a tangible dimension to their services—by securing a prestigious office address and an imposing building structure—in order to convey a sense of stability and instill trust. In addition, many financial institutions, including Scotiabank, MetLife, Chase, Citi, SunTrust, US Bank, Barclays, and Bank of America, have paid upwards of $100 million (and in some cases over $500 million) for the naming rights to major stadiums and sports arenas.[14]

Inseparability. Whereas physical goods are manufactured, inventoried, distributed, and later consumed, services are typically produced and consumed simultaneously.[15] A haircut can't be stored, nor can it be 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. 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 more than 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 client

confidence, as H&R Block has done with its national network of trained tax consultants.

A common approach to addressing the inseparability aspect of services is yield management—a pricing strategy that aims to optimize customer demand based on the available capacity of the service provider. Because services cannot be inventoried to increase availability at times of greater demand, service providers use variable pricing to influence consumer behavior by setting a price point at which consumer demand matches a company's capacity. For example, resorts are subject to seasonal fluctuations in demand, restaurants tend to be busier on weekends, and airlines experience higher than usual demand around holidays such as Thanksgiving, Christmas, and New Year's Eve. By varying their price, companies are able to influence customer demand in a way that matches their capacity.



To ensure that Hilton properties in both Europe and the United States provide its guests with uniformly high-quality services or be purged from its system, Hilton launched a project to review all aspects of the guest experience—from property architecture to customer complaints.
Source: Newscast Online Limited/Alamy Stock Photo

Variability. The quality of services depends on who provides them—as well as on when, where, and to whom; thus, services are highly variable. Because service delivery is an interactive experience, the actual service received by customers varies across individual customers and service providers. Service

firms know that variability in their performance puts them at risk. Hilton initiated a major program to create more uniformity in guest experiences.

> **Hilton Hotels** Between 1964, when Hilton Hotels sold its foreign licensee Hilton International Co., and 2006, when it bought Hilton International Co. back, the two companies operated largely independently. As a result, the Hilton brand was no longer providing customers with a uniform high-quality experience. One research analyst said, "The brand standards in Europe were always very different from those in the U.S. I think they were, quite frankly, a bit slacker in Europe. To address this inconsistency, Hilton initiated H360, a project to review everything from breakfast fare to bath amenities, the décor of lobbies, Wi-Fi service, hotel architecture, and handling of customer complaints at all the company's hotels. As a result of H360—whose motto was "One brand. One vision. One culture"—independent owners of Hilton-branded hotels in the United States and abroad have been forced to upgrade to Hilton standards where necessary or be dropped from the Hilton system. Protecting the brand seems to have served the company well, helping increase its revenues and strengthening its brand equity.[16]

Service buyers are aware of potential variability and often talk to others or go online to collect information before selecting a specific service provider. To reassure customers, some firms offer *service guarantees* that may reduce consumer perceptions of risk.[17] Here are three steps that service firms can take to increase quality control.

- **Invest in good hiring and training procedures.** Recruiting the right employees and giving them excellent training are crucial elements of quality control, whether employees are highly skilled professionals or low-skilled workers. Better-trained people exhibit six characteristics that improve service quality: competence, courtesy, credibility, reliability, responsiveness, and communication skill.
- **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.[18] Figure 9.1 shows a service blueprint for an

overnight guest at a hotel.[19] Behind the scenes, the hotel must skillfully help the guest move from one step to the next. Service blueprints can be helpful in identifying potential "pain points" for customers, developing new services, supporting a zero-defects culture, and devising service recovery strategies.

- **Monitor customer satisfaction.** Reduce service variability by employing suggestion and complaint systems, customer surveys, and third-party comparison shopping. Customer needs may vary in different areas, allowing firms to develop region-specific customer satisfaction programs.[20] Firms can also develop customer information databases and systems for more personalized service, especially online.[21]

Perishability. Services cannot be stored, so their perishability can be a problem when demand fluctuates. To accommodate rush-hour demand, public transportation companies must own more equipment 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 at the right prices to maximize profitability. Several strategies can produce a better match between service demand and supply.[22] On the demand (customer) side, we can identify the following strategies:

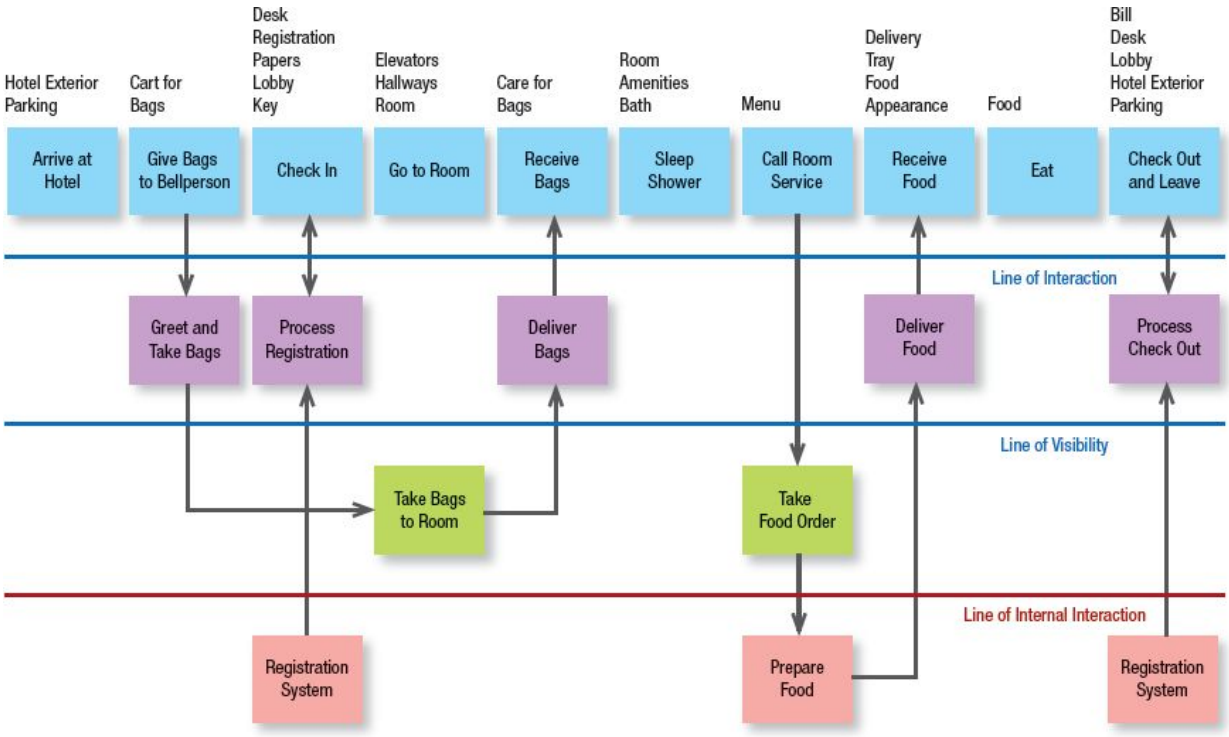
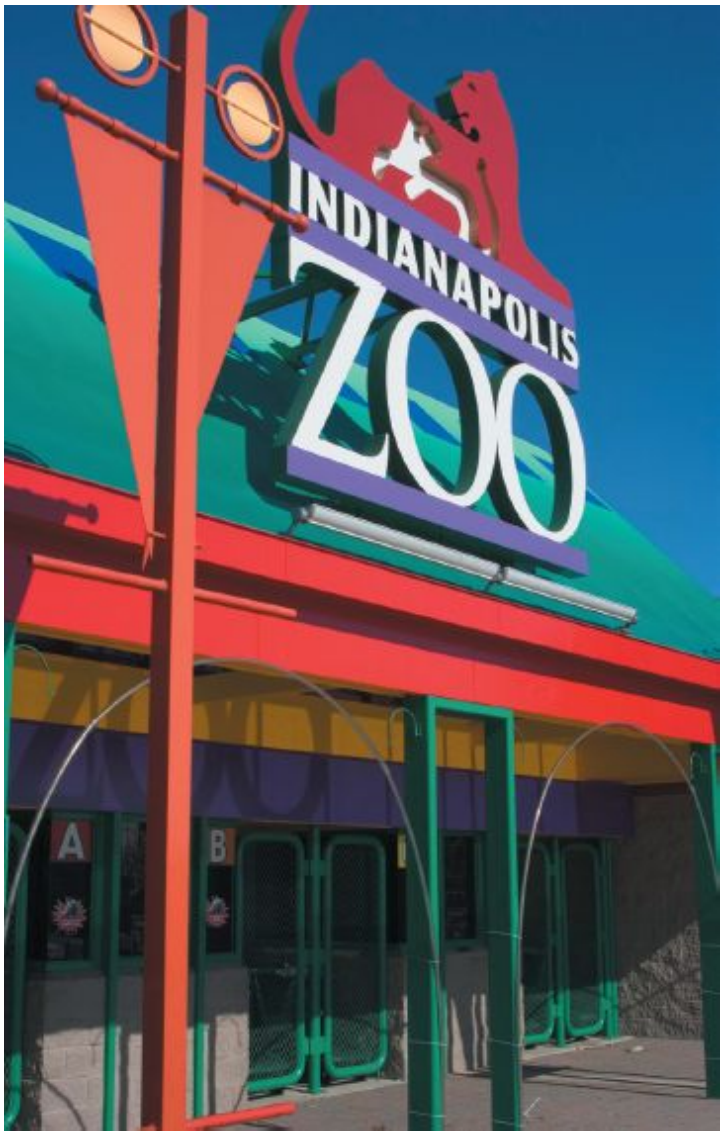


FIGURE 9.1
Blueprint for Overnight Hotel Stay
Source: Valarie Zeithaml, Mary Jo Bitner, and Dwayne D. Gremler, *Services Marketing: Integrating Customer Focus across the Firm*, 7th ed. (New York: McGraw-Hill, 2017).

- *Differential pricing* will shift some demand from peak to off-peak periods. Examples include lower matinee movie prices and weekend discounts for car rentals.[23]
- *Nonpeak demand* can be cultivated. McDonald's pushes breakfast service, and hotels promote minivacation weekends.
- *Complementary services* can provide alternatives for 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.



Dynamic pricing based on advance sales and anticipated demand has helped the Indianapolis Zoo to simultaneously control the number of visitors and increase revenue.
Source: Wm. Baker/GhostWorx Images/Alamy Stock Photo

Perhaps one of the most popular approaches to balancing supply and demand in service delivery is **yield pricing**. For example, ride-hailing firms such as Ola and Uber use dynamic pricing when there is a demand-supply imbalance during normal peak hours, adverse weather conditions, large public events, traffic congestions or emergencies. Prices are calculated using real time algorithms depending on demand and supply at different locations

in each city at any point of time. The prices charged may sometimes surge up to four times the base price during these peak demand hours. The price increase motivates drivers to take advantage of the surge thereby increasing the supply while customers, willing to pay a higher price, do not experience non-availability. Surge pricing attracts adverse reactions from many customers so governments step-in and cap the percentage increase for surge pricing[24]. In the same vein, sports teams, bands, ski resorts, and theme parks have begun adjusting prices based on demand. Dynamic pricing can produce results. Consider the Indianapolis Zoo.

> **Indianapolis Zoo** The Indianapolis Zoo adopted dynamic pricing in part to limit crowds after opening a new orangutan center. As a result, adult passes that used to cost $16.95 were priced between $8 and $30, based on advance sales and expected demand. For example, the Zoo discounts cold weekdays in the winter and boosts prices after school groups book dozens of tickets. The dynamic pricing produced tangible results: Two-thirds of guests visited on weekdays the following summer, compared with 57 percent in the past. In the year following the introduction of this yield-management pricing, the zoo's admission revenue grew 12 percent.[25]

On the supply side, the following strategies can facilitate yield management:

- *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 up 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 might buy surrounding land for later development.

For fast-food chains, drive-through windows are a way to expand selling opportunities beyond sit-down meals. An impressive 70 percent of revenue

for the fast-food industry comes via drive-through windows. According to *QSR* magazine, Taco Bell operates some of the fastest and most accurate drive-through windows. The company aims for 3 minutes and 30 seconds per order and is constantly looking for ways to shave seconds and cut costs.[26]

THE NEW SERVICES REALITIES

Service firms once lagged behind manufacturers in their understanding and use of marketing because they were small or faced large demand or little competition. This has certainly changed. Some of the most skilled marketers now are service firms.

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

INCREASING ROLE OF TECHNOLOGY

Technology is changing the rules of the game for services in a very fundamental way. Banking, for instance, is being transformed by the ability to bank online and via mobile apps; some customers rarely see a bank lobby or interact with an employee anymore. The Covid-19 pandemic accelerated the digital transformation of services by forcing many companies to change course and transform their businesses by integrating digital technology to fundamentally change how they deliver value to their customers.

Technology also has great power to make service workers more productive. However, companies must avoid pushing technological efficiency so hard that they reduce perceived quality.[27] Amazon has some of the most innovative technology in online retailing, but it also keeps customers extremely satisfied when a problem arises, even if they don't actually talk to an Amazon employee. More companies have introduced "live chat" features to blend technology with a human voice. One company that enables enterprises to connect with customers across different touch

points—from text messages to emails, phone calls to video, intelligent chatbots and back—is Twilio.

> **Twilio** Twilio, the leading cloud communications platform, is used by millions of developers around the world to "virtualize" the telecommunications infrastructure and improve the human interaction experience. Twilio has over 60,000 business customers, including high-profile clients such as Airbnb, Intuit, Salesforce, Uber, Twitter, eBay, Sony, Yelp, Hulu, and Lyft. Twilio offers its clients a comprehensive, customizable, and easy-to-use platform to automate and streamline communications to customers, collaborators, employees, and coworkers. Coca-Cola uses Twilio to rapidly dispatch service technicians, real estate site Trulia uses Twilio for its click-to-call app that enables potential buyers to connect with an agent, EMC uses Twilio to send texts to employees when an IT service goes down, and Airbnb uses it to automatically text information about potential renters to hosts. Building on its communications platform for text, voice, video, chats, and messaging apps, Twilio expanded its portfolio of services to include a cloud-based call-center service and a pay app that allows companies to process payments over the phone without having to read a card number to a representative. To add e-mail capabilities to its portfolio of offerings, Twilio in 2019 acquired SendGrid, the leading e-mail API platform, which bolstered the company's ability to deliver consistent messaging based on its customers' preferred form of communication.[28]



To keep both its high-profile business customers and their customers happy, leading cloud communication platform Twilio offers a variety of easy-to-use, customizable services that automate, streamline, and enhance interactions between companies and their customers, collaborators, and employees.
Source: Gabby Jones/Bloomberg/Getty Images

The internet and cloud computing enable firms to 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. But as companies collect, store, and use more information about customers, concerns about security and privacy arise. Companies must incorporate the proper safeguards and reassure customers about their efforts to keep customers' private information secure.

CUSTOMER EMPOWERMENT

The digital era has clearly altered customer relationships. Customers are becoming more sophisticated about buying product-support services and are pressing for "unbundled services" and the right to select the elements they want. They increasingly dislike having to deal with a multitude of service providers handling different types of products or equipment. With that in mind, some third-party service organizations now service a greater range of equipment. A plumbing business may also service air conditioners, furnaces, and other components of a household infrastructure.

Most important, social media have empowered customers by letting them send their comments around the world with a mouse click. A person who has a good customer experience is more likely to talk about it, but someone who has a bad experience will talk to more people. Ninety percent of angry customers reported sharing their story with a friend; they can now share it with strangers too. Online sites such as Angie's List, Yelp, and TripAdvisor are other popular means to spread the word about customer-service adventures. Even more challenging for firms, unhappy customers may choose to upload a damaging video to share their customer-service miseries with others.

When a customer complains, most companies now respond quickly. Many companies allow contact 24/7 by phone and e-chat, but they also reach out to customers and monitor blogs, websites, and social media. If employees see a customer report a problem on a blog, they get in touch and offer help. Clear, helpful e-mail replies to customers' queries can be very effective. Delta Airlines introduced Delta Assist to monitor customer Twitter tweets and Facebook posts around the clock with a 10-person team that provides real-time replies to any queries or problems.

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 with attention from a real person. Solving a customer's problem quickly and easily goes a long way toward winning long-term loyal customers.[29]

CUSTOMER COPRODUCTION

The reality is that customers do not merely purchase and use a service; they play an active role in its delivery. Their words and actions affect the quality of their service experiences and those of others, as well as the productivity of frontline employees.[30]

Customers often believe they derive more value, and feel a stronger connection to the service provider, if they are actively engaged in the service process. This coproduction can put stress on employees, however, and reduce their satisfaction, especially if they do not share the same values, interests, or knowledge with their customers.[31] Moreover, one study estimated that one-third of all service problems are caused by the customer.[32] The growing shift to self-service technologies is likely to increase this percentage.

Preventing service failures is crucial because recovery is always challenging. One of the biggest problems is attribution. Customers often feel that the firm is at fault or that, even if it is not at fault, it is still responsible for righting any wrongs. Unfortunately, even though many firms have well-designed and well-executed procedures to deal with their own failures, they find managing *customer* failures—service problems arising from a customer's mistake or lack of understanding—much more difficult. Solutions come in all forms, as the following examples show.[33]

- *Redesign processes and redefine customer roles to simplify service encounters.* Staples transformed its business with its "Easy" program to take the hassle out of ordering office supplies.
- *Incorporate the right technology to aid employees and customers.* Comcast, the largest U.S. cable operator, introduced software to identify network glitches before they affected service and to better inform call center operators about customer problems.
- *Create high-performance customers by enhancing the clarity of their role, their motivation, and their ability to perform their role.* USAA reminds enlisted policyholders to suspend their car insurance when they are stationed overseas.
- *Encourage "customer citizenship" so customers will help one another.* At golf courses, players not only can follow the rules by playing and behaving appropriately; they can also encourage others to do so.

SATISFYING EMPLOYEES AS WELL AS CUSTOMERS

Excellent service companies know that positive employee attitudes will strengthen customer loyalty.[34] Instilling a strong customer orientation in employees can also increase their job satisfaction and commitment, especially if they have extensive customer contact. Employees thrive in customer-contact positions when they have an internal drive to (1) pamper customers, (2) accurately read their needs, (3) develop a personal relationship with them, and (4) deliver high-quality service to solve customers' problems.[35]

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, design a sound training program, provide support for employees, and reward them for good performance. Companies can use an intranet, internal newsletters, daily reminders, and employee roundtables to reinforce customer-centered attitudes. Finally, they must audit employee job satisfaction regularly.

Zappos has built a customer-focused organization admired by many.

> **Zappos** Online retailer Zappos was founded with superior customer service at the core of its culture. With free shipping and returns, 24/7 customer service, and fast turnaround on the numerous products and thousands of brands offered on the site, the company works hard to create repeat customers. Unlike many other companies, it has not outsourced its Zappos.com call centers, and half the interview process is devoted to finding out whether job candidates are sufficiently outgoing, open-minded, and creative to be a good cultural fit. Zappos empowers its customer-service reps to solve problems. When a customer called to complain that a pair of boots was leaking after a year of use, the rep sent a new pair, even though the company's policy is that only unworn shoes are returnable. Every employee has a chance each year to contribute to the company's Culture Book about life at Zappos and how each department—from selling to warehousing, delivery, pricing, and billing—implements superior customer service. Thanks to its success, Zappos even offers two-

day seminars to business executives eager to learn the secrets behind its unique corporate culture and approach to customer service.[36]



Building customer loyalty by providing outstanding service are at the center of Zappos' corporate culture, a culture fostered by its former longtime CEO, Tony Hsieh.
Source: dpa picture alliance/Alamy Stock Photo

ACHIEVING SERVICE EXCELLENCE

The increased importance of the service industry has sharpened the focus on what it takes to excel in the marketing of services.[37] The superior marketing of services requires excellence in three broad areas: external marketing, internal marketing, and interactive marketing.[38] **External marketing** is the normal work of preparing, pricing, distributing, and promoting the service to customers. **Internal marketing** consists of training and motivating

employees to serve customers well. Arguably the most important contribution the marketing department can make is to be "exceptionally clever in getting everyone else in the organization to practice marketing."[39] **Interactive marketing** reflects employees' skill in serving the client. In interactive marketing, teamwork is often key. Delegating authority to frontline employees can allow for greater service flexibility and adaptability because it promotes better problem solving, closer employee cooperation, and more efficient knowledge transfer.[40]

BEST PRACTICES OF TOP SERVICE COMPANIES

Well-managed service companies that achieve marketing excellence share a focus on customer-centricity, a commitment to service quality, an understanding of the need to cater to high-value customers, and the implementation of strategies for managing customer complaints.

Customer-Centricity. Top service companies are "customer obsessed." They have a clear sense of their target customers and their needs, and they have developed a distinctive strategy for satisfying them. 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 than 10,000 branches in the United States (more than any other brokerage firm), Edward Jones 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.[41]

Customer-centricity means seeing the world in general, and a company's services in particular, from the customer's point of view. Customer-centricity goes beyond providing the services that the company performs to delivering solutions that customers need. The customer-centric company is proactive in identifying and addressing customer needs (rather than being merely reactive and offering services that customers explicitly requested). Companies like The Ritz-Carlton, Four Seasons, REI, and Zappos have embraced customer-centricity as the underlying principle of their business models. One company

that wins consistent praise for its brand-building success is Singapore Airlines.

> **Singapore Airlines** Singapore Airlines (SIA) has been consistently recognized as the world's "best" airline, in large part thanks to its stellar marketing. The carrier wins so many awards that it has to update its website monthly. Famous for pampering passengers, it continuously strives to create a "wow effect" and surpass customers' expectations. SIA was the first to launch on-demand entertainment systems in all classes, Dolby sound systems, and a book-the-cook service that allows business- and first-class passengers to order meals before boarding. Thanks to a first-of-its-kind $1 million simulator the airline built to mimic the air pressure and humidity inside a plane, it found that taste buds change in the air and that, among other things, it needed to cut back on spices in its food. New SIA recruits receive four months of training (twice the industry average), and existing staff get nearly three weeks of refresher training a year (costing $70 million). With its reputation for excellence, the carrier attracts some of the best local graduates and staffs each flight with more attendants and other cabin crew members than other airlines. SIA applies a 40–30–30 rule: 40 percent of resources go to training and motivating staff, 30 percent to reviewing process and procedures, and 30 percent to creating new product and service ideas.[42]



Singapore Airlines has achieved high-flying marketing success and earned plaudits by continuously working to delight its passengers and exceed their expectations.
Source: TRISTAR PHOTOS/Alamy Stock Photo

Service Quality. Companies such as Marriott, Disney, and Ace Hardware have a thorough commitment to service quality. Their managers 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 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." Allstate, Dunkin' Brands, Oracle, and USAA have high-level senior executives with titles such as chief

customer officer, chief client officer, or chief experience officer, who have the power and authority to improve customer service across every customer interaction.[43]

The best service providers set superior quality standards. In the highly regulated banking industry, Citibank still aims to answer customer phone calls within 10 seconds and letters within two days; it also has been an industry leader in using social media for customer service. 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; six misspelled words on each page of a book; 400,000 incorrectly filled prescriptions daily; 3 million lost pieces of USPS mail each day; no phone, internet, or electricity for eight 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.

Top firms audit their own service performance, as well as that of competitors, on a regular basis. They collect *voice of the customer measurements* to probe customer satisfiers and dissatisfiers using comparison shopping, mystery or ghost shopping, customer surveys, suggestion and complaint forms, service-audit teams, and customers' letters. 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.

Because U.S. consumers generally have high expectations about service delivery, they often feel their needs are not being adequately met. Service providers receive low marks for many reasons. Customers complain about inaccurate information; unresponsive, rude, or poorly trained workers; and long waits. Even worse, many find their complaints never reach a human ear because of slow or faulty phone or online reporting systems. Consumers report that companies mishandle online complaints by responding selectively or inconsistently (or not at all) and by "cutting and running," appearing insincere, or attempting to just "bribe" the consumer. It doesn't have to be that way. Consider the case of Butterball, the largest producer of turkey products in the United States.



Trained experts have been talking turkey to thousands of U.S and Canadian households every fall as they answer more than 100,000 queries on how to prepare, cook, and serve this focal element of Thanksgiving meals.
Source: Sheila Fitzgerald/Shutterstock

Butterball Talk Line Available every November and December, the 50 + experts at the company's talk line answer more than 100,000 questions about how to prepare, cook, and serve turkeys from thousands of households around the United States and Canada; 12,000 people call on Thanksgiving Day alone. Trained at Butterball University, the operators have all cooked turkeys dozens of different ways and can handle any queries that come up, including why turkeys shouldn't be stashed in snow banks and how to tell when the turkey is done. The Talk Line began in

1981 with six volunteers who worked the phones that holiday season to answer 11,000 turkey-cooking questions. Most recently, the company expanded the ways in which customers can connect with the Talk Line to include social media, live chat, texting—and even Amazon Alexa.[44]

Catering to High-Value Customers. Many firms have decided 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; those in lower-profit tiers, who barely pay their way, may get more fees, stripped-down service, and voice messages to process their inquiries.

When the 2008 recession hit, Zappos decided to stop offering complimentary overnight shipping to first-time buyers and to offer it to repeat buyers only. The money saved was invested in a new VIP service for the company's most loyal customers.[45] 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. One type of company that is expert at identifying and catering to high-value customers is the bank.

Leading banks in India including HDFC, Kotak Mahindra, ICICI and SBI have set up private banking and wealth management units specifically to serve their richest clients[46]. Dedicated relationship managers advise the rich and ultra-high net worth individuals (UHNI) by analyzing the client's needs and their financial goals to develop a wealth management charter for financial planning and investments. These clients are pampered with lower rates on loans, exclusive benefits and lifestyle privileges on credit cards and concierge-like service, guaranteeing them instant access to their relationship managers to complete just about any transaction. The best wealth managers use proprietary due diligence tools and evaluation frameworks for rigorous analysis and deep understanding to offer superior products and bespoke solutions including financial planning, investment portfolio management, estate and tax planning, legal resources, business succession, risk management, among others[47]. Research-driven and

expert-curated customized services often involve investment advisors and product specialists. Banks pursue wealthy clients as they generate significant profit, guarantees repeat business and brings in new business. Such high value service offerings, through a continuous investment advisory process, is an extremely profitable business in India's rapidly growing financial market.[48,49]

Delivering services that maximize both customer satisfaction and company profitability can be challenging. On the one hand, a company needs to make sure that it creates meaningful benefits for its high-value customers. On the other hand, providing too many benefits could have a negative impact on the company's profits and thus prove counterproductive. Consider the experience of Atlantic City's Tropicana casino.

Eager to attract big spenders, Atlantic City's Tropicana casino offered Don Johnson, a high roller and experienced blackjack player, a special deal that modified the rules of the game in a way that reduced the casino's advantage, in addition to offering him a 20 percent discount on losses (meaning that if he lost $500,000, he only had to pay $400,000). In their zeal to entice Johnson to play in their casino, managers did not realize that they had given up too much by offering Johnson an edge in betting against the house. With the odds on his side, Johnson won nearly $6 million in one night—an amount equal to the casino's monthly revenue. The Tropicana was not alone in offering overly generous benefits to high rollers; Atlantic City's Borgata and Caesars casinos succumbed to the same fate, losing $9 million to Johnson.[50]

Managing Customer Complaints. On average, 40 percent of customers who suffer through a bad service experience with a company stop doing business with it.[51] However, if those customers were willing to complain first, they would actually offer the company a gift—provided that 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.[52]

Frontline employees who adopt *extra-role behaviors*, advocate the interests and enhance the image of the firm to consumers, and take the initiative to engage in conscientious behavior in dealing with customers can be a critical asset in handling complaints.[53] 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.[54] Companies are also looking to improve the way they handle complaints by increasing the quality of their *call centers* and their *customer-service representatives*. "Marketing Insight: Improving Company Call Centers" at the end of this chapter illustrates what top companies are doing.

DIFFERENTIATING SERVICES

When the physical product cannot easily be differentiated, the key to competitive success may lie in adding valued services and constantly improving their quality. Rolls-Royce PLC has ensured that its aircraft engines are in high demand by continuously monitoring the health of its airplane engines in use around the world through live satellite feeds. Under its TotalCare and CorporateCare programs, airlines pay Rolls a fee for every hour an engine is in flight, and Rolls assumes the risks and costs of downtime and repairs.

The main service differentiators are ease of ordering; speed and timing of delivery; installation, training, and consulting; maintenance and repair; and returns.

Ease of Ordering. Ordering ease reflects how simple it is for the customer to place an order with the company. As markets become increasingly competitive, many companies focus on making the ordering process as convenient as possible. This involves streamlining all aspects of a customer's interaction with the company—from the initial evaluation of the available options to the actual purchase. Voice assistants such as Alexa,

Google Home, and Siri have helped make the ordering process even easier by using artificial intelligence to predict consumer preferences.

Striving to simplify the ordering process is not limited to consumer markets. It plays a major role in business markets as well. Baxter Healthcare supplies hospitals with computer terminals through which they send orders directly to the firm, thus streamlining the ordering process. Another example of simplifying the ordering process is Align Technology.

> **Align Technology** Align Technology pioneered the invisible orthodontics market with the introduction of the Invisalign system—transparent dental braces used to adjust teeth. The company was born from the simple observation that the dental retainers commonly prescribed after orthodontic procedures could be used not only to prevent teeth from moving but also to realign teeth. This observation led to the idea that a series of custom-designed aligners could be used to straighten misaligned teeth. By 2018, the company's Invisalign system had been used to treat over 5 million patients and enjoyed wide adoption by dental professionals. To streamline the treatment process, the company introduced a digital scanner that replaced the cumbersome and time-consuming process of taking physical impressions. The use of digital scanning technology enabled the company to speed up the ordering process, increase the quality of the impressions, and improve the overall customer experience.[55]



By using digital scanning technology to obviate the need for taking physical impressions, Align Technology has streamlined, sped up, and improved the orthodontic process for both dental professionals and customers.
Source: Andreas Fülscher Schliemann/Alamy Stock Photo

Many companies, especially those offering subscription services, look beyond a single transaction to ensure that customers continue using the service. Harry's—a razor blade and shaving cream subscription service—simplified shoppers' decisions by offering a three-step process that helps buyers choose a razor and determine the frequency with which to receive replacements. Gillette introduced text ordering for its subscription service, enabling members to text "BLADES" when they're ready for a new shipment. In the same vein, Amazon introduced Dash—a Wi-Fi device that reorders a particular product (such as razors, laundry detergent, or dog food) with the press of a button.

Speed and Timing of Delivery. Delivery entails how well the product or service is brought to the customer, including the speed, accuracy, and care that characterize the process. Today's customers have grown to expect speed: pizza delivered in half an hour, eyeglasses made in 60 minutes, and cars lubricated in 15 minutes. Many firms have computerized *quick-response systems* that link the information systems of their suppliers, manufacturing plants, distribution centers, and retailing outlets to improve delivery.

In the consumer space, Amazon has led the charge in the speed-of-delivery game among online retailers, offering delivery options ranging from a week to only a couple of hours. Food delivery services such as Uber Eats help many restaurants and vendors offer fast and reliable delivery to their customers without having to invest in developing their own delivery infrastructure.

In business markets, Cemex, a giant cement company based in Mexico, has transformed its business by promising to deliver concrete faster than pizza and equipping every truck with a global positioning system so dispatchers know its real-time location. Its 24/7 LOAD service program guarantees delivery within a 20-minute window, providing important flexibility in an industry where delays are costly but common.[56]

Installation, Training, and Consulting. Installation consists of the work done to make a product operational in its planned location. Ease of installation is a true selling point for technology novices and for buyers of complex products like heavy equipment.

Customer training helps the customer's employees use the vendor's equipment properly and efficiently. General Electric not only sells expensive X-ray equipment to hospitals and installs it but also provides users with extensive training. McDonald's requires its new franchisees to attend Hamburger University in Oak Brook, Illinois, for two weeks to learn how to manage the franchise properly.

Customer consulting includes data, information systems, and advice services that the seller offers to buyers. Technology firms like IBM, Oracle, and SAP have learned that such consulting is an essential—and profitable—

part of their business. Many industrial equipment manufacturers, such as Haas Automation, offer additional installation and training services to educate operators on how to use the machinery. Some of these additional services are part of a maintenance program that that can be purchased by customers. In the consumer space, a number of companies, including IKEA, Home Depot, and Best Buy, offer assembly and installation services to their customers for an additional fee.

Maintenance and Repair. Maintenance and repair programs help customers keep purchased products in good working order. These services are critical in business-to-business settings. Goodyear's TVTrack program helps its fleet customers monitor and manage tires more effectively. Many firms offer online technical support, or "e-support," for customers, who can search an online database for fixes or seek online help from a technician. Appliance makers such as LG, Kenmore, and Miele have introduced products that can transmit self-diagnostic data over the phone to a customer-service number that electronically describes the nature of any technical problems.

Makers of luxury products especially recognize the importance of a smooth repair process. Although Movado's watches are high-end, its repair process had been anything but, requiring time-consuming manual labor and entailing customer inconvenience. Recognizing the need to offer more digital services in general, Movado created a website where customers can buy products directly from the company as well as execute many of the initial steps in the repair process online (such as registering any problems and identifying possible repair options) before contacting customer service directly. The database created by users of the site has also allowed the company to recruit potential focus-group participants and to identify repair trends that may suggest recurring production problems.[57]

Returns. A nuisance to customers, manufacturers, retailers, and distributors alike, product returns are also an unavoidable reality of doing business, especially for online purchases. Free shipping, which is growing more popular, makes it easier for customers to try out an item—but also increases the likelihood of its being returned.

Returns can add up. One estimate is that 10 percent to 15 percent of overall holiday sales come back as returns or exchanges, and the total annual cost of dealing with them may be $100 billion.[58] For the consumer, returns can be inconvenient, embarrassing, or difficult to complete. Returns have a downside for merchants, too, especially when the returned merchandise is not in resellable condition, lacks proper proof of purchase, or is returned to the wrong store. It may even be used or stolen. Yet if the merchant is reluctant to accept returns, customers can become annoyed.

However, product returns do have an upside. Physically returning a product can get the consumer into the store, maybe for the first time. One research study found that a lenient return policy left customers more willing to make other purchases and to refer the company to others.[59]

We can think of product returns in two ways:[60] *Controllable returns* result from problems or errors made by the seller or customer; they can be largely eliminated with improved handling or storage, better packaging, and more effective transportation and logistics by the seller or its supply chain partners. *Uncontrollable returns* result from the need for customers to actually see, try, or experience products in person to determine suitability; these returns can't be eliminated by the company in the short run.

One basic strategy is to eliminate the root causes of controllable returns while developing processes for handling uncontrollable returns. The goal is to have fewer products returned and put a higher percentage back into the distribution pipeline to be sold again. San Diego–based Road Runner Sports —which sells running shoes, clothing, and equipment through multiple stores, catalogs, and a website—trains its salespeople to be as knowledgeable as possible in order to recommend the right products. As a result, its return rate on running shoes has been 12 percent, noticeably below the industry average of 15 percent to 20 percent.[61]



New service categories are always being created, as with Kaya, a chain of clinics to enhance the look and feel of skin and hair beautifully.
Source: Kaya Clinic (Marico)©Kaya Clinic, used with permission

INNOVATION WITH SERVICES

Innovation is as vital in services as in any industry.[62] New service categories are constantly being introduced to satisfy unmet needs and wants. Examples include Kaya, that runs clinics created around fulfilling customers' desire for beautiful skin and gorgeous hair; Reddit, a giant online digital bulletin board with tens of thousands of active forums where registered users can post content or links; and CareLinx, which functions as a matchmaking site for families with elderly members and nonmedical caregivers who can provide home care.

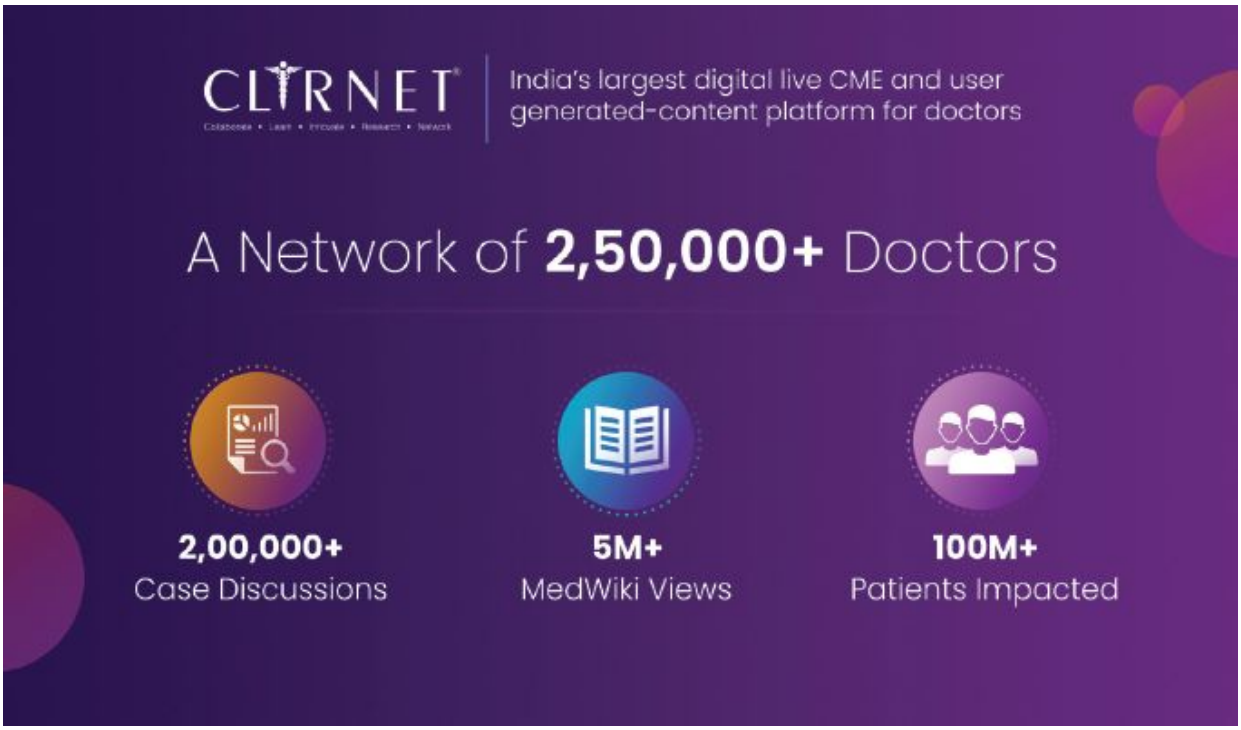
> **Online Travel** Online travel agents such as Expedia and Travelocity offer customers the opportunity to conveniently book travel at discount prices. However, they make money only when visitors go to their websites and

book travel. Kayak successfully entered the category later by applying 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. Kayak makes search simpler for travelers by ranking flights using artificial intelligence algorithm that factors in price, duration, and number of stops and offers information about, and discounts on, nearby hotels.[63]

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 injuries and illnesses such as colds, flu, and ear infections; to offer various health and wellness services such as physicals and exams for high school sports; and to administer vaccinations. The clinics seek to offer convenient, predictable service and transparent pricing, without an appointment, seven days (and evenings) a week. Most visits take no more than 15 minutes, and costs vary from $25 to $100.[64]

Consider how the following service categories emerged and how, in some cases, organizations found creative solutions in existing categories.

Innovation in existing services can also have big payoffs. When Ticketmaster introduced interactive seat maps that allowed customers to pick their own seats instead of being given one by a "best seat available" function, the conversion rate from potential to actual buyers increased to 30 percent, a 25 percent jump. Persuading a ticket buyer to add an "I'm going . . ." message to Facebook adds an extra $5 in ticket sales on average; adding reviews of a show on the site doubles the conversion rate.[65]



Clirnet is a digital platform for doctors to collaborate, share knowledge and improve healthcare solutions to enhance patient outcomes.
Source: ©Clirnet, used with permission

The service company that regularly introduces innovations can intrigue customers and stay a step ahead of its competitors.[66] Sometimes it can even reinvent a service category, as Clirnet is trying to transform the continuing medical education service for doctors.

> **Clirnet** Clirnet offers continuing medical education (CME) services to the time-starved doctors by connecting them with specialists over phone and video. Pioneering the concept of collaborative treatment has helped the company create a large community network of more than 250,000 + doctos who connect, consult, and collaborate with each other to improve patient health outcomes. Working towards its mission to support the medical practitioners in making the healthcare services 'accessible, affordable and standardized', Clirnet has emerged as India's fastest growing doctors' network in a short span of time.[67] Doctors post queries

on patient condition or treatment related issues. These queries are matched with specialists and connected over a phone call for a discussion through Clirnet's MasterConnect service.

Doctors connect to Clirnet for master sessions with experts, collaborative CME sessions, one to one discussion sessions and to access the digital encyclopaedia—MedWiki—for a wide range of audio and video driven, experiential medical content over digital media. Doctors communicate and collaborate on Clirnet platform to explore and improve healthcare solutions. Clirnet reaches out to the doctors over SMS, WhatsApp messages and emails to keep the communication mode simple, flexible and easily accessible. Clirnet's solutions like voice call facility and digital connectivity are designed to reach out to even the small towns and rural areas of the country.

As Clirnet scales up its solution by integrating the medical and healthcare industry, its services continue to be free for doctors. Leading pharmaceutical companies use Clirnet to conduct CME sessions and promote their products among doctors.[68] Clirnet is gaining popularity, especially amidst young doctors in small towns and rural areas as they can easily connect with experts for advice and improve their practice.[69]

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 with each other while customers are waiting, customers will think twice about doing business there again. Flawless service delivery is the ideal output for any service organization. Two important activities are managing customer expectations and incorporating self-service technologies.

MANAGING CUSTOMER EXPECTATIONS

Customers form service expectations from many sources, including past experiences, word of mouth, and advertising. In general, they compare

perceived and expected service. 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 by exceeding expectations.[70] One company that has built its business around exceeding customer expectations is American Express.

> **American Express** American Express has embraced a relationship-building approach in which customer-service reps are judged in part based on customer feedback. Reps—called customer care professionals—can see all kinds of relevant data on their screen when a customer calls, including name, age, address, and buying and payment habits. Whether a cardmember loses a wallet or purse while traveling or needs assistance finding a missing child in a foreign country, American Express has empowered its customer care professionals to do whatever it takes to help. This exemplary customer service brings financial benefits too. Cardmembers who positively rate their customer experience tend to increase their AmEx card spending by10 percent to 15 percent and are four to five times more likely to remain customers, increasing shareholder value. Not least, because of its strong service culture and support, American Express boasts some of the highest employee retention rates in the industry.[71]

The service-quality model in Figure 9.2 highlights the main requirements for delivering high service quality.[72] It also identifies five gaps that prevent successful 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 uniform performance standard. Hospital administrators may tell the nurses to give "fast" service without specifying speed in minutes.

3. *Gap between service-quality specifications and service delivery*—Employees might be poorly trained; they might be incapable of meeting, or unwilling to meet, the standard; or they may be held to conflicting standards. Nurses might be confused about whether they should take time to listen to customers or give them fast service.
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 cheap and tacky-looking, external communications have distorted the customer's expectations.
5. *Gap between perceived and expected service*—The consumer may misperceive the service quality. The physician may keep visiting the patient to show care, but the patient may interpret this as an indication that something is really wrong.



Customer-service reps are empowered to do whatever it takes to maintain and increase customer satisfaction among American Express cardholders, in the bargain yielding financial benefits for the company.

Source: Chris Pearsall/Alamy Stock Photo

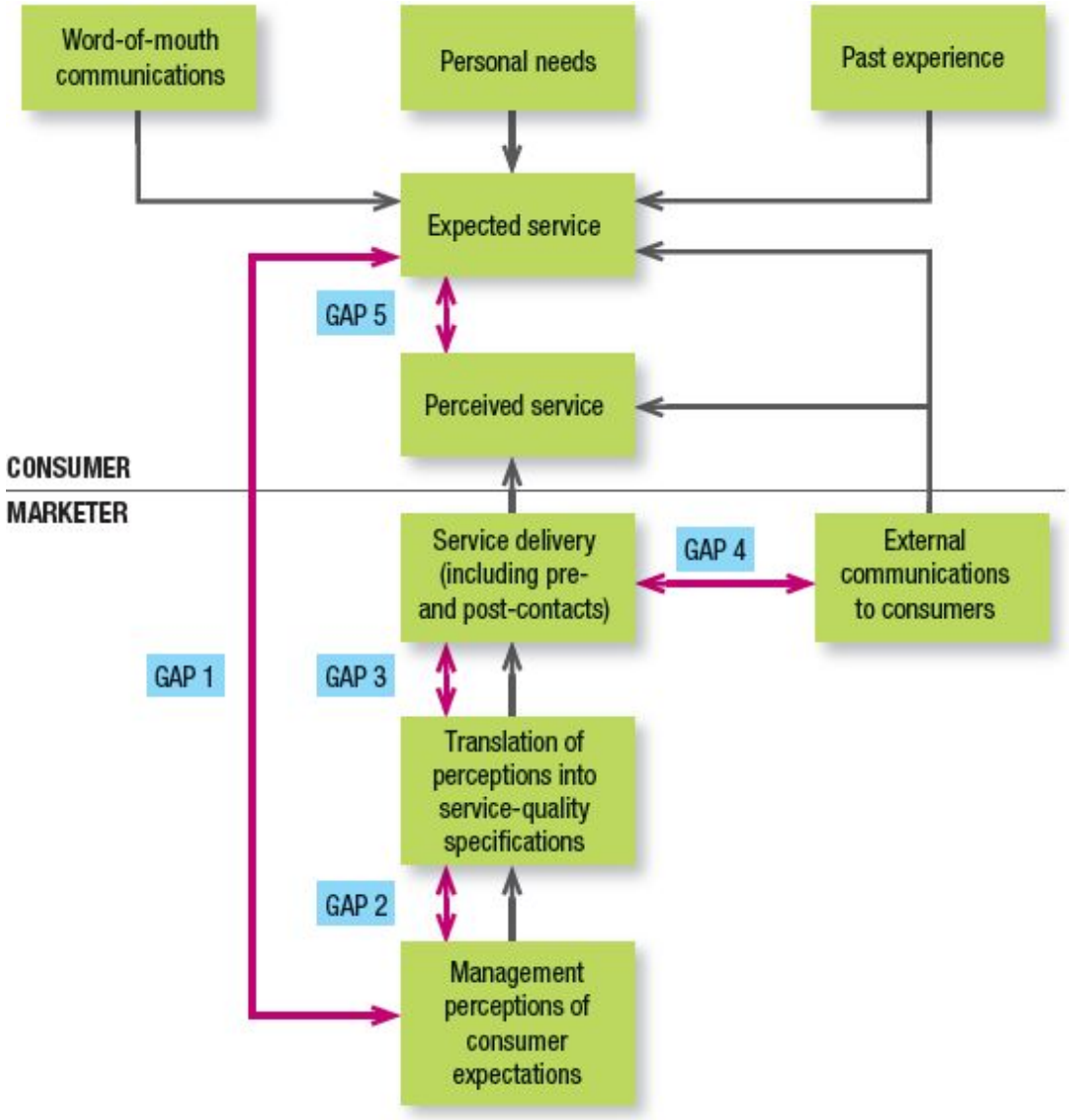


FIGURE 9.2
Service-Quality Model
Source: A. Parasuraman, Valarie A. Zeithaml, and Leonard L. Berry, "A Conceptual Model of Service Quality and Its Implications for Future Research," *Journal of Marketing*, Fall 1985, p. 44.

Much work has validated the role of expectations in consumers' interpretations and evaluations of the service encounter and in the relationship they adopt with a firm over time.[73] Consumers are often forward-looking in terms of their likely behavior and interactions with a firm when deciding whether to keep or drop a service relationship. Any marketing

activity that positively affects current or expected future usage can help to solidify a service relationship.

For 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 the perceived economic benefits relative to the economic costs. In other words, customers ask themselves, "Am I using this service enough, given what I pay for it?" A negative response will lead to a change in behavior and the possible termination of an account.

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]

MANAGING SERVICE QUALITY

Based on the service-quality model described above, researchers have identified five determinants of service quality—reliability, responsiveness, assurance, empathy, and tangibles—in descending order of importance.[75]

- *Reliability*—The ability to perform the promised service dependably and accurately. This involves providing the service as promised, offering dependability in handling customers' service problems, performing services right the first time, providing services at the promised time, maintaining error-free records, and hiring employees who have the knowledge to answer customers' questions.
- *Responsiveness*—The willingness to help customers and provide prompt service. This involves keeping customers informed about when services will be performed, giving prompt service to customers, being willing to help customers, and showing readiness to respond to customers' requests.
- *Assurance*—The knowledge and courtesy of employees and their ability to convey trust and confidence. Employees who exhibit assurance instill confidence in customers and are consistently courteous, making customers feel safe in their transactions.
- *Empathy*—The provision of caring, individualized attention to customers. This involves giving customers individual attention, dealing with customers in a caring fashion, having the customer's best interests at heart, understanding the needs of customers, and offering convenient business hours.
- *Tangibles*—The appearance of physical facilities, equipment, staff, and communication materials. Tangibles include modern equipment, attractive facilities, employees with a neat,

professional appearance, and visually appealing materials associated with the service.

Based on these five factors, the researchers developed the 21-item SERVQUAL scale.[76] In addition, they noted the presence of a **zone of tolerance**, a range in which a service will be deemed satisfactory, anchored at one end by the minimum level of service that consumers are willing to accept and, at the other end, by the level they believe can and should be delivered.

Subsequent research has extended the service-quality model. One dynamic process model of service quality is based on the premise that customer perceptions and expectations of service quality change over time, but that at any given point, they are a function of prior expectations about what *will* and what *should* happen during the service encounter, as well as of the *actual* service delivered during the last contact.[77] Tests of the dynamic process model reveal that the two different types of expectations have opposite effects on perceptions of service quality. Thus, *increasing* customer expectations of what the firm *will* deliver can lead to improved perceptions of overall service quality. In contrast, *decreasing* customer expectations of what the firm *should* deliver can also lead to improved perceptions of overall service quality.

MANAGING SELF-SERVICE

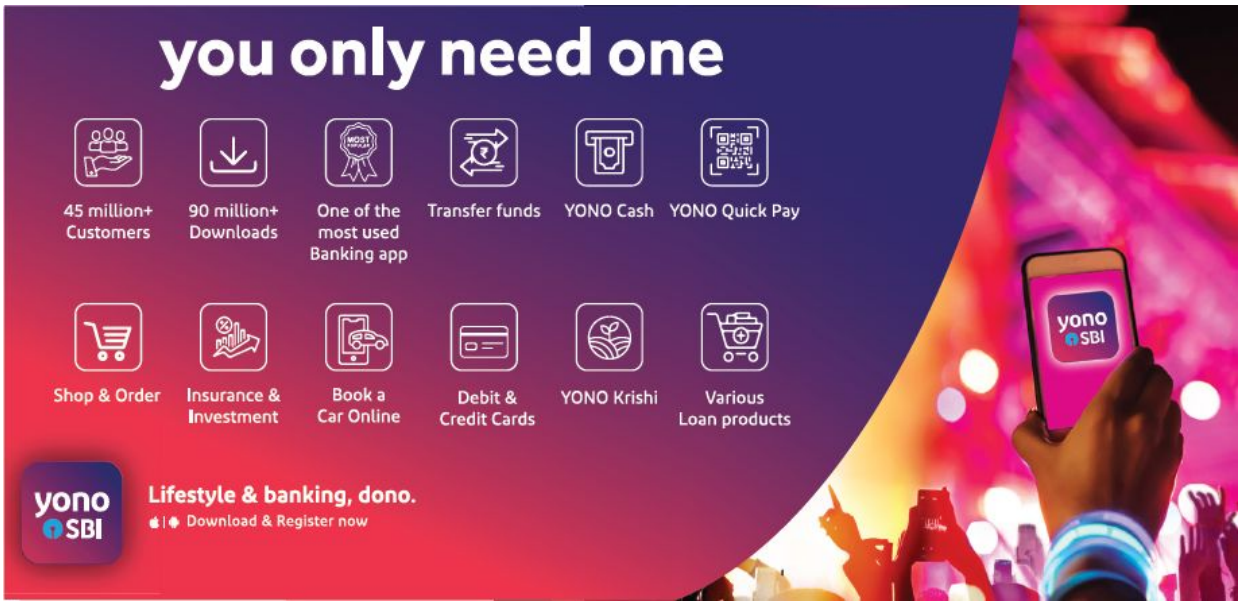
Consumers value convenience in services,[78] and many person-to-person service interactions are being replaced by self-service technologies intended to provide that convenience. To traditional vending machines, we can add automated teller machines (ATMs), self-service at gas pumps, self-checkout at hotels, and a variety of activities on the internet, such as ticket purchasing, investment trading, and customization of products.

To streamline its operations and speed up customer service, Chili's installed tabletop computer screens in its restaurants so customers can order directly and pay by credit card. The restaurant chain found that users of the service spend more per check, in part because they buy more desserts and coffee when the screen is present. As another example, SBI's YONO

application lets customers conduct most banking transactions online on a smartphone.

Every company needs to think about improving its service using self-service technologies. Comcast's need for customer service has been reduced because 40 percent of its installations are done by the customer and 31 percent of customers now manage their accounts completely online.[79]

SBI YONO State Bank of India's YONO (You Only Need One) is an integrated digital banking, investments, and shopping platform. In less than five years after its launch, YONO attracted over 37 million subscribers with over 2.3 million online transactions every month.[80] It's convenient and integrated self-service solution serves the banking and shopping needs of customers from the comforts of their homes. With SBI YONO, one can access more than 100 e-commerce websites, book tickets, pay bills, make investments, and transfer funds on the move using its mobile application. Features such as 24×7 online banking services, instant account opening, quick loans, card-less cash withdrawal, spend analyzer, etc. turned YONO into one of the most convenient and popular mobile applications.[81] YONO continues to grow rapidly with 9 million logins per day after attracting 2 million new customer accounts and sourcing loans of over ₹5000 crores during FY2021.[82] Recently the bank extended YONO to seven foreign markets and onboarded 40,000 customers. Its new services include YONO Agri for farmers and YONO Business for corporates and small and medium enterprises to meet their respective banking and business needs like letter of credit, cash management supply chain finance, and foreign exchange, among others.[83]



SBI YONO is a rapidly growing digital application that offers convenient self -service options for banking, investments and shopping.
Source: SBI YONO©State Bank of India, used with permission

Successfully integrating technology into the workforce 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.[84] 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 self-service process, must see a clear benefit, and must feel they can actually use the technology.[85] Self-service technology is not for everyone. Although some automated voices are actually popular with customers, many can provoke frustration and even rage at being unable to speak with an actual person.

MANAGING PRODUCT–SERVICE BUNDLES

No less important than service industries are product-based industries that must provide a service bundle.[86] Manufacturers of equipment—ranging from small appliances and office machines to tractors, mainframes, and airplanes

—must all provide product-support services, now a battleground for competitive advantage. Many product companies also have a stronger online presence than before and must ensure that they offer adequate, if not superior, service online as well.

Products can be augmented with key service differentiators in areas such as ordering, delivery, installation, customer training, customer consulting, maintenance, and repair. Some equipment companies, such as Caterpillar and Deere, make a significant percentage of their profits from these services.[87] In the global marketplace, companies that make a good product but provide poor local service support are seriously disadvantaged.

The quality of customer-service departments varies greatly. At one extreme are those that simply transfer customer calls to the appropriate person for action with little follow-up. At the other extreme are departments that are eager to receive customer requests, suggestions, and even complaints and that handle them expeditiously. Some firms even proactively contact customers to provide service after the sale is complete.[88]

Manufacturers usually start by running their own parts-and-service departments. They want to stay close to the equipment and understand its problems. They also find it expensive and time-consuming to train others and typically discover that 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.

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 Jiffy Lube. Independent service organizations handle servers, telecommunications equipment, and a variety of other equipment lines.

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 customers have to pay for 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 service. A company with several hundred laptops, printers, and related equipment might find it cheaper to have its own service people on-site.

marketing INSIGHT

Emergence of Contact Centers with Chat Bots

Customer support plays a major role in strengthening customer relationships, especially in the service industry. In the technology-driven digital era of artificial intelligence (AI), machine learning (ML) and natural language processing (NLP), call centers have evolved into contact centers. Equipped with chat bots they support customer care executives in handling a large volume of customer queries. Chatbot's automated AI-based application tool handles tasks as well as human interactions using ML and NLP. Most chatbots support customer service executives by handling routine tasks and queries. It allows the organizations improve operational efficiency as well as effectiveness of their contact systems with chatbots connecting to its employees or customers, thus reducing the headcount for customer care executives. While chatbots resolve frequently asked queries and initiate troubleshooting guides, customer care executives, thereby, get more bandwidth and time to handle complex issues.

Upgrades in AI technology has transformed the human engagements with chatbots by enhancing the quality of interactions between business and customers. Chatbots are being designed to handle the 'Mobile-first'

population with its messaging applications for instant real-time response to customer queries.

Chatbots improve the productivity of the organization and bring cost effectiveness to businesses with its automated support system. Many chatbots are used in the initial stages of a service interaction to understand the customer's requirement, query or complaint. This preliminary understanding plays a key role in resolving customer issues, thus improving customers' overall experience of interactions with contact centers.

Chatbots facilitate rapld scaling up of support to meet spikes in demand by automating responses to customer queries and issues. Adoption of chaptbots by businesses have been boosted by improvements in the underlying technologies, declining costs and improving effectiveness in handling routine queries. They are emerging as an efficient and low cost technology option to offer personalized and real time solutions to millions of customers in a cost-effective way

As chatbots get integrated with other advanced AI tools and technologies, their enhanced capabilities will help them easily handle more complex service tasks. Contact centers will depend on the AI-based conversational chatbots with the roll out of 5G networks, offering faster solutions to improve customer service and interactions.[89]

SUMMARY

1. A service is an act that one entity performs for 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. Because services are generally high in experience and credence qualities, there is more risk in their purchase, and consumers tend to rely heavily on price, provider, and physical cues to judge quality. Switching costs for many services tend to be high because customers are very loyal to service providers who satisfy them.
3. Services are intangible, inseparable, variable, and perishable. Each characteristic poses challenges and requires certain strategies.

Marketers must find ways to give tangibility to the intangible, increase the productivity of service providers, enhance and standardize the quality of the service provided, and match the supply of services with market demand.

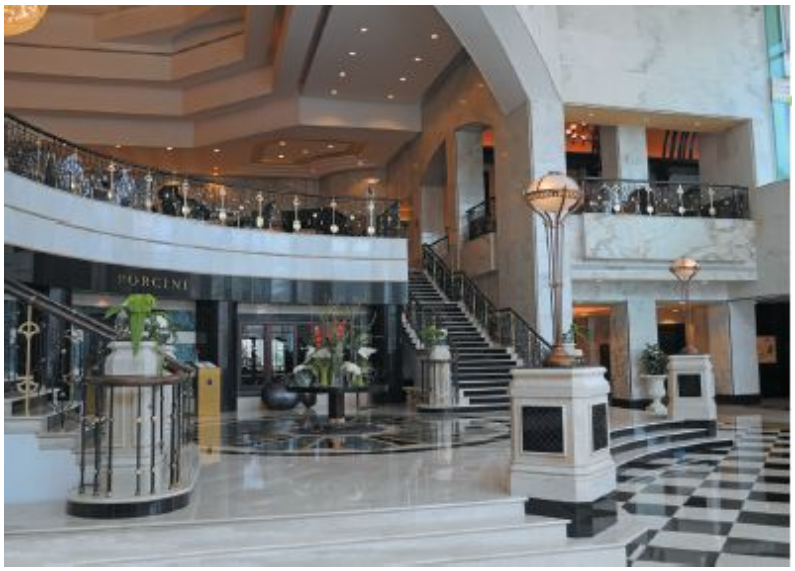
4. The marketing of services faces new realities in the 21st century because of customer empowerment, customer coproduction, and the need to satisfy employees as well as customers. The digital era has clearly altered customer relationships. Customers do not merely purchase and use a service; they play an active role in its delivery.
5. Achieving excellence in service marketing calls not only for external marketing, but also for internal marketing to motivate employees and for interactive marketing to emphasize the importance of both "high tech" and "high touch."
6. Top service companies adopt a strategic concept, have a history of top-management commitment to quality, institute high standards, establish profit tiers, and pay attention to their systems for monitoring service performance and customer complaints. They also differentiate their brands through primary and secondary service features and continual innovation.
7. 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. Well-managed service companies that achieve marketing excellence have in common a focus on customer-centricity, a commitment to service quality, and the aim of catering to high-value customers.
8. Service differentiation is a crucial component of a company's marketing success. The main service differentiators are ease of ordering; speed and timing of delivery; installation, training, and consulting; maintenance and repair; and returns.
9. Service quality is a key driver of customer satisfaction. There are five determinants of service quality: reliability, responsiveness, assurance, empathy, and tangibles. To create customer value, a company must strive to deliver superior service on all of these dimensions, while focusing on those services that customers value most.

THE RITZ-CARLTON

The Ritz-Carlton Hotel is an American luxury hotel chain that operates 91 luxury hotels and resorts in 30 countries. The company receives high praise for its excellent service and is recognized as the gold standard in the customer-service department. By exceeding customer expectations, The Ritz-Carlton has become one of the leading companies in luxury hospitality.

The Ritz-Carlton, which began as The Ritz-Carlton Investing Company, was founded by Albert Keller in the 1900s. The company had built several hotels along the East Coast in cities such as Boston, Philadelphia, Atlantic City, and Boca Raton. However, by 1940 the company disbanded; all but one hotel had been closed down and sold off because of financial difficulties brought on by the Great Depression. The Ritz-Carlton in Boston continued operating (it was sold in 2006 to Taj Hotels) and built the foundation for future hotels. It featured private baths in each guest room, gourmet cuisine, personalized guest experiences, and many more amenities that contributed to a premier luxury experience. In 1983, The Ritz-Carlton Hotel Company was formed. Led by new management, Ritz-Carlton expanded around the globe, adding new properties across the United States, Asia, and Europe.

The cornerstone of The Ritz-Carlton's success is customer loyalty achieved through exceptional customer service. The customer-service experience is defined by The Ritz-Carlton's Gold Standards, which reflect the values and philosophy by which The Ritz-Carlton operates. The Gold Standards can best be described by its mission statement: "The Ritz-Carlton is a place where the genuine care and comfort of our guests is our highest mission."



Source: Richard Croft/Alamy Stock Photo

To ensure consistency in its interactions with customers, in the 1980s The Ritz-Carlton standardized the language used by its employees. Management created a distinct style of speech with phrases like “my pleasure,” “right away,” and “We’re fully committed tonight.” Over time, these phrases began to sound insincere because employees used them in situations where they didn’t fit. When employees said that it was their pleasure to unclog sinks or clean bathrooms, guests took notice. Surveys indicated that guests believed interactions with Ritz-Carlton employees had become too robotic. The Ritz-Carlton acted on this feedback and shifted its language standard to focus on more authentic, unscripted conversation. The Ritz-Carlton now features more relaxed guidelines for addressing guests; these are still thoughtful and respectful but feel genuine.

A distinct feature of The Ritz-Carlton’s customer service is that employees are fully empowered to provide unique and personalized service. Employees are encouraged to make guests happy using any means, without having to consult a supervisor first. There are many stories of employees going above and beyond to provide the “Wow!”

factor. For example, when one hotel's food and beverage director noticed a stain on the back of a returning guest's coat and asked what happened, the guest said it was an old stain he couldn't get out and mentioned that the coat was one of his favorites. After the conversation, the hostess collected the coats of the guest and his family to hang up while they ate lunch. Meanwhile, the restaurant team whisked the coat to housekeeping, which managed to remove the stain. The guest left delighted.

At The Ritz-Carlton, each and every employee is allowed to spend up to $2,000 per day per guest to solve customer problems or make their experience memorable. One of the most famous incidents occurred at The Ritz-Carlton, Shanghai. A guest came into the hotel wearing a business jacket matched with casual Hawaiian shorts. The guest told the front desk agent that his slacks had been ripped at the airport. Because the guest had an important business meeting the next morning at 10 AM, the agent offered to see whether housekeeping could repair the pants. When the pants proved irreparable, the agent headed to a shopping area in Shanghai early the next morning to resolve the problem. After searching through many stores, the agent found and purchased a pair of pants that matched the original pair almost exactly.

To constantly improve its customer-service practices, The Ritz-Carlton gathers a massive amount of data on hotel operations, services, employee behavior, and general feedback, which is used to create a customer management system referred to as the "The Ritz-Carlton Mystique." These data on specific aspects of guest behavior enable The Ritz-Carlton to craft personalized experiences prior to guests' arrival at its locations across the globe. Employees take note of guests' preferences such as temperature settings, food and drink choices, room arrangement, and amenity selection.

The unwavering dedication to perfecting the customer experience has made The Ritz-Carlton a symbol of customer-service excellence. In return, The Ritz-Carlton enjoys lasting customer loyalty, with the average Ritz customer spending more than $250,000 in the course of a lifetime. The Ritz-Carlton also has added The Ritz-Carlton Residences to

its portfolio. These residential condominiums in cities and resort destinations are characterized by the same Ritz-Carlton service, management, and amenities offered by its hotel locations.[90]

Questions

1. How does The Ritz-Carlton service match up against 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.
3. What are the key aspects of The Ritz-Carlton corporate culture? What role does the corporate culture play in enabling the company to deliver a superior customer experience?

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marketing SPOTINSIGHT

NORDSTROM

In 1901, John W. Nordstrom founded a small shoe store in Seattle, which would eventually grow into a fashion specialty chain store called Nordstrom. Nordstrom has remained in the family for four generations and now sells top-quality, brand-name clothing, accessories, jewelry, cosmetics, and fragrances.

John Nordstrom set a strong foundation for the company back in the early 1900s. He built Nordstrom on the belief that the company should always provide the highest level of customer service possible, along with top-of-the-line merchandise. As a shoe retailer, Nordstrom offered a wide range of products to fit most everyone's needs and price point.

When John Nordstrom retired, his sons Everett, Elmer, and Lloyd continued to run the business with the same customer-focused attitude. As the company expanded into fashion, stores were stocked with a wide range of high-quality clothes at various prices to appeal to most

shoppers. Nordstrom believed it was better to carry too many sizes in each style than not to carry enough, so that customers wouldn't get frustrated by their size not being available. The brothers also instituted a policy of "decision-by-consensus," which helped move the company along even when disagreements arose.



Source: Chuck Pefley/Alamy Stock Photo

Nordstrom grew into the billion-dollar retailer it is today under the leadership of the family's third generation—Bruce, John, and Jim Nordstrom—and Jack McMillan. Their philosophy focused on empowering the managers and salesforce to make decisions that favored the customer, not the company. The company rewarded energetic individuals with an entrepreneurial spirit and preferred to hire "nice" people who could be trained to sell, rather than seasoned salespeople who weren't nice.

It was during this time that the company also decentralized its purchasing process. Regional managers were given the freedom to purchase styles and clothes that fit the needs and tastes of that particular area—that is, managers in Minnesota bought very differently than managers in southern California. To cater to each region, the company encouraged its sales force to regularly ask customers for feedback about

what products and styles they would like to see in Nordstrom stores. Jim Nordstrom explained, "When we go into a market, our first buy is the worst."

Today, Nordstrom continues to set the standard in customer service and loyalty. The company is so well known for its customer service that true tales of "heroics," or unusual acts of customer service, still circulate today. Perhaps the best-known story is how, in 1975, a customer came into a Nordstrom store wanting to return a set of tires originally bought at Northern Commercial Company, an Alaskan firm that Nordstrom had purchased. Although Nordstrom had never carried or sold tires, it happily accepted the return and instantly refunded the customer cash for his purchase. In another example, a saleswoman noticed that a customer had left her plane ticket on the store's counter. She called the airport and asked for the customer to be issued another ticket, but the airline refused. The saleswoman immediately jumped into a cab and hand-delivered the ticket to the customer at the airport.

There are many other examples of such exceptional customer service, and Nordstrom's "no questions asked" return policy remains intact today. Its sales representatives send thank-you cards to customers who shop there, warm up their customers' cars on cold days, and have hand-delivered special orders to customers' homes. Nordstrom installed a tool called Personal Book at its registers that enables salespeople to record and (later) review and recall customers' specific preferences to better personalize their shopping experiences. Nordstrom's sales associates have the freedom to sell merchandise in any department, giving them even more opportunities to develop their relationship with the customers. Nordstrom also provides customers with multiple channels for shopping, allowing them to buy something online and pick it up at a store within an hour.

The moment one enters a Nordstrom location, it is evident that the stores were developed with the customer in mind to create a pleasant, efficient experience—"a memorable experience." The company believes that it has 15 seconds to capture the excitement of a customer who walks

in the door. Aisles are kept neat and uncluttered, big display windows create a bright and open atmosphere, and the layout is easily navigated. The dressing rooms are large and well lit with fixtures that imitate natural light; escalators are significantly wider than elsewhere, to allow both couples and parents with children to stand next to each other; and every component is positioned to create a more residential feeling. The layout of the stores is efficient and free of clutter, a strategy that has been copied by retailers around the world.

Nordstrom's customer loyalty program, The Nordy Club, rewards customers on four different levels based on their annual spending: members ($0-$499), insiders ($500 +), influencers ($2,000 +), and ambassadors ($5,000 +). All members receive free basic alterations on regular-priced items, access to free styling workshops that help them curate their own look, curbside pickup of online purchases, and reward points that can be used as store credit. Higher-level members receive more points for each dollar spent, early access to sales events, and in-home stylists who come to customers' homes to offer expert styling advice and tailoring services.

Nordstrom currently operates 380 full-price and off-price stores in 40 U.S. states, Puerto Rico, and Canada. Full-price outlets include Nordstrom full-line stores, Nordstrom.com, Trunk Club (a personalized mid-level to high-end men's and women's apparel boutique acquired by Nordstrom in 2014), Jeffrey (luxury fashion boutiques in which Nordstrom bought a majority stake in 2005), and Nordstrom Local (no-inventory stores launched by Nordstrom in 2017). Off-price outlets include Nordstrom Rack stores, Nordstromrack.com, HauteLook (an online retailer that offers flash sales on designer goods, acquired by Nordstrom in 2011), and Last Chance clearance stores.

The company's long-term and often costly customer focus has reaped great benefits for the company. Not only has Nordstrom emerged over the past 100 + years as a luxury brand known for quality, trust, and service, but its customers remain loyal even in hard times. Many customers choose to shop at Nordstrom, rather than at its competitors,

because of their existing relationship and the hassle-free return policy. Nordstrom remains strategically focused on customer service and constantly looks for new ways to deepen and develop its customer–salesperson relationship.[91]

Questions

1. What role does service play in Nordstrom's positioning? Does service play the same role in online and in-store experiences?
2. How else can Nordstrom continue to provide exceptional customer service and increase brand loyalty?
3. How should Nordstrom address the growing popularity of online shopping? Can it successfully compete in the online space? Who are Nordstrom's biggest competitors, and how do they stack up?