Services Marketing

“Okay, everyone knows that the Net is changing everything. . . . that’s old news. The savvy companies are already asking themselves: what comes next? Chapter two of the Internet will be about the mass proliferation of e-services.”

—The Hewlett-Packard Company

One of the most profound changes driving the growth of the service economy has been the phenomenal advance in technology and in particular—the Internet. Let’s recap the growth of the Internet in a nutshell. Sometime around 1996, the obsession with the Internet began. Thousands of businesses, customers, employees, and partners got wired to one another and began conducting business processes online (a.k.a., e-business). Eventually, more and more customers (businesses and final consumers) became wired and formed a critical mass. Through repeated usage, customer trust dramatically increased, and the Net became a viable means for revenue production and economic growth (a.k.a., e-commerce). Hewlett-Packard (http://www.hp.com) refers to this period as “Chapter One of the Internet.”

It was during Chapter One that the foundation of the Internet was laid, providing the infrastructure that enabled the evolution of the Net to follow. Chapter One required users to:

- do it yourself
- at your desk
- on a PC
- tapping into Web storefronts
- using monolithic applications
- where IT (Internet technology) is viewed as an asset

Chapter One is old news. According to the experts, Chapter Two will be about the mass proliferation of e-services. In comparison to Chapter One, which required users to work the Web, Chapter Two is about the Internet working for the user. Now the Internet helps users to:

- do it for me
- while I am living my life
- on PCs, devices, and things
- through the use of automated e-services
- using modular e-services
- where IT is viewed as a service

Chapter Two will require companies to rethink their Web site strategy. In an e-service world, driving thousands of users to your Web site is no longer the
best Internet strategy. E-service users will access the Internet using a multitude of appliances, including mobile phones, watches, VCRs, heart monitors, and automobiles. Users will no longer need traditional Web sites because these appliances will connect them directly to Internet-based e-services to solve problems, perform specific tasks, or complete transactions.

Hewlett-Packard's Web site provides several intriguing scenarios of how e-services will reshape our daily activities. In one such scenario titled “Anticipating the Unforeseeable,” a traveler experiences difficulty as she drives to the airport.

There’s nothing like leaving on a business trip the day before Thanksgiving. The hapless executive heads for the airport. While she’s en route, all hell breaks loose in Salt Lake City. A blizzard grounds her connecting flight to LaGuardia. All other flights to New York City are overbooked. And by the way, NYC’s taxi drivers have just gone on strike. Not to worry, by the time the executive gets to the airport, several different e-services have gone to work, turning a near disaster into a minor delay.

- First, the airline’s flight information service notifies the executive’s travel service that her flight has been canceled.
- Next, the executive’s travel service sends out a request for bids to five other airline flight information services.
- Since the executive is holding a full-fare ticket and her frequent flyer status is higher than other people’s, the executive is awarded the best available seat on the next plane going to the nearest airport—Newark.
- The travel service automatically checks with ground transportation services and learns of the taxi strike.
- As a result, the travel service contacts a rental car service, books a rental car at Newark Airport, and requests directions provided by the car’s GPS system, to the hotel in New York City.
- Noting the executive will arrive later than anticipated, the travel service notifies the hotel’s reservation service of the delay and guarantees payment.
- All of this information is transmitted to the executive through her pager or PDA (e.g., Palm Pilot) as she walks through the terminal.

All in all, it’s an exciting time to live as new technological developments and e-services become the next big thing on the Net.

After you have completed this chapter, you should be able to:

1. Understand the fundamental differences between the marketing of goods and services.
2. Appreciate the benefits of customer satisfaction and evaluate the pros and cons of various customer relationship management practices.
3. Understand the managerial significance of the gap model of service quality.
4. Discuss why customer retention is so important and identify tactics that help firms retain customers.
THE FUNDAMENTALS OF SERVICES MARKETING

Services are everywhere we turn, whether we are visiting the doctor, responding to e-mail messages, eating at a favorite restaurant, or studying at school. Simply put, the global service economy is booming. More and more, the so-called industrialized countries are discovering that their service sector is generating the majority of their gross national product. However, the growth of the service sector does not just arise within traditional service industries such as business services, the hospitality industry, health care, and other professional services. Traditional goods producers such as automotive, computer, and numerous other manufacturers are now turning to the service aspects of their operations to establish a competitive advantage in the marketplace. These previously unexplored service aspects also generate additional sources of revenue for their firms. In essence, these companies, which used to compete by selling “boxes” (tangible goods), have now switched their competitive focus to providing unmatched, unparalleled customer services (Figure 9.1). Hewlett-Packard has embodied this idea through an ad saying “A Box without Service Is Just a Box.”

**Figure 9.1** Service Is Expanding Beyond These Traditional Customer Services
Ample evidence documents this transition from selling boxes to service competition. For example, the traditional goods-producing automotive industry now emphasizes the service aspects of its businesses: low APR financing, attractive lease arrangements, bumper-to-bumper factory warranties, low maintenance guarantees, and free shuttle services for customers (Figure 9.2). Simultaneously, automotive firms are saying less about the tangible aspects of vehicles such as gas mileage, acceleration, and leather seats in their marketing communications. Similarly, the personal computer industry promotes in-home repairs, 24-hour customer service, and leasing arrangements, and the satellite television industry now touts the benefits of digital service, pay-per-view alternatives, and security options to prevent children from viewing certain programming.

The service boom looks set to continue into the near future. It seems likely that no business will succeed unless it makes service the foundation of its competitive strategy. The growing importance of services is also reflected in the changing role of the service department within organizations. In the not-so-distant past, the service department tended to be viewed as a necessary evil—it was the place that fixed the box and made good on faulty production promises. As service has evolved to become a primary source of competitive advantage, the service department has grown in importance as well.

**What Is a Service?**

Services include a vast array of businesses ranging from profit to nonprofit services, private to government services, and unskilled to professional services (Table 9.1). However, the distinction between goods and services is not always perfectly clear. In fact, providing
an example of a pure good or a pure service is very difficult in today’s market economies. A pure good implies that any benefits received by the consumer contain no elements supplied by service. Similarly, a pure service would contain no benefits provided by tangible elements.

In reality, many services contain at least some “goods,” or tangible elements, such as the menu selections at an Outback Steakhouse, a MasterCard statement from MBNA, or the written life insurance policy that State Farm Insurance issues. Also, most goods at least offer “services,” or intangible elements. For example, table salt is delivered to the grocery store, but a company such as Morton Salt that sells it to thousands of retailers may offer innovative invoicing services that further differentiate it from competitors. The distinction between goods and services is blurred even further because a number of firms conduct business on both sides of the goods/services fence. For example, General Motors, the goods manufacturing giant, generates 20 percent of its revenue from its financial and insurance businesses, and the car maker’s biggest supplier is Blue Cross and Blue Shield, not a parts supplier of steel, tires, or glass as most people would have thought.

Despite the confusion, the following definitions should provide a sound starting point in developing an understanding of the differences between goods and services. In general, **goods** are objects, devices, or things, whereas **services** are deeds, efforts, or performances. Ultimately, the primary difference between goods and services is the property of **intangibility**—lacking physical substance. Because of intangibility, a host of marketing problems for services arise that are not always adequately solved by traditional goods-related marketing solutions. For example, how would you (1) advertise a service that no one can see; (2) price a service that has no cost of goods sold; (3) inventory a service that cannot be stored; or (4) mass-produce a service that needs to be performed by an individual (e.g., dentist, lawyer, physician)? Clearly, managing a service operation seems much more complicated than managing a firm that primarily produces and markets goods.

The Scale of Market Entities

One helpful approach to looking at the differences between goods and services is provided by the **scale of market entities**. This scale, presented in Figure 9.3, displays a range of products based on their tangibility and illustrates that there is really no such thing as a pure good or a pure service. All products have some tangible and some intangible aspects. Goods are **tangible dominant**. As such, goods possess physical properties called **search attributes** that customers can feel, taste, and see prior to their purchase decisions. For example, when purchasing a car, the consumer can kick the tires, look at the engine, listen to the stereo, smell that “new-car smell,” and take the car for a test drive before making the actual purchase. In contrast, services are **intangible dominant**.
On the Road Again with Shomotion

One of the great pleasures in teaching a Principles of Marketing class is that it offers students from a variety of majors insights into the business world that may profoundly affect them the rest of their lives. Such was the case for Michael Scherkenbach, a Natural Resource and Tourism major at Colorado State University.

Upon graduation from CSU, Michael left the friendly scenic confines of Fort Collins, Colorado, to work for a family-owned company in Chicago, Illinois. Although the overall experience was great, Michael found it difficult to work with family members on a day-to-day basis. Within a year, Michael set out on his own and created Shomotion—a service-based transportation company specializing in mobile marketing campaigns and entertainment transportation. With a lot of hard work and some incredible luck, Shomotion has assisted in the transportation service needs of the Dave Matthews Band (2000 and 2001 tours), Blink 182, Destiny’s Child, and various other national touring acts. Shomotion was selected as the exclusive transporter for the fall 2001 Discover Card/ESPN Tailgate Tour and was contracted to handle several similar marketing tours for Lucky Magazine and Jolly Rancher in 2002.

Shomotion provides users with a number of unique services. Ultimately, the company specializes in the transportation and repositioning of mobile marketing campaigns and entertainment transportation. This is accomplished through a wide variety of transportation and driver services. Shomotion’s competitive edge is its ability to provide customized solutions to meet the needs of individual customers. For instance, customers can personally select drivers from a pool of over 100 professionals and Shomotion’s entire fleet of vehicles is equipped with state-of-the-art Qualcomm satellite tracking and communications. All trailers feature air ride suspension to ensure the safe transport of sensitive cargo and are outfitted with E-track load-securing systems.

Shomotion can handle human cargo in style as well. Shomotion’s full-service coach leasing company offers services such as state-of-the-art entertainment systems, “In-Motion” satellite互联网 and Internet access, sleeping quarters from 6 to 12 bunks, fiber optic interior lighting, full-size refrigerators, exterior perimeter lighting, granite floors, and marble countertops. Shomotion reports that many of its clients have found coach leasing to be a cost-effective substitute for rising hotel rates.

In addition to its transportation services, Shomotion offers a network of warehouses and storage facilities that greatly enhance the company’s ability to accommodate sudden changes in tour schedules and down periods during mobile marketing campaigns. Michael notes, “When the Backstreet Boys had to suddenly postpone the remaining half of their 2001 summer tour, Shomotion was able to provide secure storage for 22 equipment trailers until the tour resumed.” As a result, Shomotion has been able to position itself as the company to call when customers find themselves in a logistical jam.

As such, services are primarily characterized by **experience attributes** and **credence attributes**. Experience attributes can be evaluated only during and after consumption, such as a meal at a restaurant or the quality of a haircut. Credence attributes cannot be evaluated with certainty even after consumption of the product, such as a minister's counseling or a financial advisor's retirement investment advice. Finally, businesses such as fast-food restaurants, whose products contain both a goods and services component, fall in the middle of the continuum and are characterized by a combination of search, experience, and credence attributes.

The scale of market entities affirms that companies that manufacture tangible goods and ignore, or at least forget about, the intangible service elements of their business may be overlooking a vital differential advantage in the marketplace. By defining their businesses too narrowly, these firms have developed classic cases of **marketing myopia**. For example, the typical family pizza parlor may myopically view itself as being solely in the pizza business. However, a broader view recognizes that the business provides consumers with a convenient, reasonably priced food product in a unique atmosphere that the firm has created for its customers. Interestingly, adding service aspects to a product often transforms the product from a commodity into a compelling experience, and by doing so dramatically increases the revenue-producing opportunities of the product. For example, Build-a-Bear Workshops offer an experience-based business model where customers and their children or grandchildren can build and accessorize their own teddy bears. Given the option of going to a store to purchase a bear for a child versus taking the child to a Build-a-Bear Workshop where they can be personally involved in producing the bear, many customers are enthusiastically opting for the latter choice.

### Unique Differences between Goods and Services

Initially, the field of services marketing was slow to develop within the academic community. Many marketing educators felt the marketing of services did not differ significantly from the marketing of goods. It was still necessary to segment markets, identify target markets, and develop marketing mixes that cater to the needs of a firm's intended target market. However, since those early days, a great deal has been written regarding the specific differences between goods and services and their corresponding marketing implications. The majority of these differences are attributed to four unique characteristics—intangibility, inseparability, heterogeneity, and perishability.
Intangibility
Of the four unique characteristics that distinguish goods from services, intangibility is the primary source from which the other three characteristics emerge. As a result of their intangibility, services cannot be seen, felt, tasted, or touched in the same manner that goods can be sensed. For example, compare the differences between purchasing a movie ticket and a pair of shoes. The shoes are tangible goods, so the shoes can be objectively evaluated prior to purchase. The customer can pick up the shoes, feel the quality of materials from which they are constructed, view their specific style and color, and actually sample the shoe for comfort and fit. After purchasing the shoes, the customer takes them, claiming physical possession and ownership of a tangible product.

In comparison, the purchase of a movie ticket buys the customer an experience. Since the movie experience is intangible, the movie is subjectively evaluated. For example, the customer must rely on the judgments of others (e.g., friends, movie critics, etc.) who have previously experienced the service for prepurchase information. Because the information provided by others is based on their own sets of expectations and perceptions, opinions will differ regarding the value of the experience. After the movie is over, the customer returns home with a memory of the experience, retaining physical ownership of only a ticket stub. In addition, the customer’s evaluation of the movie will extend beyond what was seen on the screen to include the treatment by theater employees, the behavior of other customers, and the condition of the theater’s physical environment.

Inseparability
One of the most intriguing characteristics of the service experience involves the concept of inseparability. Inseparability refers to (1) the service provider’s physical connection to the service being provided; (2) the customer’s involvement in the service production process; and (3) the involvement of other customers in the service production process.
Unlike the manufacturer, who may seldom see an actual customer while producing goods in a factory, service providers are away from their customers when they would most like to use it. Motorola’s response to this consumer need is Mya, a mobile platform that integrates voice and data. According to Motorola, Mya is essentially a voice-enabled browser that eliminates the middleman—the computer.

Mya has been designed specifically to act as a sort of digital secretary. Subscribers to Mya’s services are given an 800 number and PIN that provides 24-hour access to the Net, 7 days a week. Theoretically, a subscriber can call Mya and ask for a list of Italian restaurants within a specified location. If a restaurant’s Web site has been designed to take reservations, Mya can book the reservation. The limitation is that Mya can only access what is on the Internet. So, if a restaurant does not have a Web site, Mya has no way of knowing that it exists. Other services that Mya can provide include checking subscribers’ e-mail and reminding them of upcoming appointments, birthdays, and anniversaries.

Although Mya is virtual, she has been given a human voice and physical appearance in order to assist in Motorola’s marketing efforts. Mya is voiced by Gabrielle Carteras, an actress who played Andrea on Fox television’s Beverly Hills 90210. Mya’s physical appearance is digitally animates—she is a tall, thin blonde with spiked hair, wearing a silver pantsuit. She was created by the same firm that generated the special effects for Terminator 2 and Titanic. Mya’s services are currently available to BellSouth subscribers. Other networks have yet to be finalized.

delicate art. For example, imagine attempting to staff the emergency department of a hospital with exactly the right number of personnel, who have exactly the right qualifications, on any given night.

Other Customer Involvement. The presence of other customers during the service encounter is the third defining aspect of inseparability. Because production and consumption occur simultaneously, several customers often share a common service experience. For example, other students share your learning experience in the classroom, and other customers share your entertainment experience at a Six Flags Theme Park (Figure 9.4). The marketing challenges presented by having other customers involved in the production process generally reflect the negative aspects of their involvement. For example, the popular press has been full of stories about incidents of “air rage” or “passenger-induced turbulence.” Factors known to contribute to this disruptive behavior include alcohol abuse, sexual misconduct, smoking in nonsmoking areas, failure to follow boarding instructions, violating carry-on baggage restrictions, and a variety of other conditions that arise from lapses in creature comforts, crew training, and food quality. In fact, the number of incidents involving passengers interfering with flight crews has more than tripled over the last 10 years. The policing of customer misconduct aboard planes is a tricky issue. According to one flight attendant, “At 37,000 feet, you don’t have the option of throwing people out like you can in a cocktail lounge.”

The impact of other customers is not always negative. On the positive side, audience reaction in the form of laughter or screams of terror often enhances the moviegoer’s experience. Similarly, a crowded pub may facilitate social interaction, and a happy crowd may make a concert an even more pleasurable event. As social creatures, humans tend to frequent places of business, and feel more comfortable in those places that have other customers in them. In fact, the lack of other customers can act as a tangible clue that the impending service experience may be less than satisfactory. For example, would you eat at an unfamiliar restaurant that had no cars in the parking lot, or would you choose to eat at the restaurant down the street with a full parking lot? In the absence of other information, at which restaurant would potential customers expect to receive the better dining experience?
Heterogeneity
One of the most frequently stressed differences between goods and services is the lack of ability to control service quality before it reaches the consumer. Service encounters occur in real time, and consumers are often physically present, so if something goes wrong during the service process, it is too late to institute quality-control measures before the service reaches the customer. Indeed, the customer (and other customers who share the service experience) may be part of the quality problem. If something goes wrong during a meal in a restaurant, the service experience for a customer is bound to be affected; the manager cannot logically ask the customer to leave the restaurant, reenter, and start the meal again.

Heterogeneity, almost by definition, makes it impossible for a service operation to achieve 100 percent perfect quality on an ongoing basis. Manufacturing operations may also have problems achieving this sort of target, but they can isolate mistakes and correct them over time because mistakes tend to reoccur at the same points in the process. In contrast, many errors in service operations are one-time events; the waiter who drops a plate of food in a customer’s lap creates a service failure that can be neither foreseen nor corrected ahead of time.

Another challenge heterogeneity presents is that not only does the consistency of service vary from firm to firm and among personnel within a single firm, it also varies when interacting with the same service provider on a daily basis. For example, one Enterprise rental car franchise can have helpful and pleasant employees, while another franchise might employ individuals who conduct their daily interactions with customers like robots. Not only can this be true among different franchises, the same can be true within a single franchise on a day-to-day basis because of the mood swings of employees.

Perishability
Perishability also distinguishes goods from services. It refers to the fact that services cannot be inventoried in the traditional sense. Unlike goods that can be stored and sold at a later date, services that are not used when they become available cease to exist. For example, hotel rooms that go unoccupied for the evening cannot be stored; airline seats that are not sold cannot be inventoried and added to another aircraft during the holiday season when airline seats are in short supply; and service providers such as dentists, lawyers, and hairstylists cannot regain the time lost from an empty appointment book.

The inability to inventory creates profound difficulties for marketing services. In a manufacturing setting, the ability to create an inventory of goods means that their production and consumption can be separated by time and space. In other words, a good can be produced in one location and transported for sale in another, or the good can be produced in one month and not released into the channels of distribution until June. Most services, however, are consumed at the point of production.

The existence of inventory also facilitates statistical quality control in goods-producing organizations. A representative sample of the inventory can be easily inspected for variations in quality. In contrast, when you spend the night at a hotel, you are likely to experience a wide range of factors that influence your good night’s sleep. Finally, keeping inventory enables a business to separate the production and marketing departments. In service firms, however, marketing and operations constantly interact with each other and must be in sync to deliver services effectively.

Because of the effects of intangibility, inseparability, heterogeneity, and perishability, marketing plays a very different role in service-oriented organizations than it does in pure goods organizations. Clearly, the different components of the service organization are closely interwoven. The invisible and visible parts of the organization, the contact personnel and the environment in which the service is provided, the organization and its customers, and, indeed, the customers themselves are all bound together by a complex network of relationships. Consequently, the marketing department must maintain a much closer relationship with the rest of the service organization than is customary in many goods-producing businesses. The concept of operations being responsible for producing the product and marketing being responsible for selling the product cannot work in a service firm.
Understanding the Service Experience

All products, be they goods or services, deliver a bundle of benefits to the consumer. The benefit concept is the encapsulation of these benefits in the consumer’s mind. For a tangible-dominant product such as Tide laundry detergent, the benefit concept for some consumers might simply be clean clothes. However, for other consumers the benefit concept might also include attributes ascribed to the product that go beyond the mere powder or liquid, such as cleanliness, whiteness, and/or being a good parent.

In contrast to goods, services deliver a bundle of benefits through the experience that is created for the consumer. For example, most Tide customers will never see the inside of the manufacturing plant where Tide is produced; they will most likely never interact with the factory workers who produce the detergent or with the management staff who direct the workers; and they will also generally not use Tide in the presence of other customers. In comparison, Taco Bell’s dine-in customers are physically present in the “factory” where the food is produced, and these customers do interact with the workers who prepare and serve the food as well as with the management staff who run the restaurant. Moreover, Taco Bell customers consume the service in the presence of other customers who may influence one another’s service experience.

Figure 9.5 illustrates the key factors that create the service experience for the customer. The service experience itself creates the benefit concept for the consumer. The most profound implication of the service experience is this: It demonstrates that consumers are an integral part of the service process. Their participation may be active or passive, but consumers are always involved in the service delivery process. Factors that influence the customer’s service experience include dimensions that are visible and invisible to the customer:

- Servicescape (visible)
- Service providers (visible)
- Other customers (visible)
- Organizations and systems (invisible)

The Servicescape

The term servicescape refers to the use of physical evidence to design service environments (Table 9.2). Due to the intangibility of services, customers often have trouble evaluating the quality of service objectively. As a result, consumers rely on the physical evidence that surrounds the service to help them form their evaluations (Figure 9.6).
Table 9.2

<table>
<thead>
<tr>
<th>Ambient Conditions</th>
<th>Space/Function</th>
<th>Signs, Symbols, and Artifacts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Temperature</td>
<td>Layout</td>
<td>Signage</td>
</tr>
<tr>
<td>Air Quality</td>
<td>Equipment</td>
<td>Personal Artifacts</td>
</tr>
<tr>
<td>Noise Level</td>
<td>Furnishings</td>
<td>Decor</td>
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<tr>
<td>Music</td>
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<td>Uniforms</td>
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<td>Odors</td>
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<td>Award Plaques</td>
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Figure 9.6

Physical Evidence Is Often Used to Market Travel Destinations
Hence, the servicescape consists of ambient conditions such as room temperature and music; inanimate objects that assist the firm in completing its tasks, such as furnishings and business equipment; and other physical evidence such as signs, symbols, and personal artifacts such as family pictures and personal collections.

The extensive use of physical evidence varies by the type of service firm. Service firms such as hospitals, resorts, and child-care centers often use physical evidence extensively as they design facilities and other tangibles associated with the service. In contrast, service firms such as insurance agencies and express mail drop-off locations use limited physical evidence. Regardless of the variation in usage, all service firms need to recognize the importance of managing their physical evidence because of its role in:

- packaging the service
- facilitating the service delivery process
- socializing customers and employees
- differentiating the firm from its competitors

**Packaging the Service.** A firm’s physical evidence plays a major role in packaging a service. The service itself is intangible and therefore does not require a package for purely functional reasons. However, the firm’s physical evidence does send messages to consumers and adds value to the service when it helps customers develop positive images of the service. The firm’s exterior and interior elements and other tangibles create the package that surrounds the service. The firm’s physical environment informs the customer’s initial impression of the type and quality of the service provided. For example, Mexican and Chinese restaurants often utilize specific architectural designs that communicate to customers about their firms’ offerings. Physical evidence also conveys expectations to consumers. Consumers will have one set of expectations for a restaurant with dimly lit dining rooms, soft music, and linen tablecloths and napkins; they will form quite a different set of expectations for a restaurant that has picnic tables and peanut shells covering the floor.

**Facilitating the Service Process.** Another use of a firm’s physical evidence is to facilitate the flow of activities that produce the service. Physical evidence can provide information to customers on how the service production process works. Examples include signage that specifically instructs customers; menus and brochures that explain the firm’s offerings and facilitate the ordering process for consumers and providers; physical structures that direct the flow of consumers while waiting; and barriers, such as counters at a dry cleaners, that separate the technical core of the business from the customer contact areas where customers are actively involved in the production process.

**Socializing Employees and Customers.** Organizational socialization is the process by which an individual adapts to and comes to appreciate the values, norms, and required behavior patterns of an organization. The firm’s physical evidence plays an important part in this socialization process by conveying expected roles, behaviors, and relationships among employees and between employees and customers. Physical evidence, such as the use of uniforms, helps to socialize employees toward accepting organizational goals and affects consumer perceptions of the caliber of service provided. Studies have shown that use of uniforms:

- aids in identifying the firm’s personnel
- provides a physical symbol that embodies the group’s ideals and attributes
- facilitates a coherent group structure
- enhances the perceived consistency of performance
- provides a tangible symbol of an employee’s change in status (e.g., military uniforms change as personnel move through the ranks)
- assists in controlling the behavior of errant employees

One classic example of how tangible evidence affects the socialization process of employees involves women in the military. Pregnant military personnel were originally permitted to wear civilian clothing in lieu of their traditional military uniforms. However, the military soon noticed discipline and morale problems among these servicewomen as they began to lose their identification with their roles as soldiers. “Maternity uniforms are now standard issue in the Air Force, Army, and Navy, as well as at US Air, Hertz, Safeway, McDonald’s, and the National Park Service.”

**Organizational socialization** is the process by which an individual adapts to and comes to appreciate the values, norms, and required behavior patterns of an organization.
A Means of Differentiation. The effective management of the servicescape can also be a source of differentiation. For example, several airlines such as American Airlines, United Airlines, and British Airways are now expanding the amount of leg room available for passengers. British Airways differentiates itself further by featuring the first fully flat bed for passengers traveling business class (Figure 9.7). In addition, the appearance of personnel and facilities often directly impact how consumers perceive the way that the firm will handle the service aspects of its business. Numerous studies have shown that well-dressed individuals are perceived as more intelligent, better workers, and more pleasant to engage in interactions. Similarly, well-designed facilities are going to be perceived as better than their poorly designed counterparts.

Differentiation can also be achieved by utilizing physical evidence to reposition a service firm in the eyes of its customers. Upgrading the firm’s facilities often upgrades the

Figure 9.7 The Servicescape Can Provide an Effective Means of Differentiation

It’s true, you can sleep your way to the top.
image of the firm in the minds of consumers and may lead to attracting more desirable market segments, which further aids in differentiating the firm from its competitors. On the other hand, note that elaborate facility upgrades may alienate some customers who believe that the firm will pass on the costs of the upgrade to consumers through higher prices. This is precisely why many offices are decorated professionally, but not lavishly.

**Service Providers**

The second component of the service experience involves the personnel who provide the service. Simply stated, the public face of a service firm is its service providers. Unlike the consumption of goods, the consumption of services often takes place where the service is produced (e.g., hair salon, dentist office, restaurant). Even when the service is provided at the consumer’s residence or workplace (e.g., lawn care, housekeeping, professional massage), interactions between consumers and service providers are commonplace. As a result, service providers have a dramatic impact on the service experience.

For example, when asked what irritated them most about service providers, customers have noted seven categories of complaints:

- **Apathy**: What comedian George Carlin refers to as DILLIGAD—Do I look like I give a damn?
- **Brush-off**: Attempts to get rid of the customer by dismissing the customer completely... the “I want you to go away” syndrome
- **Coldness**: Indifferent service providers who could not care less what the customer really wants
- **Condescension**: The “you are the client/patient, so you must be stupid” approach
- **Robotism**: When the customers are treated simply as inputs into a system that must be processed
- **Rulebook**: Providers who live by the rules of the organization even when those rules do not make good sense
- **Runaround**: Passing the customer off to another provider, who will simply pass them off to yet another provider

Service personnel perform the dual functions of interacting with customers and reporting back to the internal organization. Strategically, service personnel are an important source of product differentiation. It is often challenging for a service organization to differentiate itself from other similar organizations in terms of the benefit bundle it offers or its delivery system. For example, many airlines offer similar bundles of benefits and fly the same types of aircraft from the same airports to the same destinations. Therefore, their only hope of a competitive advantage is from the service level—the way things are done. Hence, the factor that often distinguishes one airline from another is the poise and attitude of its service providers. Singapore Airlines, for example, enjoys an excellent reputation due in large part to the beauty and grace of its flight attendants. Other firms that hold a differential advantage over competitors based on personnel include the Ritz Carlton, IBM, and Disney Enterprises.

**Other Customers**

Ultimately, the success of many service encounters depends on how effectively the service firm manages its clientele. A wide range of service establishments such as restaurants, hotels, airlines, and physicians’ offices serve multiple customers simultaneously. Hence, other customers can have a profound impact on an individual’s service experience. Research has shown that the presence of other customers can enhance or detract from an individual’s service experience. The influence of other customers can be active or passive. For instance, examples of other customers actively detracting from one’s service experience include unruly customers in a restaurant or a night club, children crying during a church service, or theatergoers carrying on a conversation during a play. Some passive examples include customers who show up late for appointments, thereby delaying each subsequent appointment; an exceptionally tall individual who sits directly in front of another customer at a movie theater; or the impact of being part of a crowd, which increases the waiting time for everyone in the group.

Though many customer actions that enhance or detract from the service experience are difficult to predict, service organizations can attempt to manage the behavior of customers so that they coexist peacefully. For example, firms can manage waiting times so
that customers who arrive earlier than others get first priority, clearly target specific age segments to minimize potential conflicts between younger and older customers, and provide separate dining facilities for smokers and customers with children.

Organization and Systems

The invisible component of the service experience, the organization and its systems, can also profoundly affect the consumer’s service experience. For example, throughout the last two decades, the distribution center of L.L. Bean has been a required stop for companies engaging in benchmarking exercises. Many companies, including Nike, Disney, Gillette, and DaimlerChrysler, have come to see how L.L. Bean fills orders so effectively. In fact, the center they visited is no more; it has been replaced by a completely new approach—one driven by an ever-expanding volume of orders, an increasingly global market, and a growing variety of customized products. L.L. Bean’sold system built orders from the telephone operations, issuing them every 12 hours to pickers. The pickers assembled the orders around the center and then delivered them to packers, who prepared the orders for shipment.

The new system, referred to as Wave Pick Technology, operates differently. Orders come directly from the telephone operators and are immediately allocated to pickers based on available capacity. Moreover, the orders are broken down by item and assigned to different pickers, who are themselves assigned to different parts of the warehouse. Order items are placed on a conveyor belt and scanned. Scanners then automatically assemble the orders for packing. As a result, 100 percent of orders can be serviced within 24 hours; from order to delivery to the on-site Federal Express depot only takes 2 hours.

A firm’s organization and systems also involve a human component. The behind-the-scenes activities of hiring, training, and rewarding employees are directly related to how well customers are served. The United Parcel Service (UPS) believes in building trust and teamwork and making employees loyal to the company’s mission. UPS spends over $300 million a year on training, it pays full-time drivers more than $50,000 a year on average, and it surveys its employees for suggestions. The company is virtually 100 percent employee-owned.

Creating Compelling Experiences

Service firms that are able to effectively mold the customer’s experience via the effective management of the servicescape, service providers, other customers, and the invisible organization and system have the means to develop compelling experiences. The development of compelling experiences is the latest competitive weapon in the war against service commodification. For example, when priced as a commodity, coffee is worth little more than $1 per pound. When processed, packaged, and sold in the grocery store as a good, the price of coffee jumps to between 5 and 25 cents a cup. When that same cup is sold in a local restaurant, the coffee takes on more service aspects and sells for 50 cents to $1 per cup. However, in the ultimate act of added value, when that same cup of coffee is sold in the compelling experience of a five-star restaurant or the unique environment of Starbucks, the customer gladly pays $2 to $5 per cup. In this instance, the whole process of ordering, creating, and consuming becomes a pleasurable, even theatrical, experience. Economic value, like the coffee bean, progresses from commodities to goods to services to experiences. In this example, coffee was transformed from a raw commodity valued at approximately $1 per pound to $2 to $5 per cup—a markup of as much as 5,000 percent.

Creating compelling experiences for customers is not a new idea. The entertainment industry and venues such as those operated by Disney have been doing it for years. Other types of businesses have picked up on the idea and introduced “experience” concepts, including the Hard Rock Cafe, Build-a-Bear Workshops, and a variety of theme hotels located in Las Vegas such as New York–New York, the Venetian, and Caesars Palace. The question facing many other service providers is how to transform their own operations into memorable experiences for the customer. One unique example involves a computer repair firm based in Minneapolis, Minnesota. This company’s team of crack technicians, formally called the “Geek Squad,” intentionally dress in white shirts and sport thin black ties, pocket protectors, and badges. This firm has successfully transformed a mundane service into a memorable event that’s fun for the customer.
THE QUEST FOR CUSTOMER SATISFACTION

To market services effectively, marketing managers need to understand customers’ thought processes as they assess their satisfaction with services provided (see Figure 9.8). Customer satisfaction is one of the most studied areas in marketing. Over the past 20 years, more than 15,000 academic and trade articles have been published on the topic. Tracking customer satisfaction in the United States is a highly complex task that is currently undertaken through the joint efforts of the American Society for Quality and the University of Michigan’s business school. The two groups have developed the American Customer Satisfaction Index (ACSI), which is based on 3,900 products representing more than two dozen manufacturing and service industries. Companies included in the study are selected based on size and U.S. market share, and together represent about 40 percent of the U.S. gross domestic product (GDP). Government services are also included in the index.

An overview of the best and worst companies included in the ACSI and their satisfaction ratings is presented in Table 9.3. DaimlerChrysler earned top honors, while the Internal Revenue Service (IRS) brought up the bottom (although its performance is improving). Unicom and McDonald’s are the IRS’s closest competitors, with several U.S. airlines not far behind. Perhaps the most disturbing finding of the ACSI research is that the 10 companies at the top of the list produce goods, while the 10 at the bottom, firms such as the Wells Fargo & Company, Kentucky Fried Chicken, Taco Bell, and the police, are service organizations.

From a historical perspective, a great deal of the work in the customer satisfaction area began in the 1970s, when consumerism was on the rise. The rise of the consumer movement was directly related to the decline in service felt by many consumers. The decline in customer service and resulting customer dissatisfaction can be attributed to a number of sources. First, skyrocketing inflation during this period forced many firms to slash service in an effort to keep prices down. In some industries, deregulation led to fierce competition among firms that had never had to compete before. Price competition quickly became the main means of differentiation, and price wars quickly broke out. Here again, firms slashed costs associated with customer service to cut operating expenses.

As time went on, labor shortages also contributed to the decline in customer service. Motivated service workers were difficult to find, and who could blame them? The typical service job meant low pay, no career path, no sense of pride, and no training in customer relations. Automation also contributed to the problem. Replacing human labor with machines indeed increased the efficiency of many operating systems, but often at the expense of distancing consumers from the firm and leaving customers to fend for themselves. Finally, over the years, customers have become tougher to please. They are more informed than ever, their expectations have increased, and they are more particular about where they spend their discretionary dollars.

Although saving every customer at any cost is a controversial topic and opinions are divided, some experts believe that the customer is no longer worth saving under the following conditions:

- The account is no longer profitable.
- Conditions specified in the sales contract are no longer being met.
- Customers are abusive to the point that it lowers employee morale.
- Customer demands are beyond reasonable, and fulfilling those demands would result in poor service for the remaining customer base.
- The customer’s reputation is so poor that associating with the customer tarnishes the image and reputation of the selling firm.
What Is Customer Satisfaction?

Ultimately firms achieve customer satisfaction through the effective management of customer perceptions and expectations. If the perceived service is better than or equal to the expected service, then customers are satisfied. Because of this, firms can increase customer satisfaction by either lowering expectations or by enhancing perceptions. Note that this entire process of comparing expectations to perceptions takes place in the minds of customers. Hence, it is the perceived service that matters, not the actual service.

Companies can also manage expectations in order to produce customer satisfaction, without in any way altering the quality of the actual service delivered. For example, Motel 6 downplayed its service in a clever advertising campaign to increase customer satisfaction by lowering customer expectations prior to purchase. The firm’s advertising informs consumers of both what to expect and what not to expect: “A good clean room for $39.99...a little more in some places...a little less in some others...and remember...we’ll leave the light on for you.” Many customers simply do not use services such as swimming pools, health clubs, and full-service restaurants that are associated with higher-priced hotels. Economy-minded hotels, such as Motel 6, are carving out a niche in the market by providing the basics. The result is that customers know exactly what they will get ahead of time and are happy not only with the quality of the service received but also with the cost savings.

Customer satisfaction is a short-term, transaction-specific measure of whether customer perceptions meet or exceed customer expectations.
The Importance of Customer Satisfaction

The importance of customer satisfaction cannot be overstated. Without customers, the service firm has no reason to exist. Every service business needs to proactively define and measure customer satisfaction. Waiting for customers to complain in order to identify problems in the service delivery system, or gauging the firm's progress in achieving customer satisfaction based on the number of complaints received, is naive. Consider the following findings gathered by the Technical Assistance Research Program (TARP):23

- The average business does not hear from 96 percent of its unhappy customers.
- For every complaint received, 26 other customers actually have the same problem.
- The average person with a problem tells 9 or 10 people. Thirteen percent of dissatisfied customers tell more than 20 people.
- Customers who have their complaints satisfactorily resolved tell an average of five people about the treatment they received.
- Complainers are more likely to do business with you again than noncomplainers: 54 to 70 percent if their problem was resolved at all, and 95 percent if it was handled quickly.

The TARP figures demonstrate that customers do not actively complain to the source of the failure. Instead, consumers voice their dissatisfaction with their feet, by defecting to competitors, and with their mouths, by telling existing and potential customers exactly how they were mistreated by the offending firm. The fact that dissatisfied customers on future business operations is astounding. Based on these figures, a firm that serves 100 customers per week, and boasts a 90 percent customer satisfaction rating, will be the object of thousands of negative stories by the end of the year. For example, if 10 dissatisfied customers per week tell 10 friends about the poor service they received, by the end of the year (52 weeks), 5,200 negative word-of-mouth communications have been generated.

The TARP figures are not all bad news, however. Firms that effectively respond to customer complaints are the objects of positive word-of-mouth communications. Although positive news travels at half the rate of negative news, the positive stories can ultimately translate into customer loyalty and new customers. Businesses should also learn from the TARP figures that complainers are a firm's friends. Complainers are a free source of market information, and the complaints themselves should be viewed as opportunities for the firm to improve its delivery systems, not as a source of irritation. As evidence, the International Customer Service Association found that of customers who had experienced a problem and complained, 54 percent continued to do business with the firm on a long-term basis. In comparison, only 9 percent of customers who experienced problems and did not complain continued to do business with the offending firm.24 Remember, too, that less than 5 percent of consumers with problems actually complain to companies.

The Benefits of Customer Satisfaction

Although some may argue that customers are unreasonable at times, little evidence can be found of extravagant consumer expectations.25 Consequently, satisfying consumers is not an impossible task. In fact, meeting and exceeding customer expectations creates several benefits for service firms. Positive word-of-mouth from existing customers often translates into new customers. In addition, satisfied customers purchase products more frequently and are less likely to be lost to competitors than are dissatisfied customers.

Companies who command high customer satisfaction ratings also seem to be able to insulate themselves from competitive pressures—particularly price competition. Customers are often willing to pay more and stay with a firm that meets their needs than to risk moving to a lower-priced service. Finally, firms that pride themselves on their customer satisfaction efforts generally provide better environments in which to work, and therefore have increased their chances to attract and retain the best and brightest employees. These positive work environments produce organizational cultures that challenge...
employees to perform and reward them for their efforts. Some companies even use their positive work environments to encourage employee applications. Microsoft, for example, is known for providing a remarkably challenging atmosphere for the “brainy.” Everybody gets stock options, and most professionals hired before 1992 have thus become millionaires; six became billionaires.  

In and of themselves, customer satisfaction surveys also provide several worthwhile benefits. Such surveys provide a formal means of customer feedback to the firm, which may identify existing and potential problems. Satisfaction surveys also convey the message to customers that the firm cares about their well-being and values customer input concerning its service delivery process.

Other benefits are directly derived from the results of the satisfaction surveys. Satisfaction results are often incorporated into employee performance evaluations for merit and compensation reviews. As we discuss in Chapter 13, sales managers use such results to develop sales training programs. Survey results are also used for comparison purposes to determine how a firm stacks up against its competitors. When ratings are favorable, many firms utilize the results in their corporate advertising. (Figure 9.9).
Customer Satisfaction as It Relates to Customer Relationship Management

One of the most recent business practices affecting customer satisfaction levels (both positively and negatively) is customer relationship management. Customer relationship management (CRM) is the process of identifying, attracting, differentiating, and retaining customers. CRM allows a firm to focus its efforts disproportionately on its most lucrative clients. CRM is based on the adage that 80 percent of a company's profits come from 20 percent of its customers; therefore, the 20 percent should receive better service than the 80 percent. For example, when a plastics manufacturer focused on its most profitable customers, it cut the company's customer base from 800 to 90 and increased revenue by 400 percent.

The increased use of CRM practices, where high-value customers are treated superior to low-value customers, can be attributed to several trends. First, some believe that customers have created the situation themselves by opting for price, choice, and convenience over high-quality service. However, trade-offs arise with this focus on price and other factors over service concerns. For example, although priceline.com offers discounted tickets at significant savings, the customer trade-offs include forfeiting the right to any refund, flying on whatever brand airline is available, and being forced on connecting flights in many instances. In addition, according to one state investigation, an additional trade-off is that priceline.com is inappropriately prepared to handle customer complaints.

Another reason CRM is currently fashionable is that labor costs have risen, while competitive pressures have kept prices low. The end result is that gross margins have been reduced to 5 to 10 percent in many industries. With these low gross margins, companies simply cannot afford to treat all of their customers equally. Consider the plight of Fidelity Investments. Ten years ago, the company received 97,000 calls a day. Half of those calls were handled by an automated telephone system. Today, Fidelity receives 700,000 calls as well as 550,000 Web site visits a day. Three-quarters of the phone calls are now handled by automated systems, which cost the company less than $1 per call. Live customer service personnel handle the remaining calls at $13 per call. This is just one of the reasons the company contacted 25,000 of its customers to request that they use its Web site or automated phone system.

Finally, firms are expanding CRM efforts because markets are increasingly fragmented and promotional costs are on the rise. Six Continents, the owner of Holiday Inn and Inter-Continental Hotels, recently learned a valuable lesson about not treating customers equally. The company now sends its promotional mailings only to those who have “bit” on earlier mailings. The end result is that company has reduced mailing costs by 50 percent, while response rates have increased by 20 percent.

CRM Outcomes

Typical outcomes of CRM practices include coding, routing, targeting, and sharing. Each practice is typically associated with both positive and negative consequences for customers.

Coding. Firms grade customers based on how profitable the customer's business is. Service staff are instructed to handle customers differently based on their category code. Compare the following examples.

- A New York customer travels to New Jersey to buy a table from an Ikea store. After returning home, he discovers that the table is missing necessary brackets and screws. The store refuses to mail him the missing parts and insists that he must return to the store. The customer does not own a car.
- A Platinum customer of Starwood Hotels & Resorts Worldwide wants to propose to his girlfriend in India. Starwood arranges entry into the Taj Mahal after hours so that he can propose in private. Starwood also provides a horse-driven carriage, flowers, a special meal, an upgraded suite, and a reception led by the hotel's general manager.
- Sears Roebuck and Company's most profitable credit card customers get to choose a preferred 2-hour time window for repair appointments. Regular customers are given a 4-hour time window.

http://www.fidelity.com

http://www.sixcontinents.com

Coding is categorizing customers based on how profitable their past business has been.

Routing is the process of directing incoming calls to customer service representatives in which more profitable customers are more likely to receive faster and better customer service.

Targeting involves offering the firm's most profitable customers special deals and incentives.

Sharing involves making key customer information accessible to all parts of the organization and in some cases selling that information to other firms.

http://www.ikea.com

http://www.sears.com
Routing. Call centers route incoming calls based on the customer’s code. Customers in profitable code categories get to speak to live customer service representatives. Less profitable customers are inventoried in automated telephone queues. For example,

- Call this particular electric utility company and depending on your status, you may have to stay on the line for quite awhile. The top 350 business clients are served by six people. The next tier, consisting of the next 700 most profitable customers, are handled by six more people. The next 30,000 customers are served by two customer service representatives. The final group, consisting of 300,000 customers, are routed to an automated telephone system (Figure 9.10).
- Charles Schwab and Company’s top-rated Signature clients, consisting of customers who maintain $100,000 in assets or trade at least 12 times a year, never wait more than 15 seconds to have their calls personally answered by a customer service representative. Regular customers can wait up to 10 minutes or more.

Figure 9.10  CRM Routing Often Leaves Customers Far Less Than Satisfied

http://www.charlesschwab.com
Targeting. Profitable customers have fees waived and are targeted for special promotions. Less profitable customers may never hear of the special deals. Consider these examples:

- Centura Bank, Inc. of Raleigh, North Carolina, ranks its 2 million customers on a profitability scale from 1 to 5. The most profitable customers are called several times a year for what the bank terms “friendly chats,” and the CEO calls these same customers once a year with season’s holiday greetings. Since the “friendly chats” program was implemented, the retention rate of the most profitable group has increased by 50 percent. In comparison, the most unprofitable group has decreased from 27 percent to 21 percent.
- First Bank of Baltimore, Maryland, provides its most profitable customers with a Web option that its regular customers never see. The option allows preferred customers to click a special icon that connects them with live service agents for phone conversations.
- First Union codes its credit card customers with colored squares that flash on customer service representatives’ computer screens. A green square indicates that the customer is profitable and should be granted fee waivers and given the “white glove” treatment.

Sharing. Customer information is shared with other parts of the organization, and information is sold to other companies. Although the customer may be new to the organization, his or her purchase history and buying potential are well-known to insiders. For example:

- A United Airlines passenger was shocked when a ticketing agent told him: “Wow, somebody doesn’t like you.” Apparently the passenger was involved in an argument with another United employee several months earlier. The argument became part of the passenger’s permanent record that follows him wherever he flies with United. The passenger, who is a Premier Executive account holder, feels that the airline has been less than accommodating following the incident.
- Continental Airlines has introduced a Customer Information System where every one of Continental’s 43,000 gate, reservation, and service employees has access to the history and value of each customer. The system also suggests specific service recovery remedies and perks such as coupons for delays and automatic upgrades. The system is designed to provide more consistent staff behavior and service delivery.

Limitations of CRM Practices
Technology greatly enhances CRM processes by identifying current and potential customers, differentiating among high-value and low-value customers, and customizing offers to meet the needs of individual high-value customers. However, there are limitations. First, customers do not like hearing that some customers are valued more than others, especially where they are not the ones receiving the white glove treatment. Many companies are well aware of potential customer ill will and are fairly tight-lipped about the outcomes of their respective CRM practices. In a Business Week lead story pertaining to CRM issues, companies such as GE Capital, Sprint Corporation, and WorldCom, Inc., declined repeated requests to speak about their service discrimination practices. Meanwhile, in service operations where service discrimination is common such as airlines, banks, retail stores, hotels, and telecommunication companies, customer dissatisfaction is taking a nosedive and customer complaints are on the rise (see Figure 9.11).

Another concern relating to CRM practices involves privacy issues. How much should a company really know about its customers? When discussing its new Customer Information System, the vice president of Continental Airlines boasted, “We even know if they [the customers] put their eyeshades on and go to sleep.”329 Ironically, in this day and age of high-tech CRM systems, experts are now suggesting that if customers want better service, they should protect their privacy. In doing so, it is recommended that customers avoid filling out surveys and be protective about credit card and Social Security information. The less companies know about customers, the less they will be able to categorize them, and the less likely customers will be treated as low-value.
CRM is also limited by its focus on past-purchase patterns. In reality, what customers spend today is not necessarily a good predictor of what their behavior will be tomorrow. How many potential profitable customers are being eliminated today because their current purchasing behavior has them slotted and treated as “commoners”? Spurned by such treatment, how many of these customers defect to another provider that appreciates their potential and treats them appropriately? Life situations and spending habits do change over time.

Service discrimination also leads to some interesting ethical questions. Should only the wealthy be recipients of quality service? Is this a form of red-lining—the practice of identifying and avoiding unprofitable types of neighborhoods or people?

Service quality researchers agree on one issue: Service quality is an elusive and abstract concept that is difficult to define and measure. The productivity of education and government services is notoriously difficult to measure. Increases in quality, such as improvements in the quality of education and training governmental employees to be more pleasant throughout their daily interactions with the public, do not show up in productivity measures. In contrast, providing poor quality can ironically increase the country’s gross national product (GNP). If a mail-order company sends a customer the wrong product, the dollars spent on phone calls and return mailings to correct the mistake will actually add to the country’s GNP. However, it is readily apparent that increases in quality can have a dramatic impact on a firm’s or industry’s survival. As evidence, Japan did not simply bulldoze its way into U.S. markets by offering lower prices alone—superior quality relative to the competition at that time ultimately won customers over.

What Is Service Quality?

Perhaps the best way to begin a discussion of service quality is to first attempt to distinguish service quality from customer satisfaction. Most experts agree that customer satisfaction is a short-term, transaction-specific measure, whereas service quality is an attitude formed by a long-term, comprehensive evaluation of performance. Service quality offers a way for competing services to achieve success. In particular, where a small number of firms, such as banks, offer nearly identical services competing within a small area, establishing service quality may be the only way for a firm to differentiate itself. Service quality differentiation can generate increased market share and ultimately mean the difference between financial success and failure.
Goods manufacturers have already learned this lesson and over the past decade have made producing quality goods a priority issue. Improving the quality of manufactured goods has become a major strategy for both establishing efficient, smoothly running operations and increasing consumer market share in an atmosphere of increasing customer demand for higher quality. Goods quality improvement measures have focused largely on the quality of the products themselves, and specifically on eliminating product failure. Initially, these measures were based on rigorous checking of all finished products before they came into contact with the customer. More recently, quality control has focused on the principle of ensuring quality during the manufacturing process, on “getting it right the first time,” and on reducing end-of-production line failures to zero. The final evolution in goods manufacturing has been to define quality as delivering the right product to the right customer at the right time, thus extending quality beyond the good itself and using external as well as internal measures to assess overall quality.

Service quality cannot be understood in quite the same way. The service experience depends on the customer as a participant in the production process, so normal quality control measures that depend on eliminating defects before the consumer sees the product are not applicable. Service quality is not a specific goal or program that can be achieved or completed before the final product reaches the customer. Consequently, while manufacturers of goods aim for zero defects, the primary goal of service firms is zero defections. This often entails handling problems in real time as they unfold throughout the service delivery process.

The Gap Model

Service quality can be examined in terms of gaps that exist between expectations and perceptions on the part of management, employees, and customers (see Figure 9.12). The most important gap—the service gap—is between customers' expectations of service and their perception of the service actually delivered. Ultimately, the goal of a service firm is to close the service gap or at least narrow it as much as possible. Before the firm can close the service gap, it must close or attempt to narrow four other gaps:

- **The knowledge gap**—the difference between what consumers expect of a service and what management perceives the consumers expect.
- **The standards gap**—the difference between what management perceives consumers expect and the standards set for service delivery.
- **The delivery gap**—the difference between the standards set for service delivery and the actual quality of service delivery. For example, do employees perform the service as they were trained?
- **The communications gap**—the difference between the actual quality of service delivered and the quality of service described in the firm's external communications such as brochures and mass media advertising.

Hence, the service gap is a function of the knowledge gap, the standards gap, the delivery gap, and the communications gap. As each of these gaps increases or decreases, the service gap responds in a similar manner.

The Knowledge Gap

The most immediate and obvious gap is usually between what customers want and what managers think customers want. Briefly, many managers think they know what their customers want but are, in fact, mistaken. Banking customers may prefer security to a good interest rate. Some restaurant customers prefer quality and taste of food over an attractive arrangement of the tables or a good view from the window. A hotel may feel that its customers prefer comfortable rooms, though the majority of them spend little time in their rooms and are more interested in on-site amenities.

When a knowledge gap occurs, a variety of other mistakes tend to follow. The wrong facilities may be provided, the wrong staff may be hired, and the wrong training may be undertaken. Services may be provided that customers have no use for, while the services they do desire are not offered. Closing this gap requires minutely detailed knowledge of what customers desire and then building responses to customer needs into the service operating system.
The Standards Gap

Even if customer expectations have been accurately determined, a standards gap may open between management’s perception of customer expectations and the actual standards set for service delivery, such as order processing speed, the way cloth napkins are folded, or the way customers are greeted. Simply stated, standards comprise the blueprints of the service operation—they dictate how the service delivery process is to be implemented. When developing standards, the firm should develop a flowchart of its operations to identify all points of contact with its customers. Detailed standards can then be written for (1) the way the system should operate, and (2) the behavior of contact personnel at each point in the system. For example, front-desk personnel of Marriott hotels may be trained to perform to specification in such areas as acknowledging the customer on arrival, establishing eye contact, smiling, completing the proper paperwork, reviewing available amenities with the customer, and providing the customer with keys to the room.

In some cases a standards gap exists because management does not believe it can or should meet customer requirements for service. For example, overnight delivery of mail used to be thought of as an absurd possibility before CEO Fred Smith and FedEx proved that, in fact, it could be done (Figure 9.13). Sometimes management has no commitment to the delivery of service quality. Corporate leadership may set other priorities that interfere with standards that lead to good service. For example, a company’s empha-
sis on cost-reduction strategies that maximize short-term profits is often cited as a misguided priority that impedes the firm’s progress in delivering quality services. Personal computer companies whose automated service hotlines reduce the number of customer service employees are typical examples. In some instances, customers have been forced to remain on hold for hours before they could actually speak to a real person. Hotlines were originally intended to reflect the speed with which customers could talk with manufacturers. Now the name more appropriately reflects the customer’s temper by the time he or she talks to someone who can actually help.

The Delivery Gap
The delivery gap is the difference between how a service is actually delivered compared to the standards set by management. The existence of a delivery gap depends on both the willingness and the ability of employees to provide the service according to specification. For example, do employees wear their name tags, do they establish eye contact, and do
they thank the customer when the transaction is completed? One factor that influences the size of the delivery gap is the employees’ willingness to perform the service. Obviously, willingness to provide a service can vary greatly from employee to employee and for the same employee over time. Many employees who start off working at their full potential become less willing to do so over time because of frustration and dissatisfaction with the organization. Furthermore, a considerable range exists between what employees are actually capable of accomplishing and the minimum the employees must do in order to keep their jobs. Most service managers find it difficult to keep employees working at their full potential all the time.

Other employees, no matter how willing, may simply not be able to perform the service to specification. Individuals may have been hired for jobs they are not qualified to handle or to which they are temperamentally unsuited. Some employees do not receive sufficient training for the roles expected of them. Generally, employees who are not capable of performing assigned roles are less willing to keep trying.

Finally, a delivery gap may expand due to inadequate support, such as when employees do not receive the technological and other resources necessary for them to perform their jobs in the best possible manner. Even the best employees can be discouraged if they are forced to work with out-of-date or faulty equipment, especially if the employees of competing firms have superior resources and are able to provide the same or superior levels of service with far less effort. Failure to properly support employees leads to wasted effort, poor employee productivity, unsatisfied customers, and an increase in the size of the delivery gap.

The Communications Gap

The communications gap is the difference between the service the firm promises it will deliver through its external communications (e.g., brochures, advertising, etc.) and the service it actually delivers to its customers. If the firm’s advertising or sales promotions promise one level of service and the consumer receives a different level of service, the communications gap widens. External communications are essentially promises the firm makes to its customers. When the communications gap is wide, the firm has broken its promises, resulting in a lack of future customer trust. A customer who orders a bottle of wine from a menu only to be told it is out of stock may feel that the offer held out on the menu has not been fulfilled. Similarly, customers who are promised delivery in 3 days but then wait a week to receive their order will lower their perceptions of service quality.

Unfortunately, the communications gap appears to be burgeoning among firms conducting business online. Findings from a study conducted by the International Customer Service Association and TARP indicate that only 36 percent of the 50,000 e-shoppers surveyed report satisfaction with electronic commerce service. Customers report that they typically expect a reply to their e-mail requests within one hour; however, only 12 percent receive such a response, and only 42 percent of respondents were replied to within 24 hours. In many instances, simply getting companies to respond to their e-mails is a real problem. A Rainer-Web index study of the Fortune 100 and the Financial Times Securities Exchange (FTSE) 100 found that more than two in five U.S. and U.K. companies failed to reply promptly to e-mail requests. In fact, 29 FTSE companies and 21 Fortune 100 could not be contacted from their Web sites, including Marks & Spencer, Thames Water, GTE, and Intel. Of the companies contacted by e-mail, 15 FTSE and 20 Fortune 100 never replied. Such results led the chairman of Rainer to comment, “all too often, companies focus on the content and look and feel of the [Web] site without considering its integration with existing customer contact systems. The result is [that these types of sites end up being] little more than corporate wallpaper.”

CUSTOMER RETENTION

The value of retaining existing customers is critical in these days of saturated markets and rising marketing costs. In fact, some experts believe that customer retention has a more powerful effect on profits than market share, economies of scale, and other variables commonly associated with competitive advantage. Studies have indicated that as much as 95 percent of profits come from long-term customers via profits derived from sales, referrals, and reduced operating costs.
Simply stated, customer retention refers to focusing a firm’s marketing efforts toward the existing customer base. Customer retention is the opposite of conquest marketing, which focuses on discounts and markdowns and developing promotional campaigns that will attract new customers from competing firms. Conquest marketing is consistent with a number of other marketing strategies that are designed to replace “disloyal” customers—termed the leaky bucket theory (see Figure 9.14). In contrast to conquest marketing, firms engaged in customer retention efforts work to satisfy existing customers with the intent of developing long-term relationships between the firm and its current clientele. However, it should be noted that expecting 100 percent loyalty from customers is unrealistic. Previous studies have shown that only about 10 percent of buyers are truly loyal to a particular brand over a 1-year period. In addition, buyers who are 100 percent loyal tend to be light purchasers. In reality, customer loyalty tends to be divided among a number of brands. Polygamous loyalty is apparent in a number of markets including car rentals, restaurants, and airlines. For example, 80 percent of European business travelers are members of more than one frequent flyer program.

**Customer Retention Tactics**

Two-thirds of customers who defect to competitors do so because they feel that companies are not genuinely concerned about their well-being. Because of the lack of consistent customer service that customers often experience, firms that effectively communicate

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**The Leaky Bucket Theory**

The leaky bucket depicted below portrays two companies. Each company is working hard to generate new customers each year and has managed to generate 10 percent more new customers per year, perhaps by developing new services or targeting new segments. However, not all of the new customers acquired by the firm in a given year stay with the firm. The retention rate is not 100 percent; there is a “hole in the bucket.” For example, if the “hole” is small and the company loses only 5 percent of its customers each year. As a result, after 14 years company A has doubled the number of its customers. Company B has a bigger problem, because retention is 90 percent and the “hole in the bucket” is 10 percent. As a result, company B loses and gains customers at the same rate.

**Cost of New versus Old Customers: The Leaky Bucket**

The leaky bucket depicted below portrays two companies. Each company is working hard to generate new customers each year and has managed to generate 10 percent more new customers per year, perhaps by developing new services or targeting new segments. However, not all of the new customers acquired by the firm in a given year stay with the firm. The retention rate is not 100 percent; there is a “hole in the bucket.” For example, if the “hole” is small and the company loses only 5 percent of its customers each year. As a result, after 14 years company A has doubled the number of its customers. Company B has a bigger problem, because retention is 90 percent and the “hole in the bucket” is 10 percent. As a result, company B loses and gains customers at the same rate.

**Figure 9.14**

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customer retention as a primary goal are noticed. Consequently, a firm’s customer retention efforts should serve to successfully differentiate the firm from its competitors. Methods for retaining customers through the use of effective customer retention tactics include maintaining the proper perspective, remembering customers between sales, building trusting relationships, monitoring the service delivery process, focusing on proper installation and training, standing behind the product, providing discretionary effort, offering service guarantees, and practicing the art of service recovery.

**Maintain the Proper Perspective**
Managers and employees need to remember that the company exists to meet the needs and desires of its customers. Processing customers like raw materials on an assembly line or being rude to customers is incredibly short-sighted. Companies such as US Airways employ slogans such as, “The U in US Airways starts with U the passenger.” Credos such as this influence customer expectations and reinforce the firm’s priorities to employees.

Interacting with the public is not an easy task and, unfortunately, employees occasionally fail to maintain the proper perspective. Different customers may ask the same questions of employees over and over, and not every customer is polite. Maintaining the proper perspective involves a customer-oriented frame of mind and a commitment to service. Employees need to remember that every customer has his or her own personal set of needs, and that the customer’s, not the employee’s, expectations define performance.

**Remember Customers between Sales**
Contacting customers between sales transactions is a useful approach in building relationships with the firm. The key is in making customer contact sincere and personal. Typical approaches include sending birthday, get-well, and/or anniversary cards; writing personal notes congratulating customers on their personal successes; and keeping in touch with customers concerning past services rendered and offering assistance if necessary. The goal of this tactic is to communicate to customers that the firm genuinely cares for their well-being and values the ongoing relationship.

**Build Trusting Relationships**
Trust is defined as a firm belief or confidence in the honesty, integrity, and the reliability of another person. In the service environment, three major components of trust are: (1) the service provider’s expertise; (2) the service provider’s reliability; and (3) the service provider’s concern for the customer (see Figure 9.15). Strategies for building trust include:

- Protect confidential information.
- Keep promises.
- Refrain from making disparaging remarks about other customers and competitors.
- Tell the customer the truth, even when it hurts.
- Provide the customer with full information—the pros and the cons.
- Be dependable, courteous, and considerate with customers.
- Become actively involved in community affairs.

**Monitor the Service Delivery Process**
After the customer has requested a specific service, monitoring the service delivery process should be a key tactic in the firm’s customer retention efforts. Service providers that are able to monitor the service delivery process are able to correct service inadequacies and influence customer perceptions of service quality prior to completion. Obvious examples include the restaurant that regularly communicates with its customers throughout their meal, or the owner of the firm who contacts customers about recent purchases. Proactively seeking customer feedback throughout the process builds customer perceptions of trust and facilitates maintaining customers for life.

**Focus on Proper Installation and Training**
Proper installation of products and training customers how to use what they have purchased saves a lot of headaches. Customers should not become frustrated over not understanding how to use something or, worse, improperly using the product, which may result in damage and further dissatisfaction. Simply dropping off a product such as a refrigerat-
tor, a free automatic ice cube maker, and leaving customers to fend for themselves reinforces the idea that the company is not genuinely concerned for the customer’s well-being. It leaves the impression that the company is more interested in short-term profits than in building long-term relationships.

Stand Behind the Product
When a customer returns a product that is in need of service or repair is no time to hide. Every firm should stand behind what it sells, and ensure that every transaction is handled to the customer’s satisfaction. Most customers are realistic and understand that
nothing lasts forever. Many times customers are simply looking for advice and alternative solutions to problems, and are not looking for someone to blame. Expressing sincere concern for the customer’s situation reinforces the firm’s customer retention efforts.

**Provide Discretionary Effort**
Discretionary effort is behavior beyond the call of duty. It is the Procter & Gamble salesperson who voluntarily bags groceries at the grand opening of a new grocery store. It is the hotel that sends items misplaced by customers to their homes at no charge. It is the oil company that recognizes the special needs of its customers during weather-related disasters. Discretionary effort involves countless personal touches, little things that distinguish a one-time business transaction from an ongoing relationship.

**Offer Service Guarantees**
One of the most intriguing customer retention strategies to be developed in recent years is the service guarantee. Service guarantees appear to facilitate three worthwhile goals: (1) reinforce customer loyalty; (2) build market share; and (3) force the firm offering the guarantee to improve its overall service quality. The Hampton Inn offers an unconditional guarantee to its customers: Any guest who has a problem and is not satisfied by the end of the stay will receive one night’s stay free of charge. The guarantee is paid out when the guest settles his or her account and is not a voucher for a future stay. The impact of the guarantee has been overwhelmingly positive. Employees took notice and responsibility for correcting potential service problems. Moreover, quality standards in the company’s hotels have noticeably changed. During the guarantee’s first 2 years, 7,000 guests representing $350,000 in sales had invoked the guarantee. Of these 7,000 guests, 86 percent said they will return to Hampton Inn, and 45 percent have already done so.

In general, successful guarantees are unrestrictive, stated in specific and clear terms, meaningful and hassle-free when invoked, and quick to be paid out. On the other hand, mistakes to avoid when constructing a guarantee include: (1) promising something that is trivial and normally expected; (2) specifying an inordinate number of conditions as part of the guarantee; and (3) making the guarantee so mild that it is never invoked.

**Practice the Art of Service Recovery**
When the service is provided incorrectly, an important but often overlooked management tool is the art of service recovery. While some companies are great at delivering service until something goes wrong, other companies thrive on recovering from service failures and improving customers in the process. Customers of service organizations often allow the firm one mistake. Consequently, when a failure occurs, the customer generally provides the business with an opportunity to make amends. Unfortunately, many companies still make the mistake of deepening the customer’s experience by failing to take the opportunity to recover.

The customer’s perception of whether the recovery strategy is just includes evaluations of the recovery process itself; the outcomes connected to the recovery strategy; and the interpersonal behaviors enacted during the recovery process. Accordingly, perceived justice consists of three components: **distributive justice**, **procedural justice**, and **interactional justice**.

- **Distributive justice** focuses on the specific outcome of a firm’s recovery effort. In other words, what specifically did the offending firm offer the customer to recover from the service failure, and did this outcome (output) offset the costs (inputs) of the service failure? Typical distributive outcomes include compensation (e.g., gratis, discounts, coupons, free upgrades, and free ancillary services); offers to mend or totally replace/perform; and apologies.

- **Procedural justice** examines the process that is undertaken to arrive at the final outcome. Hence, even though a customer may be satisfied with the type of recovery strategy offered, recovery evaluation may be poor due to the process endured to obtain the recovery outcome. For example, research has indicated that when implementing identical recovery strategies, those that are implemented promptly are much more likely to be associated with
higher consumer effectiveness ratings and retention rates than when restitution is delayed.

- Interactional justice refers to the manner in which the service recovery process is implemented and how recovery outcomes are presented. In other words, interactional justice involves the courtesy and politeness exhibited by personnel; empathy; effort observed in resolving the situation; and the firm's willingness to provide an explanation for why the situation occurred.

A limited amount of research exists that specifically examines the influence of perceived justice on recovery strategy effectiveness. However, the bottom line is that the three components of perceived justice should be considered when formulating effective service recovery strategies. Deploying recovery efforts that satisfy distributive justice without considering customer procedural and interactional justice needs may still result in customer defections. If service firms are truly committed to the recovery process and retaining customers for life, all three aspects of perceived justice must be integrated into the service recovery process.

**CHAPTER SUMMARY**

- This chapter focuses on the marketing of services. Service consumers purchase a bundle of benefits that are provided by the service experience that is created for consumers. The four primary factors that influence the customer's service experience are the service providers, the servicescape, other customers, and the invisible organization and systems. Service firms that are able to effectively mold the customer's experience have adopted the means to develop "compelling experiences"—the latest competitive weapon in the war against service commoditization.

- The major differences between the marketing of goods and services are often attributed to four unique service characteristics: intangibility, inseparability, heterogeneity, and perishability. Of the four unique characteristics that distinguish goods from services, intangibility is the primary source from which the other three characteristics emerge.

- A goal for all marketers is to strive for customer satisfaction. Customers typically assess satisfaction by comparing expectations to perceptions. If perceptions meet or exceed expectations, then customers are satisfied. As such, customer satisfaction can be increased by lowering expectations or by enhancing perceptions. It is crucial to remember that this entire process of comparing expectations to perceptions takes place in the minds of customers. Hence, it is the perceived service that matters, not the actual service. One of the most recent business practices affecting customer satisfaction levels (both positively and negatively) is customer relationship management (CRM)—the process of identifying, attracting, differentiating, and retaining customers. CRM allows a firm to focus its efforts disproportionately on its most lucrative clients.

- Service quality can be examined in terms of gaps that exist between expectations and perceptions on the part of management, employees, and customers. The most important gap—the service gap—is between customers' expectations of service and their perception of the service actually delivered. Ultimately, the service gap is a function of the knowledge gap, the standards gap, the delivery gap, and the communications gap. As each of these gaps increases or decreases, the service gap responds in a similar manner.

- The value of retaining existing customers is critical in these days of saturated markets and rising marketing costs. In fact, some experts believe that customer retention has a more powerful effect on profits than market share,
economies of scale, and other variables commonly associated with competitive advantage. Firms that excel at customer retention maintain a proper perspective, remember customers between sales transactions, build trusting relationships with customers, monitor the service delivery process, ensure proper product installation, and train customers how to use products that they have purchased. Customer service-oriented firms also are available when needed most, provide discretionary effort to assist customers, offer service guarantees, and anticipate needs for recovery.

KEY TERMS

**Benefit concept** is the encapsulation of the benefits of a product in the customer's mind.

**Coding** is categorizing customers based on how profitable their past business has been.

**Conquest marketing** is a strategy for constantly seeking new customers by offering discounts and markdowns and developing promotions that encourage new business.

**Credence attributes** cannot be evaluated confidently even immediately after consumption.

**Customer relationship management** is the process of identifying, attracting, differentiating, and retaining customers.

**Customer retention** refers to focusing a firm's marketing efforts toward the existing customer base.

**Customer satisfaction** is a short-term, transaction-specific measure of whether customer perceptions meet or exceed customer expectations.

**Distributive justice** focuses on the specific outcome of a firm's recovery efforts.

**Experience attributes** can be evaluated only during and after consumption.

**Goods** are objects, devices, or things.

**Heterogeneity** is a distinguishing characteristic of services that reflects the variation in consistency from one service transaction to the next.

**Inseparability** is a distinguishing characteristic of services that reflects the interconnection among the service provider, the customer receiving the service, and other customers sharing the service experience.

**Intangibility** is a distinguishing characteristic of services that makes them unable to be touched or sensed in the same manner as physical goods.

**Interactional justice** refers to the human interaction during service recovery efforts.

**Leaky bucket theory** is traditionally associated with conquest marketing where new customers replace disloyal customers at the same rate; hence, the firm never grows.

**Marketing myopia** is too narrowly defining one's business.

**Organizational socialization** is the process by which an individual adapts to and comes to appreciate the values, norms, and required behavior patterns of an organization.

**Perishability** is a distinguishing characteristic of services in that they cannot be saved, their unused capacity cannot be reserved, and they cannot be inventoried.

**Polygamous loyalty** reflects the notion that customer loyalty tends to be divided among a number of providing firms.

**Procedural justice** examines the process a customer is required to travel in order to arrive at a final outcome.

**Red-lining** is the practice of identifying and avoiding unprofitable types of neighborhoods or people.

**Routing** is the process of directing incoming calls to customer service representatives in which more profitable customers are more likely to receive faster and better customer service.

**Scale of market entities** displays a range of products along a continuum based on their tangibility.

**Search attributes** are physical properties that customers can evaluate prior to their purchase decisions.

The **service gap** is the gap between customers’ expectations of service and their perception of the service actually delivered, which is a function of the knowledge gap, the standards gap, the delivery gap, and the communications gap.

**Service quality** is an attitude formed by a long-term, overall evaluation of performance.
**Service recovery** is a firm’s reaction to a complaint that results in customer satisfaction and goodwill.

**Services** are deeds, efforts, or performances.

**Servicsapes** refers to the use of physical evidence to design service environments.

**Sharing** involves making key customer information accessible to all parts of the organization and in some cases selling that information to other firms.

**Targeting** involves offering the firm’s most profitable customers special deals and incentives.

**QUESTIONS FOR DISCUSSION**

1. What is a service? Is there a clear distinction between goods and services? Please explain.

2. The growth of the service sector has not occurred solely within traditional service industries such as hospitality, health care, financial services, and insurance. Traditional goods producers such as automotive, computer, and numerous other manufacturers are now turning to service as a differential advantage. Please explain.

3. Discuss the benefit concept and its relationship to factors involved in creating service experiences.

4. Service firms that are able to effectively mold the customer's experience have the means to develop compelling experiences, the most competitive weapon in the war against service commoditization. Please explain the economic value of transforming products from commodities to goods to services to experiences.

5. Define the concepts of intangibility, inseparability, heterogeneity, and perishability.

6. To market services effectively, marketing managers need to understand the thought processes customers use to assess their satisfaction with services. Define customer satisfaction. Provide examples of how satisfaction can be managed by altering consumer perceptions and expectations.

7. Customer relationship management (CRM) is the process of identifying, attracting, differentiating, and retaining customers. Discuss the motives behind CRM. What are the pros and cons associated with the customer relationship management outcomes of coding, routing, targeting, and sharing?

8. According to the service quality gap model, the service gap is a function of the knowledge gap, the standards gap, the delivery gap, and the communications gap. Please explain each of these five gaps.

9. Discuss the differences between conquest marketing and customer retention. Which is more important under saturated market conditions? Please explain.

10. While some companies are great at delivering service until something goes wrong, other companies thrive on recovering from service failures and impressing customers in the process. Discuss the three main components of an effective recovery strategy.

**INTERNET QUESTIONS**

   a. What is an e-service?
   a. What products does LivePerson.com offer to its corporate customers?
   b. As a corporate customer, what benefits would your firm obtain from outsourcing your customer contact duties to LivePerson.com?
   c. If you are the owner of a business in the travel industry, what customer contact solutions does LivePerson.com recommend for your type of business?

   a. Discuss the purpose of this Web site. What service does it offer the customer?
   b. How do the sponsors of the Web site make their money?
   c. When would it make sense for a company to sign-up and be listed on the Web site? Under what conditions would it not make much sense? Would these same reasons hold true for customers using the Web site? Please explain.

ENDNOTES


5 Ibid.


12 Solomon, “Packaging the Service Provider,” 318–324.

Solomon, “Packaging the Service Provider,” 318–324.

For more information, see Hoffman and Bateson, Essentials of Services Marketing, 2nd ed., 247–269.


Bateson and Hoffman, Managing Services Marketing, 4e.


This section adopted from Hoffman and Bateson, Essentials of Services Marketing, 2nd ed., 293–322.


This section developed from Diane Brady, “Why Service Stinks,” Business Week, 23 October 2000, 118–123.

Ibid, 12.

Ibid.


EMMY'S AND MADDY'S FIRST SERVICE ENCOUNTER

Our day began at 5:20 A.M. Hurricane Felix was predicted to hit the Carolina coast by the end of the afternoon, and I, like most of the other folks in southeastern North Carolina had spent much of the previous day preparing the house for the upcoming storm. However, my wife and I had one extra concern that the others did not. My wife was 6 months pregnant with twins, and the prospect of spending lots of time in the car in the attempt to remove ourselves from harm's way was not particularly attractive. We had decided to wait until after my wife’s doctor appointment at 9:00 A.M. to make a decision on whether we should leave or stay at home and ride out the storm. We never made it to the doctor’s appointment.

At 5:20 A.M., I was awakened by the fear in my wife’s voice. Her water had broken, and the twins that were due on November 16 had apparently made up their collective minds that they were going to be born 13 weeks early. As first-time parents, we understood that our next move would be to go to the hospital; however, we were unsure as to the best mode of transportation given our particular situation. We had been informed by doctors that multiple-birth pregnancies were high-risk pregnancies and that every precaution should be taken. We quickly called the hospital and asked for advice. The hospital suggested that my wife take a shower, shave her legs, and pack some essentials and that it would be appropriate for us to drive ourselves to the hospital. Too stressed out to take any chances, we passed on the shower advice, quickly threw some things together, and drove to the hospital immediately.

The Emergency Department

Upon our arrival at the hospital, we drove to the emergency entrance, and I quickly exited the car to find a wheelchair. I was immediately confronted by a security guard who had been previously engaged in a casual conversation with another gentleman. I was informed that I could not leave my car in its current position. In response, I informed the security guard that I needed a wheelchair and would move the car after I was able to move my wife inside. The security guard pointed his finger in the direction of the wheelchairs. I grabbed the first wheelchair I could get my hands on and headed back out the sliding doors to assist my wife. At this point, the security guard informed me that I had grabbed a juvenile-sized wheelchair. I headed back inside and grabbed a much larger wheelchair. I returned to the car, assisted my wife inside and headed back inside. The security guard, while continuing with his other conversation, instructed me to leave my wife with the triage nurse in the emergency department so that I could move my vehicle. I said goodbye to my wife and went to move the vehicle. When I returned, the security guard informed me that they had taken my wife to the maternity ward, located on the third floor.

My wife’s encounter with the triage nurse was apparently short and sweet. The triage nurse had called for an orderly to move my wife to the maternity ward. On her way to the third floor, the orderly asked my wife whether she was excited about having the baby. She responded that she was scared to death because she was only 6 months pregnant. The orderly replied that there was “no way [she was] having a baby that early that [would] survive.”

The Maternity Ward

As I exited the elevator on the third floor, I headed for the nurses’ station to inquire about my wife’s current location. I was greeted by several smiling nurses who escorted me to my wife’s room. On my way to the room, I met another nurse who had just exited my wife’s room. This nurse pulled me aside and informed me of the orderly’s remarks. She continued on to assure me that what he said was not only inappropriate, but more importantly, inaccurate. She also informed me that my wife was very upset and that we needed to work together to help keep her calm. This particular nurse also informed us that she herself had given birth to a premature child, who was approximately the same gestational age as ours, a couple of years earlier.
By this time, it was between 6:00 and 6:30 A.M. The resident on duty entered the room and introduced himself as Dr. Baker. My wife gave me this puzzled and bewildered look. The clinic where my wife is a patient consists of five physicians who rotate their various duty assignments. Dr. Baker is one of the five. However, Dr. Baker was 30 to 40 years older than the resident who had just introduced himself as Dr. Baker. What had happened was that the resident was nervous and had introduced himself as Dr. Baker rather than as Dr. Baker’s assistant. Realizing his mistake, he embarrassingly re-introduced himself and informed us that Dr. Baker was the physician on call and that he was being contacted and kept informed of my wife’s condition.

The resident left the room and soon appeared with an ultrasound cart to check the positions of the babies. This time he was accompanied by a person assumed to be the senior resident on duty. For the next 30 minutes or so, I watched the junior resident attempt to learn how to use the ultrasound equipment. He confidently reported his findings to us in sentences that began with, “I think . . . .” Several times during this period my wife voiced her concern over the babies’ conditions, and the location of Dr. Baker. We were reassured by the residents that Dr. Baker was being kept informed and were told that being upset was not going to help the babies’ conditions. After about 30 minutes, I informed both residents that despite their advice to us to stay calm, they were not exactly instilling a lot of confidence in either one of us. The senior resident took over the ultrasound exam at this time.

Dr. Baker arrived at the hospital sometime between 7:00 and 7:30 A.M. He apologized for not being there earlier and mentioned that he was trying to help his wife prepare for the ensuing hurricane. Sometime during this same time period, it was shift-change time for the nurses and also for Dr. Baker. New nurses were now entering the room, and now Dr. Johnson was taking over for Dr. Baker. By approximately 8:00 A.M., Dr. Baker had pulled me aside and informed me that after conferring with Dr. Johnson, they had decided that if my wife’s labor subsided, she would remain in the hospital for 7 to 10 days, flat on her back, before they would deliver the babies. It was explained that with each passing day, the babies would benefit from further development. The lungs were of particular concern.

Upon being admitted to the maternity floor, my wife had immediately been hooked up to an EKG to monitor contractions. Due to the small size of the babies, the contractions were not severe. However, as far as my wife and I could tell, the interval between contractions was definitely getting shorter. Being first-time parents, we were not overly alarmed by this since we figured we were in the hospital and surrounded by health care providers.

Between 8:00 and 8:30 A.M., two other nurses entered the room with lots of forms for us to complete. Since we were having twins, we needed duplicates of every form. The forms covered the basics: names, addresses, phone numbers, Social Security numbers, and insurance information. All the same questions that the hospital had sent to us weeks earlier, which we had completed and returned. The nurses asked us the questions, we supplied the information, and they wrote the responses.

At 8:30 A.M., Dr. Baker was informing me that due to one of the baby’s breach position, they would deliver the babies by caesarean section. Wondering whether the schedule had been moved up from a week to 10 days, I asked when he thought this would be happening. He replied: “In the next hour or so.” He then commented that labor had not subsided and that Dr. Johnson would be delivering the babies.

As my wife was being prepared for the operating room, I stood in the hallway outside her room. I noticed another physician limping down the hall with one foot in a cast and a crutch underneath one arm. He stopped outside my wife’s room and began to examine her medical charts. He introduced himself as Dr. Arthur (he had broken his foot while attempting to change a tire). Dr. Arthur was the neonatologist, which meant nothing to me at the time. I eventually figured out that my wife had her set of doctors and that my unborn children had their own set of health care providers. Dr. Arthur asked to speak to my wife and me together. This is when he told us that 90 percent of babies such as ours survive and that 90 percent of those survivors develop normally. He was a calm, pragmatic individual who encouraged us to ask questions. He continued to explain that the babies would spend their next few months in the hospital’s Neonatal Intensive Care Unit (NICU) and that if all went well, we could expect to take them home within 2 weeks of their due date (November 16th).
By 9:00 A.M., all hell had broken loose. My wife had dilated at a quicker pace than had been anticipated. . . the contractions had indeed been occurring at more frequent intervals. Some orderlies and nurses grabbed my wife’s bed and quickly rolled her down the hall to the delivery room. I was thrown a pair of scrubs and told to put them on. I was further told that they would come back and get me if they were able. For 10 to 12 very long minutes, I sat on a stool in an empty hospital room by myself, watching the Weather Channel track Hurricane Felix. The volume on the television had been muted, and the only thing I could hear was a woman screaming from labor in the next room. Suddenly, a nurse popped her head in the door and said that a space had been prepared for me in the delivery room.

The Delivery Room

As I entered the delivery room, I was overwhelmed by the number of people involved in the process. Myself included, I counted 12 “very busy” people. I was seated next to my wife’s head. She had requested to stay awake during the procedure. My wife asked me whether the man assisting Dr. Johnson was the junior resident. Sure enough, I looked up to see the junior resident wearing a surgical gown and mask with a scalpel in his hand. I lied and told her, “No.”

Suddenly, we realized that we had not finalized our choices for names. Somehow, what we couldn’t decide despite months of discussion, we decided in 30 seconds. Our first baby girl, Emma Lewis (Emmy), was born at 9:15 A.M. Emmy weighed 2 pounds and was 14.5 inches long. Our second baby girl, Madeline Stuart (Maddy), was born at 9:16 A.M. and weighed 2 pounds, 2 ounces, and also measured 14.5 inches long. Both babies were very active at birth, and their faint cries reassured my wife and I that they had at least made it this far.

Upon being delivered from their mother, the babies were immediately handed to Dr. Arthur and his staff, who had set up examination stations in the delivery room. Each baby had her own team of medical personnel, and I was encouraged by Dr. Arthur, who hopped on one foot across the delivery room, as I watched him examine the girls. The neonatal staff examining the girls “ooohed and aaahed,” and almost in a competitive manner compared measurements about which baby had better vitals in various areas. Dr. Arthur then suggested that I follow the girls to the NICU to watch further examinations. He also made sure that my wife got a good look at both babies before they were wheeled out of the delivery room in their respective incubators. My wife and I said our goodbyes, and I was told I could see her again in the recovery room in about 20 to 30 minutes.

The Recovery Room

The recovery room and the delivery room are contained within the maternity ward on the third floor of the hospital. The NICU is located on the fourth floor, which is designated as the gynecological floor. The staff on the third floor is geared for moms and babies. The staff on the fourth floor, outside the NICU, is geared for women with gynecological problems.

After receiving the “so far, so good” signals from both my wife’s and my babies’ doctors, I was permitted to rejoin my wife in the recovery room. It was a basic hospital room with the exception that a nurse was assigned to the room on a full-time basis. One of the hospital volunteers from the maternity floor had taken pictures of each of the babies and taped them to the rails of my wife’s hospital bed. The nurses of the third floor maternity ward asked my wife whether she would like a room on the fourth floor so that she could be closer to her babies when she was ready to start walking again. She agreed and spent the next four days in a room on the fourth floor.

Hurricane Felix stayed out to sea and moved up the coastline, missing us completely.

The Fourth Floor

My wife’s private room on the fourth floor was small, dingy, and dirty. From an emotional standpoint, the staff on the fourth floor were not prepared to deal with our situation. In fact, one nurse, after discussing the situation with my wife, asked whether we were going to have the babies transported to a major university medical center 3 hours away.
My wife's quality of care on the fourth floor was sporadic. Some of the nurses were good and some were inattentive... slow to respond to the patient's call button and blaming nurses on other shifts when medications and other scheduled or promised care (e.g., providing the patient with a breast pump) were not provided on a timely basis. Although it might seem trivial to many, the breast pump represented my wife's primary contribution to the care of her babies. It was the only thing she could control. Everything else was out of her hands. My wife was instructed to begin pumping as soon as she felt able, yet due to her location away from the maternity ward, obtaining a breast pump was difficult and became a sore point for my wife.

After receiving a courtesy call by the hospital's patient representative, my wife expressed her concerns. Shortly thereafter, personnel were changed, the quality of care improved, and we were moved to a much larger room on the third afternoon.

The Neonatal Intensive Care Unit

The NICU (pronounced “nick-u”) is located in an isolated area of the fourth floor. The primary purpose of the NICU is to provide care for premature babies and for full-term babies requiring special care. The number of babies cared for each day throughout our stay typically averaged 12.

Emmy and Maddy spent approximately 7 weeks in the NICU. The staff made every effort to explain the purpose of every piece of machinery and every tube that seemed to cover the babies' bodies. I was repeatedly told that I could and should ask questions at any time and that the staff understood that it was an overwhelming amount of information. Hence, it was understandable and acceptable to ask the same questions day after day. The staff had made signs welcoming each of the babies in bright neon colors and taped them above each of their stations. For ease of access, the girls had not yet been placed in incubators. They lied in what looked like large in/out baskets with raised borders. We celebrated weeks later when they finally had enough tubes removed so that they could be moved into incubators... what we called “big-girl beds.”

During the first 3 days, I walked into the NICU to find baby quilts at each of the girls' stations. A local group called Quilters by the Sea had sewn the quilts; apparently they regularly provide baby quilts for infants admitted to the NICU. For some reason that I still cannot explain today, the fact that someone outside the hospital who I did not know cared about my girls touched me deeply. The signs the staff had made and the babies' patchwork quilts humanized all the machines and tubes. Somehow, I was no longer looking at two premature infants... I was looking at Emmy and Maddy.

Throughout the girls' stay in the NICU, the quality of care delivered was primarily exceptional. The staff not only excelled at the technical aspects of their jobs but also were very good in dealing with parents. Some of the personal touches included numerous pictures of each of the girls for us to take home, homemade birthday cards with pictures from the girls for Mom and Dad on their birthdays, baby stickers on their incubators, and notes of encouragement from staff when a milestone, such as when weighing 3 pounds, was achieved. We arrived one day and found pink bows in the girls' hair. The nurses even signed Emmy's and Maddy's names on the foot cast worn by the baby boy in the next incubator.

Parental involvement in the care of all the infants was encouraged, almost demanded. I had somehow managed to never change a diaper in my life (I was 35 years old). I was threatened, I think jokingly, that the girls would not be allowed to leave the NICU until I demonstrated some form of competency with diaper changes, feedings, and baths. The primarily female staff made me feel at times that my manhood was at stake if I was not able to perform these duties. Personally, I think they all wished they'd had the same chance to train their husbands when they'd had their own babies. I am now an expert in the aforementioned activities.

As for the babies' progress, some days were better than others. We celebrated weight gains and endured a collapsed lung, blood transfusions, respirators, alarms caused by bouts with apnea and bradycardia, and minor operations. Throughout the seven weeks, many of the staff and three neonatologists became our friends. We knew where one another lived, we knew about husbands, wives, boyfriends, and kids. We also heard a lot about the staff's other primary concern... scheduling.
The Grower Room

Sometime after the 7th week, we “graduated” from the NICU and were sent to the Grower Room. The Grower Room acts as a staging area and provides the transition between the NICU and sending the babies home with their parents. Babies who are transferred to the Grower Room no longer require the intensive care provided by the NICU but still require full-time observation. As the name indicates, the Grower Room is for feeding and diaper changing, administering medications, and recording vital statistics... basic activities essential for the growth and development of infants. The Grower Room held a maximum of four infants at any one time.

The Grower Room was located in a converted patient room located in the back corner of the second floor, which is designated as the pediatric floor of the hospital. In general, the Grower Room was staffed by one pediatric nurse and visited by the neonatologists during rounds. As parents who were involved in the care of their babies, being transferred to the Grower Room meant that we had to establish new relationships with another set of health care providers all over again.

Compared with the “nurturing” culture we had experienced in the NICU, the Grower Room was a big letdown. One of the first nurses we were exposed to informed us that the nurses on the second floor referred to the Grower Room as “The Hole,” and that sooner or later they all had to take their turn in “The Hole.” We asked the reasons for such a name, and the nurse explained that because the room was stuck back in the corner, the rest of the staff seldom allowed the “grower nurse” to take a break, and because of the constant duties involved, the grower nurse could never leave the room unattended. It was also explained that some of the nurses simply did not feel particularly caring “for such small little babies.” We quickly found that this attitude had manifested itself in a lack of supplies specifically needed for smaller babies, such as premature-sized diapers and sheepskin rugs inside the incubators.

Furthermore, it became quickly apparent that friction existed between the NICU and the Grower Room. The Grower Room was very hesitant to request supplies from the NICU and on several occasions would delay informing NICU that an occupancy existed in the Grower Room. The reason for delay was so that the Grower Room nurse could catch up on other duties and avoid having to undertake the additional duties involved in admitting new patients. The “successful delay would pass on these activities to the nurse taking the next shift. Apparently, the friction was mutual, since one of the nurses in the NICU commented to us on the way out of the NICU, “Don’t let them push you around down there. If you don’t think they’re doing what they should, you tell them what you want them to do.”

When the Grower Room was in need of supplies for our babies and others, I (on more than one occasion) volunteered to ask for supplies from the NICU. Although my foraging attempts were successful, I definitely got the feeling that there was some reluctance on both sides for me to do this. I suspected that the Grower Room nurses did not want to ask for any favors, and the NICU staff felt that it was not their job to keep the Grower Room stocked with supplies. Moreover, I suspect that the NICU and the Grower Room operate from different budgets. Stocking the Grower Room is not one of the objectives of the NICU’s budget. However, from my side, my babies needed supplies, and I did not care about either department’s budget.

After a few dark days, we established new relationships with the Grower Room personnel and became very involved with the care of our babies. After spending seven weeks in the NICU, we felt more familiar with each baby’s personal needs than some of the Grower Room staff were. Recognizing our level of involvement, most of the staff looked forward to our visits since it meant less work for them. By now, we had learned to ask lots of questions, to double-check that medications had been provided, and to develop a working relationship with Grower Room personnel. Looking back, it was almost as if we and the Grower Room staff trained each other. At the conclusion of our Grower Room experience, my wife and I felt that we had met some good people, but also that the quality of the experience was far lower than what we had grown accustomed to in the NICU.
Nesting

Once the babies had “graduated” from the Grower Room, our last night in the hospital was spent “nesting.” Friends of ours joked that this must have involved searching for twigs, grass, and mud. The nesting rooms were located on the second floor of the hospital, in the same general location as the Grower Room. Nesting allows the parents and the babies to spend a night or two together in the hospital before they go home. During the nesting period, parents are solely responsible for all medications, feedings, and general care of the infants. The nesting period allows the parents to ask any last-minute questions and to smooth the transition from, in our case, 9 weeks of hospital care to multiple infant care at home.

The nesting room itself was a small patient room that consisted of one single bed and a fold-out lounge chair. By now, the babies had been moved from their incubators to open, plastic bassinets that were wheeled into the room with us. Each baby remained attached to a monitor that measured heart and breathing rates. As you can imagine, space was limited, but for the first time in 9 weeks, the four of us were alone as a family.

Throughout the 22 hours we nested, we were frequently visited by neonatologists, nurses who continued to take the babies’ vital signs, the babies’ eye doctor, social workers who were assigned to all premature baby cases, hospital insurance personnel, and a wonderful discharge nurse who was in charge of putting everything together so that we could get out the door. Nine weeks to the day after we had entered the hospital, we took our two 4-pound babies home.

Discussion Questions

1. Where does health care fall along the Scale of Market Entities continuum? Please explain your answer.
2. Using the four key factors presented in Figure 9.5, categorize the factors that influenced this service encounter.
3. How do the concepts of inseparability, intangibility, heterogeneity, and perishability apply to this case?
4. Discuss corrective actions that need to be taken to ensure that subsequent encounters run more smoothly.
5. How would you go about measuring customer satisfaction in this situation?

Epilogue

One year later, Emmy and Maddy both weighed approximately 18 pounds and appeared to be in good overall health. One of the NICU nurses we met at the hospital helped us out of our home on a regular basis, and we have kept in touch with many of the NICU staff as well as with Dr. Arthur. The charges for our hospital stay were more than $250,000. This bill did not include any of the physicians’ (e.g., neonatologists, eye doctors, surgeons, or radiologists) charges. Emmy recently returned to the hospital for a cranial ultrasound, which is an outpatient service (the results were negative for brain bleeds, and Emmy is fine). Despite her previous lengthy stay in NICU, we once again had to provide the hospital with all the insurance information one more time. Ironically, the only information the outpatient service had about Emmy was that her “responsible party” was Maddy. In terms of our overall experience, we are thankful for the lives of our babies and for the health of their mother. We are particularly grateful to the staff of the NICU and to Dr. Arthur.