

## **Teaching Notes: Session 01 to 11**

### **Services Marketing: SLMM 604**

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#### **Session 1 -2**

##### **Ch.1. Introduction to Services Marketing-**

###### **Why Study Services?**

Services dominate economy in most nations: India –service sector 55% of GDP

Understanding services offers your personal competitive advantages

Importance of service sector in economy is growing rapidly globally

Services account for more than 73 percent of GDP worldwide

Almost all economies in the world have a substantial service sector

Most new employment is provided by services sector

Strongest growth happens to be in the area of marketing in service sector

Most new jobs are generated by services sector

Fastest growth in in services expected in knowledge-based industries

Significant training and educational qualifications required, but employees will be more highly compensated in the service sector

###### **Services Marketing**

Service is defined as any activity or benefit that one party can offer to another that is essentially intangible and heterogeneous does not result in the ownership of anything. Its production may or may not be tied to a physical product or goods

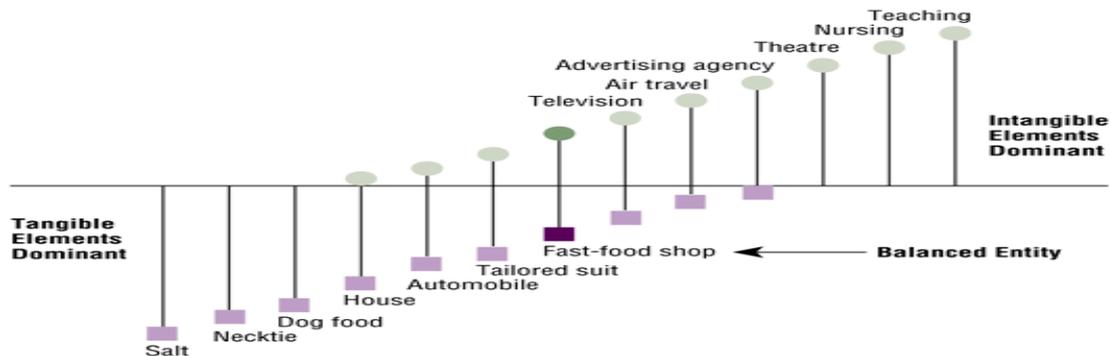
A Service is a type of a product, which is classified into goods and services. Services is a deed performed by one party for another...”

Discussions about the marketing of goods apply to services as well.

Services have special characteristics that make them different than products

E.g., Financial services (Banking services etc.) Educational services, Advertising services, Marketing Research, Consultancy services, Transportation Sector (Air lines, Bus transport, Rail, Taxi etc.) Hospitality services, Tourism, Health services, Entertainment Services (Films, Video games, sports etc.)

## Tangibility Spectrum: Source: Zeithaml and Bitner



### Nature and Characteristics of Services:

The company must consider major services characteristics, they are (IHIP)

Intangibility.

Heterogeneity: Variability or Lack of Standardization.

Inseparability. Simultaneous Production and consumption.

Perishability. Not Inventoriable or Cannot store for future use.

And other characteristic is "Ownership cannot be transferred." (From service provider to client or customer)

### Brief explanation of characteristics of services

#### Intangibility:

Service intangibility means that services cannot be seen, tasted, felt, heard, or smelled before they are bought by service user. Therefore the services marketers challenge is to make the services tangible in one or more ways by people, place, equipment, and communication material and other physical objects.

#### Inseparability:

Services inseparability means that services cannot be separated from their service providers or people or machines. Provider-client interaction is a special feature of services marketing. So the service provider has to use his time efficiently to manage service delivery. E.g. doctor, teacher and barber

#### 3) Variability: Services Cannot Standardized or Heterogeneity

Service variability means the quality of services depends on who provides them as well as when, where and how they are provided to service client.

Service firms can take several steps towards quality control. They can recruit, select and train their employee or personnel carefully. They can make service employees more

visible and accountable. And handle the customer grievances or complaints immediately (spontaneity).

Singapore airlines, Marriot Hotels, Federal Express.

**Perishability: Cannot Store for future use**

Service Perishability means that services cannot be stored for later use or sale as it cannot be stored for future. Doctors charged for missed appointments because the service value existed only at that point and disappeared when the patient did not show up.

Service firms can use several strategies for producing a better match between demand and supply.

**Challenges of Services Marketing:**

Defining and improving service quality

Designing and testing new services continuously

Communicating and maintaining a consistent image of services

Accommodating fluctuating demand for services

Ensuring the delivery of consistent service quality and quantity

Motivating and sustaining service staff of employee commitment

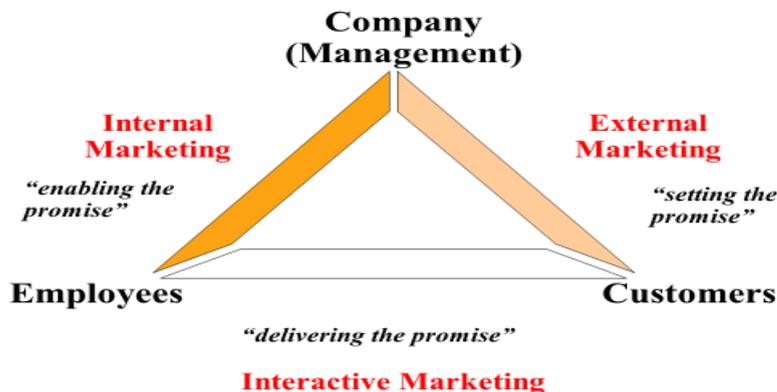
Coordinating marketing, operations, and human resource efforts in quality service delivery.

Setting prices of services is more challenging like education fee, hotel room rent, or hospitalization charges. (compare to pricing of goods)

Finding a balance between standardization versus personalization (or customization) in customer service is a challenging task.

The Services Marketing Triangle: (Services Marketing Strategies or Three types of services Marketing):

## The Services Marketing Triangle: (Services Marketing Strategies)



source: Zeithaml and Bitner

### Marketing Strategies for Services Marketing: (Triangle of Services Marketing)

Marketing of services are difficult to compare to marketing of goods.

Because of its characteristics services marketing firms uses three types of marketing;

#### **Internal Marketing:**

Means that the service firm must effectively recruit, select, train and motivate its customer-contact employees (frontline) and all the supporting service people to work as a team to provide customer satisfaction.

E.g. Marriot Hotels. (customers, employees & stakeholders)

#### **Interactive Marketing:**

means that perceived service quality depends heavily on the quality of the buyers-seller interaction during service delivery. The customer judges service quality not only based on technical quality, but also on functional quality (Concern and inspire confidence among clients). Service companies face three major marketing tasks

Competitive differentiation: Differentiating offer in market, delivery and company image.

Managing service Quality: Identify the expectation of the service customers. It is harder to define service quality.

c) Managing Productivity is a big challenge: With cost rising rapidly, service firms are under great pressure to increase service productivity by adding assembly line and designing more effective innovative services.

#### **External Marketing:**

means companies effort towards service customers to acquire or attract and retain them by various services marketing mixes and strategies. That is different service mix and prices for different types of customers.

## The Services Marketing Mix or 7P's of Services Marketing-

Traditional Marketing Mix or 4Ps of Marketing (of goods):

All elements within the control of the service firm that communicate the firm's capabilities and image to service customers or that influence customer satisfaction or delight with the firm's goods and services:

**PRODUCT:** It includes services level, types of services, additional services, service branding, innovative or new service development, and service life cycle...

2)**PRICE:** is exchange value of goods and services. It includes factors effecting different pricing strategies, pricing of services, discounts and terms of payments etc.

3)**PLACE:** Place includes distribution channels of goods and services. It includes distribution strategies like location, channels of distribution, coverage strategies etc.

**PROMOTION MIX:** It includes advertising, sales promotion, personal selling and public relations.

IMC: (Integrated Marketing Communication) Celebrity endorsement, Product Placement, Merchandise promotion, Sponsorship, Organizing event and company website etc.

**7P's of Services marketing-** Focus on 3 extended P's of services marketing i.e. **People, Physical Evidence and Process.**

**8th P: Productivity and Quality (by LoveLock)**

**Expanded (or extended 3Ps of Mix for Services --**

**5<sup>th</sup> P: People:** All human actors who play a part in service delivery process and thus influence the buyer's perceptions: namely, the firm's personnel, the customer, and other customers in the service environment of an organization.

*People* – because of the simultaneity of production and consumption in services the firm's staff occupy the key position in influencing customer's perceptions of service quality. In fact the service quality is inseparable from the quality of service provider. An important marketing task is to set standards to improve quality of services provided by staff or employees and monitor their performance. Without proper recruitment, selection, training and control employees tend to be variable in their performance leading to variable service quality. Employee training is crucial so that employees understand the appropriate forms of behaviour and trainers adopt the best practises.

**6<sup>th</sup> P: Physical Evidence:** The physical environment in which the service is delivered by employees and where the firm and customer interact, and any tangible components that facilitate performance or communication of the service.

**7<sup>th</sup> P: Process:** The actual procedures, mechanisms, and flow of activities during service delivery —the service delivery and operating systems.

**Fig: 7Ps of Service marketing by Zeithaml and Bitner:**

<b>Product</b> Physical good features Quality level Accessories Packaging Warranties Product lines Branding	<b>Place</b> Channel type Exposure Intermediaries Outlet locations Transportation Storage Managing channels	<b>Promotion</b> Promotion blend Salespeople Selection Training Incentives Advertising Media types Types of ads Sales promotion Publicity Internet/Web strategy	<b>Price</b> Flexibility Price level Terms Differentiation Discounts Allowances
<b>People</b> Employees Recruiting Training Motivation Rewards Teamwork Customers Education Training	<b>Physical Evidence</b> Facility design Equipment Signage Employee dress Other tangibles Reports Business cards Statements Guarantees	<b>Process</b> Flow of activities Standardized Customized Number of steps Simple Complex Customer involvement	

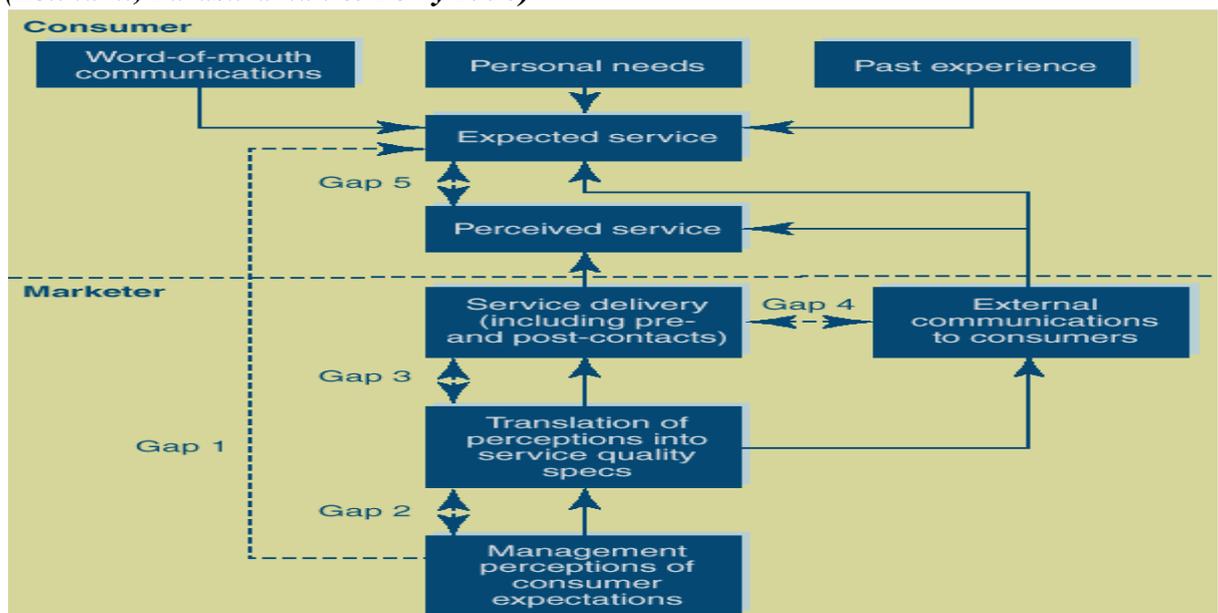
### Session 3 Notes

## Chapter: 2: The Gaps Model in Service Quality

The **Gaps Model of Service Quality (5 Gaps Model)** is an important customer satisfaction framework, which can help us to understand customer satisfaction (or dissatisfaction). This model shows five satisfaction gaps that organizations must address when seeking to meet customer expectations”.

“The **customer gap** is the difference customer expectations and perception”

**Figure: The Gaps model of service quality**  
*(Zeithaml, Parasuraman & Berry 1990)*



## Key Factors Leading to Customer Gap

### Customer Expectations

*Provider Gap 1: Not knowing what customers expect (the listening gap)*

*Provider Gap 2: Not selecting the right service designs & standards  
(the service design and standard gap)*

*Provider Gap 3: Not delivering to service standards (The service performance gap)*

*Provider Gap 4: Not matching performance to promises (the communication gap)*

### Customer Perceptions

Source: *Service Marketing*”, Valarie A. Zeithaml & Mary Jo Bitner

#### **What are the Key Factors Leading to Customer Gap 1?**

*Provider Gap 1: Not knowing what customers expect from service*

*Provider Gap 2: Not selecting the right service designs & standards*

*Provider Gap 3: Not delivering to service standards as per customers*

*Provider Gap 4: Not matching performance to promises by service provider*

#### **Insufficient Relationship Focus**

*Lack of market segmentation by service provider*

*Focus on transactions rather than customer relationships building*

*Focus on new customers rather than customer relationship customers*

#### **Inadequate Service Recovery strategy**

#### **What are the Key Factors Leading to Service Provider Gap 2?**

##### **Poor Service Design**

*Unsystematic new-service development process by service provider*

*Vague, undefined new service designs*

*Failure to connect service design to service positioning by service provider*

##### **Absence of Customer-Defined Standards**

*Lack of customer-defined service standards by service provider*

*Absence of process management to focus on customer expectations*

*Absence of formal process for setting service quality objectives and goals*

##### **Lack of Inappropriate Physical Evidence & Servicescape standards**

#### **What are the Key Factors Leading to Service Provider Gap 3?**

##### **Deficiencies in Human Resource Policies by service provides**

*Ineffective recruitment, selection and training*

*Employee Role ambiguity and role conflict*  
*Poor staff or employee-technology job fit*  
*Inappropriate performance appraisal or evaluation and compensation systems*  
*Lack of employee empowerment, perceived employee control and teamwork*

***Failure to Match Supply & Demand of services during fluctuations***

*Failure by service provider to smooth peaks and valleys of demand*  
*Inappropriate customer mix strategies by service provider*  
*Over-reliance by service provider on pricing strategy to smooth demand*

***Customers Not Fulfilling their Roles (lack of customer participation)***

*Service Customers lack knowledge of their roles and responsibilities during service delivery*

*Customers negatively affect each other during service deliver*

***Problems with Service Intermediaries or distribution channels***

*Service Distribution Channel conflict over objectives and performance*  
*Service Channel conflict over costs and rewards*  
*Difficulty controlling quality and consistency among channel members*  
*Tension between channel empowerment, monitoring and control*

**What are the Key Factors Leading to Service Provider Gap 4?**

***Lack of Integrated Services Marketing Communications by service provider***

*Tendency of service provider to view each external communication as independent*

*Not including interactive marketing in marketing communications plan*  
*Absence of strong internal marketing program by service provider*

***Ineffective Management of Customer Expectations by service provider***

*Not managing customer expectations through all forms of marketing communication*

*Not adequately educating service customers*

● ***Overpromising by service provider***

*Overpromising by service provider in advertising and other marketing communications*

*Overpromising in personal selling staff of service provider*

*Overpromising through servicescapes or physical evidence cues*

***Inadequate Horizontal Marketing Communications***

*Insufficient communication between services sales and operations department*  
*Insufficient communication between advertising and operations department*  
*Differences in rules, policies and procedures across branches or units of services provider*

**How to Close Closing the Four Gaps? (1 to 4)**

The **Gaps Model of Service Quality**, serves as a best framework for service organizations attempting to improve quality service and services marketing strategies to satisfy customers.

Gaps model of service quality begins where the process of improving service quality begins: by gaining an understanding of the nature and extent of customer gaps. Given the strong focus on customer or customer centric approach and need to use knowledge about the customer to drive business strategy for successfully delivering high quality services to sustain and compete in the market.

## **Session 4**

### **CONSUMER BEHAVIOR IN SERVICES**

**(Reference: Services Marketing by Zeithaml and Bitner – 2<sup>nd</sup> edn.)**

**Meaning and Definition of Consumer Behaviour:** Consumer behaviour is defined as the study of how individual customers, groups or organizations select, buy, use, and dispose ideas, goods, and services to satisfy their needs and wants. It refers to the actions of the consumers in the marketplace and the underlying motives for those actions.

Marketers expect that by understanding what causes the consumers to buy particular goods and services, they will be able to determine customer needs—which goods or services are needed in the marketplace, which are obsolete, and how best to present the goods to the consumers.

**There are four type of consumer or buyer buying behaviour:**

1. Complex buying behaviour. (high involvement and significant differences between brands)
2. Dissonance-reducing buying behaviour. (high involvement and few differences between brands)
3. Habitual buying behaviour. (low involvement and few differences between brands)
4. Variety seeking behaviour. (low involvement and few differences between brands)

**Consumer Evaluation Processes for Services**

There are three types of service quality:

Search Qualities are the service attributes a consumer can determine prior to purchase of a product (goods and services)

Experience Qualities is the service attributes a consumer can determine after purchase (or during consumption) of a product (goods and services).

Credence Qualities are the service attributes or characteristics that may be impossible to evaluate even after purchase and consumption

### **Steps or Categories in Consumer Decision-Making and Evaluation of Services:**

**Information search by consumer**

**Evaluation of service alternatives in the market place**

**Purchase and Consumption Decision of Service Customer**

**Post-purchase Evaluation: Post purchase dissatisfaction ( Cognitive Dissonance).**

### **Global Feature: Differences in the Service Experience in the U.S. and Japan**

- Service Authenticity
- Caring by service employees
- Control Courtesy by service firm
- Formality for service delivery
- Employee Friendliness
- Personalization or Customization by service firm
- Promptness of service delivery

## **Session 5:**

### **Chapter: 3: Customer Expectations of Service**

#### **Customer Expectations**

##### **Beliefs about service delivery**

Serve as reference points against which performance is judged by customers.

In evaluating service quality, customers compare perceptions of service performance with their expectation.

**Definition.** Customer expectations are the feelings, needs, and ideas that customers or buyers have towards certain goods or services. Customers experience is based on what they want from the goods or services they are paying for. ... For example, customers expect famous brands to be of high quality than new and generic brands.

Customer expectations from India telecom brands like Airtel, Reliance Jio, Idea or Vodafone...

**Components of Customer Expectations are:** Desired Service (customer wished level of services quality) , Adequate Services Level ( Minimum accepted level of services by customer) , Predicted Services Level ( service level that customer believes firm will actually delivered by service provider) and Zone of Tolerance (Customer acceptable range of variations in service delivery by provider).

## **Customer Expectations of Service**

**Desired service** is level of service the customer hopes to receive from service provider.

**Adequate service** is level of service the customer will accept from service provider.

Service customers assess service quality on what they desire and what they deem acceptable.

The Zone of Tolerance (ZoT)

The Zone of Tolerance is range or window in which customers do not notice service performance by service provider.

Service are heterogenous in nature that the service performance may vary across service provider, even within the same services employee.

The extent to which customer recognize and willing to accept this service performance variation (Desired service and adequate service) is called as “Zone of Tolerance”.

### **Different Customer possess different Zone of Tolerance**

For “A” can wait for delay of airline up to 1 hour, Customer “B” can wait for delay of airline up to three-hour ZoT Tolerance different at different time period for same service:

e.g., taste of food in restaurant when your very hungry. Taste of same food during a party.

### **Factors that Influence Desired Service are as follows:**

- Personal Needs of service customers.
- Personal Service Philosophy of individual customers.
- Derived Service Expectations by customers

### **Factors that Influence Adequate Service Expectations:**

**Transitory Service Intensifiers:** These are temporary, usually short- term individual factors that make customer more aware of need for service. E.g., personal emergency service.

**Perceived Service Alternatives:** are other providers or competitors from whom customers can obtain service. i.e., multiple service providers are available.

**iii) Self-Perceived Service Role:** Customer perception of the degree to which customer exerts an influence on the level of service they receive from service provider.

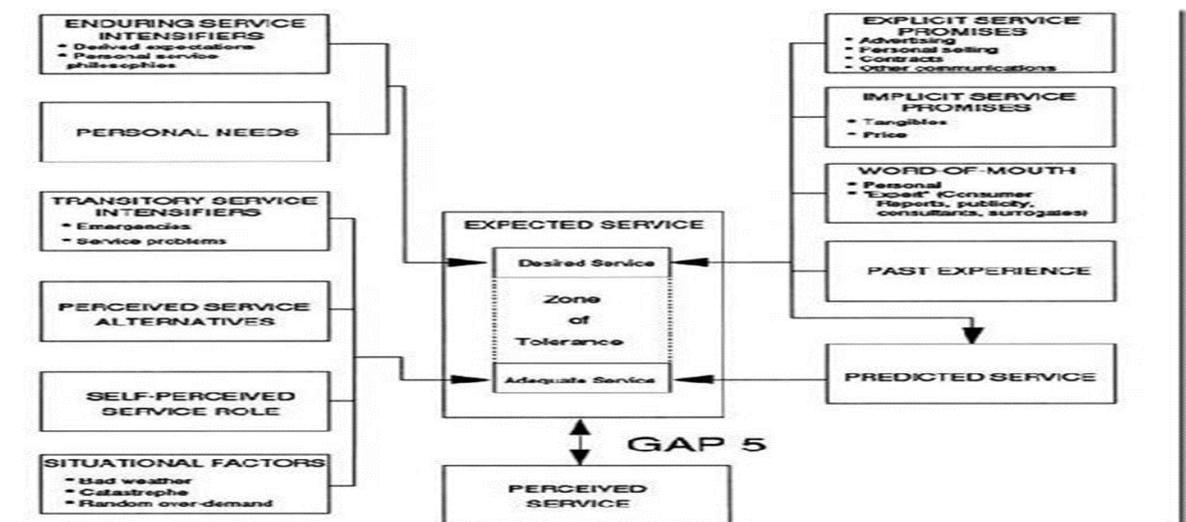
**iv) Situational Factors:** service performance conditions that service customer perceived as beyond the control of the service provider.

V) **Predicted Services:** The final factor which influence adequate service is predicted service. Predicted service is the level of service customers believe they are likely to get from service provider or service firm.

Predicted service is typically an estimate or calculation of the services a customer will receive in an individual transaction rather than in the overall relationship with a service provider.

**Figure: Nature and Determinants of Customer Expectations of Services**

Source: V.A. Zeithaml and LL Berry at al.



### Frequently Asked Questions About Customer Expectations :

**What does a service marketer do if customer expectations are “unrealistic” in nature?**

- Under promise to customer
- Reality check after service purchase

**Should a company try to delight the customer? or How does a service firm exceed customer service expectations?**

- Customer Satisfiers
- Customer Delights
- Have both costs and benefits in consideration for delighting customer.

**Do customer service expectations continually escalate, if you delight customer?**

- Desired service expectations are relatively stable in nature.
- Adequate service expectations rise as quickly as service delivery or promises raised by service provider.

**How does a service firm stay ahead of competitors in delivering customer expectations?**

Meet customers' expectations better than the competitors.

Example:

Airtel Vs Reliance Jio in telecom services

Flipkart Vs Snapdeal in e-retailing

## **Session 6-7**

### **Ch.4. Customer Perception of Services**

#### **Objectives for Chapter 4: Customer Perceptions of Service**

Provide you with definitions and understanding of customer satisfaction and service quality

Show that service encounters or the “moments of truth” are the building blocks of customer perceptions

Highlight strategies for managing customer perceptions of service

#### **Perception**

##### **Definition**

Perception is the sensory experience of an individual of the world. It involves both recognizing environmental stimuli and actions in response to these stimuli.

**Perception** includes the five senses; touch, sight, sound, smell, and taste of an individual. It also includes what is known as proprioception, a set of senses involving the ability to detect changes in body positions and movements. Perception also involves the cognitive processes required to process information received, such as recognizing the face of a friend or family member or detecting a familiar scent.

#### ***Internal Customer and External Customer Perception***

***Internal Customer*** (Employees within the firm or Personnel) and

***External Customer*** (actual customers who are external to the service organization)

***What is Customer Satisfaction?***

*Oliver's Definition "Satisfaction is the customer's fulfilment response. It is a judgement that a goods or service feature, or the goods or service itself, provides a pleasurable level of consumption-related fulfilment".*

*Fulfilment of customer's expectation is known as Customer satisfaction. Failure to meet needs and expectations of customer is assumed to result in "Dissatisfaction"*

*Satisfaction will also be influenced by customer's Emotional Response, their Attributions and their Perception of Equity and Fairness to customers.*

### **National Customer Satisfaction Indexes (NCSI)**

Because of the importance of customer satisfaction to service firms and overall quality of life, many countries have a national index that measures and tracks customer satisfaction related to services and goods at a macro level called as "NCSI".

The American Customer Satisfaction Index (ACSI) score computed from its Customers perception of service Quality, Value, Satisfaction, Customer Expectations, Customer Complaints and Future Loyalty of customers.

### **The American Customer Satisfaction Index (ACSI) by National Quality Research Centre, University of Michigan, USA**

The American Customer Satisfaction Index (ACSI) is the only national cross-industry measure of customer satisfaction related to goods and services in the United States. The Index measures the satisfaction of U.S. household consumers with the quality of goods and services offered by both global and domestic firms with significant share in U.S. markets. The ACSI provides benefits to services business, researchers, policymakers, and consumers alike by serving as a national indicator of the health of the U.S. economy, as well as a tool for gauging the competitiveness of individual firms and predicting future profitability of organizations.

In USA, each year, roughly 500,000 customers are surveyed about the goods and services they use the most. The survey data serve as inputs to an econometric model that benchmarks customer satisfaction of goods and services firms with more than 400 companies in 46 industries and 10 economic sectors in USA, as well as various services of federal and local government agencies.

### **Factors Influencing Customer Satisfaction**

Goods and service quality of firm  
Goods and service attributes or features of service firm  
Consumer Emotions during service experience (pre and post)  
Attributions for service and goods success or failure  
Equity or fairness evaluations by customers

### **What are the Outcomes of Customer Satisfaction?**

Increased customer retention rate by service firm

Positive word-of-mouth communications by customers

Increased revenues to service firm

### **Service Quality**

The customer's judgment of overall excellence of the service quality provided by service firm in relation to the quality that was expected by customers or clients.

Service Process Verses Technical Outcome Service Quality

### **Five Dimensions of Service Quality or SERVQUAL Dimensions (or RATER Model)**

**Reliability:** It means ability of service firm to perform the promised service dependably and accurately. Example: customer receive mail at same time each day.

**Responsiveness:** Willingness of service firm to help customers and provide prompt service. Example: Service firm avoid keeping customers waiting for no apparent reason during service delivery.

**Assurance:** is knowledge and courtesy of service employees and their ability to convey trust and confidence to customers. Example: Service employees being polite and showing respect for customer during service delivery.

**Empathy:** is caring and individualized attention of customer by employees. And ability to be approachable to customers. Example: Service employees being a good listener.

**Tangibles:** are the physical facilities, equipment, appearance of personnel and facilitating goods. Example: Building, computer, Business cards, design, color and cleanliness.

### **Service Encounter**

The service encounter is defined as the “dyadic interaction between a customer and service provider” (Surprenant and Solomon 1987) or more broadly as “a period of time during which a consumer directly interacts with the service” (Shostack 1985). Service encounter is an interaction between service employees and customer or client during service delivery.

### **Why Service Encounter Called as the “moment of truth”**

Movement of truth occurs any time the customer interacts with the firm and it can potentially be critical in determining customer satisfaction and loyalty or dissatisfaction.

### **Types of encounters are:**

- remote encounters of customer
- phone encounters by service employees

- face-to-face encounters of service employees with clients.

**Service Encounter is an opportunity to** build trust among customers, reinforce quality, build brand equity of service firm and increase customer loyalty.

**Example: A service encounter cascade for a hotel visit:**

Hotel check-in -Bell boy takes to room- Restaurant meal – Wakeup call – Check out

### **Critical Service Encounters Research**

**Goal of Critical Service Encounters Research:** - Which provides understanding of actual events and behaviors that cause customer dissatisfaction or satisfaction during service encounters. Method used for this purpose is Critical Incident Technique (CIT).

Data for CIT is collected by stories collected from customers and service employees.

Output or Result is identification of themes underlying satisfaction and dissatisfaction of customers with service encounters.

### **Sample Questions for Critical Incidents Technique Study**

Think of a time when, as a customer, you had a particularly *satisfying (dissatisfying)* interaction with an employee of \_\_\_\_\_.

When did the incident happen?

What specific circumstances led up to this situation?

Exactly what was said and done?

What resulted that made you feel the interaction was *satisfying (dissatisfying)*?

### **Common Themes in Critical Service Encounter Research:**

1. Service Recovery: is service employees' response to service delivery system failure.
2. Customer Adaptability: it is employee response to customer needs and requests during service delivery process.
3. Employee Coping: is employee response to problem customers or problematic customers who tries to disturb employees during service delivery.
4. Spontaneity: In case of service failure employee should respond to customer complaints immediately without any delay. Spontaneity is an unprompted and unsolicited employee actions and attitudes towards resolving customer service and complaints.

### **Evidence of Service from Customer Point of View:**

- 1) **People:** Contact or onstage or frontline employees, Customer himself/ herself and other customers.
- 2) **Physical Evidence:** it includes tangible communication, servicescape, guarantees and technology.

- 3) **Process:** Service delivery process. Process includes Operational flow of service activities, Steps in service delivery process, Flexibility Vs standard and Technology Vs Human resources for service delivery.

### **What are the Strategies Used for Influencing Customer Perception?**

1. Measure and manage customer satisfaction of service quality:
2. Aim for customer quality and satisfaction in every service encounter of service delivery.
3. Plan for effective service recovery strategy in case of service failure.
4. Facilitate adaptability and flexibility among service employees.
5. Encourage spontaneity for resolving customer complaints.
6. Help service employees to cope with problem customers by training and motivation.
7. Manage the Physical Evidence of Service to Reinforce Perception of customers.

### **Session 8-9**

## **Ch.6. Building Customer Relationships**

### **What is Customer Relationship Management (CRM)?**

#### **Definitions of CRM:**

1. CRM “is a business strategy that aims to understand, anticipate and manage the needs of an organisation’s current and potential customers” to satisfy or delight customer for building customer loyalty.
2. CRM is a “comprehensive approach which provides seamless integration of every area of business that touches or interaction with the customer- namely marketing, sales, customer services and field support through the integration of people, process and technology”
3. CRM is concerned with the creation, development and enhancement of individualised customer relationships with carefully targeted customers of a service firm and customer groups resulting in maximizing their total customer life-time value”.
4. CRM is a long term, customer-centric business strategy whose goal is to maximize profitability of service firm through customer retention and customer loyalty.

#### **Customer Goals of Relationship Marketing:**

- Getting or Acquiring Customer
- Retaining Customer for profitability
- Customer Enhancing through cross selling

## **Benefits of Relationship Marketing**

### **BENEFITS TO CUSTOMERS:**

Confidence Benefit of customers  
Social Benefit to customers  
Special Treatment Benefits of customers

### **BENEFITS TO ORGANIZATION:**

Increased purchases or sale and increased revenue  
Lower cost per customer service  
Free positive Word-of-Mouth from customers  
Employee Retention builds loyal customer base for organization.

## **Service Loyalty Research**

### **Research Questions:**

What is *service loyalty* and how should it be measured by service firm?  
What factors lead customers to become loyal to service firms?  
What are the benefits to customers for being loyal to a service firm?

### **Service Loyalty Model Components:**

- defining the construct
- four components of service loyalty
- antecedents of service loyalty
- interpersonal bonds, impersonal bonds
- moderators
- outcomes of service loyalty
- customer, provider

**Service Loyalty Components:** are Effective loyalty and Cognitive loyalty that leads to repurchase intent of customer. Which leads to service loyalty of customers.

### **Antecedents of Service Loyalty:**

- Overall service Evaluation
- Customer satisfaction, perceived quality, perceived value
- Existing Competitive Environment
- Current competitors' marketing mix
- competitive offerings in the market
- relative price of services
- Impersonal Bonds for customers
- Interpersonal Bonds for customers

### **Lifetime Value of a Customer (LTVC):**

- LTVC is influenced by the length of average "lifetime" the average revenue generated by service firm per relevant time period over the life time, sale of additional goods and services over time, and referral generated by the customer over time.

- Lifetime value truly means “Lifetime Profitability” of service firm.

**Calculation of customer lifetime value:**

- To calculate **customer lifetime value**, you need to calculate average purchase **value**, and then multiply that number by the average purchase frequency rate to determine **customer value**. Then, once you calculate average **customer** lifespan, you can multiply that by **customer value** to determine **customer lifetime value**

**Lifetime Value of a Customer:**

**Assumptions**

- Income
- Expected Customer Lifetime
- Average Revenue (month/year)
- Other Customers convinced via word of mouth
- Employee Loyalty??
- Expenses
- Costs of Serving Customer Increase??

**Strategies for Building Strong Customer Relationships:**

**Foundations for building strong customer relationships:**

- 1) Excellent Quality/Value
- 2) Careful Segmentation

**Customer Bonding Strategies:**

- 1) Financial Bonds
- 2) Social & Psychological Bonds
- 3) Structural Bonds
- 4) Customization Bonds

Figure: Relationship Strategies Wheel



Figure 6-6

Source: Zeithaml and Bitner

Session: 10-11

**Chapter 7: Service Recovery**

**History of Service Recovery:**

1970's and 1980's service recovery was the plan for dealing with telecommunications problems or recovering particular services sector.

Companies adopted systems that produced 'zero defects', to produce a high-quality service and a cost-effective production line approach for service delivery.

In the late 1970s marketers began to recognise the importance of **service recovery** for different areas of business and specific service delivery problems.

However, the idea of **zero defects in services** is simply an unattainable goal for service providers. Use of the word 'recovery' originated from British Airways 'Putting the Customer First Campaign' in the late 1990s

### **What is service recovery???**

Service recovery has been defined by many authors as:

*"The effort an organisation expends to win back customers goodwill once it has been lost due to service failure"*- (Fisk, Grove et al 2000)

*"refers to actions taken by an organisation in response to some service failures"* (Zeithaml & Bitner, 2003)

*"any situation where something has gone wrong, irrespective of responsibility"* (Palmer, 2001)

Service recovery is defined as "actions taken by service provider in case of service failure, to satisfy customer". The failure occurred in service recovery is un-intentional.

### **Importance of Service Recovery:**

1. Service Recovery plays a crucial role in achieving customer satisfaction, especially dissatisfied customers.
2. Service recovery tests a firm's commitment to satisfaction and deliver service quality.
3. Employee training and motivation is highly important of service recovery.
4. Impacts customer loyalty and future profitability by service recovery strategies.
5. Complaint handling should be seen as a profit or revenue center, not a cost or liability center in service recovery strategies.

### **Courses of Action Available to a Dissatisfied Customer in case of Service Failure:**

1. Do Nothing in case of service failure.
2. Complain in some form to the service firm for failure of service.
3. Take legal action.
4. Switch service provider. (customer defection).
5. Dissatisfied customers take action through a 3<sup>rd</sup> Party.
6. Dissatisfied customer switch to a competitor & spread negative WOM (Word-of-Mouth).
7. Any one or combination of these responses is possible.

### **Three Dimensions of Perceived Fairness in Service Recovery Process:**

1. **Procedural Justice:**
2. **Interactive Justice:**
3. **Outcome Justice:**

### **Customer Complaint Behaviour:**

- Propensity for customers not to complain to service provider.
- Customer complaints often don't identify the root of the problem of service failure.
- Customer complaints often don't reach management (customer service manager)
- Satisfying complaining customers by service recovery can increase brand loyalty of customer.
- Increase in ease of access of dissatisfied customers to service firms can increase complaints.
- Likelihood of complaining is directly related to the severity of the service failure problem.
- Most of the complainers tend to be the heaviest users of the firm's service
- Dissatisfied customers spread negative WOM (word of mouth) when service failure is not resolved within short period of time (spontaneity).

### **Understanding Customer Responses to Service Failure:**

Why do customers complain during service failure?

What proportion of unhappy customers actually complain after service failure?

Why don't or dissatisfied or unhappy customers complain?

Who is most likely to complain after service failure?

Where do customers complain in case of service failure?

What do dissatisfied customers expect once they have made a complaint?

### **Guidelines for Dealing with Complaining Customers:**

1. Understand the source of the anger or failure of service.
2. Apologise to dissatisfied customer.
3. Sympathise & Empathise with dissatisfied customers.
4. Accept 100% Responsibility in case of service failure.
5. Prepare to help dissatisfied customer.

### **Service Recovery Paradox:**

Customers who experience a service failure that is satisfactorily resolved may be more likely to make future purchases than customers without any service problems (Note: not all research supports this paradox). In service recovery paradox failure of service is intentional to delight customer.

If second service failure occurs, the paradox disappears—customers' expectations have been raised and they become disillusioned

Severity and “**recoverability**” of failure (e.g., spoiled wedding photos) may limit firm's ability to delight customer with recovery efforts

Best strategy of service quality: “**Do it right the first time**” or “**Zero Defect**” or “**Fail Safe**”

### **Issues in Service Recovery:**

The role of service recovery in the event of a service failure is recognised as “*doing the service very right the second time*” (Brown, Cowles *et al.* 1996).

In order to understand service recovery, it is necessary to understand how the customer experiences the service and the impact of the service encounter of service provider on customer satisfaction.

Effective service recovery can improve the brand image of the firm and reduce perceived risk to the customer. One issue of great importance in service recovery is the '**Service Recovery Paradox**'.

### ***Customer satisfaction***

Develops into an attitude about a goods, services or of a firm, which in turn guides consumer behaviour, brand loyalty and positive WOM.

Customer satisfaction occurs at the point where customer experience matches expectation. If the experience is not what's expected, customers are likely to dissatisfied and can complain.

### ***Costs of Service Recovery***

The major costs to customer include customer's monetary, psychological, emotional and costs of inconvenience.

Costs to firm include monetary, cost of lost customers, cost of negative WOM and costs associated with setting up recovery strategy.

### **Service Recovery Strategies:**

1. Welcome and Encourage Complaints by Dissatisfied Customers.
2. Act Quickly or spontaneity of service provider in case of service failure.
3. Service organization must learn from lost customers.
4. Service firms learn from previous service recovery experiences.
5. Service firm should treat all the customers fairly or equally.
6. "Do it right first time" or "Fail safe the service" or follow "Zero defect" policy.

### **Service Guarantees:**

***"Customers value service reliability over all other dimensions of service quality"***

*Statement explaining the service the customer may expect (the promise) and what the company will do if it fails to deliver the promised service. (the pay out or compensation).*

Promise of consistency compared to other services

Cover customer costs

Repeat business

Assure customers subsequent service will be higher quality => change attitudes

### **Benefits of Service Guarantee:**

*The guarantee counts most in services"*

It forces:

Provision of error free service due to promise or service failure.

Focus on knowing what the customer really wants from service firm

Increases volume of customers and lifetime value to service firm

Service guarantee Reduces risk therefore:

Encourages purchase by customers.

Positive word of mouth from satisfied customers.

Customer loyalty increases

Reduced price sensitivity perception of customers to service

Internally in the organization service guarantee:

Sets performance standards for service employees and accountability.

Service guarantee boosts service employee performance & morale

Service guarantee tangibilizes employee commitment & customer satisfaction.

### **Why Service Guarantee works?**

“Greatest ailment afflicting service firms is lack of decent systems for generating and acting on customer data”.

Customer has less incentive to complain:

No evidence of service failure.

No warranty by service provider.

Customers don't know their rights of complaining (e.g., is 15 mins too long to wait?)

Often have to complain to the onstage employee rendering the poor service

Comment cards of feedback are too short, impersonal, & perceived as useless for resolving problems

Service guarantee is incentive and vehicle for bringing customer complaints to service providers.

### **How to Enable Effective Service Recovery?**

Service organization must be proactive—on the spot they have to resolve the complaint, before customers complain

Service organization has to plan service recovery procedures and systems.

Service firm should teach service recovery skills to relevant service personnel or employees.

Employee empowerment is must. Empower service personnel to use judgment and skills to develop service recovery solutions

Service providers must see Service Perspectives: Prepare guidelines For Effective Problem Resolution in case of service failure.

### **How can service organization collect customer feedback) (Customer Feedback Collection Tools):**

1. Total market surveys by service firm.
2. Service provider should conduct Post-transaction surveys from customers.
3. Service firm should conduct Continuous surveys or Ongoing customer surveys
4. Customer advisory panels must be set up by service firm.
5. Employee surveys/panels must be formed by service providers.

6. Focus groups interviews must be conducted to know c
7. Mystery shopping can be done by service providers.
- 8.** Service firm must capture service operating data regularly