Chapter 4
The Service Encounter

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where service is evaluated

Each moment of truth is an opportunity influence the customer's perceptions of the service quality.

Learning Objectives

- Describe the **five roles of technology** in the service encounter.
- Use the **service encounter triad** to describe a service firm's delivery process.
- Differentiate four organizational control systems for employee empowerment.
- Prepare abstract questions and write situational vignettes to screen service recruits.
- Describe the classification of customers into four groups based on their attitudes and expectations.
- Describe how the creation of an ethical climate leads to job satisfaction and service quality.
- Discuss the role of scripts in customer coproduction.
- Describe how the elements of the **service profit chain** lead to revenue growth and profitability.
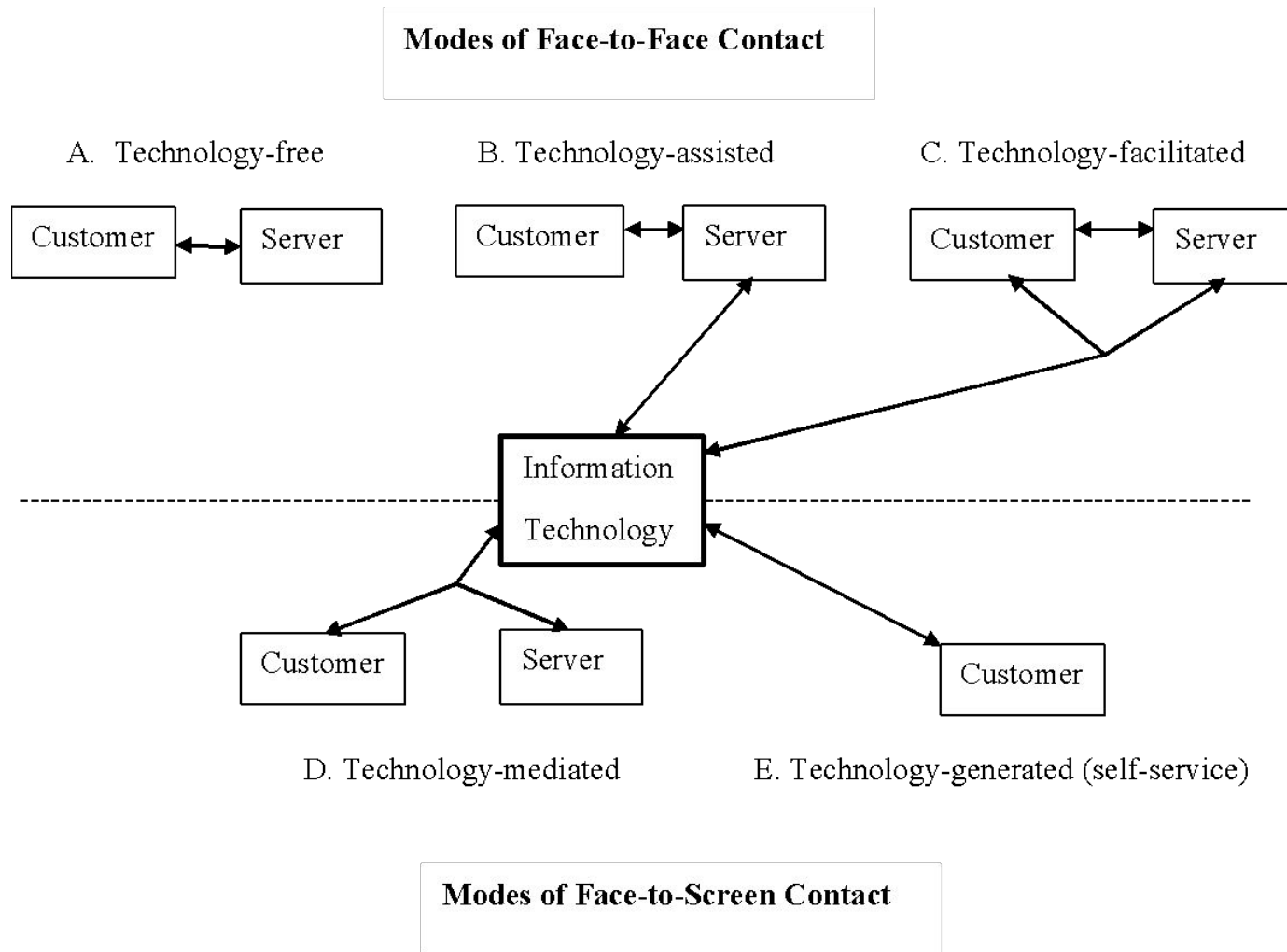
Moments of Truth

- Each customer contact is called a moment of truth.
- Moment of Truth
  - 關鍵時刻 Jan Carlzon
  - SAS CEO, Scandinavian Airlines System
- a moment in time, when the customer is
  - evaluating the service
  - forming an opinion of its quality

- An airline passenger
    - a series of encounters
  - Searching flights, buying tickets, boarding pass, luggage check-in, inflight service, baggage claim, award the frequent flyer credit...

Moments of Truth

- Reference http://wiki.mbalib.com/zh-tw/%E5%85%B3%E9%94%AE%E6%97%B6%E5%88%BB

- 關鍵時刻(Moments of Truth, MOT)這一理論是由北歐航空公司前總裁詹·卡爾森創造的。他認為，關鍵時刻就是顧客與北歐航空公司的職員面對面相互交流的時刻。這個時刻決定了企業未來的成敗。

- 卡爾森總裁提出：平均每位顧客，會與五位服務人員接觸；在平均每次接觸的短短15秒內，就決定了整個公司在乘客心中的印象。如果每一個MOT都是正面的，那麼客戶就會更加忠誠，為企業創造源源不斷的利潤。

- 卡爾森發覺，在每一次的關鍵時刻中，都有機會將消費者的印象經驗由好轉壞、從壞變好，而其中關鍵就在於「人」；提供給您當下服務的「那一個人」！

Figure 4.1: Role of Technology in the Service Encounter

Advance in ICTs have a profound effect on ways customers interface with service providers.
5 modes of technology's contribution to the service encounter.

- A. Technology-free service encounter
  - Traditional high touch service
  - Customer is in physical proximity to and interact with a human service provider
    - Personal care & professional services: hairdresser, chiropractor, law, consulting, psychiatry therapy

- B. Technology-assisted service encounter
  - Only the service provider has access to the technology to facilitate the delivery of face-to-face service
    - Health care procedures: ie full mouth x-ray exam at the dentist
    - Airlines: check-in counter, use computer terminal to check in passengers

- C. Technology-facilitated service encounter
  - Both customer and service provider have access to the same technology (co-location required)
    - Financial planners in consultation with clients on a computer to illustrate returns and risks.

Modes of screen-to-face contact

- D. Technology-mediated service encounter
  - Both customer and service provider have access the same technology (without co-located physically)
    - Getting technical help from a distant call center, automobile remote monitoring service: use GPS to reassure motorists that assistance is on the way.

- E. Technology-generated service encounter
  - The human service provider is replaced entirely.
  - This mode is becoming more common as firms attempt to reduce the cost of providing service.
    - Customer self service, ATM, check-out scanning, airport check-in kiosks…

The Emergence of Self-Service

- **Driving forces for self-service**
  - Service provider: elimination of labor costs for nonproductive activity
  - Customer: increased opportunity for customization, accuracy, convenience, and speed

- **Social implications of the increasing of self-service**
  - Low wage, unskilled service jobs are bound to be replaced by self-service technology
  - Growth in service jobs will be limited to highly skilled (ie healthcare), intellectual (ie professional), creative (ie entertainment) pursuits.
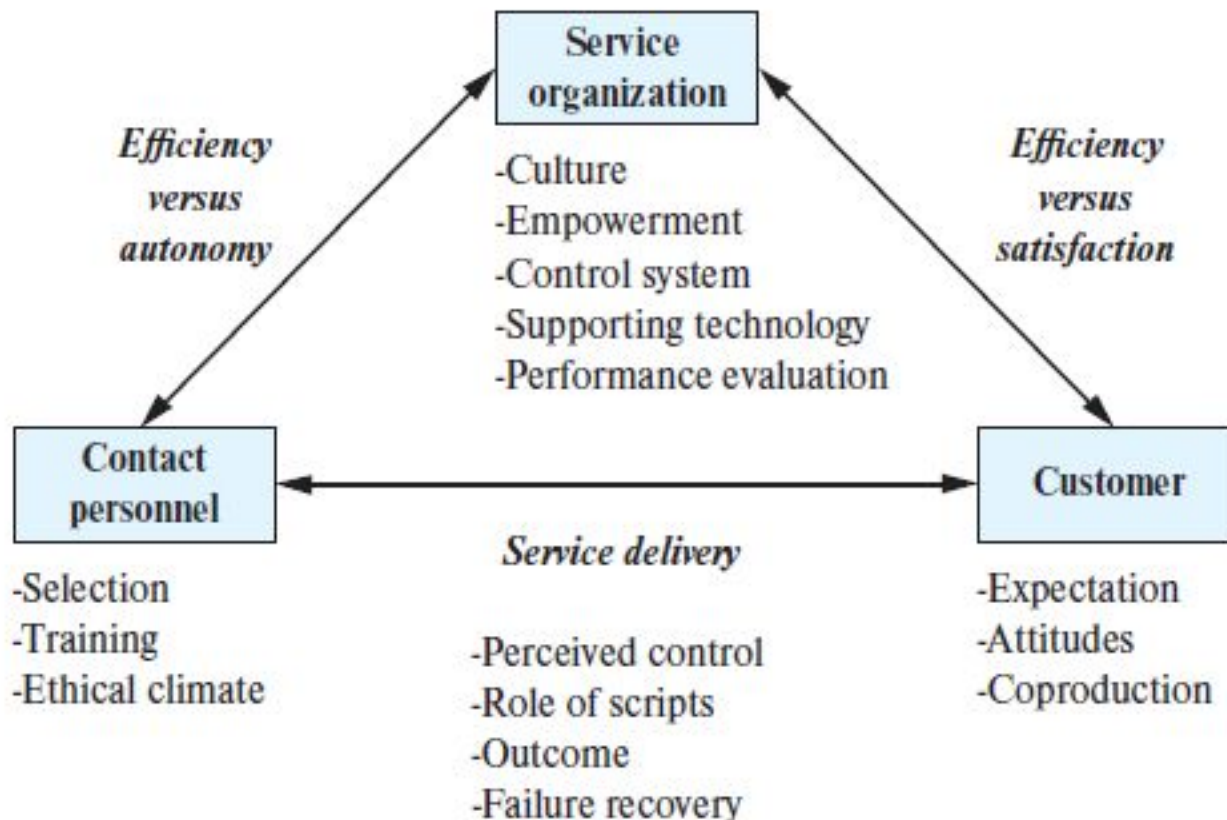
Table 4.1: Evolution of Self-Service

Service Industry	Human Contact	Machine Assisted	Internet Facilitated
Banking	Teller	ATM	Online banking
Grocery	Checkout clerk	Self-checkout station	Online order/pickup
Airlines	Ticket agent	Check-in kiosk	Print boarding pass
Restaurants	Wait person	Vending machine	Online order/delivery
Movie theater	Ticket sale	Kiosk ticketing	Pay-per-view
Bookstore	Information clerk	Stock-availability terminal	Online shopping
Education	Teacher	Computer tutorial	Distance learning
Gambling	Poker dealer	Computer poker	Online poker

For example, the introduction of ATMs by banks saved teller costs but also provided customers with place-and-time convenience.

The Service Encounter Triad

Every MOT involves an interaction between a customer and a service provider, each has a role to play in an environment staged by the service organization.

Figure 4.2 captures the relationships between the three parties and suggests possible sources of conflict.

The Service Encounter Triad

- Balance the need for control of three parties
    - create a beneficial service encounter
  - **Service organization: efficiency**
    - Interest in delivering as efficient as possible to protect their margins and remain competitive.
  - **Contact personnel: autonomy**
    - Interest in control customers' behavior
      - Make their work more manageable and less stressful
  - **Customer: satisfaction**
    - Attempt to gain control to derive the most benefit from the encounter.

Balance of control

- A satisfactory and effective encounter should balance the need for control by all three participants.

- The organization's need for **efficiency** can be satisfied when
  - contact personnel are trained properly &
  - the customer's expectations and role in the delivery process are communicated effectively.

- **Encounter dominated by service organization**
  - To be **efficient,** to be **cost leadership**
    - Standardize service delivery
      - SOP
    - Limit discretion of contact personnel
      - everything go "by the book"
    - Limit choices for customers
  - McDonald's
    - Structural organization and environment
    - Teaching customers what not to expect

Efficiency versus autonomy

- **Contact personnel dominated encounter**
  - Service personnel attempt to limit the scope of the service encounter to reduce their own stress in meeting demanding customers.
  - Contact personnel in an **autonomous** positions, perceive themselves as having a significant degree of control over customers.
    - Customer is expected to place considerable **trust** in the **contact person**'s judgement because of the service providers' perceived expertise.

    - Physician and patient best illustrates the shortcomings of the contact personnel-dominated encounter, where patient is placed in a subordinate position with no control over the encounter.

Efficiency versus satisfaction

- **Customer dominated encounter**
  - For **standardized** service, **self-service** is an option that gives customers complete control over a limited service that is provided.
    - ie self-service gasoline station, the result can be very efficient and **satisfying** to the customer who needs very little service.
  - For a **customized** service, ie legal defense in a criminal case, all of the organization's resources might be needed, at great cost in efficiency.

  - **The online encoun**ter is an increasing popular variation where the contact personnel is replaced with a website. **Design a website that will attract repeat customers is a challenge for the service organization.**

The Service Organization

- The service organization establishes the environment for the service encounter.

- Culture: pattern of beliefs and expectations that is shared by the organization's members and produces norms that powerfully shape the behavior of individuals or groups in organizations.

  - ServiceMaster
    - hospitals housekeeping provider (company's name embodied its value of "Service to the Master")

  - Disney (Choice of language: Casting)
    - Show business terms used to remind employees that Disney is in the entertainment business, employee is "cast member"

  - Federal express
    - "absolutely positively overnight"
    - Communicate by many extraordinary employee feats to safeguard the service guarantee

Organizational Culture: example

reference
http://panmore.com/starbucks-coffee-company-organizational-culture

- **Features of Starbucks Coffee's Organizational Culture**

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- Starbucks describes its organizational culture as *a culture of belonging, inclusion and diversity*.

- Combination of these characteristics is unique to the firm.
- The main features of Starbucks' organizational culture are:
    - Servant Leadership ("employees first")
    - Relationship-driven approach
    - Collaboration and communication
    - Openness
    - Inclusion and diversity

Starbucks Coffee's Organizational Culture

- **Servant Leadership**.
  - The *employees-first* approach. Former Starbucks President Howard Behar believed that employees who are cared for are the ones who care about customers.
- **Relationship-driven Approach**.
  - supports warm and friendly relationships.
- **Collaboration and Communication**.
  - encourages collaborative efforts through effective communication. They collaborate as teams to make the order fulfillment process efficient.
- **Openness**.
  - former Starbucks President Behar introduced open forums to encourage employees to ask questions and communicate with superiors.
- **Inclusion and Diversity**.
  - An anti-discrimination policy. Starbucks facilitates sharing and rapport among employees, as well as innovation based on diverse ideas.

Service Organization: Empowerment

- Empowerment begin by trusting unconditionally the inherent power within employee to evaluate choices and competently execute creative decisions.

- A new model supported with technology has inverted 'T' organizational structure, where layers of supervision are significantly reduced because contact personnel are well trained, motivated, and supplied with computer-based timely information.
  - i.e. Taco Bell, ServiceMaster, Marriott

- 'People want to do good work if they are given the opportunity'.
  - Invest in people as much as in machines
  - Use IT to support personnel, not to monitor
  - Consider recruitment and training of personnel as critical to firm's success
  - Link compensation to performance for employees at all levels

Service Organization: Control systems

- Table 4.2 describes four organizational control systems to encourage creative employee empowerment
  - Belief system (objective: Contribute) – articulated through organizational culture (Key issue: Identify core values)
    - Management challenge: Communicate core values and mission
  - Boundary (Compliance)– defines limits to employee initiatives (Key: Risks to be avoided)
    - Specify and enforce rules (i.e. do mot commit liability in excess of $1,000)
  - Diagnostic (Achieve) – defines measurable goal to achieve performance (Key: Critical performance variables)
    - Build and support clear targets (i.e. 90% on-time performance)
  - Interactive (Create) – is most appropriate for "knowledge industries" such as consulting firms, the organization's very survival depends on delivering creative solutions for its customers. (Key: Strategic uncertainties)
    - Critical performance variables

Customer Relationship Management (CRM)

- Systems have been developed to help organizations to manage the interactions with their customers and sales prospects.

- CRM is:
  - an information industry term for methodologies, software, and Internet capabilities that help an enterprise to manage its relationships in an organized way.

Customer Relationship Management (CRM)

- CRM systems offer the following capabilities:
  - Enabling marketing departments **to identify and target their best customers**, manage marketing campaigns, and generate quality leads for the sales team.

  - Allowing the formation of individualized relationships with customers, in order **to improve customer satisfaction and maximize profits** by identifying the most profitable customers and providing them with the highest level of service.

  - Providing employees with the information and processes necessary **to know their customers; understand and identify customer needs**; and effectively build relationships among the company, its customer base, and distribution partners.

  - Assisting the organization **to improve sales management** by optimizing information shared by multiple employees, preparing metrics on sales effectiveness, and monitoring social media sites as a vehicle for crowd-sourcing solutions to client-support problems.

Contact Personnel

- Customer contact personnel should have personality attributes that include:
  - Flexibility
  - Tolerance for ambiguity
  - An ability to monitor change
  - Empathy for customers

Contact Personnel

Selection:

1. Abstract Questioning:

- Questions asked in a abstract interview are open-ended. "What type of customer was most difficult for you to deal with and why?
- Applicant's ability to relate service situation to information, experience & knowledge, willingness to adapt

2. Situational Vignette:

- Applicant answer questions regarding a specific situation. Reflect applicant's instincts, interpersonal capabilities, common sense, judgement, "think on their feet"

3. Role Playing

- Applicant participate in a simulate situation and react as if this environment were real. Way to observe applicants under stress. Reflect realistic responses.

Contact Personnel

Training:

- Most training is devoted to technical skills
- Training should also focus on difficulties with interactions between customers and contact personnel which includes:

  - Unrealistic customer expectations (problem customers)
    - Unreasonable demands: please sit with me
    - Abusive or hostile attitude: you idiot
    - Inappropriate behavior: try to exit the plane while in flight
    - Unanticipated demands: my wife is in labor
    - Demands contrary to policies: I must have my smoke
  - Unexpected service failure
    - Unavailable service due to failure: why is the ATM out of order
    - Slow performance (capacity issues): why hasn't our plane arrived
    - Unacceptable service (low standards): a hair in my soup

Contact personnel

- Creating an ethical climate
  - Customer-contact employees working without close supervision often are placed in situations where ethical standards might be compromised in an effort to serve multiple conflicting demands at the same time.
  - Table 4.4: Examples of Unethical Behaviors in Customer-Contact Settings

Misrepresenting the Nature of the Service	Customer Manipulation	General Honesty and Integrity
• Promising a nonsmoking room when none is available	• Giving away a guaranteed reservation	• Treating customers unfairly or rudely
• Using bait-and-switch tactics	• Performing unnecessary services	• Being unresponsive to customer requests
• Creating a false need for service	• Padding a bill with hidden charges	• Failing to follow stated company policies
• Misrepresenting the credentials of the service provider	• Hiding damage to customer possessions	• Stealing customer credit card information
• Exaggerating the benefits of a specific service offering	• Making it difficult to invoke a service guarantee	• Sharing customer information with third parties

  - To promote ethical behavior, management should promote
    - Formal control
      - Enforcement of ethical codes, Punishment for ethical violation
    - Informal control
      - Discussion of ethics, Internalization of a code of ethics, ethical climate

The Customer

- Every interaction is important for the customer, but is routine for the service provider. Therefore, the **attitude** and **expectations** may be different.
- Expectations and Attitudes: classified 4 groups
    - (1)Economizing customer
        - Customer wants to maximize the value obtained for his or her expenditures of time, effort, and money.
        - Loss of these customers is an early warning of potential competitive threats.
    - (2)Ethical customer
        - Patronize socially responsible firms
            - Firms have developed a reputation for community service
    - (3)Personalizing customer
        - These customers want interpersonal gratification, ie recognition, respect..
    - (4)Convenience customer
        - These customers have no interest in shopping for the service; convenience is most important.

The Role of Scripts in Coproduction

- Both customer and service provider have role to play in transacting the service.
- Society has defined specific tasks for service customers to perform.
  - **Productive role**, such as assembling meals and carrying them to table in a cafeteria, serving themselves at a salad bar
- The customer is participating in the service delivery as a partial employee with a role to play and is following a script that is defined by societal norms or implied by the particular design of the service offered.
- Acceptance of new technology that replaces a human service encounter can take time while customers learn the new script.
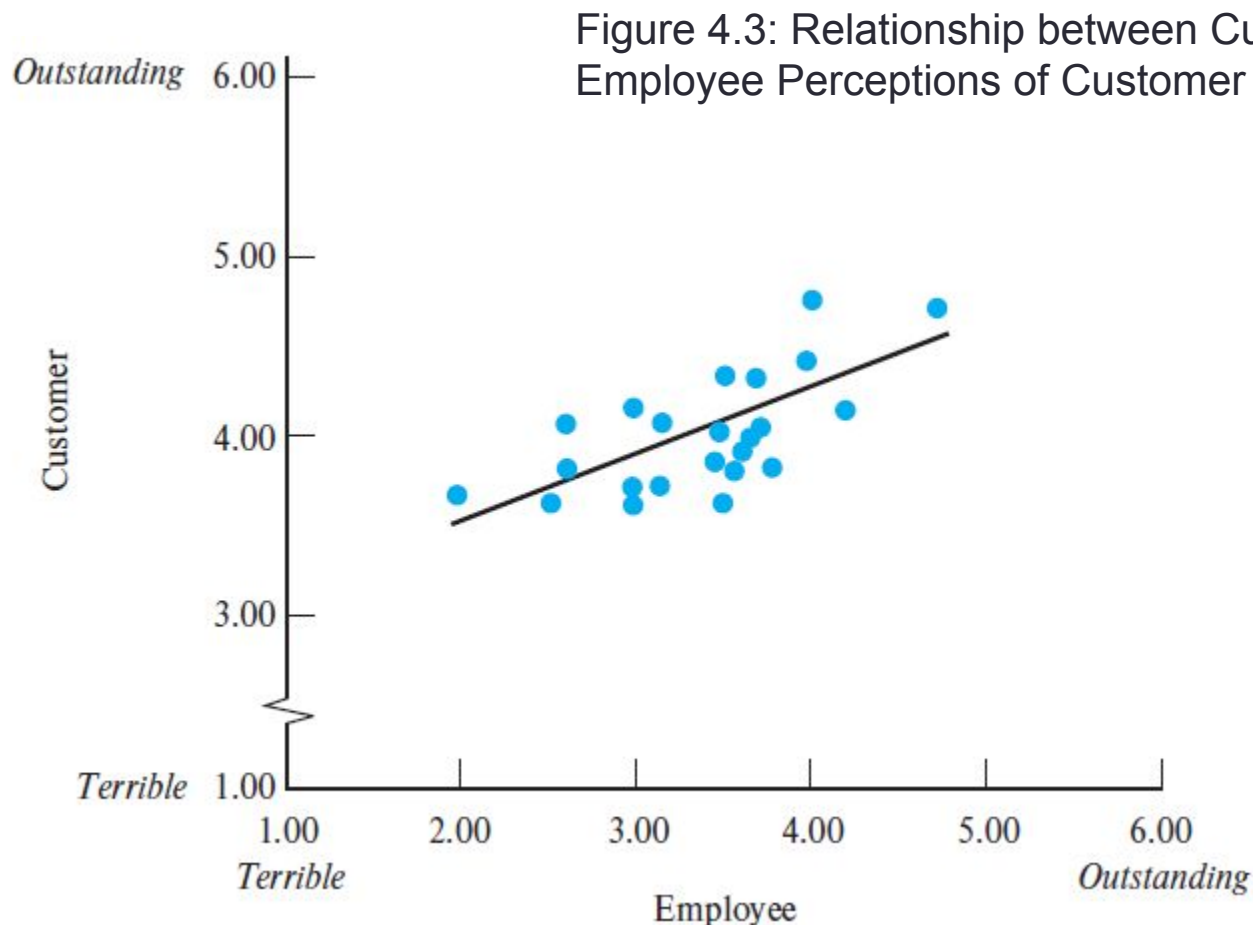 - Self-scanning checkout machines at supermarket.

Creating a Customer Service Orientation

Employee Perceptions of Customer Service at 23 Branch Banks

A high correlation between customers' and employees' perceptions of service quality

Employee Q: How do you think the customers of your bank view the general quality of the service

Customer Q: Describe the general quality of the service received in your branch

Figure 4.3: Relationship between Customer and Employee Perceptions of Customer Service

Creating a Customer Service Orientation

- Customers perceived better service in branches where employees reported:
    1. There is a more **enthusiastic service** emphasis.
    2. The branch manager emphasizes service as **personnel perform** their **roles**.
    3. There is an active **effort to retain all customer accounts**, not just those of large-account holders.
    4. The branch is staffed with **sufficient and well-trained tellers**.
    5. **Equipment** is well maintained, and **supplies** are plentiful.

- When employees described branch as one where the manager emphasized customer service, customers reported superior service and:
    1. Tellers were courteous and competent.
    2. Staffing levels were adequate.
    3. The branch appeared to be well administered.
    4. Teller turnover was low.
    5. The staff had positive work attitudes.

Satisfaction Duality

More repeat purchases ← → More familiarity with customer needs and ways of meeting them

Stronger tendency to complain about service errors ← → Greater opportunity for recovery from errors

Higher <u>Customer</u> Satisfaction ← → ***Higher <u>Employee</u> Satisfaction***

Lower Costs ← → Higher Productivity

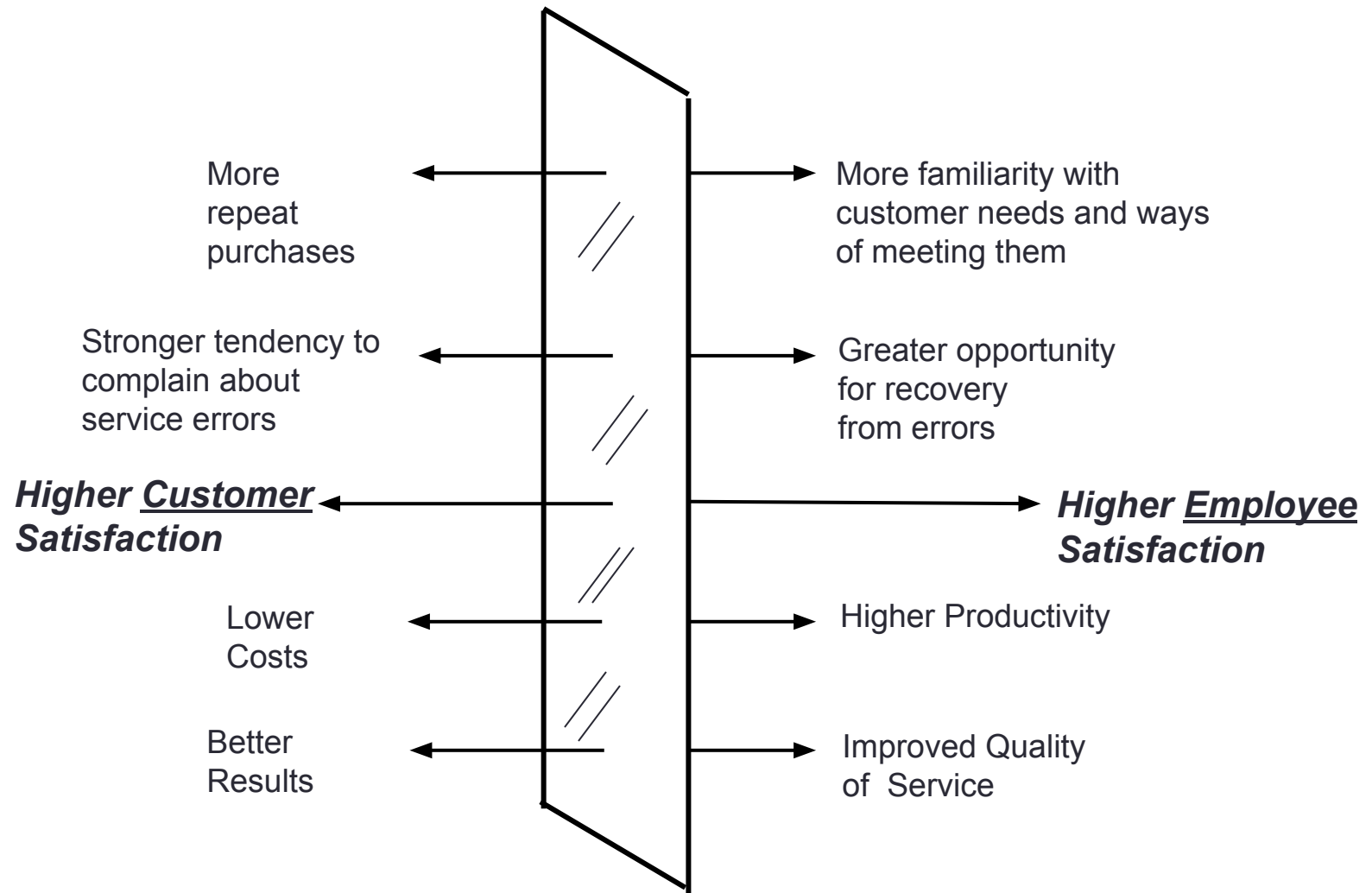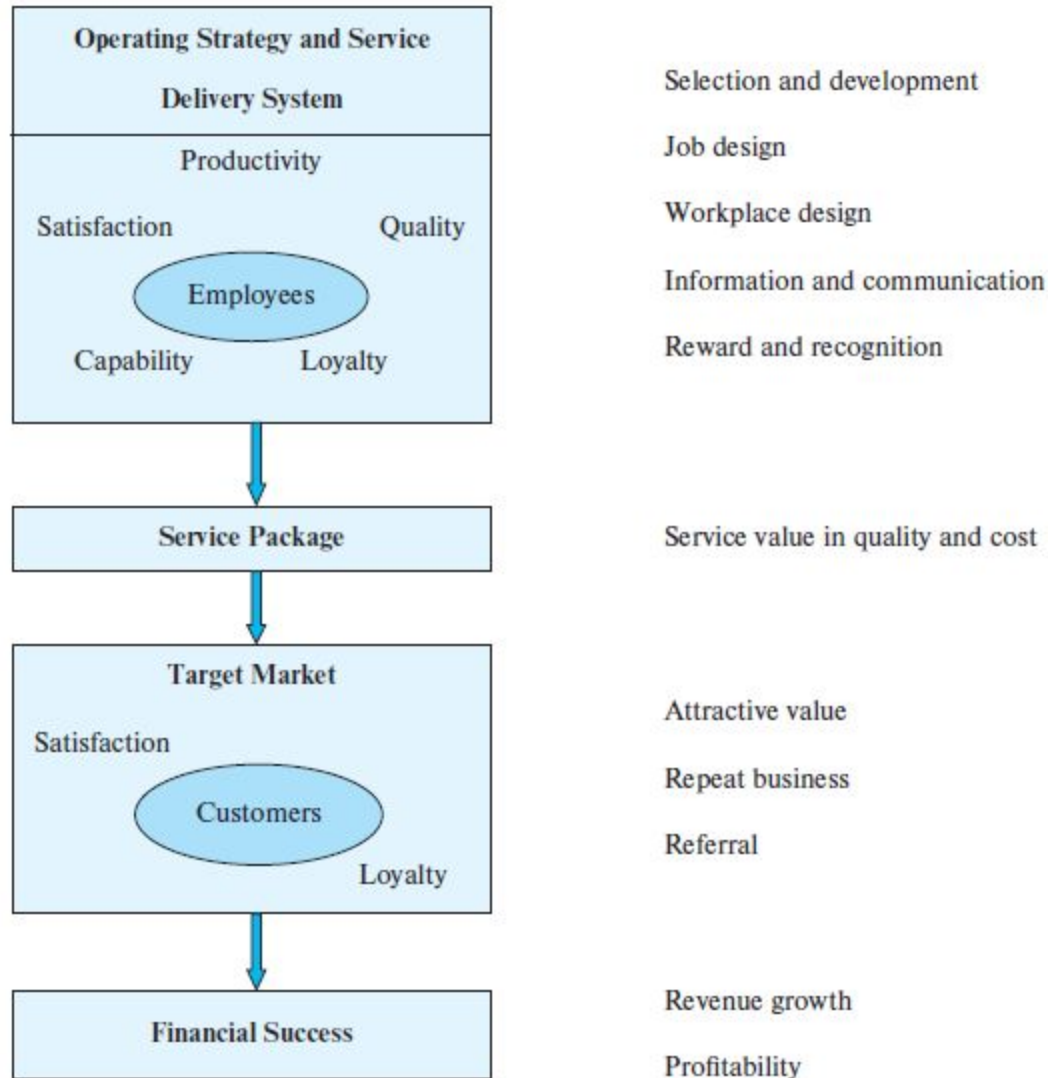Better Results ← → Improved Quality of Service

Figure 4.4: The Service Profit Chain

proposes a relationship that links profitability, customer loyalty and service value to employee satisfaction, capability, and productivity

Service Profit Chain

- 1. Internal quality drives employee satisfaction
- 2. Employee satisfaction drives retention and productivity
- 3. Employee retention and productivity drives service value.
- 4. Service value drives customer satisfaction.
- 5. Customer satisfaction drives customer loyalty.
- 6. Customer loyalty drives profitability and growth.

- 1. Internal quality drive employee satisfaction
  - USAA, a financial service company serving military community
    - Telephone service representative is supported by a sophisticated information system that shows complete customer information when a customer gives member number
    - Job related training in a resemble college campus setting

- 2. Employee satisfaction drive retention and productivity
  - Employee turnover is the loss of productivity
  - Southwest airlines high employee retention
    - The most profitable airlines

- 3. Employee retention and productivity drives service value
  - Southwest airlines
    - Frequent departures
    - On-time arrival
    - Friendly employees
    - Very low fare
  although
    - does not assign seats, reservation not integrated with other airlines

- 4. Service value drives customer satisfaction
  - Quality & productivity improvement yield high service quality and lower cost

- 5. Customer satisfaction drive customer loyalty
  - Xerox found
    - Very satisfied customers were 6 times more likely to repurchase

- 6. Customer loyalty drive profitability and growth
  - 5% increase in customer loyalty
  - Produce a profit increase from 25 to 85%

Class discussion : Amy's Ice Cream
page 104-105

1. Describe the service organization culture at Amy's Ice Cream.

2. What are the personality attributes of the employees who are sought by Amy's Ice Cream?

3. Design a personnel selection procedure for Amy's Ice Cream using abstract questioning, a situational vignette, or role playing.

Amy's Ice Cream Facility