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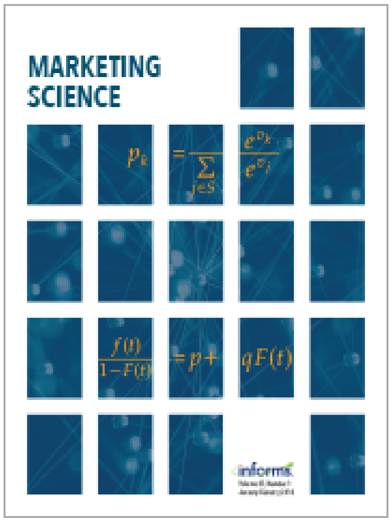


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# Invited Commentary

# Why Does Poor Service Prevail?

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In their article "Marketing Models of Service and Relationships," Rust and Chung (2006) provide a detailed and useful review of service and relationship marketing models and outline interesting new directions for future research. One would hope that the recent attention to service marketing will help services improve financial performance while improving customer satisfaction and loyalty.

Recent reports in the popular media, however, suggest that service quality and customer satisfaction are declining. "It's a Service Economy, But Where's the Service?" wondered the author of a *New York Times* article a few years ago (Miller 1997), and "Why Service Stinks?" asked a *Business Week* cover story (Brady 2000). According to the latter, "studies by groups ranging from the Council of Better Business Bureaus Inc. to the University of Michigan vividly detail what consumers already know: Good service is increasingly rare. From passengers languishing in airport queues to bank clients caught in voicemail hell, most consumers feel they're getting squeezed by Corporate America's push for profits and productivity." More recently, a *Wall Street Journal* article titled "Cases of 'Customer Rage' Mount as Bad Service Prompts Venting" suggests that "U.S. companies are driving their customers crazy" (Spencer 2003).

The purpose of this comment is to briefly discuss why, in light of all the research Rust and Chung (2006) point to, poor service may still prevail. We review some of the existing marketing models aimed at addressing this issue and suggest directions for future research. To do so, we distinguish between unintentional poor service and intentional poor service.

## Unintentional Poor Service

Poor service results from poor selection of employees, lack of training, service process failures, or misalignment of incentives (Loveman 1998, Chase and Stewart 1993, Hauser et al. 1994, Chu and Desai 1995, Chu et al. 1998) and, more generally, gaps in organizational knowledge and perceptions (Zeithaml et al. 1990).

Clearly, we are far away from eliminating unintended poor service. In fact, the law of unintended consequences used by economists and other social scientists states that the actions of people, organizations, and governments always have unanticipated or "unintended" effects. Moreover, working to eliminate all service failure contingencies may be counterproductive (Rust et al. 2002).

Still, an intriguing research question emerges: Does poor service exist by design? Next we review marketing models that explain how intentional poor service may prevail.

## Intentional Poor Service

### Service Customization

Service providers who apply CRM view customers as assets (Rust et al. 2004, Shugan 2005). Advances in technologies and database management techniques enable managers to effectively customize service based on customer profitability (Shugan 2004, Rust et al. 2000). One implication of this approach is that customers are sorted into service tiers, with poor service delivered to low-tier customers (Brady 2000).

Although invited commentaries are not formally peer-reviewed and represent the opinion of the author, authors were carefully chosen based on their outstanding expertise in the areas of their respective commentaries.

### Service Differentiation

Poor service also prevails because sellers strategically differentiate themselves according to the service quality they provide. Gerstner et al. (1993) and Chu et al. (1995) show that retailers may intentionally use hard-selling techniques or reduce service systematically to differentiate themselves from retailers who use soft-selling techniques with better service. Under this differentiation strategy all retailers profit compared to a strategy in which both retailers offer good service. Poor service also results when retailers deliberately limit product availability in order to "up sell" more expensive products (Hess and Gerstner 1987, Balachander and Farquhar 1994) or when they use bait-and-switch tactics (Gerstner and Hess 1990; Lazear 1995; Hess and Gerstner 1998; Wilkie et al. 1998a, b).

### Switching Costs

According to the "service profit chain" paradigm, investing in employee recruitment, training, and retention leads to increased service quality, customer satisfaction and retention which eventually results in profit improvements (Heskett et al. 1997, Loveman 1998, Kamakura et al. 2002). An alternative to increasing customer retention and profits is creating switching costs that make it difficult for customers to defect to competitors (Klemperer 1995, Sudhir 2001, Buschken 2004). If sellers use switching costs to retain customers as a substitute for improving customer satisfaction, service will deteriorate and poor service will prevail.

### Misleading Pricing

Service providers may believe that they will profit in the short run from unsatisfactory service. Consider for example department stores that advertise discounted items, but at the register the full price is charged (Goodstein 1994, Goodstein and Escalas 1995). Such "service failures" have been documented repeatedly by academic researchers and by the popular media. Amazingly, even when store managers were notified about the problem, they did not fix it. Is it possible that top management discourages such mistakes, but the local managers ignore them to show short-term profit results? Cases of misleading pricing such as billing overcharges and hidden fees exist in the banking, credit card, hotel, and utility service industries (Thornton and Arndt 2003). Customers who check their bills are able to question the charges and get a refund. The rest end up overpaying. Misleading practices, however, can hurt long-term profits if customer defections increase as a result.

## Conclusion

The popular media have drawn our attention to the deterioration of service quality and customer satisfaction in the United States. Did advancements in technology and service models encourage service providers to profit on the back of customers (who are denied good service)?

Future research should investigate this question and suggest ways to create win/win solutions that simultaneously improve customer satisfaction and profitability. For example, service providers with limited capacity such as hotels and airlines overbook capacity because some buyers who make reservations do not show up. Overbooking, however, creates customer dissatisfaction when the number of the overbooked customers who show up exceeds capacity, thus some customers are denied service by being "bumped" or "walked" (Desiraju and Shugan 1999).

Instead of bumping customers (which creates a win/lose situation), service providers can increase profits and improve customer satisfaction by overselling capacity at a high price and then offering compensation to low-paying customers who agree to cancel if high-paying customers show up at the last minute (Biyalogorsky et al. 1999, 2000). Service providers can also encourage customers to cancel services in advance by offering refund incentives for cancellations (Xie and Gerstner 2005). These advance notices reduce the need to overbook capacity because of no shows, and therefore customers are not denied service. Moreover, the service provider has an opportunity to resell the cancelled service units, often at a higher price, so both customer and provider gain, converting the win/lose situation to a win/win.

Marketing models are typically designed to assist service providers in improving financial performance. Can they also show services how to improve profits and at the same time increase customer surplus and customer satisfaction?

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