

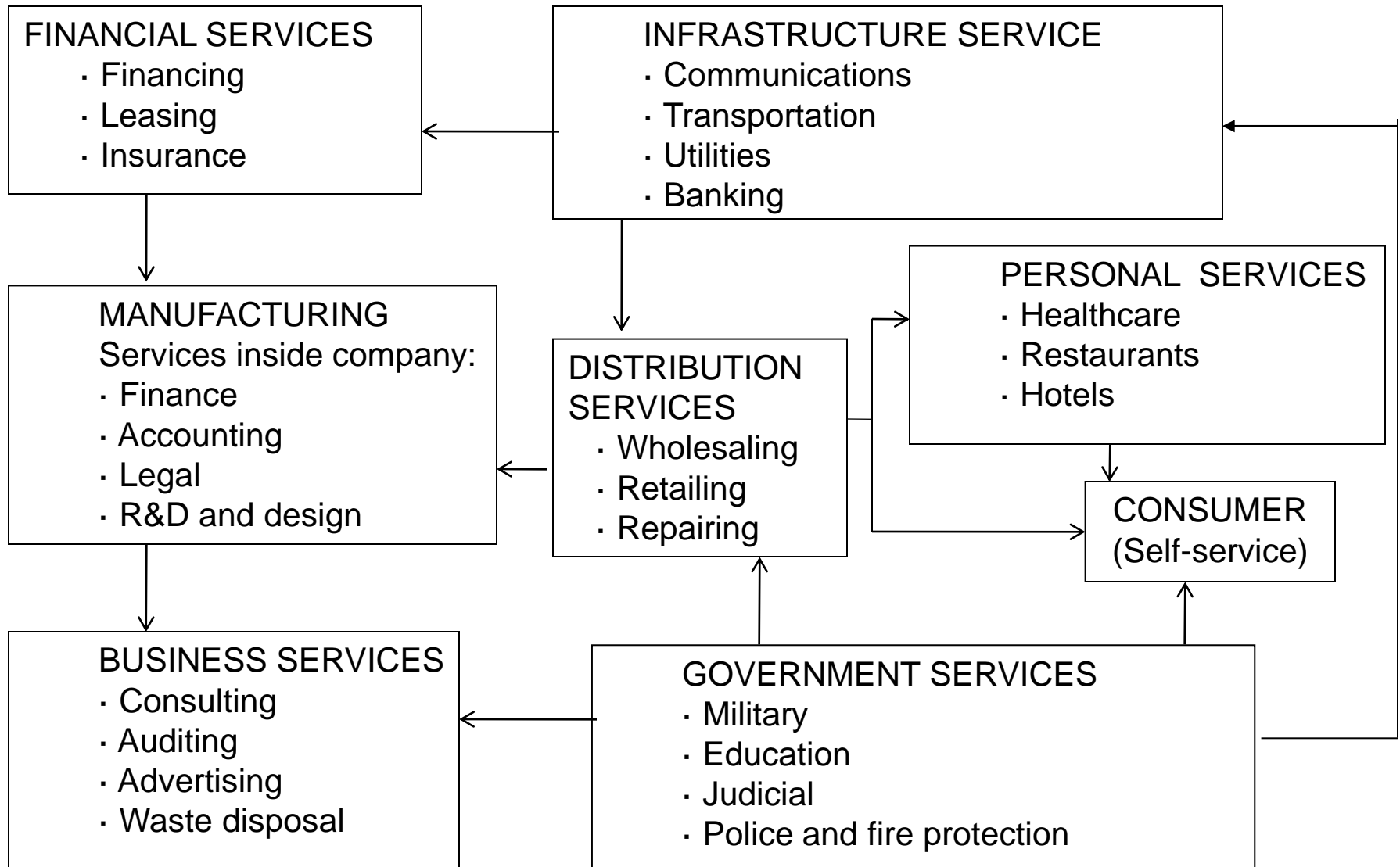
QUALITY MANAGEMENT
(MSL 71500)
(2 – 0 - 0)

HANDOUT III (Lecture 5 and 6)

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Jodhpur

- Role of Services in an Economy
- What are Services?
- Characteristics of Services
- What is Service Quality?
- Dimensions of Service Quality
- Zone of Tolerance
- Service Encounter and Moment of Truth
- Service Recovery Paradox
- Staying Focused on the Customer: Service Innovation

ROLE OF SERVICES IN AN ECONOMY



SERVICE DEFINITIONS

Services are deeds, processes, and performances.

- Valarie Zeithaml & Mary Jo Bitner

A service is a time-perishable, intangible experience performed for a customer acting in the role of a co-producer.

-James Fitzsimmons

An activity or series of activities of more or less intangible nature that normally, but not necessarily, take place in interactions between the customer and service employees and/or physical resources or goods and/or systems of the service provider, which are provided as a solutions to customer problems”

-Gronroos

Any act or performance that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may not be tied to a physical product.

-Kotler

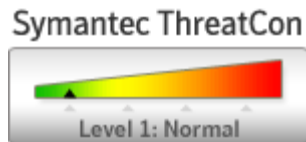
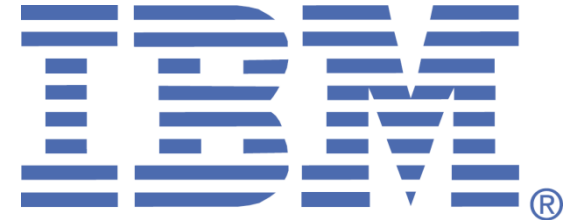
Examples of Service Industries

- **Health Care**
 - hospital, medical practice, dentistry, eye care
- **Professional Services**
 - accounting, legal, architectural
- **Financial Services**
 - banking, investment advising, insurance
- **Hospitality**
 - restaurant, hotel/motel, bed & breakfast
 - ski resort, rafting
- **Travel**
 - airline, travel agency, theme park
- **Others**
 - hair styling, pest control, plumbing, lawn maintenance, counseling services, health club, interior design

Examples of Goods Companies that are Expanding into Services



Boeing



Comparing Goods and Services

TABLE 1.2 Comparing Goods and Services

Source: A. Parasuraman, V. A. Zeithaml, and L. L. Berry, "A Conceptual Model of Service Quality and Its Implications for Future Research." *Journal of Marketing* 49 (Fall 1985) pp. 41–50. Reprinted by permission of the American Marketing Association.

Goods	Services	Resulting Implications
Tangible	Intangible	Services cannot be inventoried. Services cannot be easily patented. Services cannot be readily displayed or communicated. Pricing is difficult.
Standardized	Heterogeneous	Service delivery and customer satisfaction depend on employee and customer actions. Service quality depends on many uncontrollable factors. There is no sure knowledge that the service delivered matches what was planned and promoted.
Production separate from consumption	Simultaneous production and consumption	Customers participate in and affect the transaction. Customers affect each other. Employees affect the service outcome. Decentralization may be essential. Mass production is difficult.
Nonperishable	Perishable	It is difficult to synchronize supply and demand with services. Services cannot be returned or resold.

Characteristics of Services Compared to Goods

Intangibility

Heterogeneity

**Simultaneous
Production
and
Consumption**

Perishability

Implications of Intangibility

- Services cannot be inventoried
- Services cannot be easily patented
- Services cannot be readily displayed or communicated
- Pricing is difficult

Implications of Heterogeneity

- Service delivery and customer satisfaction depend on employee and customer actions
- Service quality depends on many uncontrollable factors
- There is no sure knowledge that the service delivered matches what was planned and promoted

Implications of Simultaneous Production and Consumption

- Customers participate in and affect the transaction
- Customers affect each other
- Employees affect the service outcome
- Decentralization may be essential
- Mass production is difficult

Implications of Perishability

- It is difficult to synchronize supply and demand with services
- Services cannot be returned or resold

Search, Experience, and Credence Qualities

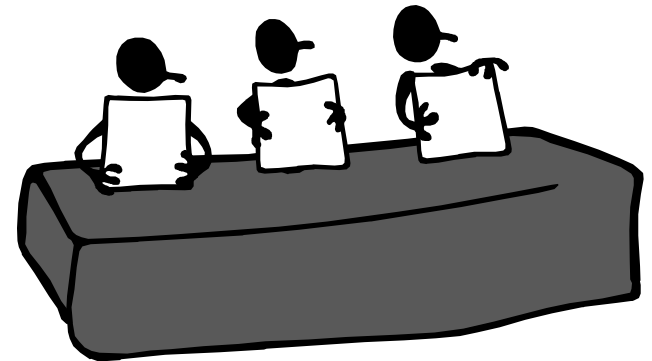
FIGURE 1.5
Continuum of
Evaluation for
Different Types
of Products

Evaluation Qualities of Goods and Services

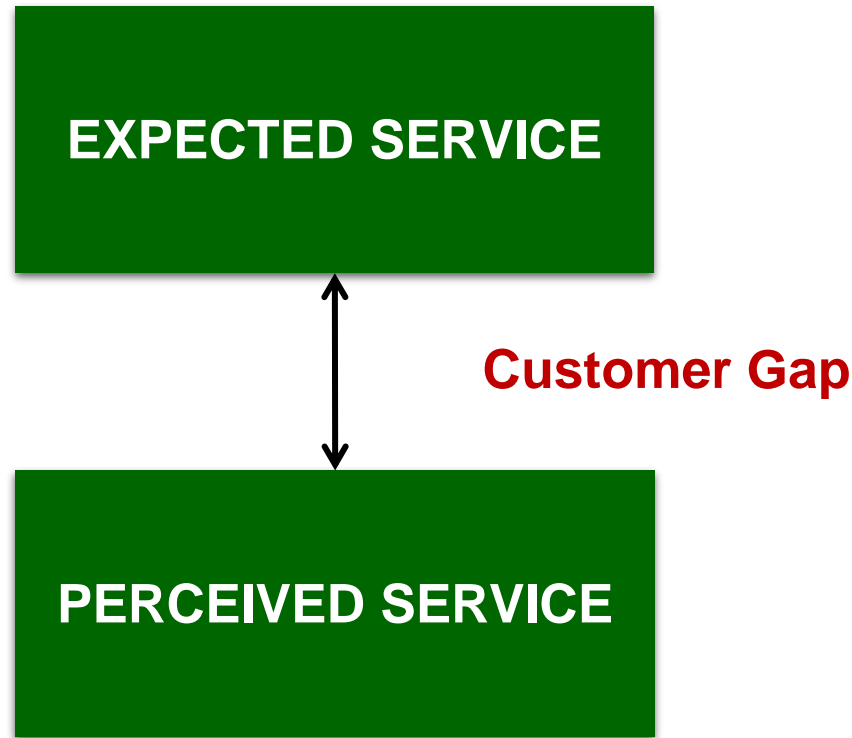


Service Quality

- The customer's judgment of overall excellence of the service provided in relation to the quality that was expected.
- Service quality assessments are formed on judgments of:
 - outcome quality
 - interaction quality
 - physical environment quality

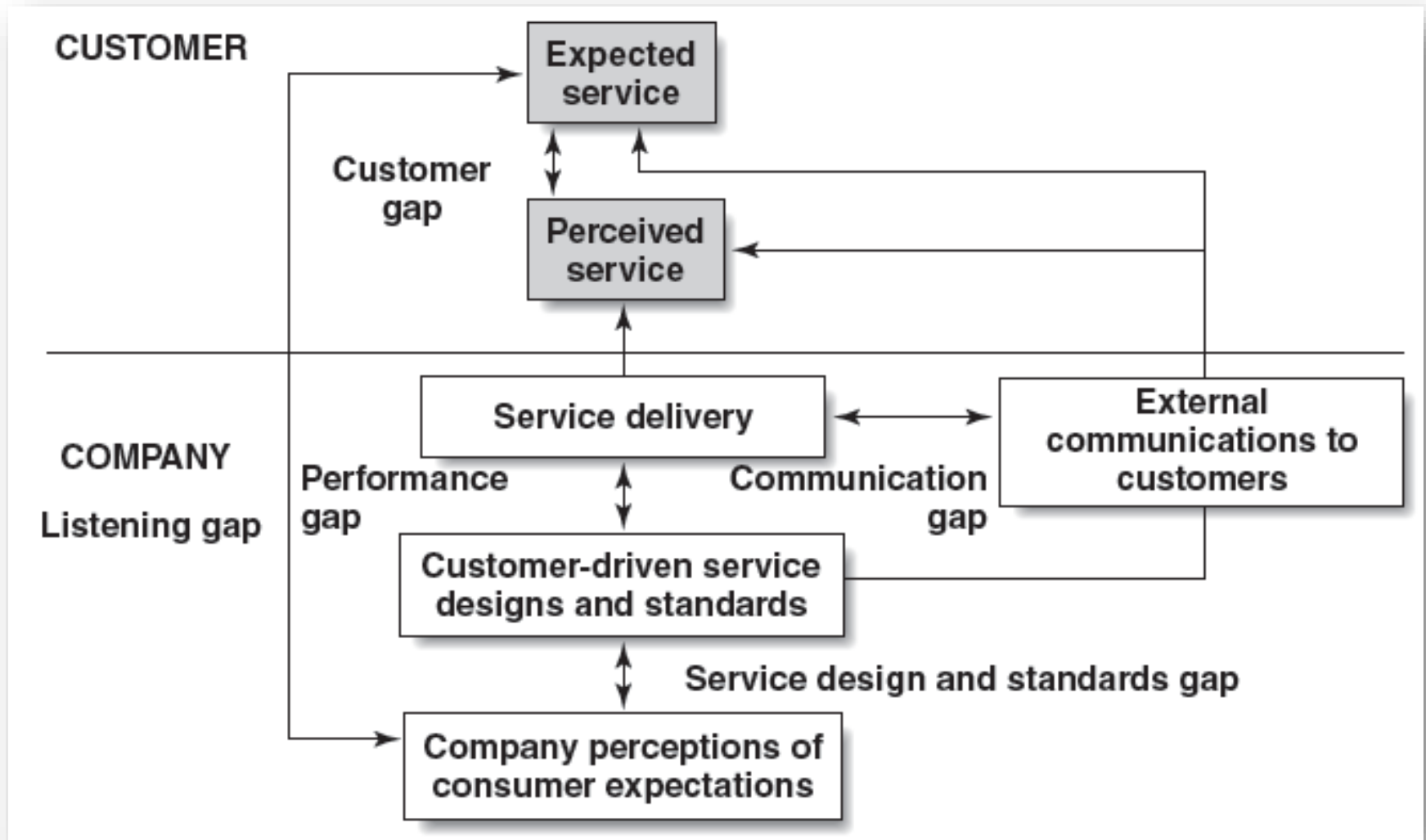


What is Service Quality? The Customer Gap



Service quality is the customer's judgment of overall excellence of the service provided in relation to the quality that was expected.

Gaps Model of Service Quality



Gap Model of Service Quality

Gaps Model of Service Quality

- **Customer Gap**
 - *difference between customer expectations and perceptions*
- **Provider Gap 1 (Listening Gap)**
 - *not knowing what customers expect*
- **Provider Gap 2 (Service Design & Standards Gap)**
 - *not having the right service designs and standards*
- **Provider Gap 3 (Service Performance Gap)**
 - *not delivering to service standards*
- **Provider Gap 4 (Communication Gap)**
 - *not matching performance to promises*

The Five Dimensions of Service Quality: SERVQUAL

RELIABILITY

Ability to perform the promised service dependably and accurately.

ASSURANCE

Knowledge and courtesy of employees and their ability to inspire trust and confidence.

TANGIBLES

Physical facilities, equipment, and appearance of personnel.

EMPATHY

Caring, individualized attention the firm provides its customers.

RESPONSIVENESS

Willingness to help customers and provide prompt service.

SERVQUAL Attributes

RELIABILITY

- Providing service as promised
- Dependability in handling customers' service problems
- Performing services right the first time
- Providing services at the promised time
- Maintaining error-free records

RESPONSIVENESS

- Keeping customers informed as to when services will be performed
- Prompt service to customers
- Willingness to help customers
- Readiness to respond to customers' requests

ASSURANCE

- Employees who instill confidence in customers
- Making customers feel safe in their transactions
- Employees who are consistently courteous
- Employees who have the knowledge to answer customer questions

EMPATHY

- Giving customers individual attention
- Employees who deal with customers in a caring fashion
- Having the customer's best interest at heart
- Employees who understand the needs of their customers
- Convenient business hours

TANGIBLES

- Modern equipment
- Visually appealing facilities
- Employees who have a neat, professional appearance
- Visually appealing materials associated with the service

How Customers Judge the Five Dimensions of Service Quality

TABLE 4.2 Examples of How Customers Judge the Five Dimensions of Service Quality

Industry	Reliability	Responsiveness	Assurance	Empathy	Tangibles
Car repair (consumer)	Problem fixed the first time and ready when promised	Accessible; no waiting; responds to requests	Knowledgeable mechanics	Acknowledges customer by name; remembers previous problems and preferences	Repair facility; waiting area; uniforms; equipment
Airline (consumer)	Flights to promised destinations depart and arrive on schedule	Prompt and speedy system for ticketing, in-flight baggage handling	Trusted name; good safety record; competent employees	Understands special individual needs; anticipates customer needs	Aircraft; ticketing counters; baggage area; uniforms
Medical care (consumer)	Appointments are kept on schedule; diagnoses prove accurate	Accessible; no waiting; willingness to listen	Knowledge; skills; credentials; reputation	Acknowledges patient as a person; remembers previous problems; listens well; has patience	Waiting room; exam room; equipment; written materials
Architecture (business)	Delivers plans when promised and within budget	Returns phone calls; adapts to changes	Credentials; reputation; name in the community; knowledge and skills	Understands client's industry; acknowledges and adapts to specific client needs; gets to know the client	Office area; reports; plans themselves; billing statements; dress of employees
Information processing (internal)	Provides needed information when requested	Prompt response to requests; not "bureaucratic"; deals with problems promptly	Knowledgeable staff; well trained; credentials	Knows internal customers as individuals; understands individual and departmental needs	Internal reports; office area; dress of employees
Internet brokerage (consumer and business)	Provides correct information and executes customer requests accurately	Quick website with easy access and no down time	Credible information sources on the site; brand recognition; credentials apparent on site	Responds with human interaction as needed	Appearance of the website as well as flyers, brochures, and other print materials

Factors Influencing Customer Satisfaction

- Product quality
- Service quality
- Price
- Specific product or service features
- Consumer emotions
- Attributions for service success or failure
- Perceptions of equity or fairness
- Other consumers, family members, and coworkers
- Personal factors
- Situational factors

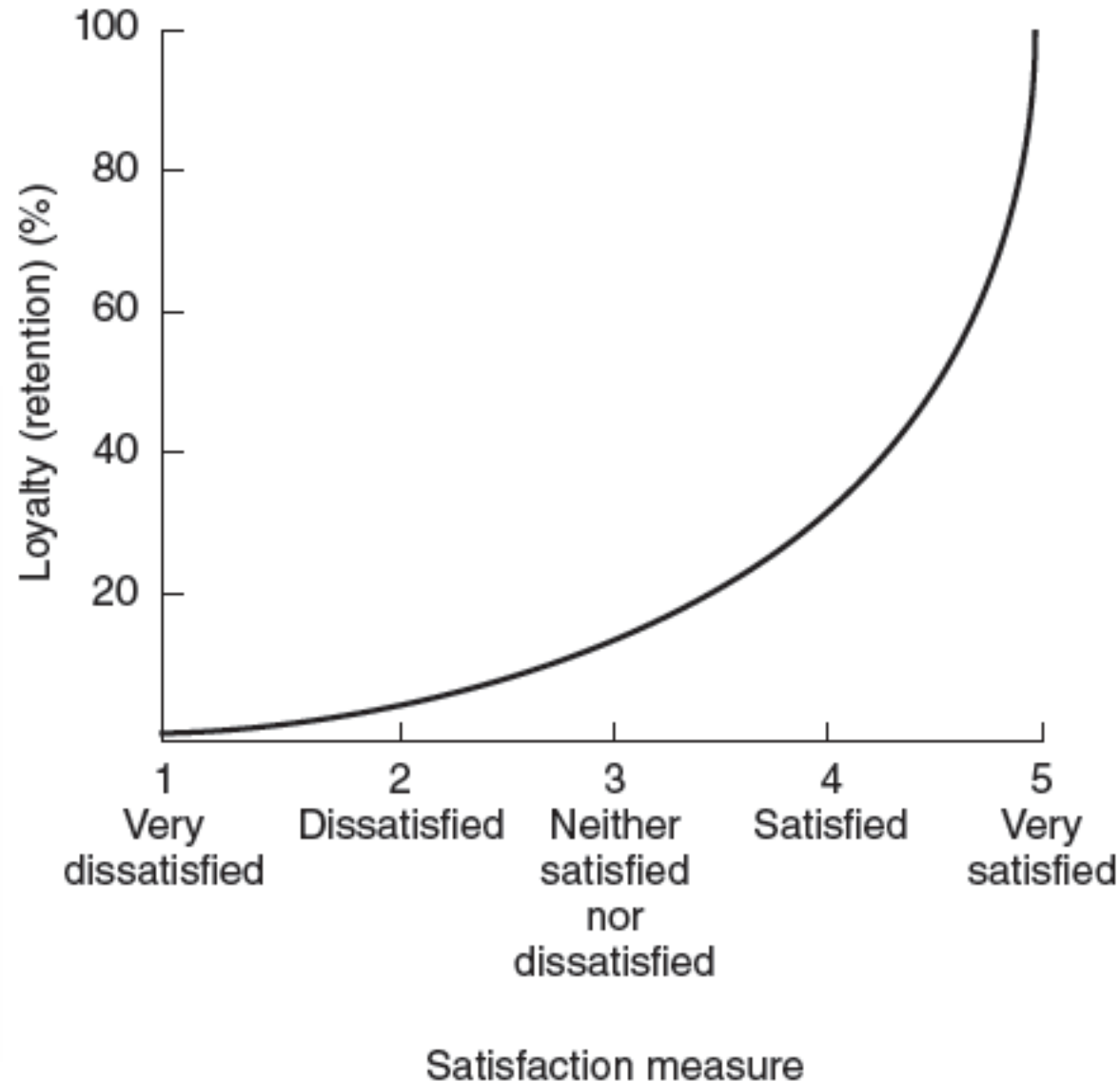
Outcomes of Customer Satisfaction

- Increased customer loyalty
- Positive word-of-mouth communications
- Increased revenues
- Increased return to shareholders

Relationship between Customer Satisfaction and Loyalty in Competitive Industries

FIGURE 4.3
Relationship
between Customer
Satisfaction
and Loyalty in
Competitive
Industries

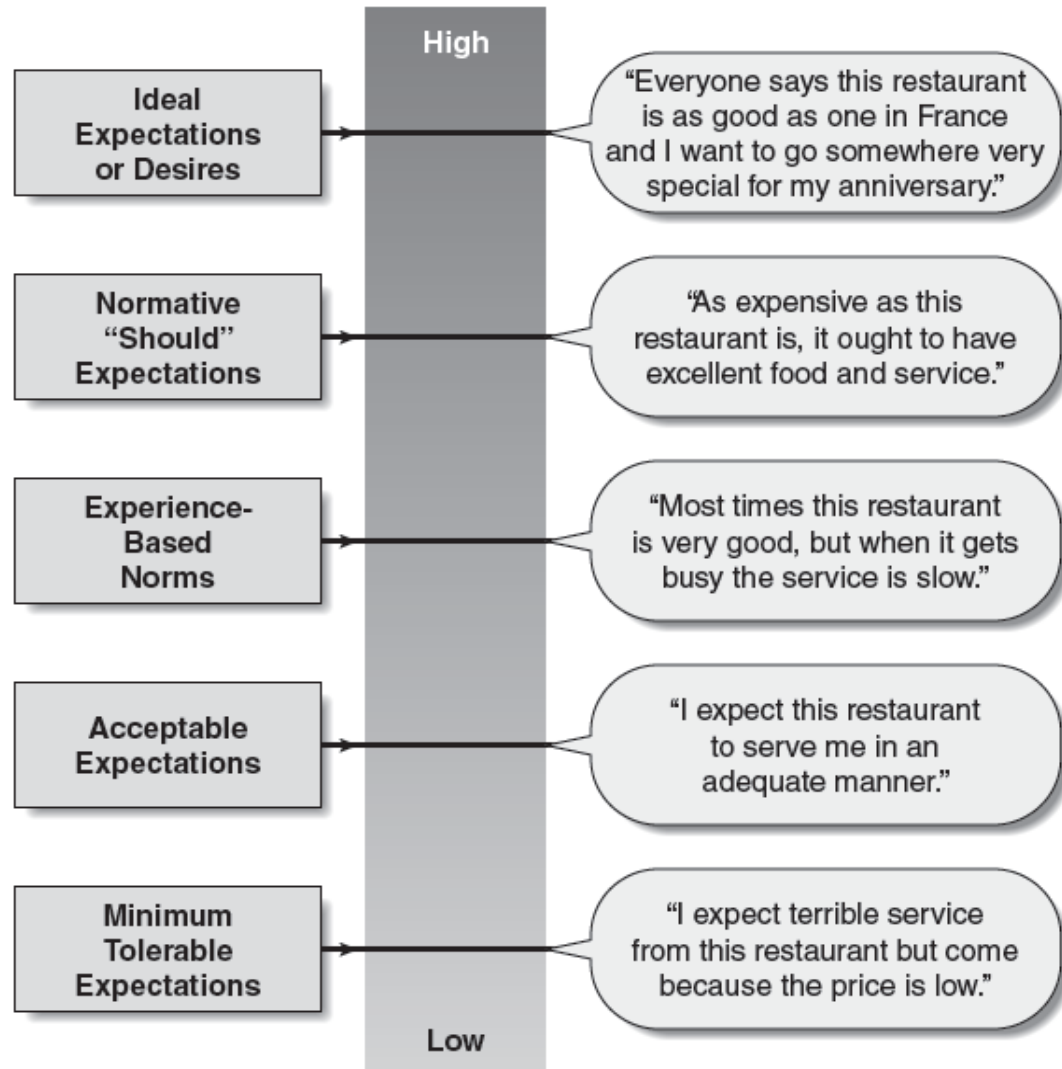
Source: J. L. Heskett,
W. E. Sasser Jr., and L. A.
Schlesinger, *The Service
Profit Chain: How Leading
Companies Link Profit and
Growth to Loyalty, Satisfac-
tion, and Value* (New York:
The Free Press, 1997), p. 83.
Copyright © 1997 by J. L.
Heskett, W. E. Sasser, Jr., and
L. A. Schlesinger. Reprinted
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Possible Levels of Customer Expectations

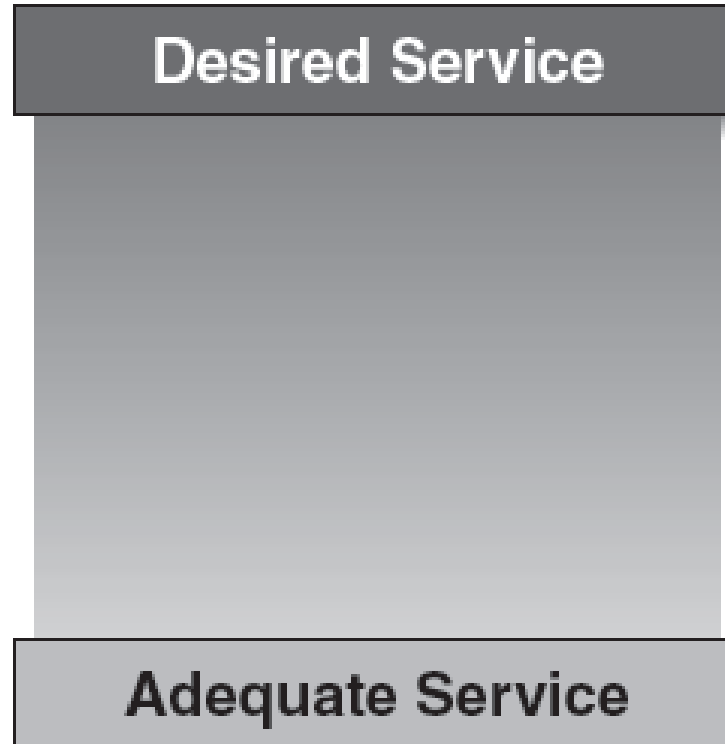
FIGURE 3.1
Possible Levels of Customer Expectations

Source: R. K. Teas, "Expectations, Performance Evaluation, and Consumers' Perceptions of Quality," *Journal of Marketing*, October 1993, pp. 18–34. Reprinted by permission of the American Marketing Association.



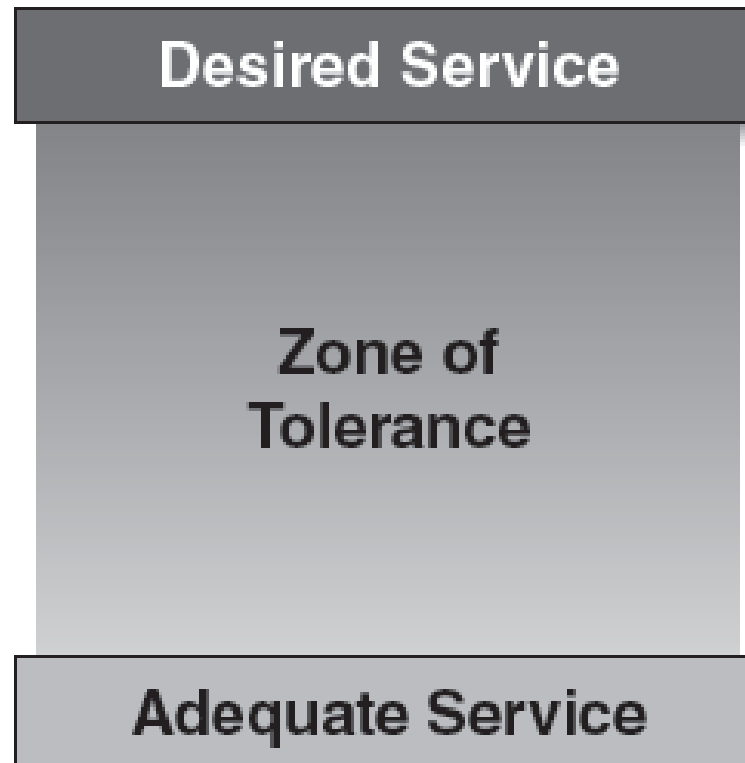
Dual Customer Expectation Levels

FIGURE 3.2
Dual Customer
Expectation Levels

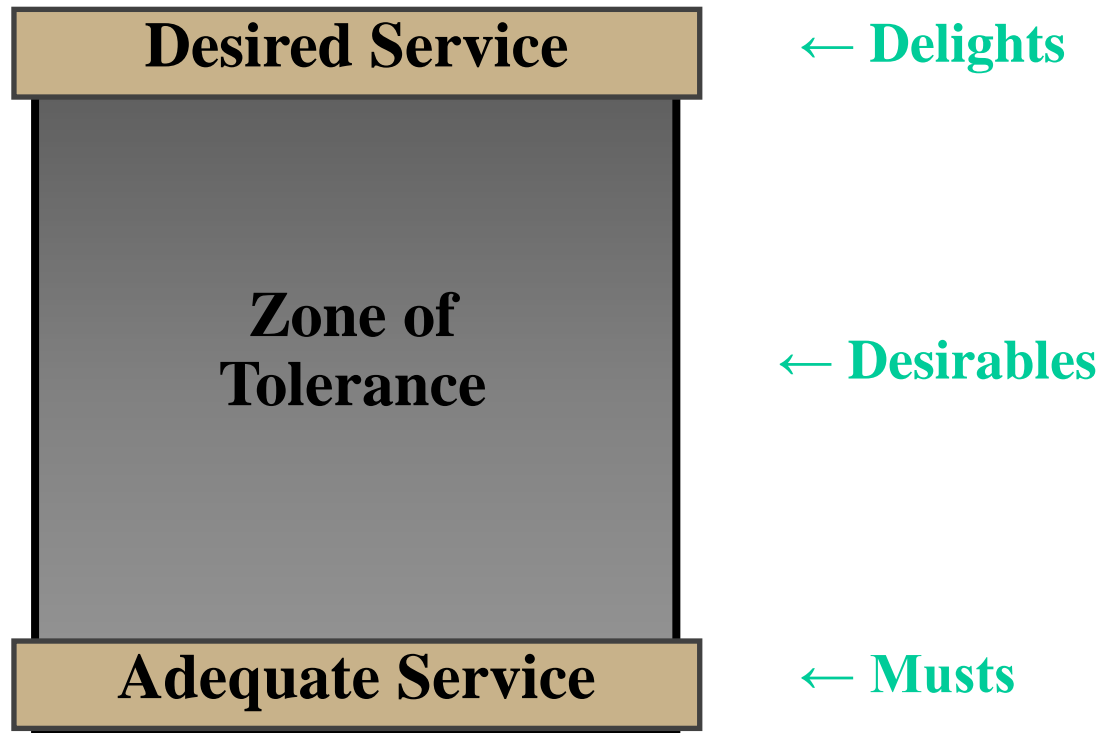


The Zone of Tolerance

FIGURE 3.3
The Zone of Tolerance



The Zone of Tolerance



The range of expectations between desired and adequate...

- can be wide or narrow
- can change over time
- can vary among individuals
- may vary with the type of product/service

Zones of Tolerance for Different Service Dimensions

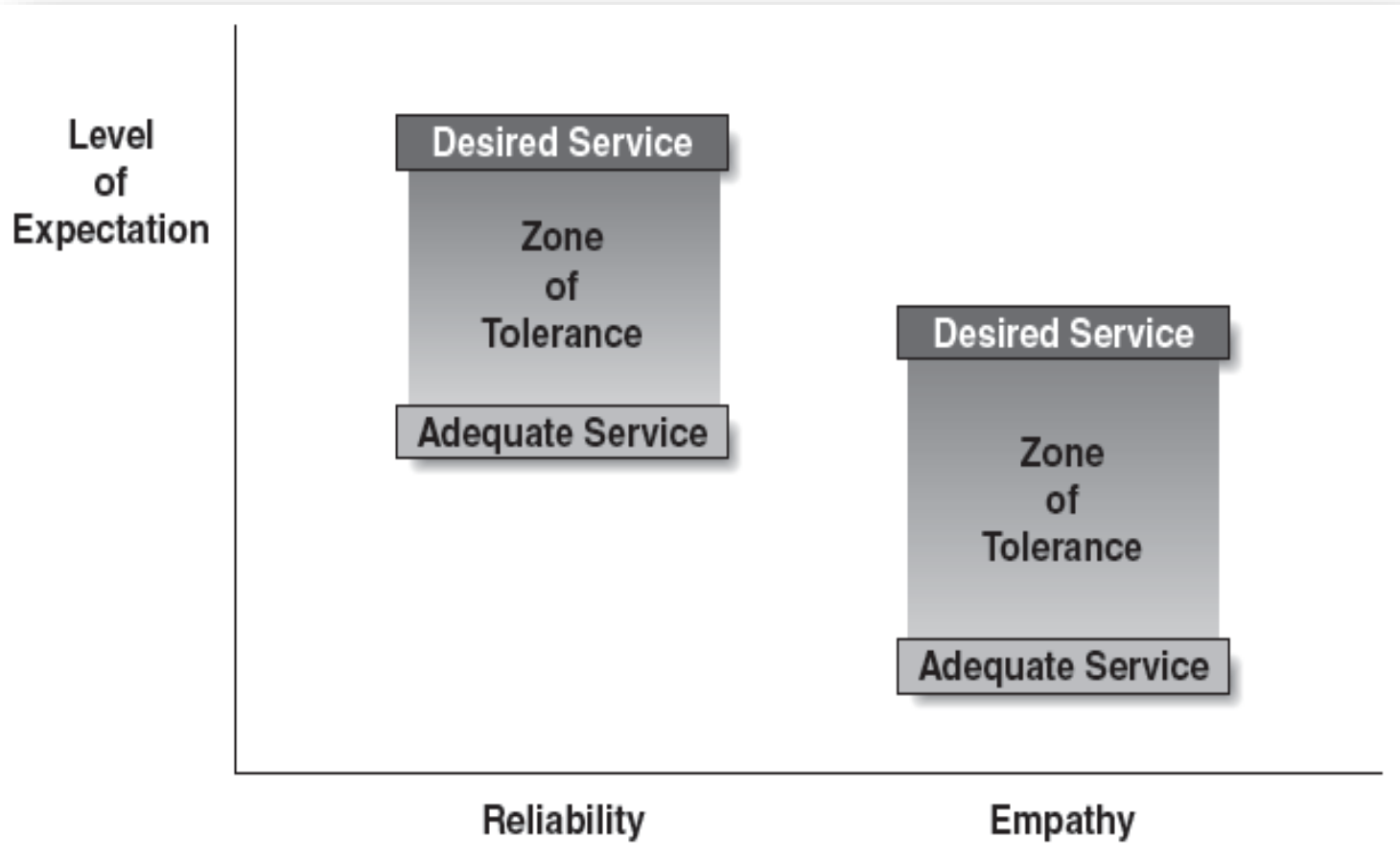


FIGURE 3.4
Differing Zones
of Tolerance for
Different Service
Dimensions

Adapted from L. L. Berry,
A. Parasuraman, and
V. A. Zeithaml, "Ten Lessons
for Improving Service
Quality," *Marketing Science*
Institute, Report No. 93-104
(May 1993).

The Service Encounter

- is the “moment of truth”
- occurs any time the customer interacts with the firm
- can potentially be critical in determining customer satisfaction and loyalty
- types of encounters:
 - remote encounters, phone encounters, face-to-face encounters
- is an opportunity to:
 - build trust
 - reinforce quality
 - build brand identity
 - increase loyalty

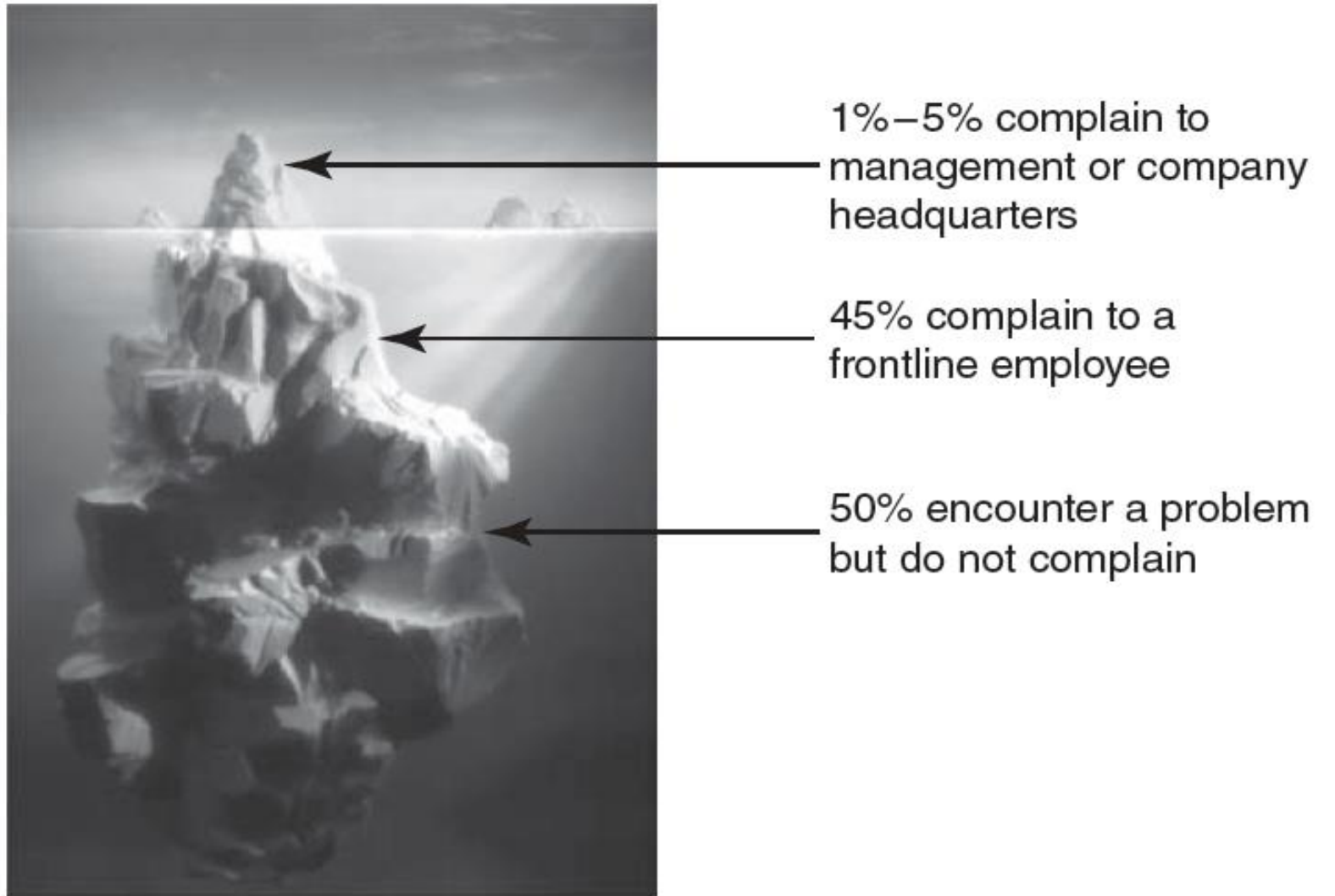
Reliability is Critical in Service but...

- In all service contexts, service failure is inevitable.
- **Service failure** occurs when service performance that falls below a customer's expectations in such a way that leads to customer dissatisfaction.
- **Service recovery** refers to the actions taken by a firm in response to service failure.

Complaining Customers

The Tip of the Iceberg

Figure 7.1



Unhappy Customers' Repurchase Intentions

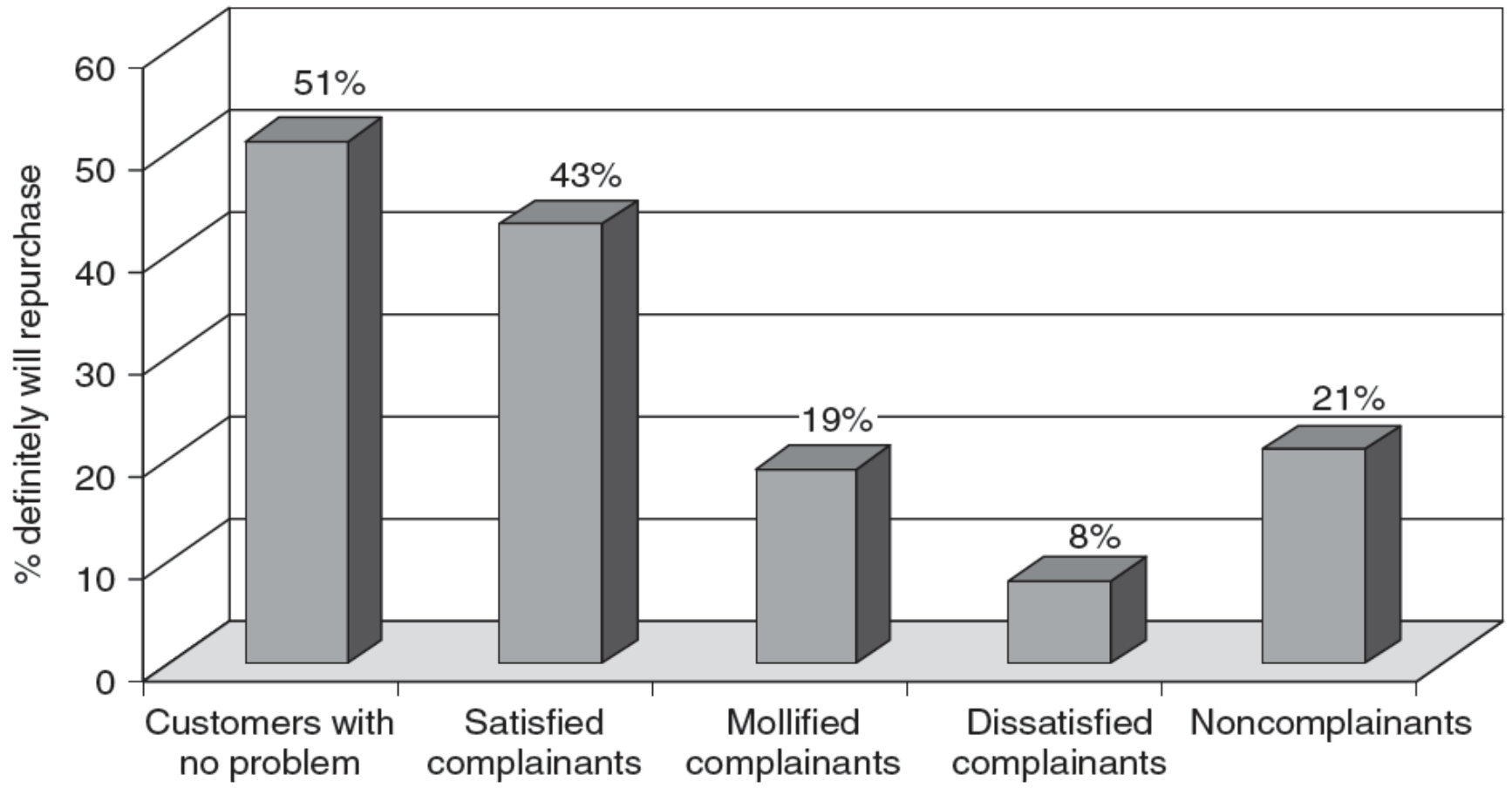


FIGURE 7.2
Unhappy
Customers'
Repurchase
Intentions

Source: TARP Worldwide Inc.
Service Industry Data, 2007.

The Service Recovery Paradox

- Is a customer who has experienced a service failure and exemplary service recovery more likely to be more satisfied – impressed even – with the service provider?
- Should a firm “screw up” just a little so that it can “fix the problem” superbly

The Service Recovery Paradox

Contd...

- **“A good recovery can turn angry, frustrated customers into loyal ones. ..can, in fact, create more goodwill than if things had gone smoothly in the first place.” (Hart et al. 1990)**

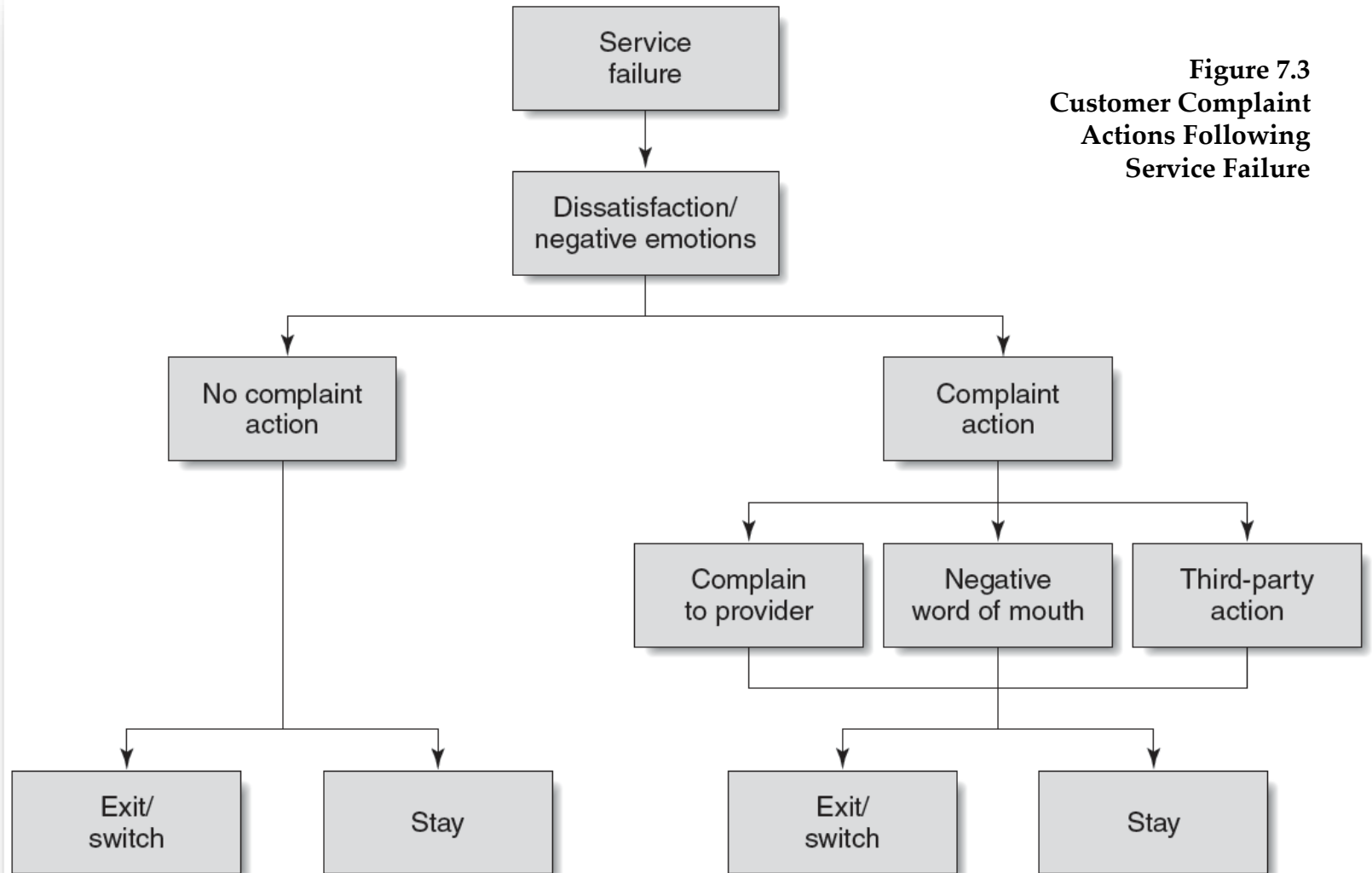
- **HOWEVER**
 - Only a small percent of customers complain
 - Service recovery must be SUPERLATIVE
 - Only with responsiveness, redress, and empathy/courtesy
 - Only with tangible rewards
 - Even though service recovery can improve satisfaction, it has not been found to increase purchase intentions or perceptions of the brand
 - Service recovery is expensive

The Service Recovery Paradox Contd...

- The service recovery paradox is more likely to occur when:
 - The failure is not considered by the customer to be severe
 - The customer has not experienced prior failures with the firm
 - The cause of the failure is viewed as unstable by The customer
 - The customer perceives that the company had little control over the cause of the failure
- Conditions must be just right in order for the recovery paradox to be present!

Customer Complaint Actions Following Service Failure

Figure 7.3
Customer Complaint
Actions Following
Service Failure



Types of Complainers

PASSIVES: least likely to take any action, say anything to the provider, spread negative WOM, or complain to a third party; doubtful of the effectiveness of complaining

VOICERS: actively complain to the provider, but not likely to spread negative WOM; believe in the positive consequences of complaining - the service provider's best friends!

IRATES: more likely to engage in negative WOM to friends and relatives and to switch providers; average in complaints to provider; unlikely to complain to third parties; more angry, less likely to give provider a second chance

ACTIVISTS: above average propensity to complain on all levels; more likely to complain to a third party; feel most alienated from the marketplace compared to other groups; in extreme cases can become “terrorists”

Service Recovery Strategies

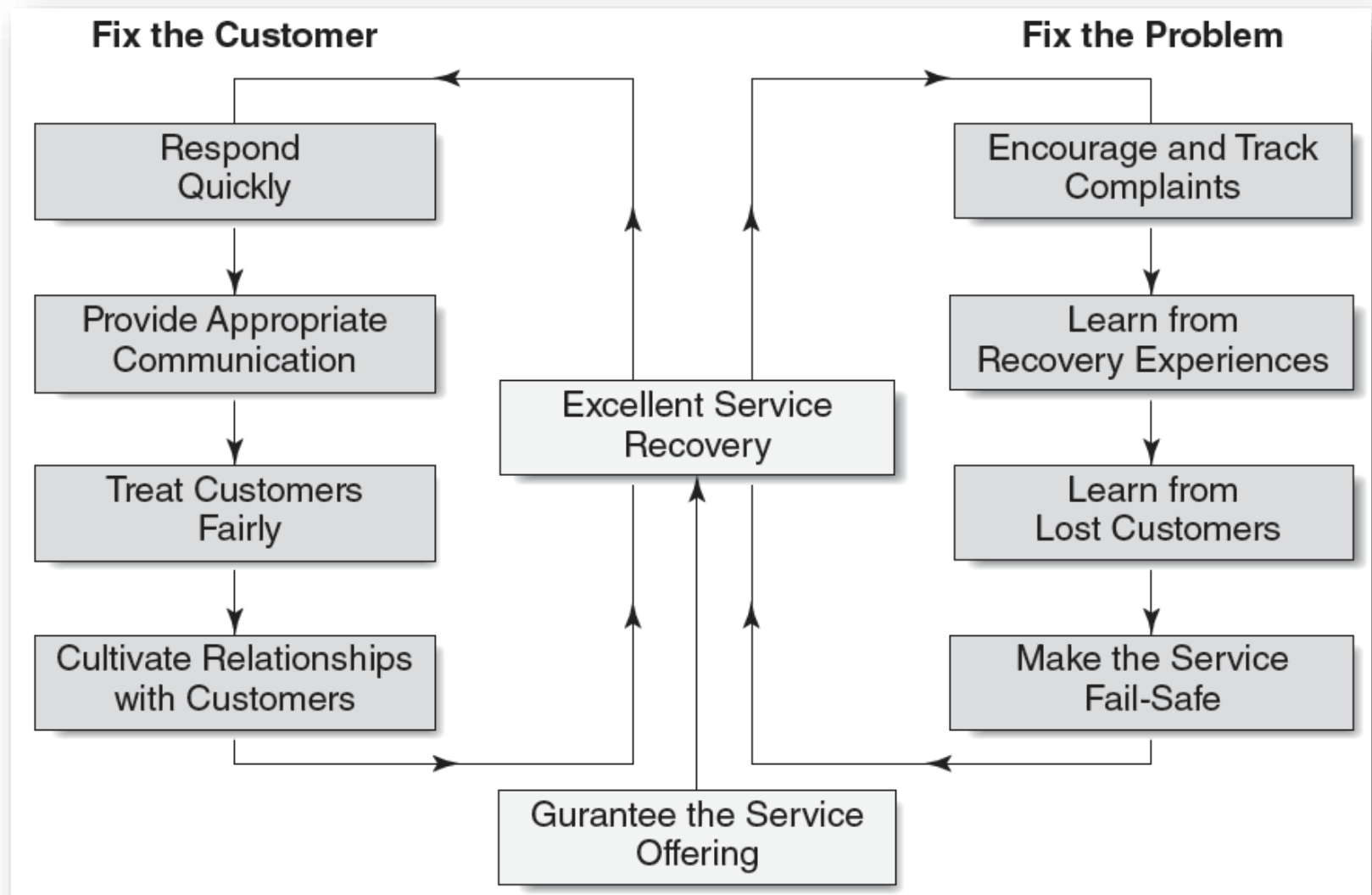


FIGURE 7.4
Service Recovery
Strategies

Fixing the Customer

When customers take the time to complain, they generally have high expectations.

- They expect the company to respond quickly and to be accountable.
- They expect to be compensated for their grief and for the hassle of being inconvenienced.
- They expect to be treated nicely in the process!

Respond Quickly

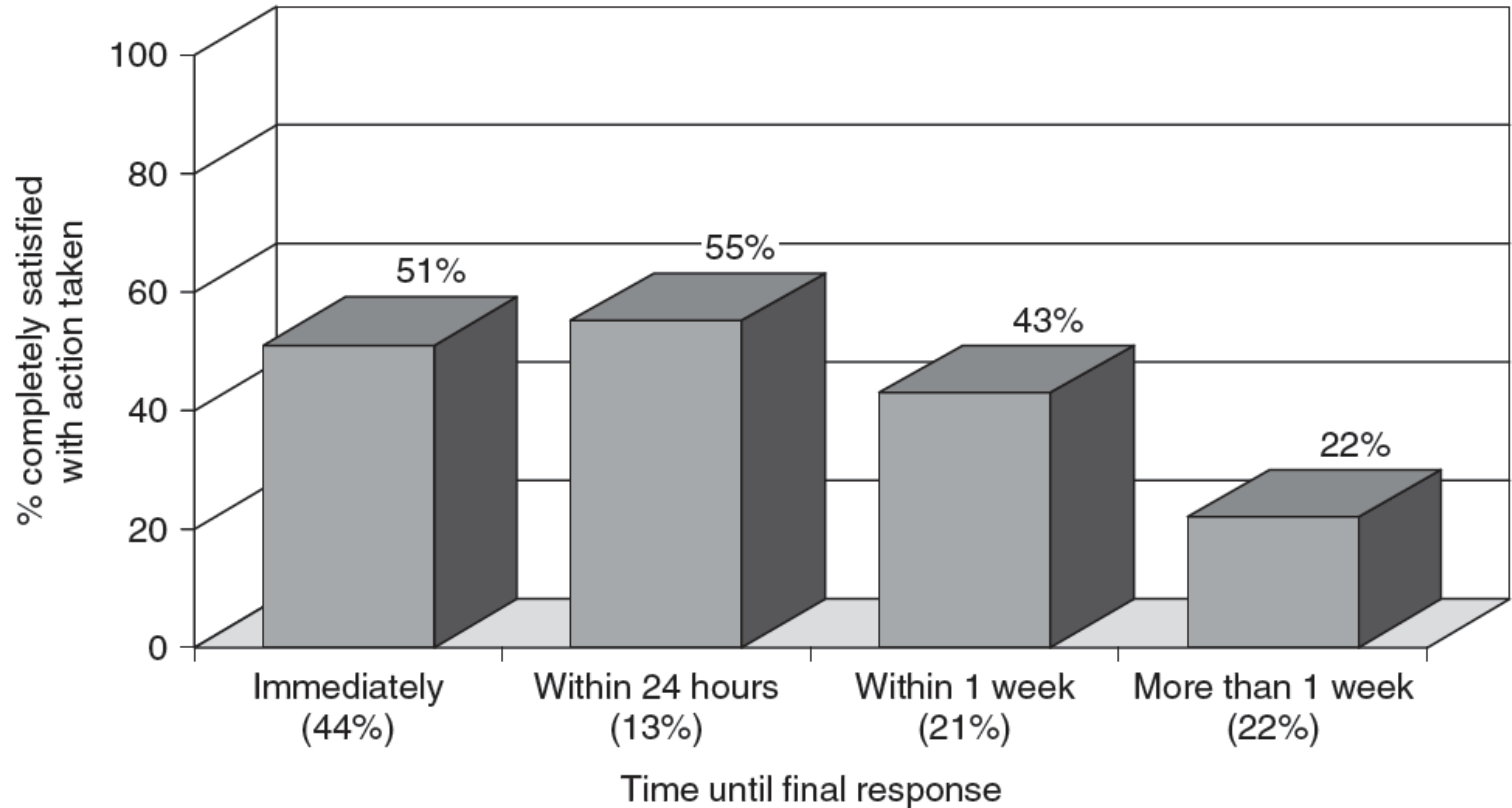


FIGURE 7.5
Customer Satisfaction with Timeliness of Firm Responses to Service Failures

Source: TARP Worldwide Inc., Service Industry Data, 2007.

The numbers across the bottom are the percentage of the total sample whose response (by the firm) was received in that time frame. So, for example, 44 percent of the sample received an immediate response. Of that group, 51 percent were completely satisfied with the response.

Provide Appropriate Communication



Customers who experience a service failure often want an explanation by the firm as to what happened.

Treat Customers Fairly

- **Outcome fairness**

Outcome (compensation) should match the customer's level of dissatisfaction; equality with what other customers receive; choices

- **Procedural fairness**

Fairness in terms of policies, rules, timeliness of the complaint process; clarity, speed, no hassles; also choices: "What can we do to compensate you...?"

- **Interactional fairness**

Politeness, care, and honesty on the part of the company and its employees; rude behavior on the part of employees may be due to lack of training and empowerment

Fixing the Problem

- After “fixing the customer” the company should address the actual problem that created the poor service delivery in the first place.
- If the problem is likely to recur for other customers, then the service delivery process may need to be fixed, too.
- Strategies for fixing the problem include encouraging and tracking complaints, learning from recovery experiences and from lost customers, and making the service fail-safe.

Important Considerations for Service Innovation

The five principles of service design thinking:

- **User-centered:** Services should be experienced and designed through the customers eyes
- **Cocreative:** All stakeholders should be included in the service design process
- **Sequencing:** A service should be visualized as a sequence of interrelated actions
- **Evidencing:** Intangible services should be visualized in terms of physical artifacts
- **Holistic:** The entire environment of a service should be considered

Customer Focus: Continuous improvement: Service Innovation and Development Process

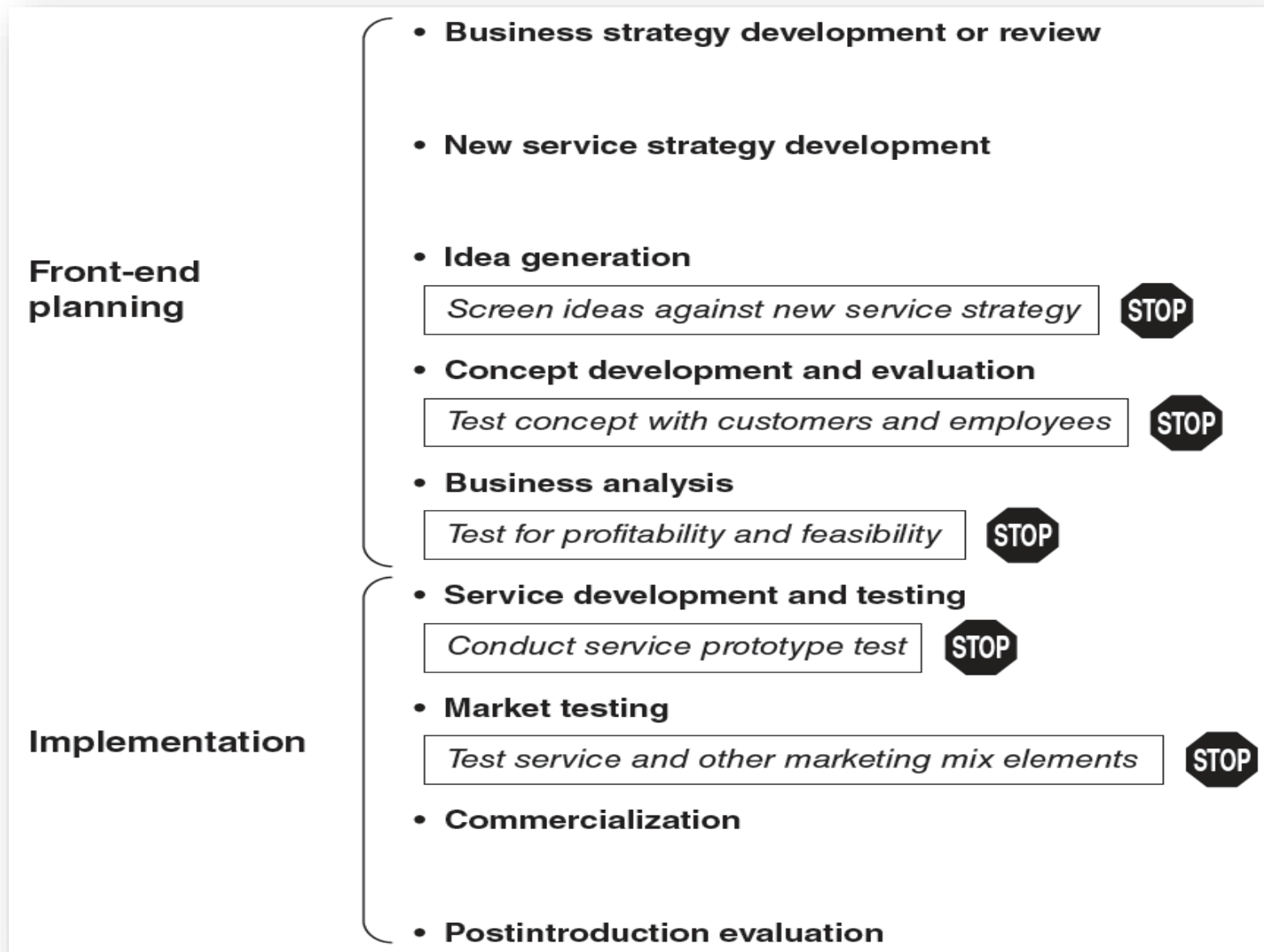


FIGURE 8.1
Service Innovation
and Development
Process

Types of Service Offering Innovations

- Major or radical innovations
- Start-up businesses
- New services for the currently served market
- Service line extensions
- Service improvements
- Style changes