Chapter 13

Services: the intangible product

- Describe how the marketing of services differs from the marketing of products.

- Discuss how firms can provide a good service

- Examine the five service quality dimensions

- Explain the zone of tolerance

- Identify service recovery strategies

- Discuss how we measure quality online

Service: intangible offering that involves an effort and performance that cannot be physically possessed.

Most offerings lie somewhere in the middle and include some service and some good

Offering a Service with Your Products

- Economies of developed countries such as of the United States have become increasingly dependent on services

- Services account for nearly 80 percent of the U.S. GDP (much higher percentage that just a few years ago)

- Why?
    1. Production is cheaper in other countries
    2. High value placed on convenience and leisure
    3. We, as consumers, want more and more specialized services

Factors differentiating products from services
1. Intangible
2. Inseparable
3. Heterogeneous
4. Perishable

Services cannot be touched, tasted, or seen

- Requires using cues (signals) to convey value/benefits

- Atmosphere is important to convey value
  - E.g., show happy families in attraction parks

- Images are used to convey benefit of value
  - Furnishing quality for hotels

Production and consumption are simultaneous (hotels, restaurants, etc.)

- Little opportunity to test a service before use (e.g., no returns)
  - E.g., haircut

- Solution: Lower risk by offering guarantees or warranties
  - Hotels often offer satisfaction guarantees

Heterogeneous

In the service quality offered both across and within service providers

Solution: Technology, automation, training employees

Cannot be stored and reused!

- **Challenges** for firms that offer services:
  - Service cannot be recalled
  - Matching supply and demand
    - Ski area can be opened only if there is snow…but demand peaks during holidays

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- **Presentation**
  - Can have an impact on consumers' judgments of the service quality
    - When you need to choose a spa or a hotel, the physical environment affect your perception of quality
- **Personnel**
  - In person-to-person transactions, more important for services than for goods
    - Personal trainers, coaches, etc.
- **Processes**
  - Processes describe the actions required to get the good or service to the customer
    - Ski parks lines may turn away customers

How can firms
provide a good service?

- KNOWLEDGE: Firms need to understand customers' expectations
  - There are some basic expectations: when I stay at the Hilton (or any other hotel) I expect the room to be ready and clean when I check-in
  - Expectations vary depending on:
    - The type of service provider (Hilton vs Motel 6)
    - The situation (Business travel vs Leisure travel)

Marketing research

(Useful to understand customers expectations)

+

Evaluation of service quality

(difficult to measure!)

Providing a Good Service

Marketers use the following quality dimensions to measure consumers' perception of quality

1. Reliability
   - Ability to perform a service in the best possible way (train employees)
2. Responsiveness
   - Willingness to help customers an provide prompt service
   - (HEART: Hear, Empathize, Apologize, Respond, Take actions)
3. Assurance
   - The knowledge of and courtesy by **employees** and their ability to convey trust and confidence (empower employees)
4. Empathy
   - Caring and individual attention provided to customers
5. Tangibles
   - Appearance of the firm's physical facilities

Hotel example

1. Reliability
   - Always provide an estimated time of service

2. Responsiveness
   - Bathroom dirty → Promptly apologize/take actions

3. Assurance
   - If there is an issue with a meal that was delivered, server can offer a free alternative or take care of the bill

4. Empathy
   - Personalized communications, e.g., address guests by name

5. Tangibles
   - Rooms are updated with latest tech

Range of acceptable service quality for each of the service quality dimensions we discussed

To define the zone of tolerance, firms ask three questions:

1. Min and max level of service for each dimension
2. Perception of service quality for each dimension
3. Importance of each dimension

Zone of Tolerance

▼ **EXHIBIT 13.5** Customers' Evaluation of Service Quality

■ Lou's Local Diner

▲ Competitor: Square Burger

■ Customers' zone of tolerance
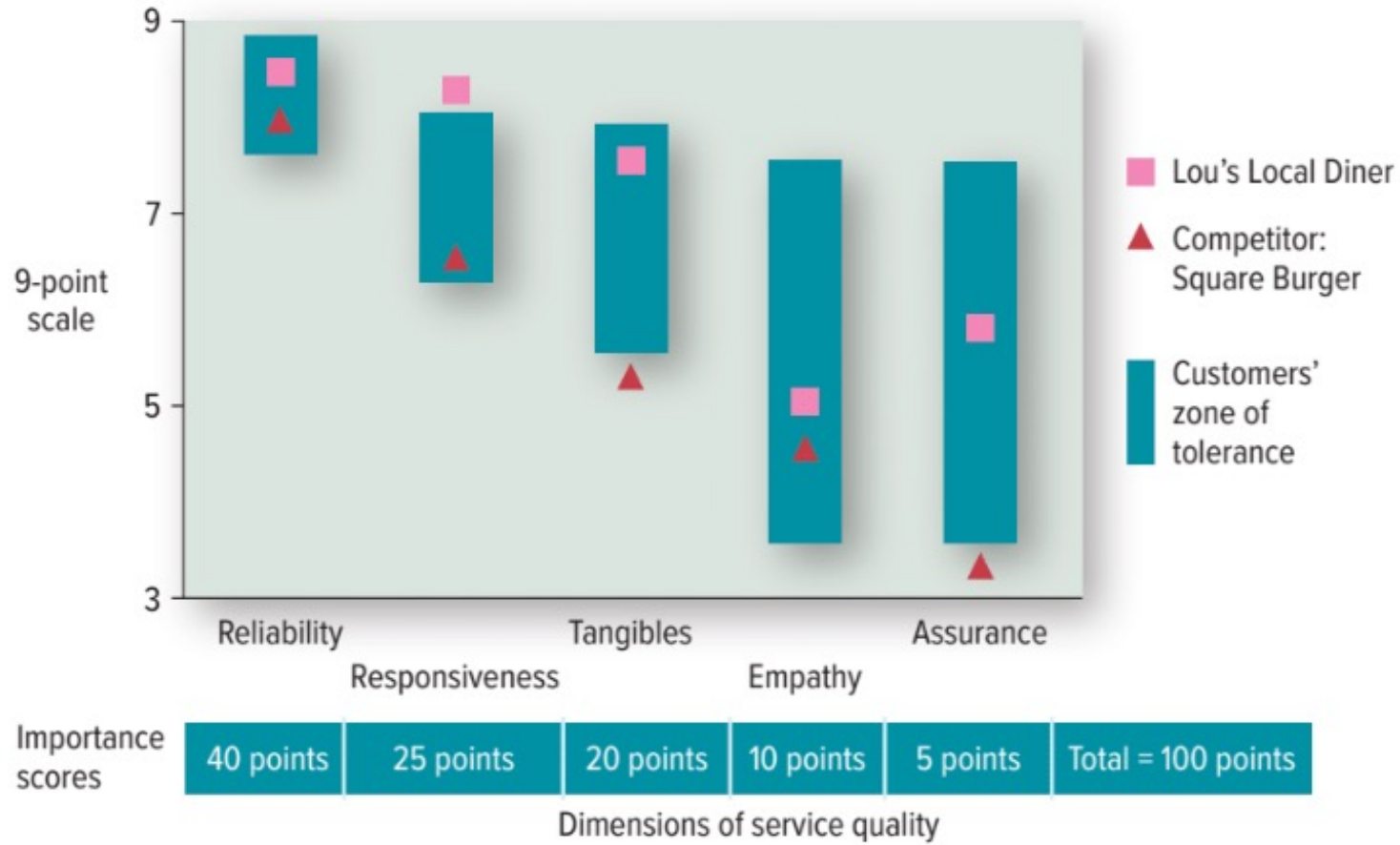
Note: The scale ranges from a 9 indicating very high service quality on a given service quality dimension to a 1 indicating very low service quality.

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- STANDARDS: Firms need to set standards
  - To do so they need to train and monitor employees
    - Incentives, awards

 VS
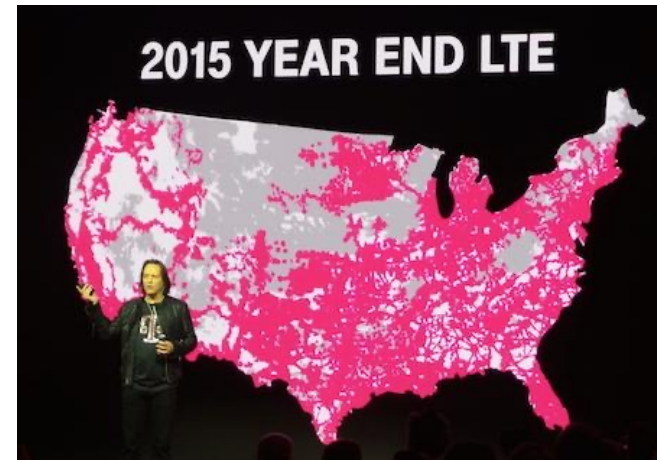
- DELIVERY: Firms need to meet their standard expectations
  - Empower employees (let them make decisions)
  - Technology
    - Supermarkets self-checkout
    - Nest thermostat in hotel rooms

COMMUNICATION: Firms must delivery the product they describe and communicate

- It is important to promise only what you can deliver

Some Good Service Providers

https://www.buzzfeed.com/rachelysanders/why-wegmans-is-the-greatest-supermarket-ever?utm_term=.gIMrQeYLR#.ykwo3YLw9

Key concepts to deliver a good service

1. Knowledge: understand customers' expectations

2. Standards: the service standards firms set

3. Delivery: actual service that firms provide to customers

4. Communication: firms deliver the service promoted

Service Recovery

- Customers post-purchase evaluation
  - Satisfied → Loyalty
  - Unsatisfied → Problem
    - Firm fails to meet one (or all) of previous concepts: KNOWLEDGE, STANDARDS, DELIVERY, COMMUNICATION
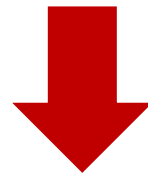
    - Lost potential repeated customer
    - Bad word of mouth (online and offline)
    - The profitability of the firm is damaged

1. Listen to the customer
   - You need to know what is the problem to solve it!

2. Provide a fair solution
   - E.g., problem with hotel room → change (and even upgrade) customer room

3. Do it quickly!
   - The longer it takes to resolve service failure the more irritated the customers

"A good recovery can turn angry, frustrated customers into loyal ones. It can, in fact, create more goodwill than if things had gone smoothly in the first place" -- Etzel, M. and Silverman, B. (1981).

* A Managerial Perspective on Directions for Retail Customer Dissatisfaction Research
Etzel, M. and Silverman, B. (1981).

- A situation in which a customer satisfaction is higher after the firm has fixed a service problem, compared to the case in which failure did not happen

- Why? Successful recovery of a faulty service leads to increased assurance and confidence among customers
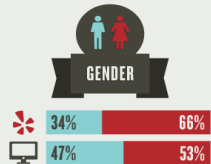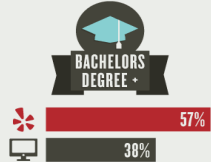
- Reviews and ratings (online word of mouth)
  - TripAdvisor, Amazon, Yelp, etc.
  - Good proxy for firms' quality
  - Shift control of firms' image from firms to consumers!
  - Predict future earnings/revenue of a firm [Luca 2009, Chevalier and Mayzlin 2006]
- Many firms use reviews to improve their service quality
  - Hotels read about complaints and fix them

Why?

Why?

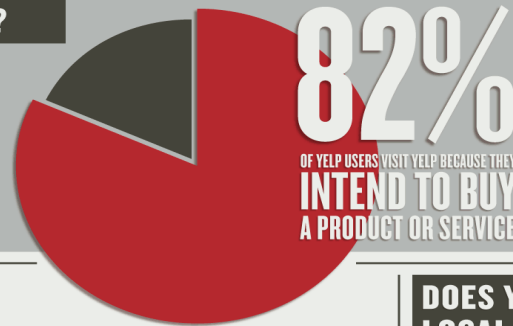**1. Self-selection** $\rightarrow$ reviewers **decide** to review
  1. We see many extreme positive and extreme negative

2. Retaliation $\rightarrow$ I give you a bad feedback, you gave me a bad feedback

3. Fake reviews

– Reviews can be promotional (fake) [Mayzlin et al, 2014]
  • Firms post negative reviews for their competitor (to decrease their reputation) and postive review for their own (to increase their own reputation)
– On Yelp 16% of reviews are tagged as fake and filtered [Luca, Zervas 2016]

We use automated software to recommend the reviews we think will be the most helpful to the Yelp community based primarily on quality, reliability and the reviewer's activity on Yelp. Advertisers get no special treatment. The reviews below didn't make the cut and are therefore not factored into this business's overall star rating. Watch the video above or check out our FAQ for more details.

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Fraudulent reviews often carry telltale signs, which are picked up by software and flagged for review by moderators. Some of the signs are illustrated in these Globe-created examples:

1. One reviewer's opinions consistently run counter to the majority.

2. Multiple reviews share many of the same phrases and typos.

3. The IP address, a device's electronic fingerprint, is the same on multiple reviews for the same business.

❶ "Awesome Boston hotel!"
◉◉◉◉◉ *Reviewed Sept. 24, 2013*

My wife and I stayed at this hotel in Boston and ❷ it couldn't be beat! From check-in to check-out, the whole experience was second to none. Worth the price!
❸ *192.0.1.23*

"Great hotel in Boston!"
◉◉◉◉◉ *Reviewed Sept. 24, 2013*

While in Boston, my husband and I stayed at this hotel and ❷ it couldn't be beat! Everything, from check-in to check-out, was second to none. Worth your money!
❸ *192.0.1.23*

❶ "Dirty and too small"
◉○○○○ *Reviewed Sept. 24, 2013*

I've seen jail cells with better accommodations.

Other indicators
► The writer is reviewing multiple products from the same company.
► One group of users is reviewing the same hotels.
► Many reviews share identical timestamps.

SOURCE: Globe staff research

ROBERT S. DAVIS/GLOBE STAFF

- Note that fake reviews are not just useful for service providers
- Amazon, among others, has this problem too:
  - https://www.cnbc.com/2020/09/06/amazon-reviews-thousands-are-fake-heres-how-to-spot-them.html

  - HBR article: https://hbr.org/2020/11/how-fake-customer-reviews-do-and-dont-work

If firms writing fake reviews are low-quality, then
- Consumers could be harmed, so trust in the platform decreases
- Firms image and reputation is harmed too

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- ## How do firms manage their reputation (and thus quality perception) online?
  - Non-ethical methods
    - Fake reviews (we just saw it)
    - Sue negative reviewers:
      - https://www.cbsnews.com/news/yelp-negative-online-review-texas-couple-sued-jeremy-stoppelman/

  - Ethical method (recently emerged)
    - Respond to reviews

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"Terrible Hotel, do not stay here"

Reviewed July 25, 2016

We rented a 2-bedroom executive suite for our family of 5 for a weekend in Austin to visit family. Our room was not available at check-in, even though I had used the express check-in 2 days prior. The wifi did not work in our room or in the lobby for the 3 days we were there. We had 3 tvs...

More ▾

Review collected in partnership with Omni Hotels & Resorts ⓘ

Helpful?   👍 **Thank Vanessa E**   Report

GenMgrAustin, General Manager at Omni Austin Hotel Downtown, responded to this review

Please accept our sincerest apologies for the numerous challenged you encountered during your stay. We do truly appreciate your candid feedback so that we may rectify the areas that need attention. We value your patronage and hope you decide to return in the future so that we can provide you with a positive and memorable experience.

More ▾

- After hotel managers respond to reviews:
  - Star-rating increases
    - Fewer negative reviews…
    - …but longer!

  - Repeated customers
    - Returning to the same hotel after a bad experience if response → + 36%
    - And reviews left by these returning customers have higher ratings

Service recovery

- HBR article: https://hbr.org/2018/02/study-replying-to-customer-reviews-results-in-better-ratings

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