

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 Definition

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



Service-Product Continuum



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

Offering a Service with Your Products

The screenshot displays the Zappos website interface. At the top, a navigation bar includes the text "ALWAYS Fast, Free Shipping & Returns. VIPs – Just LOG IN For Your Benefits!" and a "LEARN MORE" link. Below this, a dark blue bar contains "24/7 Customer Service (800) 927-7671", "Help", "Live Help", "Log In or Register", "My Account", and "My Favorites". The main header features the Zappos logo, a search bar with the text "Shoes, Clothing, Bags, etc." and a "Search" button, and promotional banners for "BOOTS NEW ARRIVALS" and "SANDALS CLEARANCE". A secondary navigation bar lists categories: Shoes, Clothing, Bags & Handbags, Accessories, Boutiques, Women's, Men's, Kids', Clearance, and All Departments. Below this is an "ALPHABETICAL BRAND INDEX" with letters A through Z. The main content area is divided into three columns. The left column lists product categories under "SHOP WOMEN'S", "SHOP MEN'S", "SHOP KIDS'", and "BAGS & ACCESSORIES". The middle column features a large Under Armour advertisement with the text "PASSION FOR PERFORMANCE" and "Achieve your goals in Under Armour's ground-breaking technology." The right column contains three product-specific promotional boxes: "Sam Edelman" boots, "CHUKKA BOOTS", and "CONVERSE".

ALWAYS Fast, Free Shipping & Returns. VIPs – Just **LOG IN** For Your Benefits! [LEARN MORE](#)

24/7 Customer Service (800) 927-7671 Help Live Help Log In or Register My Account My Favorites

Zappos .com POWERED by SERVICE® Shoes, Clothing, Bags, etc. Search

· **BOOTS** · NEW ARRIVALS SHOP NOW »

SANDALS · CLEARANCE · SHOP NOW »

MY CART

Shoes Clothing Bags & Handbags Accessories Boutiques Women's Men's Kids' Clearance All Departments

ALPHABETICAL BRAND INDEX # · A · B · C · D · E · F · G · H · I · J · K · L · M · N · O · P · Q · R · S · T · U · V · W · X · Y · Z

SHOP WOMEN'S
Clothing
Shoes
Sandals
Sneakers & Athletic Shoes
Dresses

SHOP MEN'S
Clothing
Shoes
Sandals
Sneakers & Athletic Shoes
Jeans

SHOP KIDS'
Girls' Clothing
Boys' Clothing
Girls' Shoes
Boys' Shoes

BAGS & ACCESSORIES
Handbags & Wallets
Accessories
Jewelry
Watches
Sunglasses

UNDER ARMOUR
PASSION FOR PERFORMANCE
Achieve your goals in Under Armour's ground-breaking technology.
SHOP THE EXPERIENCE »

Sam Edelman
SHOP NOW »

CHUKKA BOOTS
SHOP NOW »

CONVERSE
SHOP NOW »

Economic Importance of Services

- 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 than 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



- **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!)

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 and 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

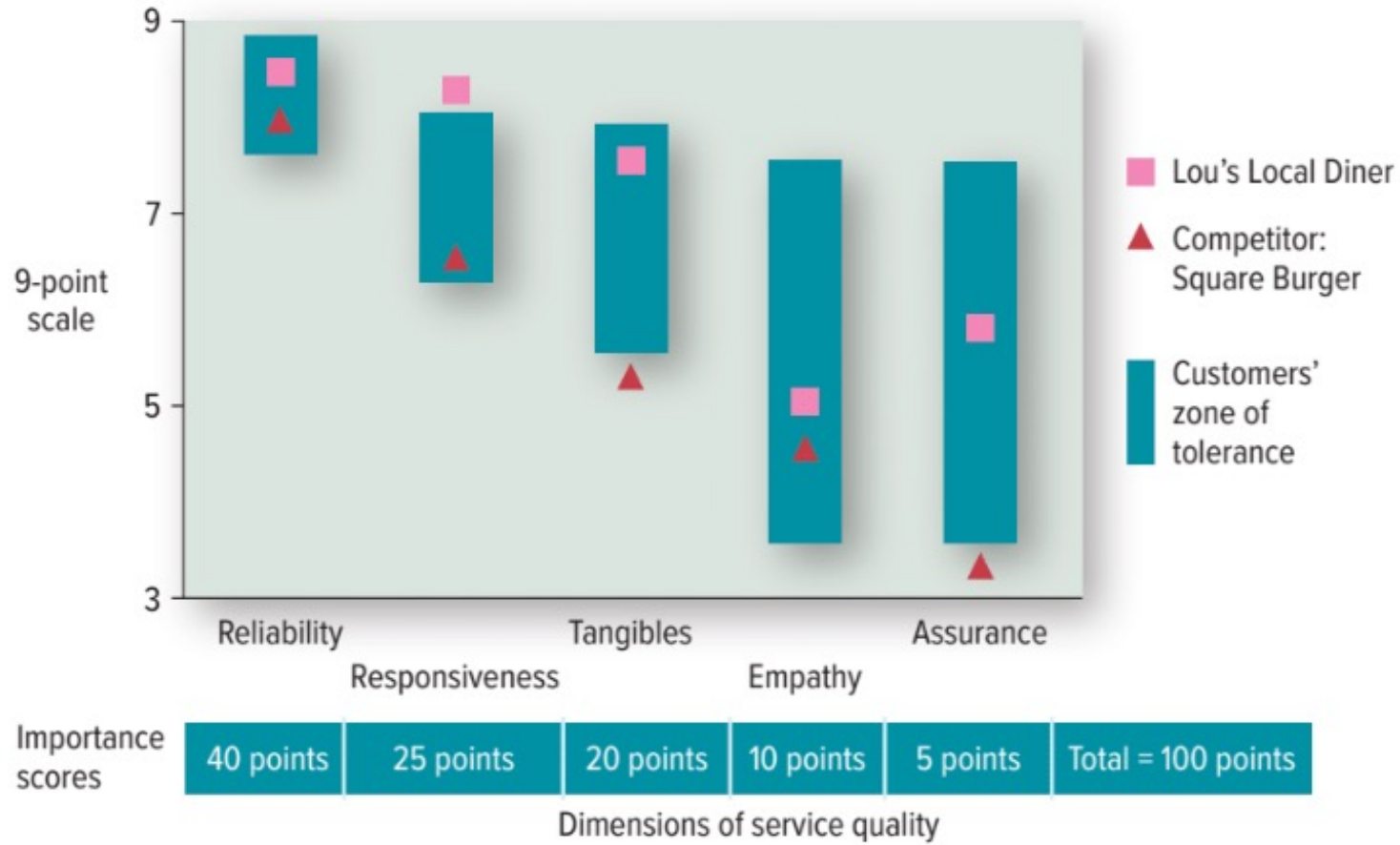
Range of **acceptable service quality** for each of the service quality dimensions we discussed

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



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.

Providing a Good Service

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



VS

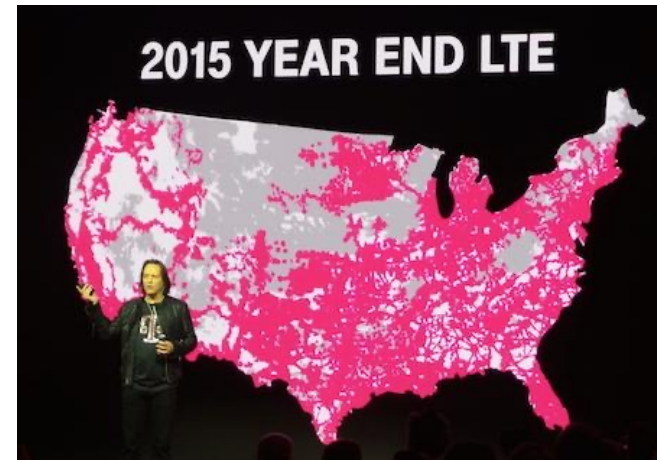


- **DELIVERY:** Firms need to meet their standard expectations
 - Empower employees (let them make decisions)
 - Technology
 - Supermarkets self-checkout
 - Nest thermostat in hotel rooms

COMMUNICATION: Firms must delivery the product they describe and communicate

- It is important to promise only what you can deliver

T-Mobile®



Some Good Service Providers



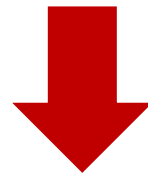
Key concepts to deliver a good service

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 Failure



- 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).

Service Recovery Paradox

- 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

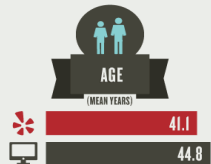
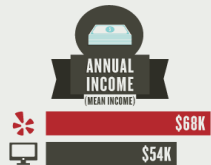
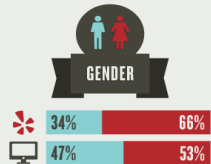
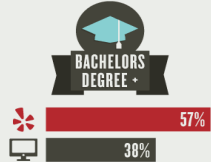
- Reviews and ratings (online word of mouth)
 - TripAdvisor, Amazon, Yelp, etc.
 - Good proxy for firms' quality
 - **Shift control of firms' image from firms to consumers!**
 - Predict future earnings/revenue of a firm [Luca 2009, Chevalier and Mayzlin 2006]
- Many firms use reviews to improve their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



DRIVES LOCAL PURCHASES

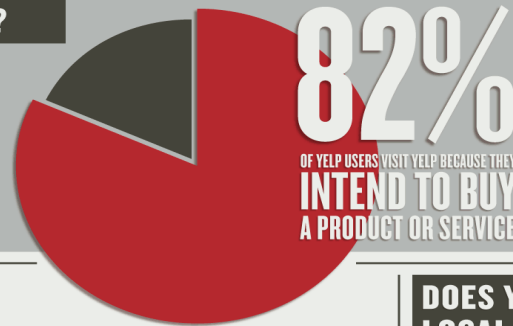
WHO USES YELP?

YELP USERS
ONLINE USERS



WHY DO PEOPLE USE YELP?

When you visit Yelp, do you typically visit because you intend to buy a product or service and are trying to inform your decision?



IF NOT YELP, WHO?

If Yelp is typically not the first site you go to.... Which site(s) do you tend to go to first? (Select all that apply)

GOOGLE	84%
YAHOO	13%
FACEBOOK	9%
CONSUMER REPORTS	5%
YP.COM	5%
FOURSQUARE	2%
OTHERS	11%

WHAT DO YELP USERS SEARCH FOR?

For which of the following activities do you use Yelp when looking for locations for a purchase?



HOW DO YELP USERS CHOOSE A LOCAL BUSINESS?

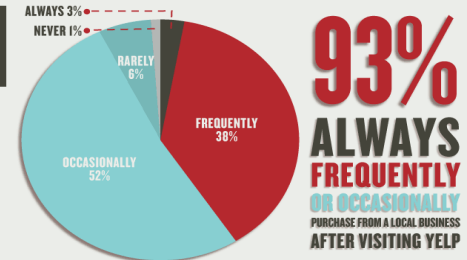
Please rank the following factors you might consider when researching a local business on Yelp based on their importance to you.*



*Percentages above indicate the percentage of respondents that selected each factor as the most important when researching a local business.

DOES YELP LEAD TO LOCAL PURCHASES?

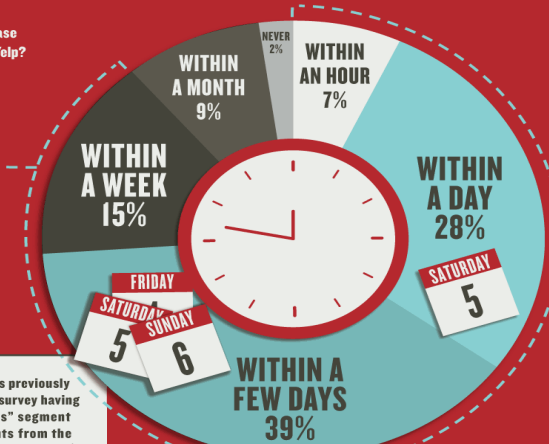
How often does visiting Yelp lead you to purchase from a local business?



WHEN DO YELP USERS BUY?

How long after you visit Yelp do you typically make a purchase from a business you found on Yelp?

89% MAKE A PURCHASE WITHIN A WEEK



METHODOLOGY

The Yelp Consumer Survey was fielded in the U.S. between March 29 and April 15, 2013 using Nielsen's online panel. A total of 1,415 responses were collected.

Qualified respondents participated in household purchase decisions and used the internet when searching for information on local businesses or services. The final sample consists of two main groups:

1) Online Rep Sample - Consists of 1,006 responses weighted to represent the population of internet users that search online for information on local businesses or services.


2) Yelp Sample - Consists of 409 responses from panelists previously identified as having visited Yelp, who also indicated in the survey having visited Yelp. In the following analysis, the "Yelp Visitors" segment consists of respondents from this group and respondents from the Online Rep Sample that indicated having visited Yelp (106 respondents). The total size of the Yelp sample was 515 respondents.

Why?

Why?

- 1. Self-selection** → reviewers **decide** to review
 1. We see many extreme positive and extreme negative
- 2. Retaliation** → 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 positive review for their own (to increase their own reputation)
- On Yelp **16%** of reviews are tagged as fake and filtered [Luca, Zervas 2016]



Why Does Yelp Recommend Reviews?

RECOMMENDATION SOFTWARE

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.

On the Hunt of Fake Reviews

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.

The diagram illustrates three fake reviews with callouts 1, 2, and 3 pointing to specific indicators of fraud. Callout 1 points to the review title, callout 2 points to the phrase "it couldn't be beat!", and callout 3 points to the IP address "192.0.1.23".

1 "Awesome Boston hotel!"
●●●●●● Reviewed Sept. 24, 2013
My wife and I stayed at this hotel in Boston and **it couldn't be beat!** From check-in to check-out, the whole experience was **second to none.** Worth the price!
192.0.1.23

2 "Great hotel in Boston!"
●●●●●● Reviewed Sept. 24, 2013
While in Boston, my husband and I stayed at this hotel and **it couldn't be beat!** Everything, from check-in to check-out, was **second to none.** Worth your money!
192.0.1.23

1 "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



- 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

“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>