

TEACHING INSIGHTS FOR THE CHAPTERS

OVERVIEW

In this section, you'll find the following teaching material for each of the 15 chapters:

- Learning objectives.
- Teaching suggestions.
- Brief answers to the end-of-chapter review questions and comments on what to expect of students from each of the application exercises. Note that review questions can either form the basis for in-class discussions or be assigned as written work. Many review questions and application exercises would work well for quizzes or exams.

Additional teaching resources can be found in Section 4. Table 4-1 provides suggestions on which exercises could be used with the chapters, which will encourage students to get actively involved with the course material.

CHAPTER 1

INTRODUCTION TO SERVICES MARKETING

LEARNING OBJECTIVES

By the end of this chapter, students should be able to

- ➡ (LO 1) Understand how services contribute to a country's economy.
- ➡ (LO 2) Know the principal industries of the service sector.
- ➡ (LO 3) Identify the powerful forces that are transforming service markets.
- ➡ (LO 4) Understand how B2B services improve the productivity of individual firms and drive economic development.
- ➡ (LO 5) Define services using the non-ownership framework.
- ➡ (LO 6) Identify the four broad "processing" categories of services.
- ➡ (LO 7) Be familiar with the characteristics of services and the distinctive marketing challenges they pose.
- ➡ (LO 8) Understand the components of the traditional marketing mix applied to services.
- ➡ (LO 9) Describe the components of the extended marketing mix for managing the customer interface.
- ➡ (LO 10) Appreciate that marketing, operations, and human resource management functions need to be closely integrated in service businesses.

- ➡ (LO 11) Understand the implications of the service–profit chain for service management.
- ➡ (LO 12) Know the framework for developing effective services marketing strategies.

CHAPTER OUTLINE

(L01) Understand how services contribute to a country's economy

Services dominate almost all types of economies today. The service sector accounts for a majority of the gross domestic product in all industrialized countries and provides most of the new jobs in many developing and highly developed nations worldwide.

(L02) Know the principle industries of the service sector

The service sector is a very diverse sector with contributions from various industries that target individual and business customers. Key industries are:

- Government services
- Real Estate
- Wholesale and Retail trade
- Business and Professional service
- Finance and Insurance
- Healthcare services
- Transport, utilities and communication services
- Accommodation and food services
- Arts, entertainment and recreation services

(L03) Identify the powerful forces that are transforming service markets

- Changes in government policies
- Social changes
- Business trends like productivity and cost savings, franchising etc.
- Advances in information technology
- Internationalization and globalization

Customer needs are evolving, markets and competition are changing rapidly, and effective strategic leadership is vital to success. Students should recognize that understanding the threats and opportunities

posed by these challenges is a vital first step in developing effective strategies. In particular, the increasingly competitive nature of many service industries places a premium on effective marketing strategy.

(L04) Understand how B2B services improve the productivity of individual firms and drive economic development

Many manufacturing firms outsource their non-core support activities to independent service providers that focus on providing those activities in cost-efficient structures. This development leads to an increased specialisation with significant improvements in overall productivity and living standards.

(L05) Define services using the non-ownership of service framework

- Services are distinguished as benefits without ownership.
- 5 broad categories within the non-ownership framework
 - Rented goods services – provides customers with temporary right to exclusive use of physical good
 - Defined space and place rentals – obtain a defined portion of a larger space and sharing its use with other customers, under varying degrees of privacy
 - Labor and expertise rentals – hire others to work that they either choose not to do, or lack the necessary expertise and tools to do
 - Access to shared physical environments – may be located indoors or outdoors or a combination
 - Systems and networks: access and usage – rent the right to participate in specified networks like telecommunications, utilities etc.

(L06) Identify the four broad "processing" categories of services

Figure 1.14 highlights the four broad categories of services, such as:

- 1) people processing
- 2) possession processing
- 3) mental stimulus processing
- 4) information processing

(L07) Be familiar with the characteristics of services and the distinctive marketing challenges they pose

The most common characteristics of services are often cited as intangibility, heterogeneity, inseparability and perishability. These can

be translated further into eight common differences between products and services:

- Most goods cannot be inventoried
- Intangible elements dominate value creation
- Services are often difficult to visualise
- Customers may be involved in co-production
- People may be part of the service experience
- Operational inputs and outputs tend to vary more widely
- The time factor often assumes great importance
- Distribution may take place through non-physical channels.

It is important to note that these differences are useful generalisations and do not apply equally to all services.

Table 1.1 gives managerial implications and challenges these differences pose.

(L08) Understand the components of the traditional marketing mix applied to services

Strategies to market manufactured goods usually address the traditional four elements of the marketing mix—product, price, place, and promotion. These four Ps, when applied to services, have additional considerations:

- 1) ***Product elements:*** All components of the service performance that create value for customers.
- 2) ***Place and time:*** When, where, and how to deliver services to customers.
- 3) ***Price and other user outlays:*** All the outlays incurred by customers in obtaining benefits from the service product costs of service, including money, time expenditures, physical and mental effort, and exposure to negative sensory experiences.
- 4) ***Promotion and education:*** All communications activities and incentives designed to inform and educate customers, build preference for a particular service, and encourage them to take action.

(L09) Describe the components of the extended marketing mix for managing the customer interface

In addition to the traditional 4Ps, services include the following additional Ps in their marketing mix:

Processes: It is *how* a firm does things by designing and implementing processes for the creation and delivery of services. Since services are variable, the operational inputs and outputs can vary widely also and often customers are involved in co-production to design a suitable process. In services processes are often not a smooth flow because services cannot be inventoried, thus wait systems are built into the service process.

Physical Environment: The “servicescape” of the service is its physical environment including building, vehicles, landscape, interior and all other visible cues.

People: Services are often delivered through people therefore the selection, training and motivation of the service employees is essential.

(LO10) Appreciate that marketing, operations, and human resource management functions need to be closely integrated in service business.

The key deliverables and objectives of these various functions need to be compatible and mutually reinforcing and tightly integrated. In service organisations, operations functions are actively involved in the design of products and processes to improve productivity and quality. HR provides quality front-line service providers to ensure the service experience and IT provides real-time information at every customer touch-point to create value with updated customer data.

(LO11) Understand the implications of the Service-Profit Chain for Service Management

Figure 1.27 provides the Service-Profit chain and explains how internal operating strategies of workplace design, rewards and recognition, adequate employee training yield higher service quality and this in turn leads to revenue growth and profitability through customer loyalty and satisfaction.

(LO12) Know the framework for developing effective service marketing strategies

The framework for services marketing strategies is the same as the structure of this book. The 5 parts of this structure are provided on Pages 28 and 29 and involve understanding of services, applying 4Ps to services, using the additional 3Ps to design and manage customer interface, developing customer relationships and quality management in services using Gaps model to move to higher levels of performance.

TEACHING SUGGESTIONS

Chapter 1 provides students with an introduction to some of the basic concepts of service marketing and management. It's important to spend enough time to make sure students really comprehend this material, because conceptual frameworks and background information introduced in this chapter will underlie topics discussed in later chapters.

Forces for change. There are several interesting ways to approach this topic. You can ask students to find a print ad illustrating one of the forces for change in service management (see Figure 1.9) and to write a one-page paper discussing the ad and the applicable force(s). If students turn in their ads and papers in advance of class, you can make overheads of the best ads and ask the students who submitted them to describe why they chose the ads.

Non-ownership of services. This is a fresh perspective on services and advances our thinking in this area. This should be impressed upon students and they can be encouraged to challenge this view to see if they can find exceptions.

Differences between goods and services. It's very helpful to use services that are familiar to students to illustrate the distinguishing characteristics of services. Banking, insurance, airlines, service garages, hotels, and broadcasting/cable provide good starting points. As the course proceeds, however, you should start introducing professional and business-to-business services.

Seven Ps. When you introduce the 7 Ps, you should clarify how this framework differs from the 4 Ps of the traditional marketing mix (especially if students have previously taken an introductory marketing management course). Students should be advised that the 7 Ps framework will be revisited in subsequent chapters. In fact, each component of the 7 Ps forms the topic of a separate chapter.

Students can be assigned Application Exercise 3, which asks them to show how each of the 7 Ps relates to a specific service.

Service-Profit Chain. Service-profit chain is an important guiding philosophy of this book and it demonstrates the links in the managerial process that are essential for success in service business. Figure 1.27 describes these links that are both internal and external to the organization. Application Exercise 4 can be assigned to the students to discuss service quality improvements suggested through Service-Profit Chain.

QUESTIONS AND EXERCISES

Review Questions

1. *What are the main reasons for the growing share of the service sector in the major economies of the world?*

Increased productivity and automation in agriculture and industry, combined with growing demand for both new and traditional services, have jointly resulted in a continuing increase over time in the percentage of the labor force that is employed in services. Increased international trade and tourism drives demand for freight and passenger transportation, international finance, communications, and hotel entertainment, and food services. Increased spending on services by individuals is often associated with higher standards of living. People eat out more, take more vacations, spend more on entertainment, and employ other people to undertake household chores they used to undertake for themselves.

Similarly, as companies become larger and more sophisticated, they may choose to outsource so-called internal services such as recruitment, legal and accounting services, payroll administration, office cleaning, landscape maintenance, supply-chain management, advertising, etc. to specialist subcontractors. When such tasks are outsourced, they become part of the competitive marketplace and are therefore more easily identifiable as contributing to the services component of the economy. Technology has resulted in the creation of entire new service industries.

2. *What are the five powerful forces transforming the service landscape and what impact do they have on the service economy?*

The five powerful forces are:

- Government policies
- Social changes
- Business trends
- Advances in information technology
- Globalization

Refer to Figure 1.6 and Table 1.1 for more detailed explanations.

3. Why would growth in business services help individual firms and entire economies become more productive?

A key driver of successful economies is their ecosystem of advanced, competitive and innovative business services. Many manufacturing firms have recognised the importance of outsourcing their non-core support activities to other specialised service providers that have more cost-efficient structures. This development results in the growth of B2B service sector and helps these specialised firms run successful businesses and in the broader perspective, better economic productivity creates more jobs and improves the overall standard of living.

4. Describe the four broad "processing" categories of services, and provide examples for each of them.

Figure 1.9 highlights the four broad categories of services, such as:

- People processing (directed at people's bodies): hair stylists, healthcare
- Possession processing (directed at physical possessions): refueling, recycling
- Mental stimulus processing (directed at people's minds): education, training, advertising/ PR consultancy
- Information processing (directed at intangible assets): accounting, financial

5. What is so special about services marketing that it needs a special approach?

Each of the eight distinctive characteristics of services listed in Table 1.2 has important implications for marketing strategy.

- **No ownership**
 - Customers obtain temporary rentals, hiring of personnel, or access to facilities and systems.
 - Pricing often based on time.
 - Customer choice criteria may differ for renting versus purchase—may include convenience, quality of personnel.
 - Can't own people (no slavery!) but can hire expertise and labor.
- **Services cannot be inventoried after production**
 - Service performances are ephemeral—transitory, perishable.
 - *Exception*—some information-based output can be

recorded in electronic/printed form and reused many times.

- Balancing demand and supply may be vital marketing strategy.
- Targeting right segments at right times at right price is often key to profitability.
- Marketers must determine whether benefits are perishable (e.g., meal, entertainment, hotel night) or durable (e.g., many surgeries, education).

- **Customers may be involved in production process**

- Customer involvement includes self-service and cooperation with service personnel.
- Think of customers in these settings as “partial employees.”
- Customer behavior and competence can help or hinder productivity, so marketers need to educate, train customers.
- Changing nature of service delivery process may affect role played by customers in that process.
- Design service facilities, equipment, and systems with customers in mind: user-friendly, convenient locations/schedules.

- **Intangible elements dominate value creation**

- Understand value added by labor and expertise of service personnel.
- Effective HR management is critical to achieve service quality.
- Try to make highly intangible services more “concrete” by creating and communicating physical images or metaphors and tangible clues.

- **Other people are often part of the service product**

- Achieve competitive edge through perceived quality of employees.
- Ensure job specs and standards for front-line service personnel reflect both marketing and operational criteria.
- Recognize that appearance and behavior of other customers can influence service experience positively or negatively.
- Avoid inappropriate mix of customer segments at same time.

- Manage customer behavior (the customer is *not* always right!).
- **Greater variability in operational inputs and outputs**
 - Must work hard to control quality and achieve consistency.
 - Seek to improve productivity through standardization, and by training both employees and customers.
 - Need to have effective service recovery policies in place because it is more difficult to shield customers from service failures.
- **Often difficult for customers to evaluate services**
 - Educate customers to help them make good choices, avoid risk.
 - Tell customers what to expect, what to look for.
 - Create trusted brand with reputation for considerate, ethical behavior.
 - Encourage positive word-of-mouth from satisfied customers.
- **Time factor assumes great importance**
 - Offer convenience of extended service hours, even 24/7.
 - Understand customers' time constraints and priorities.
 - Minimize waiting time.
 - Look for ways to compete on speed.
- **Distribution channels take different forms**
 - Tangible activities must be delivered through physical channels.
 - Use electronic channels (e.g., the Internet, telephone) to deliver intangible, information-based activities, expand geographic reach, and achieve instantaneous delivery, anywhere.

6. "The 4 Ps are all a marketing manager needs to create a marketing strategy for a service business." Prepare a response that argues against this and support it with examples.

The traditional 4 Ps provides a starting point for marketing services but falls short of providing the full array of tools and strategic elements needed. We have to recast the existing 4 Ps (for instance, speaking of time as well as place) and introduce new elements that address management of the *physical environment* to create differentiation and shape service experiences, *people* management to account for the important role of both service providers and other

customers in the service experience, and *process* to help us understand and manage the customer's involvement in service delivery. Management must look into the other 3 Ps as well: process and productivity, people and physical environment in order to stay ahead of the competition. Students need to elaborate on the advantages/strengths of concentrating on the other 3 Ps in their argument.

7. What types of services do you think are (a) most affected and (b) least affected by the problem of variable inputs and outputs? Why?

Services that require high contact in which customers experience the tangible actions of the service providers would be most affected. Customers are directly in contact with service providers most of the time to receive the service. The evaluation of the overall experience would depend on the mood and personal beliefs of the customer, as well as the skills of the service provider. However, service execution often differs among employees, between the same employee and different customers, and even from one time of day to another. Attitudes, transaction speed, and quality of performance can vary widely. This wide variability accounts for the difficulties in people processing services. On the contrary, services that process people's possessions and which occurs at an arm's length are least affected by the variability. For example, services that involve utilities, telecommunication and internet-based transactions. This may be achieved by adopting standardized procedures, implementing rigorous management of service quality, training employees, and automating tasks previously performed by human beings. Services that involve intangible actions may be able to make more extensive use of information technology and to deliver the core service through the Internet or other telecommunications. Customers receive more standardized services, which may reflect perceived fairness. However, using too much technology makes the service more impersonal.

8. Why do the marketing, operations, human resource management and IT functions need to be closely coordinated in service organizations?

The integrated model of service marketing in Figure 1.28 requires a close coordination between operations, human resource management and IT for it to be fully productive. Figure 1.26 presents the interdependency of these functions to meet customer needs. In service organisations, operations functions are actively involved in the design of products and processes to improve productivity and quality. HR provides quality front-line service providers to ensure the service experience and IT provides

real-time information at every customer touch-point to create value with updated customer data.

9. What are the implications of the service-profit chain for service management?

One of the biggest implications of the service-profit chain is how the leadership role from top management underlies the chain's success. This leadership role will be the driver for internal quality delivered by operations, IT and other departments to improve employee satisfaction which can lead to employee loyalty and can drive the quality and productivity of service upwards resulting in higher customer satisfaction and loyalty that will eventually result in growth and profitability.

APPLICATION EXERCISES

- 1. Visit the websites of the following national statistical bureaus: U. S. Bureau of Economic Analysis (www.bea.gov); Statistics Canada (www.statcan.ca); National Bureau of Statistics of China (www.stats.gov.cn/english/); Eurostat (<http://europa.eu.int/en/comm/eurostat/>); Japanese Statistics Bureau (www.stat.go.jp); Central Bureau of Statistics (Indonesia) (www.bps.go.id); Statistics South Africa (www.statssa.gov.za) and the respective websites for your home country if it is not covered here. In each instance, obtain data on the latest trends in services as (a) percentage of gross domestic product; (b) the percentage of employment accounted for by services; (c) breakdowns of these two statistics by type of industry; and (d) service exports and imports. Looking at these trends, what are your main conclusions for the main sectors of these economies, and within services, for specific service sectors.**

This exercise will help students learn how to access and analyze data from different national statistical agencies. Note that as of late 2003, the United States had not yet converted its industrial statistics to the new NAICS format, but progress is being made toward this goal.

Canada's statistics are further along in this conversion process. Canadian data tend to be more recent than those in the United States (this probably reflects the country's much smaller economy and population). Comparison of service statistics across these three countries can provide the basis for in-class discussion and debate you

wish. Additional national statistical agencies can be added as desired, but you should first check out the extent of the data being presented on the Web site in question.

- 2. *Legal and accounting firms now advertise their services in many countries. Search for a few advertisements and review the following: What do these firms do to cope with the intangibility of their services? What could they do better? How do they deal with consumer quality and risk perceptions, and how could they improve that aspect of their marketing?***

Legal and accounting firms form part of the Information Processing category. Information is the most intangible form of service output. However, it can be transformed into more permanent and tangible forms like letters, reports, books, CD-ROMs, or DVDs. Some of the services that are most highly dependent on the effective collection and processing of information are financial and professional services like accounting, law, marketing research, management consulting and medical diagnosis.

To deal with consumer quality and risk perceptions, such firms must try and provide consistent quality of service, a good understanding of their product knowledge and what their clients need and want. It is important to keep these clients informed and educated about what these legal and accounting firms can do for them.

- 3. *Give examples of how Internet and telecommunications technologies (e.g., Interactive Voice Response Systems [IVRs] and mobile commerce [M-commerce]) have changed some of the services that you use.***

Students should be able to provide many interesting examples, including: the proliferation of Web-based services (such as reservations, entertainment, and medical help); the use of email to interact with customers and build long-term relationships; satellite TV and digital cable; special effects in movies; the increased ease of communication through cellular phones, etc.

- 4. *Explain how the concepts in Chapter 1 are relevant to the marketing of a religious institution, or a non-profit organization such as World Wildlife Fund.***

Students can relate Service-Profit chain to explain unique marketing of religious institution or non-profit organisations such as WWF by explaining how these services do not measure their success by the profitability rather they view growth of their ideology as the main measure of success. Students can also discuss the additional 3Ps of service

- *People:* The imam of a mosque and pastor of a church are critical to the delivery of service.
- *Processes:* Although for non-profit firms like WWF, or an adoption centre, profit is not the main aim, nevertheless, poorly designed service process will lead to wasted time and ineffective service delivery. This can reduce the social support and funds that are so essential for such businesses.
- *Physical Environment:* As in any service, physical features like building of a church and office of the non-profit firm will reflect its values and beliefs. Religious symbology, or ideological depictions like pictures of animals or WWF projects to save wildlife will be the key feature of physical environment.

CHAPTER 2

CONSUMER BEHAVIOR IN A SERVICES CONTEXT

This chapter emphasizes the point made in Chapter 1 that service success requires a focus on both customers and competitive markets. Accordingly, Chapter 2 establishes a theme that runs throughout the book: the need for service firms to be customer focused, to understand customer concerns and expectations, and to recognize the customer's often dynamic role in service operations.

LEARNING OBJECTIVES

By the end of this chapter, students should be able to:

- ➡ (LO 1) Understand the three-stage model of service consumption.
- ➡ (LO 2) Use the multi-attribute model to understand how consumers evaluate and choose between alternative service offerings.
- ➡ (LO 3) Learn why consumers often have difficulty evaluating services, especially those with many experience and credence attributes.
- ➡ (LO 4) Know the perceived risks customers face in purchasing services and the strategies firms can use to reduce consumer risk perceptions.
- ➡ (LO 5) Understand how customers form service expectations and the components of these expectations.
- ➡ (LO 6) Know the "moment of truth" metaphor.
- ➡ (LO 7) Contrast how customers experience and evaluate high- versus low-contact services.
- ➡ (LO 8) Be familiar with the servuction model and understand the interactions that together create the service experience.

- ➡ (LO 9) Obtain insights from viewing the service encounter as a form of theater.
- ➡ (LO 10) Know how role, script, and perceived control theories contribute to a better understanding of service encounters.
- ➡ (LO 11) Describe how customers evaluate services and what determines their satisfaction.
- ➡ (LO 12) Understand service quality, its dimensions and measurement, and how quality relates to customer loyalty.

CHAPTER OUTLINE

(L01) Understand the three-stage model of service decision

The three stages are:

- Pre-purchase stage
- Service encounter stage
- Post-purchase stage

During the pre-purchase stage, issues to note include:

- Understanding that customers seek solutions to aroused needs
- Evaluating a service may be done using the multi-attribute model, and service attributes
- Uncertainty about service outcomes increase perceived risk
- Understanding customers' service expectations

(L02) Use the multi-attribute model to understand how consumers evaluate and choose among alternative service offerings

Students need to understand that with the multi-attribute model, a consumer is very likely to arrive at a different decision depending on whether they are using the simple linear compensatory rule or the conjunctive rule. The example in the text is worked out on page 39. The key is that, given that consumers do make decisions in this way, what can firms do to influence that decision process? This is discussed in this section.

(L03) Learn why consumers often have difficulties evaluating services, especially those with many experience and credence attributes.

Students need to grasp the distinction between search, experience, and credence attributes. Product attributes include all features (both tangible and intangible) of a good or service that can be evaluated by customers. Most goods are high in search attributes, which makes it easier for customers to evaluate their quality. Many services are high in experience and/or credence attributes, reflecting two of the basic differences between goods and services discussed in Chapter 1: the dominance of intangible elements and the variability of operational inputs and outputs, leading to quality control problems. As a result, service marketers need to find ways to reduce the perceived uncertainty and risk of purchasing services, especially for a first time customer.

(L04) Know the perceived risks that customers face in purchasing services and the strategies firms can use to reduce consumer risk perceptions

Students should understand the concept of perceived risk during the pre-purchase stage (and also be able to extend this to the service encounter stage). They should be able to enumerate the seven different types of perceived risks listed in Table 2.2 (functional, financial, temporal, physical, psychological, social, and sensory). Examples are provided for each. A variety of risk reduction strategies are discussed and it students can be assigned to discuss which strategies listed might be appropriate for the different kinds of perceived risks.

(L05) Understand how customers form expectations and the components of these expectations

Understanding customer expectations plays a central role not only in satisfaction research but also, more practically, in service design, and quality control. Students should be thoroughly familiar with the factors influencing customer expectations of services, as shown in Fig. 2.11 and be able to define each of the components of customer expectations.

It's particularly important to distinguish between the desired (wished for) service level, adequate (minimum acceptable) level, predicted services level (anticipated level of service) and zone of tolerance (accepted variation in service). Students should be able to explain the zone of tolerance that lies between the three levels.

(LO 6) Know the "moment of truth" metaphor.

"Moment of Truth" refers to the direct interaction of the customer with the service firm and it involves the skills, motivation and tools employed by the firm to prove to the customers that they are the best alternative for them.

(L07) Contrast how customers experience and evaluate high-versus low-contact services

The level of customer contact is the extent to which customers interact directly with service personnel, physical service elements, or both. Services range from high-contact to low-contact.

- High-contact services tend to be those where the customer visits the service facility and is actively with service personnel and the organization's physical facilities throughout service delivery. All people-processing services are defined as *high contact*. As contact is reduced, customer interactions with service providers are often limited to: establishing a relationship and defining a service need; dropping off and picking up a physical possession that is being serviced; or trying to resolve a problem.
- Low-contact services typically require minimal direct contact between customers and service providers. Contact occurs at arm's length through electronic or physical distribution channels.

Many mental stimulus- and information-processing services are delivered this way. Possession processing can also be a low-contact service if the possession to be serviced can be shipped to the service provider's location or processing can occur electronically to customers' premises.

(L08) Be familiar with the servuction model and understand the interactions that together create service experience

The servuction system has two elements:

- Technical core (invisible to the customer)
- Service delivery system (where final assembly takes place)

Figure 2.17 presents these two elements of the service organization's physical environment that is visible to and experienced by the customer.

(L09) Obtain insights from viewing service delivery as a form of theater

The theater is a good metaphor for services because service delivery consists as a series of processes that customers experience as a performance. It is a particularly useful framework for examining high-contact services in which customers come to a physical facility (the stage), encounter a variety of service personnel (actors), are part of a broader group of customers (the audience), and are exposed to a tightly scripted and choreographed service delivery process. The role and script theories are apt in describing how consumers should behave and what steps are needed in order for them to obtain maximum satisfaction from a service encounter.

(L10) Know how role and script theories contribute to a better understanding of service encounters

The actors in a theater need to know what roles they are playing and need to be familiar with the script. Similarly, in service encounters, knowledge of role and script theories can help organizations to understand, design and manage both employee and customer behaviors during service encounters.

(L011) Describe how customers evaluate services and what determines their satisfaction

When customer expectations are positively disconfirmed, customers are satisfied. High levels of positive disconfirmation lead to customer delight. For negative disconfirmation of expectations, the reverse is true. Students should note that there are strategic links between customer satisfaction and a firm's performance. Service quality is defined as the high standard of performance that consistently meets or exceeds customer expectations. Consumers form their repurchase intentions by their general beliefs about the service quality which are formed as a result of evaluation of services along the five dimensions of tangibles, reliability, responsiveness, assurance and empathy. Customers' evaluation of a firm's service quality can be understood with the help of a tool called SERVQUAL. Table 2.4 provides 21 questions that measure customer's perceptions of a service with their own expectations.

TEACHING SUGGESTIONS

This chapter covers a broad array of topics. All are important in laying the groundwork for future chapters, although depending on your objectives for the course, you may choose to give greater emphasis to some topics rather than others. You should be able to find many opportunities to bring behavioral concepts to life in class (or through written assignments) by getting students to evaluate their own service encounters, appraise the pros and cons of high- versus low-contact delivery systems in the services they patronize (especially banking),

analyze their own expectations for different types of services, and discuss their roles as passive or active audience members in a variety of service “dramas.”

A suggested case to consider is Case 5: Kiwi Experience.

Pre-purchase stage. Students can be asked to describe a recent service purchase of some significance (enrolling in college or taking a big holiday could be examples) and to identify what could be done to reduce the perceived risks in the pre-purchase stage and also how the various costs might be reduced.

Evaluating service performances. The continuum of evaluation is a concept that looks simple; however, students sometimes have a difficult time applying it. Review question 4 addresses this topic. We highly recommend that you assign application exercise 2 so that students will gain experience in using the continuum with some familiar service businesses.

Service encounters. To help students understand that the numbers and types of service encounters vary significantly depending on the level of contact service providers have with their customers, students need to grasp that the nature of these encounters varies widely across services. In high-contact services, customers are exposed to many more tangible clues and experiences than they are in medium-contact and low-contact services. Both opportunities and risks are associated with service encounters—key steps in these encounters represent “moments of truth” for the service provider. Review questions 6 and 8 can be used to help students understand this stage better.

Levels of customer contact. It is often helpful to discuss Figure 2.15 in class as a way of making sure that students understand the implications of the different levels of customer contact. You may want to point out that the same core service (e.g., banking) can be located in different parts of the figure depending on how the total service system is defined and operationalized. Students can be asked to provide other examples of services from the same industries that have different levels of customer contact. It’s important to note that many traditionally high-contact services are reducing their levels of customer contact although still satisfying customers by using new technologies. Application Question 6 can also be used as a basis for discussion about levels of customer contact.

Customer expectations. From studying Figure 2.11, students will learn how customers form expectations of a specific service. They will recognize that a zone of tolerance exists between the desired level of service (what a customer hopes to receive) and the lower adequate level of service (the minimum pre-purchase stage will still accept). It may help to get students to talk about their own expectations of a recently purchased service, where these expectations came from, and

how these expectations compared to the reality of the service they actually received. Review question 7 and application exercise 3 can be used to understand what impacts customer expectations.

Service as theater, roles, and script theory. The notion of service as theater is a useful metaphor, especially in high-contact services, and one to which students usually relate well.

QUESTIONS AND EXERCISES

Review Questions

1. Explain the three-stage model of service consumption.

In the pre-purchase stage, consumers identify an underlying need. They start to look for a solution, search for relevant information and obtain advice from friends and relatives. Once they have identified a possible set of potential suppliers, they will evaluate them based on their benefits and risks, before making their final decision. At the same time, they will start to form some expectations of the forthcoming service experience. After making a purchase decision, customers move on to the core of the service experience. They start to form contacts with the service provider when placing an order or requesting a reservation. During this service delivery, customers start evaluating the quality of service they are receiving and deciding whether it meets their expectations. The final stage is the post purchase stage. Here, customers continue the ongoing evaluation of service quality that determines if their expectations were met. It will affect their loyalty to the provider as well as the amount of positive or negative recommendations made to others.

2. How can consumer choice between services in their consideration set be modeled?

Consumer choice can be modeled using the multi-attribute model where consumer options are compared, using attributes that are important to the customers, and attaching importance weights to those attributes.

3. What is the difference between the linear compensatory rule and the conjunctive rule?

With the linear compensatory rule, the decision is arrived at by computing a global score for each of the competing brands. This is

done by multiplying the score for each brand on the attributes by the importance weight. The scores are then added up for each of the three brands. Under the conjunctive rule, the consumer makes the decision based on the total overall score in conjunction with minimum performance levels on one or several attributes.

4. Describe search, experience, and credence attributes and give examples of each.

These attributes can be divided into three different categories:

- 1) **Search attributes** (characteristics that can be readily evaluated prior to purchase). These include such tangible elements as color, texture, taste, sound, and the visible elements of style.
- 2) **Experience attributes** (features that can be evaluated only during service delivery). These include the nature of interactions with service personnel and other customers, the ambience of a service facility, the amount of time spent in different activities and the customer's comfort level during each, and how the customer reacts to different stimuli, and finally the outcome of the service process—the appearance of a haircut, newly cleaned clothes, or landscaping work; knowledge learned in a course, physical and mental feelings after medical treatment, and whether a package was delivered on time
- 3) **Credence attributes** (characteristics that are difficult to evaluate even after service purchase and consumption.). These may include a variety of professional services where the customer is dependent on the expertise of the service provider but may be unsure for some time (or ever) if their work was of good quality. Examples include legal advice, investment counseling, and complex medical interventions.

5. Explain why services tend to be harder for customers to evaluate than goods.

Most physical goods are high in search attributes —tangible characteristics that allow prospective consumers to try out, taste test, or even “test drive” the product prior to purchase. By contrast, services contain fewer tangible clues that can be evaluated in advance of purchase and emphasize experience attributes that can only be evaluated after exposure during or immediately following service delivery. In some instances, services are high in credence attributes that customers have to take on trust because they find it impossible to evaluate them confidently even after purchase.

Despite these generalizations between goods and services, we should note that inexperienced consumers are likely to have more difficulty in interpreting search attributes of goods prior to purchase although experienced users of a particular type of service will know what to look for, especially in terms of clues from physical facilities and the demeanor of service personnel.

6. *Why does consumer perception of risk play an important role in choosing between alternative service offers? How can firms reduce consumer risk perceptions?*

Perceived risk is an important aspect as customers face a great deal of uncertainty. This is even more so when the purchase requires a substantial amount of resources. Furthermore, services are difficult to evaluate before purchase and consumption making customers worried about the probability of a negative outcome. Firms can reduce this perceived risk by offering performance warranties, money-back guarantees and providing 24/7 access by a toll-free telephone call to a customer service center or informative web site.

7. *How are customers' expectations formed? Explain the difference between desired service and adequate service with reference to a service experience you've had recently.*

You should expect students to employ the diagram in Fig. 2.11 as the basis for their response. In using their own experience to illustrate the desired service level, they should be able to discuss how their personal needs, belief about what is possible (where does this come from in the specific example?), explicit and implicit service promises from the provider in question, word of mouth, and their own past experiences collectively defined the level of service they *hoped* to receive.

Then they should describe how past experience, word of mouth, interpretation of explicit/implicit service promises, situational factors (such as time of day, weather, day of week, etc.), and any perceived alterations combined to set the adequate service level. Realistically, responses to this question should also state where the actual service experience fell within the zone of tolerance or whether it occurred above (customer delight) or below (dissatisfaction) this zone.

8. *What are "moments of truth"?*

"Moments of truth" are the contact points between customers and

service providers. They are “portals” from which customers get to interact with providers and influence their overall experience. They represent the skill, motivation and tools employed by the firm’s representative and the expectations and behavior of client which together will create the service delivery process.

9. Describe the difference between high-contact and low- contact servuction systems, and explain how the nature of the customer’s experience may differ between the two.

As the level of contact increases between a customer and a service operation, there are likely to be more and longer service encounters. Contact may take place with service personnel, with service equipment/facilities, or both. High-contact services tend to involve personal visits by customers to a physical service facility where they may be actively involved with service personnel. This situation creates a service experience that contains many different impressions and “moments of truth,” and is sharply different from a low-contact service, such as one using electronic channels, in which the customer doesn’t have physical contact with service personnel and doesn’t need to visit a service facility. In between high- and low-contact services is an array of medium-contact services.

10. How do the concepts of the theater, role theory and script theory help to provide insights into consumer behavior during the service encounter?

In role theory, consumers understand their roles from social cues and expectations of society that guide their behavior in a specific setting or context. Customers need to “play by the rules” or risk causing problems for the firm, its employees and even other customers.

Script theory suggests a service script that specifies the sequences of behavior that customers are expected to learn and follow during service delivery. Customers learn scripts through experience, education and communications with others. The more experience a customer has with a service company, the more familiar that particular script becomes. Customers will be less likely to deviate from the known script which may frustrate themselves and others. However, this may occur when customers are new to the service as they may not know what to expect and may be fearful of behaving incorrectly.

A theatrical perspective provides insights of service delivery which

consists of a series of events that customers experience as a performance. Customers imagine service facilities as containing the stage on which the drama unfolds. These stages may change when they move through the delivery process and may be elaborate in settings or simple in appearance. Customers learn to watch the whole setting, from the service facility to the actors involved in the drama and react accordingly.

11. Describe the relationship between customer expectations and customer satisfaction.

Customers have expectations prior to consumption. They observe service performance and outcome, and then compare the experience against their expectations. Satisfaction judgments are based on this comparison:

- *Positive disconfirmation* if better than expected (high satisfaction or even “delight”)
- *Confirmation* if same as expected (satisfaction)
- *Negative disconfirmation* if worse than expected (dissatisfaction)

Satisfaction can be defined as an attitude-like judgment following a service purchase (or series of service interactions). It reflects perceived service quality, price/quality tradeoffs, personal, and situational factors. Satisfaction is important to companies as well as to customers, because research shows links between customer satisfaction levels and a firm’s overall financial performance.

12. What is service quality? How is it different from customer satisfaction?

Service quality is defined as a high standard of performance that consistently meets or exceeds customer expectations. Although customer satisfaction is also determined by comparing perceptions with expectations but it is an evaluation of a single consumption experience whereas, service quality refers to a relatively stable attitude of belief about a firm.

13. What are the five dimensions of service quality?

The five dimensions of service quality are: Tangibles, Reliability, Responsiveness, Assurance and Empathy.

14. How can you measure service quality?

Service quality can be measured using the tool called SERVQUAL, whereby service quality perceptions can be measured against customer expectations.

APPLICATION EXERCISES

- 1. Construct a multi-attribute model to compare three different restaurants for an important celebration in your family. Apply the two different decision rules and determine the choices that arise from that.***

This exercise can be set to see if students do know how to apply the two different decision rules. They can also then see for themselves how the application of the different rules leads to different choices.

- 2. What are the backstage elements of (a) a car repair facility, (b) an airline, (c) a university, and (d) a consulting firm. Under what circumstances would it be appropriate or even desirable to allow customers to see some of these backstage elements and how would you do it?***

Backstage operations involve the technical core of the total service system and are typically invisible to customers. Thus, students should identify elements of the services listed above that are not viewed by customers, such as the following examples:

- car repair—diagnosis and repair of vehicles.
- airline—maintenance of aircraft, training of crews, preparation of meals, handling of baggage between aircraft and terminal.
- university—administration, staff meetings, behind the scenes maintenance, marking of exams.
- consulting firm—staff meetings to hire/fire/promote consultants, preparing proposals, fieldwork other than at client site, analysis, report writing.

There are some situations where it might be appropriate to give customers a peek at backstage activities. These activities can actually become part of the service performance if they are carefully orchestrated (but they should then be treated more like front stage activities in terms of managing their impact on customers.) Examples of this include: car repair facilities where the service operations are fully visible through large plate glass windows and advertisements for

consulting firms that describe their approach to projects. Many of the backstage activities described above, however, would be boring, incomprehensible, inappropriate or unpleasant for customers to experience.

3. Visit the facilities of two competing service firms in the same industry (e.g. two banks, restaurants, or gas stations) that you believe have different approaches to service. Compare and contrast, using suitable frameworks from this chapter.

Students should be able to apply the script theories and follow them through to map out the service. Using the table on perceived risks, students can also evaluate the service.

4. Apply the script theory and role theories to a service of your choice. What insights can you give that would be useful for management?

Students will find it useful to apply these theories as they get to see how it works out in reality. They will find that these theories may apply to some situations and not in others.

5. Explain why services tend to be harder for customers to evaluate than goods.

This exercise can be undertaken as two groups where students in one group can play the roles of customers in face-to-face and online encounter and the other group can be service providers.

6. Describe an unsatisfactory encounter you experienced recently with (a) a low-contact service provider via email, mail, or phone and (b) a high-contact, face-to face service provider. What were the key drivers of your dissatisfaction with these encounters? What could the service provider have done to improve the situation?

This makes a great in-class discussion exercise. Have the students form teams and identify the best unsatisfactory encounter they experienced in the last six months. They can then present to the rest of the class.

7. How would you define "excellent service quality" for an enquiry/information service provided by your cell phone or electricity service provider? Call a service organization, go through a service experience, and evaluate it against your definition of excellence.

Students can be made to develop their own SERVQUAL scale for the 5 dimensions of service quality in cell phone and electricity provider.