
UNIT 10 CUSTOMER RETENTION

Objectives

After studying this unit you should be able to:

- explain significance of retaining customers for service companies,
- identify the reasons of customer switching and ways of managing it,
- understand the need and importance of complaints handling,
- discuss strategies for effective service recovery after a service failure,
- explain the significance of service guarantees,
- list the components of a good service guarantee.

Structure

- 10.1 Introduction
- 10.2 Importance of Customer Retention
- 10.3 Customer Switching
- 10.4 Complaining and Service Recovery
- 10.5 Service Recovery Strategies
- 10.6 Service Guarantees
- 10.7 Summary
- 10.8 Self Assessment Questions
- 10.9 Further Readings

10.1 INTRODUCTION

Ramesh walks into an empty PCO to make a phone call. He pulls out a crumpled piece of paper from his pocket and dials the number on it. The PCO owner can't help but listen in . "Hello, is that Mrs. Gupta, I offer A.C. maintenance services and was wondering if you need someone to provide you the services this year. Oh, you've got someone who does that every year and you're happy with them. I see," says Ramesh solemnly.

"There's nothing else needs doing that they don't do? OK, Well, maybe I'll call again next summer to see if you're still happy with them. Thanks, Mrs. Gupta" says Ramesh, and puts the crumpled paper pack in his pocket.

Ramesh walks out of the booth and heads for the door. The PCO owner stops wiping and says : "My Dear Friend, I can't let you walk out without saying something. I was a salesman for twenty years and a good one."

"And I tell you, you'll get nowhere making one call and giving up. You need a list of numbers and you work your way through them. You'll never get the work of Mrs. Gupta house or anyone else's with the attitude you've got."

"Thanks for the advise" says Ramesh to PCO owner. "But, it's OK. Really. You see, I already do A.C. maintenance services at Mrs. Gupta's house".

(Based on an anecdote of Don Peppers at ecustomerserviceworld.com)

Services marketers understand that having customers, not merely acquiring customers is crucial for service companies. There is a direct link between customer retention over a period of time and profitability and growth. Further,

customer retention to a great extent depends on service quality and customer satisfaction. It also depends on the ability of the firms to encourage customers to complain and then recover when things go wrong. Complaints are a natural part of any service activity as mistakes are an unavoidable feature of all human endeavour and thus also of service delivery. Service recovery is the process of putting things right after something goes wrong in service delivery.

Service marketing literature also suggests that offering well designed service guarantees help in attracting and retaining customers.

This unit begins with a discussion on the importance of retaining customers for service firms. The unit further explains the details of a complaint management system and service recovery process. The last part of the unit deals with service guarantees.

10.2 IMPORTANCE OF CUSTOMER RETENTION

The importance of retaining customers should be properly understood by the services marketers. It is the cornerstone of a successful service. Generally, the longer a customer stays with a company the more that customer is worth. It influences employee and supplier loyalty as well, as people like to work for companies where customers are loyal. It also produces profits that influence share holder loyalty. In fact this all results in a positive spiral. Employee retention and loyalty results in high quality of services which leads to customer satisfaction and delight which makes the customer stay with the organization and increases its profitability which in turn brings employee loyalty. This sequence is shown diagrammatically in Figure 10.1.

Figure 10.1: Underlying logic of customer retention benefits to the organization



Source: Zeithaml and Bitner, Services Marketing, Tata McGraw Hill, 2nd Edn. 2000, p. 143)

Why are customers more profitable for service firms over period of time? There are a number of reasons for this. To begin with, to acquire a customer a company incurs promotional costs like advertising, sales promotion, personal selling etc. It is said that it costs five times more to attract a new customer than retaining one. The operating costs decrease when a customer stays. Services being rich in experience and credence qualities, it takes some time for customers to get accustomed to it and once they are used to the service and are satisfied with a service provider, they tend to purchase more over a period of time. As they remain satisfied with a service provider they will spread a positive word of mouth, which is extremely effective in case of services for attracting new customers. Longer the customer stays with an organization, more the organization knows about him, which enables it to offer customized services which makes it difficult for the customer to defect. This may even provide opportunities to the organization to charge price premium by offering

individualized services which may be difficult for the competitors to offer. Indian service companies are increasingly recognizing the importance of retaining existing customers. “We believe that if we are able to satisfy existing customers; it will enable us to gain new customers through word-of-mouth” says ICICI Bank General Manager (*Business World*, 4 Nov. 2002).

Considering the importance of retaining customers in service business, Reichheld & Sasser coined a term ‘Zero defection’. They highlighted that companies can boost profits by almost 100% by retaining just 5% more of their customers. In their pathbreaking article “Zero Deflections: Quality comes to services” (*Harvard Business Review*, Sept. – Oct., 1990) they conclude that “Just as the quality revolution in manufacturing had a profound impact on the competitiveness of companies, the quality revolution in services will create a new set of winners and losers. The winners will be those who lead the way in managing towards zero defection”. You should appreciate as services marketers that when you lose a single customer you do not lose a single order but a lifetime opportunity of profitability with that individual. You must therefore understand the lifetime value of a customer. Consider a simple example of a telephone company. For example, if on an average customer pays Rs. 500 a month and stays with the company for 20 years, his average life time value for the company will be Rs. $500 \times 12 \times 20 =$ Rs. 1,20,000. Further, if by a positive word-of-mouth, he brings just one more customer to the organization his value to the organization doubles. Therefore, it is important for all the employees within an organization to understand the lifetime value of their customers. Once they understand it, they will treat the customer accordingly and will focus on building relationship with the very people who keep them in business.

The following is an interesting illustration of Southwest Airlines of U.S.A. Southwest Airlines is amongst the most profitable US airlines and have made profits all through its existence. It is well known in the industry for its service quality and customer focus. As part of its effort to keep employees informed, Southwest Airlines communicates the importance of every single customer by educating employees about how many customers the company actually need to make a profit. By demonstrating to employees how just a few people can make the critical difference, the company encourages them to think about how their individual behaviours influence customer service. The company newsletter, LUV lines, put customer service in perspective with the following piece on profitability:

“How important is every Customer to our future? The break-even customers per flight was 74.5, which means that, on average, only when customer #75 came on board did a flight become profitable. The data on our annual profit and total flights flown to clearly illustrate how vital each customer is to our profitability and our very existence.

When you divide last year’s annual profit by total flights flown, you get profit per flight :

*\$179,310,000 (annual profits)
divided by
624,476 (total flights flown)
=
\$287 (profit per flight)*

Then, divide profit per flight by Southwest’s systemwide average one-way fare of \$58 :

\$287 (profit per flight)
divided by
\$58 (average one-way fare)
= 5 (one-way fares – Customers!)

The bottom-line: only five Customers per flight accounted for our total profit last year. So, only 3 million of the 40 million Customers we carried meant the difference between profit and loss of our airline.

To take a step further, to have lost the business of only one Customer per flight would have meant a 20 per cent reduction in profit on that flight. That's how valuable each Customer is to Southwest and you!"

Source: www.ecustomerserviceworld.com and Kevin Freiberg & Jackie Freiberg, "NUTS! Southwest Airlines' Crazy Recipe for Business and Personal Success")

10.3 CUSTOMER SWITCHING

By now, you will have well appreciated that in service business having customers, not merely acquiring them is crucial. Therefore, it becomes important to understand what actions of service companies or their employees make customers switch from one service provided to another. Customers leave a provider for a wide variety of reasons. Consider when you were last dissatisfied with a service provider or changed a service provider. What were the specific reasons for your reaction? Was it because of perception of poor quality or failure of a service encounter? Susan Keavenly identified following reasons for customer switching in service industries.

- a) Pricing (high price, price increase, unfair pricing , deceptive pricing)
- b) Inconvenience (location /hours, wait for appointment, wait for service)
- c) Core service failure (service mistakes, billing errors)
- d) Service encounter failures (uncaring, impolite, unresponsive, unknowledgeable)
- e) Response to service failures (negative response, no response, reluctant response)
- f) Competition (found better service)
- g) Ethical problem (cheating, unsafe)
- h) Involuntary switching (customer moved, provider closed)

An important aspect of the above to be understood by you is that six of the eight service switching factors are controllable from a service organization's point of view. Some of the aspects to be examined and action be taken to stop customer switching would include philosophy to deliver a technically correct service every time (Recollect issues related to providing quality services as discussed in Unit 8). However, in case some thing goes wrong there should be strategies in place for effective service recovery. We will discuss this aspect in detail in subsequent section. In order to reduce inconvenience the organization should have effective queue management, waiting line strategies and strategies for management of demand and capacity (discussed in detail in Unit 9).

Customer defection caused by unsatisfactory service encounters – employee customer interactions can be reduced by proper training of employees, listening to customers and keeping the customers informed.

Activity 1

Discuss among your friends and colleagues the reasons why they have switched service provider(s). Analyze whether something could have been done by the organization to prevent them from switching.

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For maintaining customer relationship you have to deliver quality services including service recovery and continuously monitor the relationship to find out customer satisfaction and loyalty. Another important aspect of keeping customers is the market segmentation. This aspect has been touched upon in Unit 5 of this course. Unless you properly segment your customers and understand their buying behaviour, expectations and perceptions, you will not be able to meet their needs and can't retain them. In an interview to Harvard Business Review , British Airways' CEO Sir Collin Marshall highlighted the importance of segmentation for service business (HBR, Nov-Dec 1995). "Even in a mass market business, you don't want to attract and retain everyone. The key is first to identify and attract those who will value your service and then to retain them as customers and win the largest possible share of their life time business. Using database marketing technique, we have focused more of our marketing efforts on retaining those customers and increasing our share of business. That is why our advertising spending is proportionately smaller than that of our competitors".

Now-a-days the segments are becoming smaller and smaller to the extent that even for mass services we talk of segments of one i.e. individualized service. This is referred to as Mass Customization. Joe Pine in his book Mass Customization has suggested different approaches towards mass customization. The important thing to understand is that it is not required to individualize services right from design to delivery in order to be differentiated, rather it can be done in number of ways. For example, you can customize a standardized core by combining it with customized peripherals. A hotel while offering a standardized room may customize it to individual tastes by offering personalized stationary, providing room location based on customer choice , keeping the refrigerator stuffed with eatables as per customer choice . (You have to have a good customer database in order to do so). Another way is to create customizable services which can be customized by the customers themselves. This can be done when customers can combine different components or modules of a service product in unique ways suited to their individual requirements. Please note that service offerings themselves are standardized. The IGNOU management programme, for example, though is a standardized offering yet you can customize it in terms of the courses you want to opt and their timings. The service provider can also offer point of delivery customization wherein the provider allows the customer to communicate what they need at the point of service delivery e.g. professional services, health care etc.

Loyalty Programmes

Loyalty programmes are often used in service industries like cellular companies, airlines, hotels, credit card companies, retail outlets etc. in order to build customer loyalty. They aim at locking on the consumer by rewarding him for patronizing a particular service for a period of time. In fact number of similar terms like relationship marketing programme, frequency programme, continuity programme, points programme and loyalty programme are often used interchangeably. One of the most visible form of loyalty programmes is the

frequent flyer schemes offered by airlines which reward customers with a free flight on accumulating a certain number of points. Similarly, hotels award regular customers with points, which can be redeemed for free meals or stay. While loyalty programmes are primarily aimed at ensuring that a customer stays loyal and buys more, they can also be used as a marketing tool to attract new customers and maximize their use of the particular service. The First Citizen club (of retailer Shopper's Stop), Jet Privilege programme (of Jet Airways), Taj's Inner Circle are all examples of programmes which offer incentives for customer loyalty.

10.4 COMPLAINING AND SERVICE RECOVERY

As highlighted in the introductory part of this unit, complaints are a natural consequence of any service activity. Mistakes are critical part of every service. Since services are generally performed in the presence of customers, errors are bound to happen. While it may not be possible to prevent all the errors, companies can learn to recover from them. 'Service Recovery' refers to the action taken by the service provider in response to a service failure. Tad and Brown define Service recovery "as a process that identifies service failures, effectively resolves customer problems, classify their root cause(s), and yields data that can be integrated with other measures of performance to assess and improve the service system." A good recovery can turn angry, frustrated customers into loyal ones. Further more, customers who have been successfully recovered not only remain loyal but can become advocates for the organisation spreading a positive word-of-mouth.

When an error or service failure occurs the customer may or may not complain. A customer who doesn't complain is less likely to come back to the service provider. Therefore, service provider has to make specific efforts to encourage customers to voice their concerns. Complaints provide feedback on how the service provider is performing in the market place. When customers complain, two potentially positive things happen for a service provider.

- 1) The provider gets the chance to fix the problem and retain the customer (service recovery)
- 2) Complaints can point to areas of the business that need improvement.

A good complaint culture and good complaint process may well lead a service provider to improved financial performance. Researches have shown that excellent complaint management service recovery can significantly influence customer satisfaction & loyalty. The service provider in order to improve solicitation of complaints should make it easy for the customers to get in touch. This can be done by providing multiple means of contact like toll free numbers, website, and customer contact point with service personnel. Further, these should be published on a continuous basis and the customers should be made to feel that their feedback is invaluable and their opinions are wanted. The company should treat a complaint as a gift and the one who complains as a friend.

Complaint Management

Bill Dee (Convener of the ISO Technical Committee ISO/TC 176 subcommittee 3 working group on complaint handling) opines that any worthwhile complaints management system has to have certain basis features :

- a) *Visibility* : Customers should know where to complain
- b) *Accessibility* : Customer should know how to complain. As a rule of thumb, the more formal the system for

c) *Responsiveness:*

lodging complaints, the less accessible it is to customers.

Complaints need to be dealt with quickly. The quicker the complaints are dealt with, the higher the customer satisfaction.

d) *Customer-focused approach:*

A service provider who adopts customer focused approach invites complaints and indicates commitment to resolving complaints by its words and actions in all fairness.

e) *Accountability:*

Someone in the organization has to take responsibility for complaint handling.

f) *Continuous improvement:*

This is about looking at the root causes and fixing them.

A good complaint management system must ensure that the complainant is kept informed, the staff understands the complaint processes, complaints are taken seriously, employees are empowered to deal with the situation and there are follow-up procedures to check with customers after resolution.

Activity 2

Send a complaint letter to a service provider you are not satisfied with. Analyse the response to your letter (or no response) and its impact on you as a service customer.

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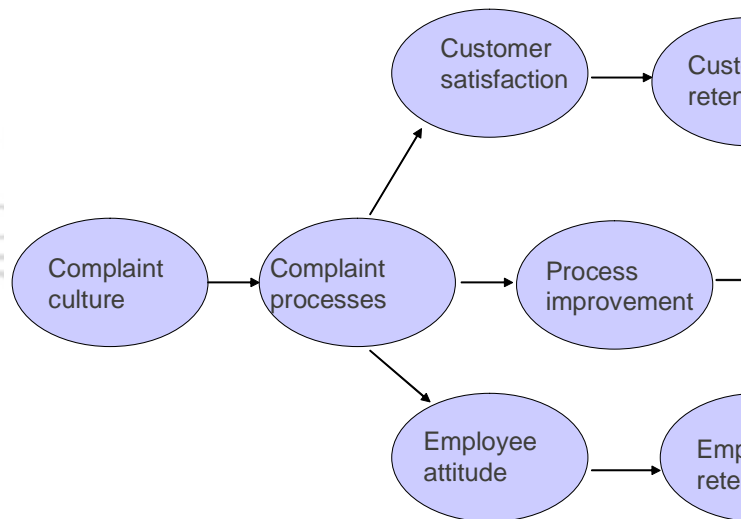
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Robert Johnston has developed a conceptual model linking complaint management and financial performance as shown in Figure 10.2.

The author, through an empirical study, concluded that “It is not the complaint processes per se that leads to financial benefit but how organizations manage

Figure 10.2 : A Conceptual Model of Complaint Management



Source: Robert Johnson, “Linking Complaint Management to Profit,” International Journal of Service Industry Management , Vol. 12, Nov. 2001

the intervening variables i.e. satisfying and retaining the customer /employee and/or improving the product or bringing out process improvement. Financial benefits accrue from satisfying and retaining dissatisfied customers through service recovery, by using information from complaints to improve both operational and organization-wide processes and by satisfying and retaining employees. All this is contingent upon the organization’s complaint culture.”

Activity 3

Contact any service organization and find out the mechanism through which it encourages customer feedback and complaints.

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10.5 SERVICE RECOVERY STRATEGIES

The above discussion gives you a fair idea of need for complaint management, its components and the importance of service recovery. Let us now focus on strategies for service recovery. Consider the following incident regarding an airlines (British Airways). “ An aircraft door was left open in a rainstorm before take off and a passenger near the door unfortunately got showered”. Now imagine that you were a part of the airlines. What steps you would have taken in such a situation? Now let us see what was actually done by the service provider. “The flight attendant not only did everything that was routine – offered to have the customer’s garments cleaned or replaced and made sure that a customer relations representative contacted the customer later to demonstrate that we genuinely cared – but also made special gesture by offering the passenger a complimentary choice of certain tax-free goods”. (Source: “Competing on Customer Service: An Interview with British Airways’ Sir Colin Marshall, Harvard Business Review, Nov-Dec 1995)

Hart, Heskett and Sasser suggest that service companies must become gymnasts, able to regain their balance instantly after a slipup and continue their routine. According to them companies that want to build the capability of recovering from service problems should do the following things.

- 1) Measure the costs of effective service recovery
- 2) Break customer silence and listen closely for complaints
- 3) Anticipate needs for recovery
- 4) Act fast
- 5) Train and Empower employees
- 6) Close the customer feedback loop

Let us briefly discuss the above strategies.

Measure the costs: As services marketers you should not underestimate the profits lost when a customer departs unhappily. This has been highlighted in the earlier part of this unit as well. Once this is appreciated, it will get due attention as it is said that what gets measured is truly what gets managed. The company should also keep in mind the costs the customer has to incur when service failure occurs. Excellent service companies will go that extra mile to cover the costs a failure incurs, or if the inconvenience is so great that the company cannot completely compensate the customer , the tone of the response must signal the company regret.

Break the Silence: This refers to soliciting and encouraging complaints from the customers. In the preceding pages we have discussed this issue in detail.

Anticipate Needs for Recovery: Service providers can look for the weak links or the areas which tend to be problem prone and address them in their service recovery strategies.

Act Fast: Customers who complain want quick responses. The urgent resumption of service and an apology are often sufficient to make amends. (but not always). Empathise with customers. Statements like “I can appreciate how you feel,” “You’re right”, “It, shouldn’t have happened that way,” all convey empathy for the customer. Also, symbolic atonements should be made. It can be money, flowers, a ‘sorry’ note, free dessert by a restaurant, free upgrade in airlines etc. The speedy response to complaints /service failures requires appropriate system and procedures as well as trained and empowered employees.

Train and Empower Employees: The organization must train the front line people and empower them. Simulated real life situations can be an effective way to develop recovery skills among employees. The company should empower the front line employees to act and should give them the authority, responsibility and incentives to follow with customer.

Close the Loop: If a customer complaint leads to corrective measure the company should tell the customer about the improvement. Even if something can’t be fixed, the company should explain it to the customer. Effective way of closing the loop include making timely telephone calls and letting the customer know that his suggestions might be implemented.

LEARN : Dissatisfied Customers Are Gold

In every business, mistakes happen and customers get angry. But when a problem is fixed properly and stays fixed customers loyalty actually increases! Here are five steps you can take to not only resolve the problem but actually build loyalty:

- LISTEN carefully to your customer. You need to stop everything you are doing and give your customer 100% of your attention. Active listening requires a lot of effort and cannot be accomplished when we are distracted.
- EMPATHIZE with your customer’s concerns. Let him know that you sincerely care about his problem even if you don’t agree with his comments.
- APOLOGIZE even if you are not the cause of problem. When said sincerely, the words “I’m sorry” can diffuse as much as 95% of most people’s anger.
- RESOLVE the problem. Let the customer know you are on his side and will do everything you can to help him get the problem resolved. If only an employee in another department can fix it, help make the transition smooth so the customer doesn’t have to tell his story more than once.
- NOW is the time to address the problem. The faster a mistake is fixed, the more likely it is that the customer will give your company another chance.

The best way to handle a situation in which the customer is angry or upset is to remember the acronym LEARN and apply the five steps listed above. Then feel great about the positive difference you made in that person’s day!

Source: Debra J. Schmidt; Spectrum Consulting Group (Also the author of the Loyalty Builder – a free on-line monthly news letter)

Frederick Reichheld very beautifully brings about the importance of customer loyalty, managing failures & defection in the concluding comments of his article “Learning from Customer Defection (HBR, March – April 96). “The key to customer loyalty is the creation of value. The key to value creation is organizational learning. And the key to organizational learning is grasping the

value of failure. Customer defection is a unit of error containing nearly all the information a company needs to compete, profit and grow.”

Activity 4

Given below is a copy of a mail sent by an organization to M/s. ABC Car Rentals Ltd. Review the communication and give a brief account of actions you would have taken if you ever receive such a mail.

Mr. S Mohan President
ABC Car Rental Ltd.

June 15, 2004

Dear Mr. Mohan,

I was contacted by Mr. Ajay Gupta in December 2003 regarding our requirements for car rentals and how your company might be able to serve us. I find myself needing to order for these services for a large international convention we are organizing in August 2004 and therefore decided to contact your company for information. Instead of obtaining information. I am totally frustrated. First I went to your website. “Cool”, I thought,” I can click on the buttons and get information.” Wrong, no help there. So I tried to e-mail you from that site – didn’t work. Additionally, there was no e-mail address on either letterhead or your website. My next step was a phone call. I called and got a menu. I pressed the number for the sales department. Then I had a wait through another menu to get a sale person. Ajay was a good choice, I thought, wrong. He’s out of the office, so I followed his instructions and pressed 222 for someone else-more voice mail. Okay, then I pressed “O” for an operator. “All I want is talk to someone in sales,” I told the lady who answered. I was transferred to someone who picked up the phone and hung up.

So I’ll go elsewhere for my requirements.

A. Roy
Vice- President

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10.6 SERVICE GUARANTEES

When you buy consumer durables like refrigerator, T.V., Washing machine etc., they invariably came with a product warranty wherein the company agrees to replace or repair the product if something goes wrong. But what about services? As compared to manufactured products, guarantees in case of services are a more recent phenomenon. Because of the intangible nature of services it was often thought as to what can be guaranteed. Products being tangible, can be returned but can services be returned back if something goes wrong? However, now more and more service firms are offering service guarantees which may take the form of a satisfaction guarantee or guaranteeing specific aspect of service delivery. Try to recollect any service guarantee that you have come across as a consumer of services.

A bank may offer a guarantee that an account will be opened or a credit card will be issued within a specified number of working days otherwise it will pay

the customer a specified amount depending on the period of delay. A restaurant may offer home delivery within a guaranteed time, say 30 minutes, failing which the customer may be given specified price-offs. A hotel may offer a unconditional satisfaction guarantee.

Why offer a Service Guarantee?

More and more service firms have started to realize that a good guarantee can act as a marketing tool for attracting customers as well as help in retaining customers. It also helps in cultivating and maintaining quality throughout an organization. Some of the benefits of an effective service guarantee are highlighted below.

- i) Implementing a guarantee forces a company to focus on customers.
- ii) Offering a guarantee provides employees with a service related goal and facilitates goal alignment between employees and the organization. It can also increase employee morale and loyalty.
- iii) It encourages customers to complain and provides the opportunity to the organization to make amends, thereby retaining the customers.
- iv) Invoking of guarantee by the customer guarantees important and immediate customer feedback. In the long run, analyzing information collected about why guarantees were invoked by customers can provide meaningful information for making improvements in service design and delivery.
- v) A well designed service guarantee can lead to increased service quality expectations, lower perceived risk and increased purchase intent.
- vi) Service companies have a greater opportunity than manufacturers to differentiate themselves through a guarantee .

Rust, Zahorik & Keiningham have brought about that a guarantee can be very profitable. The mechanism by which a guarantee is linked to profit is shown in Figure 10.3

Figure 10.3: Direct Financial Impact of a Service Guarantee



Source: Rust, Zahorik and Keiningham, 'Service Marketing', Harper Collins, 1996, p.204

The above figure highlights that with a guarantee, advertising is more effective, which attracts more customers.

- People invoking the guarantee come back which may not have been the case in its absence.
- People who invoke guarantee resulting in effective service recovery, will spread a positive word of mouth, thereby attracting more customers.

Features of a Good Service Guarantee

A service guarantee can take the form of an unconditional guarantee of satisfaction or specific outcome guarantees allowing a company to spell out exactly which elements of the service it wants to stand behind. Unconditional guarantees are powerful and a company’s promise to meet all of its customer’s expectations. For example, a hotel guarantee states ‘if you are not completely satisfied, we don’t expect you to pay’. Specific guarantees, on the other hand , though smaller in scope, can still be quite powerful. For example a courier company offering a guaranteed delivery within 24 hours. Whatever may be the type of guarantee, there are certain features which make the guarantee effective. Hart summarizes them into following main characteristics.

- i) **Unconditional:** A guarantee should not have “ifs” , “and”, or “buts”. It should make the promise unconditionally.
- ii) **Easy to Understand and Communicate:** It should be easy to understand for the customers as to what to expect as well as for the employees as to what to do. The message should be short and memorable and the standard clear.
- iii) **Meaningful:** The guarantee should be meaningful in terms of what is being promised (things that customers care about) as well as in terms of the payout.
- iv) **Easy to Invoke and Collect:** A good guarantee should be easy to invoke. Service marketers should understand that once poor service has been delivered, easy and quick settlement should be ensured

Activity 5

- a) Identify a few service providers who offer a service guarantee. Evaluate these guarantees on the characteristics of an effective guarantee discussed above.

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- b) Critically evaluate the following service guarantee offered by a Delhi based multiple chain restaurant for its home delivery

“30 MINUTES GUARANTEE
 10% DISCOUNT ON DELAYED DELIVERY ORDERS*
 * DISCOUNTS NOT APPLICABLE FOR ORDERS OVER RS.500/-”

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It is often feared that a service guarantee especially an unconditional service guarantee may spell financial disaster for the company. However, it should be noted that a service guarantee is not a panacea and will not be beneficial for all the service firms. To begin with, a low quality firm should not offer them. Also there are situations which involve uncontrollable variables which can't be guaranteed by a firm. Another big hurdle for many service managers in offering guarantee is customer cheating. However, it is generally believed that what inevitable cheaters cost a company most often amounts to very little as compared to the benefits derived from a strong guarantee. It may also become less meaningful to offer service guarantee if customers perceive little risk in the service or there is very small perceived variability in service quality among competitors.

The following illustration highlights the benefits gained by M/s. Delta Dental (A Dental Insurance company from Massachusetts, U.S.A) through the implementation of an effective service guarantee program.

A Service Leader – DELTA DENTAL OF MASSACHUSETTS

On April 1, 1990, Delta Dental of Massachusetts, that sells dental insurance in USA, launched a Service Guarantee. They had 15% market share and lots of competition. In 2003 they have 55 percent market share and NOT ONE competitor has copied their service guarantee.

Delta promises money if they fail on any of their seven guarantees, no questions asked. They have three types of customers; the organization that selects their insurance and pays them, the employees of the organization, and the dentists. The guarantees were put together after finding out in early 1990 from the organizations, what was the most important thing Delta Dental needed to deliver.

A sample :

THE GUARANTEE: Accurate and quick turnaround of ID card. A complete and accurate identification card for each subscriber will be mailed to the group or subscriber's home within 10 business days.

THE REFUND : \$25 paid to the group per ID card.

This means if a firm signed up with 500 employees and someone got distracted and did not send the ID card out until 11 business days, Delta Dental of Massachusetts would send the group a refund of \$12,500.

Instead of saying we are sorry, making excuses, Delta Dental send money instead. They track the refunds monthly and yearly. They know exactly how many refunds they have paid out for each of the 7 guarantees.

Total occurrence from April 1, 1990 – December 31, 2002 are 4,055 with payouts of \$1,359,668. On the I D cards they have had 2,543 occurrences and payouts of \$89,925.

They have added 570,000 new subscribers valued at \$614 per subscriber since implementing the service guarantee. The value of these new subscribers is \$350 million (570,000 x \$614). Not a bad return on \$1,359,668.

Customer retention had remained high at 96.5% (1995-2002). Compare that to the previous average of 92% (1987-1989)!

Source: www.customer-service.com

An interesting issue related to service guarantees is whether a firm with a reputation for outstanding quality offer a service guarantee? This is because with such firms there is an implicit guarantee — an unsaid promise that the firm will do whatever is necessary to satisfy a customer. Some researchers have even stated that an explicit guarantee by such firms may even be interpreted as a signal for potential quality problems. Wirtz, Kum & Lee, based on their research done in Singapore, have given the following findings in this regard.

- Service provider with a good but not outstanding reputation for service quality has much to gain from the introduction of a well-designed service guarantee.
- Benefits of a guarantee would also be positive, but less so for an already highly reputed firms. Therefore firms with a reputation for service excellence should carefully consider whether the costs of implementing a service guarantee are justifiable in terms of its market and/or operational impacts.
- Customer of even the best providers may prefer the certainty of an explicit guarantee over the uncertainty intrinsic in an implicit guarantee.

10.7 SUMMARY

Retaining customers is of great significance for a service company's growth and profitability. The unit explains the importance of keeping customers. As the customer stays with the organization he becomes profitable by increase in purchasing, reduced operating costs, price-premium and through referrals. There are a number of reasons why customers switch and most of these reasons are controllable for company's point of view. Providing excellent service quality, maintaining customer relationship and effective segmentation are key to building customer loyalty. The unit further discusses the significance of complaint management and key components of a good complaint management system. On receiving complaints or otherwise finding out a service failure the company should strive for an effective service recovery. For this the company should anticipate need for recovery, act fast, train and empower employees and close the customer feedback loop. The last part of the unit deals with Service Guarantees. A good service guarantee helps in creating customer focus, increasing employee morale and loyalty, seeking customer feedback, creating differentiation, lowering customer perceived risk and increasing purchase intent. For a service guarantee to be effective, it should be unconditional, easy to understand and communicate, meaningful and easy to invoke.

10.8 SELF ASSESSMENT QUESTIONS

A) Objectives Type Questions

1. The service guarantee must be about things that customers care about! This reflects which of the following characteristics of a good service guarantee?
 - a. Unconditional
 - b. Easy to Understand
 - c. Meaningful
 - d. Easy to Invoke
2. The example of self service salad bars wherein customers can create salad as per their own individual need is an example of
 - a. customizing the service around an standardized core
 - b. creating customizable service
 - c. offering point of delivery customization
 - d. all of the above
3. Customers are more profitable over the time because of
 - a. increased purchase
 - b. reduced operating costs
 - c. referrals through positive word-of-mouth

d. all of the above

True or False

4. Customers leave for a variety of reasons most of which are not controllable from a company's point of view
5. Service recovery refers to the action taken by the service provider in response to a service failure.
6. Service Guarantee benefits all service organizations alike.

Answers

- | | | |
|----------|---------|----------|
| 1. (c) | 2. (b) | 3.(d) |
| 4. False | 5. True | 6. False |

B) Discussion Questions

- 1) What are the benefits to a service organization in retaining its customers? Discuss with the help of examples
- 2) Why do customers switch service providers? Can you do anything as a marketer to prevent the customers from switching?
- 3) What benefits do an organization derive in seeking customer complaints? Discuss the features of a good complaint management system.
- 4) Consider a service firm you are familiar with. Describe the importance of service recovery to the firm and develop a service recovery strategy for it.
- 5) What are the benefits derived by a service firm in offering a service guarantee? Discuss the characteristics of a good service guarantee.

10.9 FURTHER READINGS

- ▣ Bill Dee, "State-of-the-Art Complaint Handling," ISO Management Systems – Jul-Aug 2002.
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- ▣ Reichheld, " Learning from Customer Defections" , HBR, Mar-Apr 1996.
- ▣ Susan Keavenly, "Customer Switching Behaviour in Service Industries : An Exploratory Study," Journal of Marketing, Vol. 59, April 1995.
- ▣ Wirtz, Kum & Lee, "Should a Firm with a Reputation for Outstanding Service Quality offer a Service Guarantee", Journal of Services Marketing, Vol. 14, No. 6. 2000.