



## 15.778

# Management of Supply Networks for Products and Services: Concepts, Design, and Delivery

## Key Takeaways Document – Part II

### Service Guarantees, Customer Satisfaction, and On Retention and Loyalty<sup>1</sup>

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- Agenda and intended purpose of these notes
  - These present the key takeaways and messages from each session / lecture.
  - Internalize the key learning from each lecture.
  - Understand the link between class readings and the core messages from each lecture.
  - These notes are not intended as a substitute for the class readings and lecture slides.
  - They also provide a look back at the ground we have covered so far in the class.

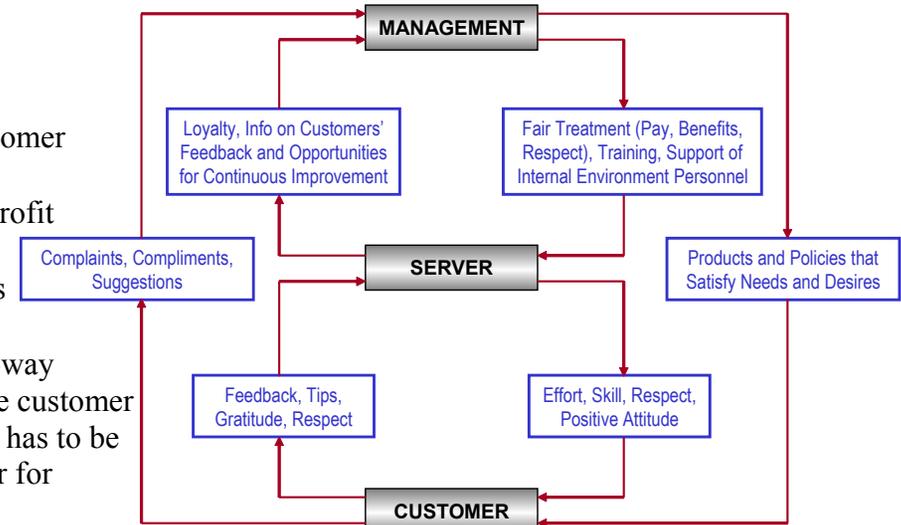
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<sup>1</sup> Version created on 7/28/2004 5:55 PM

<sup>2</sup> Based on Lecture Notes

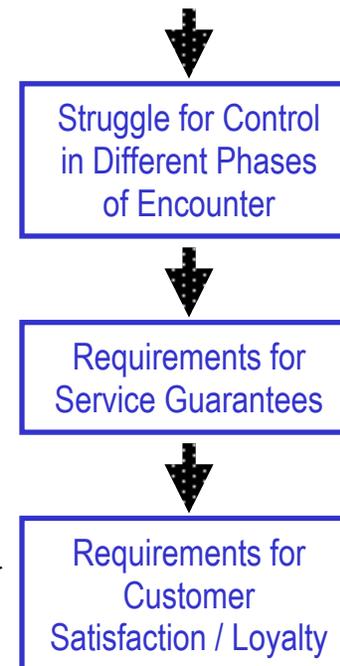
### Service Characteristics: The Service Encounter

- The quality of the interaction between customer and the server is the result of the quality of interaction in the management-customer loop, and the management-server loop.
- There is a connection to remember here to the People-Service-Profit paradigm.
- We need harmony or balance in all of these loops or interactions for success in the service mission.
- All of the interactions implied in the various loops are indeed 2-way streets—there is give and take implied in every relationship. The customer cannot maintain a “I pay therefore I can demand” attitude; there has to be respect for the human beings involved in the transaction in order for the service encounter to be of high quality.
- Once again, we have to see a connection to strong principles in the recruiting process for service firms. There is only so much training we can provide the servers for the variety of service encounters and conditions that are possible.



### Service Characteristics: The Service Guarantee

- Because of the dynamic nature of the interactions between the Customer and the Service organizations, there is a need to recognize the role of power in this relationship.
- Initially, the customer controls the relationship since she has the power to choose between multiple service providers. Gradually this power shifts, as the service organization gains a foothold in the customers' operations.
- Accounting for this shift in power and re-assuring the customer that this power will not be abused, is a powerful lever for negotiating with the customer.
- Not surprisingly, this presents service guarantees as a natural consequence of the nature of the dynamic interactions between the customer and service organizations.
- Guarantees are also a powerful measure to eliminate uncertainty in future transactions.

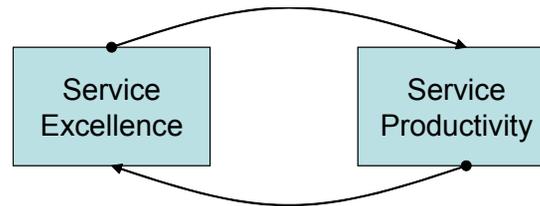


## Service Guarantees

- Service guarantees raise the interesting question of who really benefits from them.
- In our view, guarantees are as important to the service provider as they are to the customer.
- Service guarantees force the service organization to evaluate minutely their strength and weaknesses.
- Their value to the interaction between customer and server is high when
  - the price of service is high
  - the customer ego is on the line
  - the level of the customer expertise with the service is low
  - the negative consequences of service failure are high
  - customer's image of service quality in the industry is low
  - the company depends on a high rate of customer repurchase
- However, service guarantees require an open culture and a stable process that self-identifies defects and faults.
- For example, it should be possible for servers to admit to mistakes and problems in a safe manner without the fear of undue repercussions.
- Further guarantees are more valuable to new players in a market than they are to established players with a history of consistent service.
- Recall the submarine cable contract as an example of effective service guarantees.
- Service guarantees are also a means to assure the quality of the interaction with the customer. This aspect will be taken up in the next few points of discussion.

## Customer Satisfaction & Service Quality

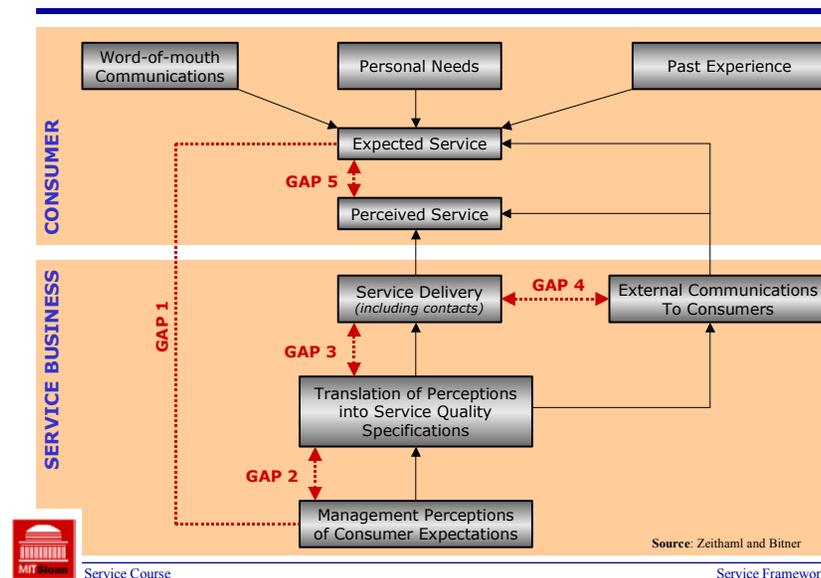
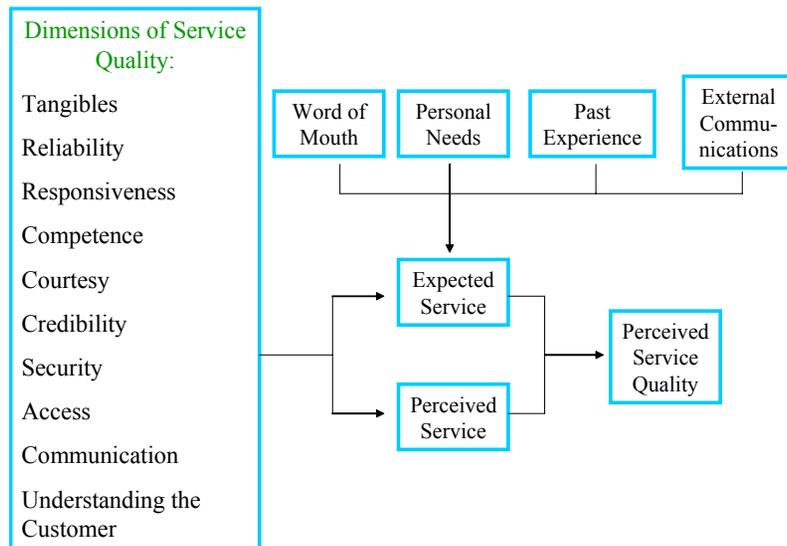
- It is important to note that service quality is a core requirement for service firms to exist.
- It is used to differentiate the service of a firm, and to seek shelter from price-competition.
- More importantly, it is a foundation for competing in the services market, and is a profit strategy.
- However it is also important to recognize that quality in services is a moving target, and expectations are ever-expanding.
- Therefore we must be cognizant of the dual relationship between service quality and service productivity.



- Often the quality of customer service is in the detail that is valued by the customer.
- A quality edge boosts performance in two ways:
  - Short Run - Superior relative quality yields increased profits via premium prices.
  - Long Term - Superior relative quality is the more effective way for a business to grow in its market and to garner market share.
- There is also a connection here to the **People-Service-Profit** paradigm. We need to recognize the interaction between service excellence and employers' pride. Service quality in return instills self-worth and pride in individuals—hence this is a positive cycle for growth.
- Note that customer satisfaction can lead to, and is a precondition for loyalty from the customer; however the opposite is not necessarily true.
- In other terms, service quality has a trust and integrity component; we need to ensure quality in not only the service that the customer perceives, but also in what the customer does not see. This could be the basis for customer retention strategies.
- But the crucial question is: how do we measure and then improve upon service quality? In traditional industries with tangible goods, we can sense quality in products; however we need a framework to understand service quality and customer satisfaction in services.

## Customer Satisfaction & Service Quality

- One of the crucial takeaways intended for this session is the Gaps Model of service quality. However, before this we need to understand the critical dimensions of service quality.
  - **Tangibles:** Appearance of physical facilities, equipment, personnel, and communication materials
  - **Reliability:** Ability to perform the promised service dependably and accurately
  - **Responsiveness:** Willingness to help customers and provide prompt services
  - **Assurance:** Knowledge and courtesy of employees and their ability to convey trust and confidence
  - **Empathy:** Caring, individualized attention the firm provides its customers
- Also crucial is an understanding of how customers are influenced by these dimensions of service quality. For example in a survey customers voted for reliability as a principal component for satisfaction.
- Next, we can focus on understanding the gap between expected and perceived service by the customer.



## Customer Satisfaction & Service Quality

- **Gap 1:** Despite a genuine interest in providing service quality, many companies miss the mark by thinking inside out. They know what customers should want and deliver that, rather than outside in.
  - Factors that contribute include lack of marketing research orientation, inadequate upward communication, and too many hierarchies in management.
- **Gap 2:** “The perception of infeasibility on the part of managers is often the result of short-term, narrow thinking -- an unwillingness to think creatively and optimistically about customers’ needs, and an excuse for maintaining the status quo.”
  - Factors that contribute include lack of commitment to service quality, perception of infeasibility, inadequate task standardization, and absence of goal setting.
- **Gap 3:** It is the difference between service specifications and the actual service delivery --- the employees are unable and/or unwilling to perform the service at the desired level
  - Organizations offering services that are highly interactive, labor intensive, and where services are performed in multiple locations are especially vulnerable to this gap.
  - Factors that contribute include role ambiguity, role conflict, poor job-fit, inappropriate supervisory mechanisms, lack of perceived control, and lack of teamwork.
- **Gap 4:** This is the difference between the service being performed, and the communication to the customers explaining the service being performed.
  - Factors that contribute include inadequate communication laterally between the functions of operations, advertising, sales, HR, and marketing. This gap can also result from a propensity to over-promise.
- **Gap 5:** This is the difference between the customer expectations from the service being performed, and the service perceived by the customer. This gap can be visualized through the adjoining figure.

