UNIT 11 SERVICE RECOVERY AND CUSTOMER VALUE

Structure

11.0 OBJECTIVES

After studying this unit, you will be able to:

- Describe what service recovery is;
- Explain the importance of and stages in service recovery;
- Discuss the relationship of service recovery and customer value;
- Analyse the potential areas of service failures in retail and
- Describe different strategies of service recovery.

11.1 INTRODUCTION

Service recovery is an umbrella term for systematic efforts by a firm to correct a problem following a service failure and retain a customer's goodwill continuously. Service recovery efforts play a crucial role in achieving or restoring customer satisfaction. In every organisation, things may occur that have a negative impact on its relationship with customers. (Lovelock et al. 2006)

The actual test of the firm's commitment lies not in its advertising promises but in how it handles cases of service failure by applying appropriate service recovery strategies. By doing so, a customer is more likely to make future purchases than the customers who have no problem in the first place. A service recovery paradox!!!

The main objective of service recovery is to identify the customers with complaints and issues and resolve those complaints and problems to the customer's satisfaction to promote customer retention. It's pretty often that the customers who have had complaints regarding service failures and when those complaints are resolved quickly and adequately are more loyal to the business than customers who have never had service failure complaints. Service recovery is a positive approach to handle customer complaints and to minimise those to satisfy customers. In this unit, we will discuss the importance and stages of service recovery. We will also discuss the relationship between service recovery and customer value, as well as strategies and areas of service failure.

11.2 CONCEPT OF SERVICE RECOVERY

Let us understand the concept of service recovery with the following example (conversation between a customer and a retail employee):

Service recovery refers to the company's steps to address and resolve customer complaints or issues. This can include identifying the cause of the problem, offering an apology, providing compensation or a solution, and implementing measures to prevent similar issues from occurring. Effective service recovery can help minimiseeven minimise a problem's negative impact and lead to increased customer satisfaction and loyalty.

Customer value refers to the perceived value that a customer receives from a product or service about the price they pay. A product or service that provides high value to customers is considered a good value for the money, leading to increased customer satisfaction and loyalty.

Therefore, Service recovery and customer value are related. Good service recovery can help to enhance customer value by resolving issues and demonstrating that a company values its customers and is willing to go above and beyond to ensure their satisfaction. This can help improve customer loyalty and increase the likelihood that customers will continue to do business with the company.

Example

Customer Complaint: I want my bill to be rechecked.

Retail employee: it is correct. The computer does not make mistakes. Customer: you have typed an entry two times.

Retail Employee: I will never make a mistake like this; you have got it wrong. Customer: Here, see for yourself.

Retail Employee: OK, OK, these things happen sometimes; there is no need to make so much noise.

From the above example, the retail employee does not wish to accept his mistake. Once it is proven that he has erred, he is not apologetic. He may rectify the error, but he has lost the customer forever. It is not enough to solve the problem; it is necessary to recover lost ground. The retailer must be able to retain the customers even if they encounter serious service complaints.

Service recovery is nothing but putting a smile on a customer's face after service failure. It is solving a customer's problem or complaint and sending him the message that our business is the greatest on earth and they are our most valuable customer. Many retailers think that service recovery is a foreign concept, and they don't want to understand and practice it. As a result, they are struggling to survive.

According to John Tschohl, Service recovery is the step that should follow a mistake. You must apologise, take responsibility for the error or the inconvenience, and give the customer something of value as compensation, something that says, "We value you as a customer and want you to continue to do business with us. Service recovery will put you and your organisation ahead of the competition. It will prevent customer defection, which will increase your sales and profits. It also will prevent employee defection. When employees are trained in customer service and are empowered to make decisions that will satisfy their customers, they are happier. With service recovery, your customers and employees wouldn't dream of leaving you".

Service recovery plays its role when something in service delivery goes wrong. Service recovery means correcting customer issues regarding service failure with utmost care to retain valuable customers. Excellent service recovery is the cornerstone of business success. Knowing customers' needs and expectations and exceeding them is the key to business growth. Service recovery is a theory that suggests that if customer's bad experiences with service delivery are correctly resolved and effective responsesareabout business responses to their problems are given, it will send a message to customers about how useful they are for business, and it will create life-long loyal customers to a business.

Definitions of Service Recovery

Many authors have defined service recovery as:

"The effort an organisation expends to win back customers' goodwill once it has been lost due to service failure"- (Fisk, Grove et al. 2000)

"Refers to actions taken by an organisation in response to some service failures" (Zeithaml & Bitner, 2003)

11.2.1 Importance of Service Recovery

Service recovery has had great importance for over 25 years within service marketing. As we have already discussed ,the cost of gaining a new customer is usually five times costlier than retaining existing customers. To avoid this cost of acquisition, managers are increasingly concerned with minimising customer defections. Following are some points which show how service failure and subsequent recovery affect customer's loyalty towards business:

1) Service failure negatively affects customer's loyalty intentions.
2) Recovery of service failure has a positive effect on loyalty intentions.
3) Customer satisfaction with the recovery has a positive effect on loyalty intentions.
4) Immediate service recovery influences customers' further purchase relations with the business.
5) Outstanding recovery results help in customer retention.

Service recovery is essential for a number of reasons.

First, it can help to minimise the negative impact of a problem or complaint. A prompt and effective response to a customer issue can help prevent it from escalating and causing further dissatisfaction.

Second, it can help to improve customer satisfaction and loyalty. A company that is willing to address and resolve customer issues can show customers that it values its business and is committed to providing a positive experience.

Third, it can help to prevent customer defection. Customers who have had a problem resolved to their satisfaction are less likely to take their business elsewhere.

Fourth, it can help to improve the company's reputation. A company with a reputation for effectively addressing and resolving customer issues is more likely to be viewed positively by current and potential customers.

Finally, it can be a source of learning for the company. By analysing the causes of customer complaints and issues, a company can identify areas where it can improve its products or services and prevent similar problems from arising.

Overall, Service recovery is critical for any company looking to maintain and grow its customer base in the long term.

11.2.2 Stages in Service Recovery

Service recovery is a process which has several stages. Usually, it is done in five steps. It starts with service failure identification. Customer complaints are the primary source in identifying service issues. Subsequently, customers' problems are received and documented for all aspects of the service. Then, the problem is analysed thoroughly to identify the exact problem area. For this purpose, service failures are classified into various categories. This requires an analysis of whether the loss was due to technical ,functional or both reasons. Based on the specific issue an appropriate solution is provided to the customers followed by a feedback Analysis.

Stages in the Service Recovery Process:

1 **Identify Service Problem (Customers' Complaints):** The first stage in the service recovery process is identifying the service failure issue. Issues may be of any kind, like; checkout time is slow, customers are getting irritated, no proper guidance from sales executives, etc.

2 **Problem Analysis**: Once a retailer identifies the problems, theissue, then the next step is to fix the problem by accepting the error; it will help in customer satisfaction.

3 **Classify Service Problems**: The next stage is to classify service problems to resolve them. The study of data can be helpful in the identification of the real problem and service problems can be of the following types:

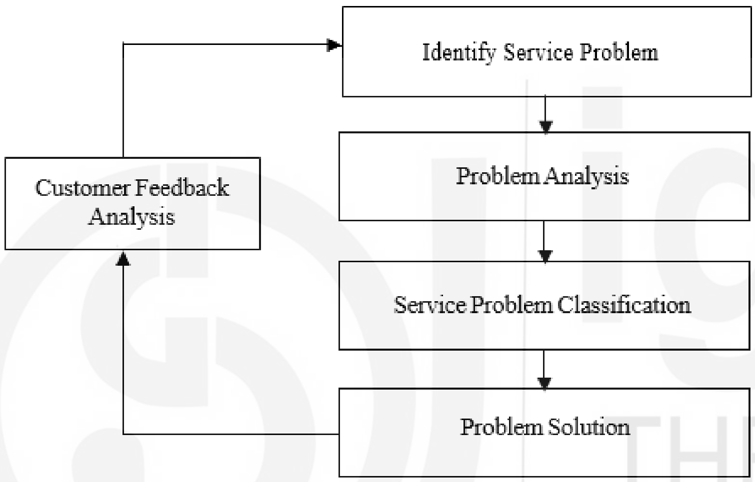


Figure 11.1: Stages of service recovery

Technical Failures: These problems are like:

a) The POS computer is not working at optimum speed.

b) POS software is not well designed, hence reducing the speed.

c) There may not be sufficient POS terminals to handle the peak hours, say on weekends.

ii) Human Failures:

The retail clerk is working inefficiently;

a) He may not be well-trained in the software.

b) He may be working on the computer and packing items himself.

4 **Providing Solution to the Problems:** After essentialclassifying service problems, it is very important to address those service issues to improve the service and avoid further failures. The address can also be of two types:

a) **Human:** Training retail clerks and having a minimum standard of excellence.

b) **Technical:**

i) Repairing/upgrading hardware or software issues.

ii) Increasing the number of POS terminals to accommodate peak traffic.

5 **Customer Feedback Analysis:** The next step is to obtain customer feedback to ensure that their problems have been addressed.

11.3 LINKAGE BETWEEN SERVICE RECOVERY AND CUSTOMER VALUE

According to "Gronroos ", traditional complaint management is often an administrative process where the customer has to make a formal complaint, and the company tries to give the customer as low compensation as possible. Service recovery is a handlingservice-focused view of complaint management and a strategy for handling mistakes, failures, and problems in customer relations, where the experienced quality of the service is the most important part of the process. The purpose of service recovery is to satisfy customers despite service failures and to maintain and, if possible, improve the long-term relationship to keep customers and long-term profitability instead of creating short-term cost saving".

Sometimes, effective service recovery creates very loyal customers to business because when retailers listen to customers' complaints carefully and resolve them effectively and quickly, customers feel delighted, and they get the feeling that they are precious to business.

11.3.1 Customer Value Expectations in Service Failure

Generally, the following are the customer's value expectations from retailers when they experience service failure:

1 To be heard

2 To be adequately compensated fairly.

3 Taking responsibility

4 Sincerity in problem resolution

5 Clear communication of how the problem is being addressed

1. To be Heard

The employees must listen when a customer complains. The employee must pick up the cues even before the customer registers an actual complaint. When customers complain, employees must hear them out with patience and empathy. The customer must not feel he is being neglected or ignored. The employees must not try to shift responsibility.

Example:

Customer: You are very slow. Too much time is being taken for checkout.

A. Poor Service Recovery

Retail clerk: No response

Customer: [in louder voice] Can't you hear me? Why are you taking so much time? Retail Clerk: I cannot help it; the computer is slow and you can't see I am alone. You will have to wait; please be patient.

B. Good Service Recovery

Retail Clerk: I am sorry for the inconvenience, sir. I will work as quickly as I can.

Procedural change: The store can attend peak hours by adding more staff at the checkout and increasing the number of counters.

2. To be Adequately Compensated in a Fair Manner

If the customer is not adequately compensated for his losses, he will feel cheated and switch to other retailers. The retail organisation must be consistent in paying customers, and no single customer should feel that he got a raw deal compared to some other customer who suffered a similar loss.

The compensation must be commensurate with the level of dissatisfaction. The retailer must emerge as compassionate towards customer grievances. The whole process by which the customer is compensated must be seen as fair and considerate towards customer needs.

Example:

Customer: I have purchased an electronic item from your shop, and it is not working.

A. Poor Service Recovery

Employee: I have checked it, and a critical spare is faulty, for which you will have to bear an expense of Rs15,000/-.

Customer: But the product is under warranty

Employee: That is why we ask you to bear only 50% of the cost. Customer: That is not fair

B. Good Service Recovery

The retail store bears the cost to repair the item as it is a manufacturing defect and has happened within the warranty period.

3. Taking Responsibility

The store employees must take responsibility whenever a service complaint comes in. There must be no passing of the buck or running away from the responsibility. There is a tendency to avoid taking responsibility whenever a problem comes up. A service failure is every employee's responsibility, and nobody should hide behind excuses like 'the concerned person is not available now'. This only infuriates the customer even more.

Example-1

Customer: This laptop is not working properly

A. Poor Service Recovery

Employee: You will have to contact the service department, Customer: Nobody is lifting the phone

Employee: You will have to try again

B. Good Service Recovery

Employee: Please tell me about your complaint, and I will ensure it is attended to. [even though he is not from the concerned department]

Example-2

Customer: I wish to make a complaint

A. Poor Service Recovery

Employee: Speak to the manager,

Customer: Where is he?

Employee: He has not come today; come after 2 days

B. Good Service Recovery

Employee: Please let me know your complaint, and I will ensure it is attended to [even though only the manager can resolve this particular problem]

4. Sincerity in Problem Resolution

The employees must be sincere in problem resolution and ensure the customer is adequately compensated. They must ensure that the customer is treated fairly. This needs to be part of the value system of the entire retail organisation.

5. Clear Communication of How the Problem is Being Addressed

It is essential for any customer with a problem to know how issuehowit is being addressed, and when it will be resolved. Therefore, the communication must be absolutely clear from the retailer's side.

Example

Customer: Have you repaired my refrigerator? When will I get it?

A. Poor Service Recovery

Employee: We are working on it, but I cannot tell you when it will be ready

B. Good Service Recovery

Employee: We have received the spare parts today, and we should be in a position to repair them by tomorrow. We will deliver it to you the day after tomorrow.

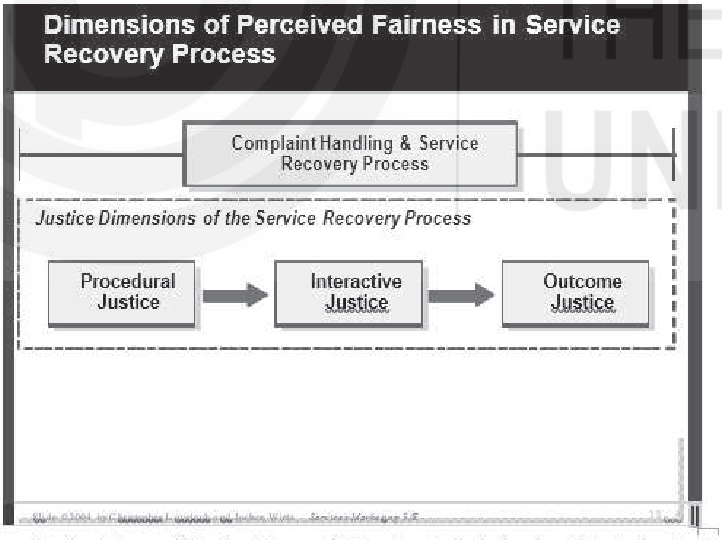
11.3.2 Dimensions of Fairness in Service Recovery

Stephen Tax and Stephen Brown found that as much as 85 per cent of the variation in satisfaction with a service recovery was determined by the three dimensions of fairness, as shown in the diagram below: -

a) **Procedural Justice:** This has to do with the policies and rules that any customer must go through to seek fairness. Here, customers expect the firm to assume responsibility, followed by a convenient and responsive recovery process. Customers expect companies to be flexible and adapt policies to specific individual problems.

b) **Interactional Justice**: This involves the firm's employees who provide the service recovery and their behaviour towards the customer. The recovery efforts must be perceived as genuine, honest and polite. The employees must be warm and show empathy towards customer problems.

c) **Outcome Justice:** This pertains to the compensation that the customer receives due to the losses and inconveniences incurred because of the service failure. Customers expect outcomes that match the level of dissatisfaction. They look for fairness in the form of equality of treatment. The product may be replacements, refunds, monetary compensation, repairs, apology, etc. If other customers have previously experienced similar service failure issues and received some payment, then they, too, must get equal compensation.



Source: Stephen Tax and Stephen Brown in Services Marketing by Christopher Lovelock & Jochen Wirtz ,2004, 5th edition Pearson Education, India.

If a product purchased by a client turns out to be faulty and the retailer's policy is to replace a product immediately if it is defective and the retailer tries to avoid returning the product by making flimsy excuses, then it is against procedural justice.

If the employees interacting with the client are not honest while dealing with the client, then it is a case of poor interactive justice. If the employee claims that the customer has spoiled the product,, it is a case of interactive injustice.

When the customer suffers a loss due to product failure and wishes for compensation, it must be equal to the loss sustained.

11.3.3 Internal and External Complaining Responses

There are two kinds of complaint responses to the customer: external and internal. (Jaiswal and Niraj 2007). These are explained below:

Whenever a customer experiences a service failure, there is some dissatisfaction followed by negative emotions. These customers may either complain or not complain. There are two types of complaints among those who complain. They may be to the service provider or external parties.

Depending on the outcome, they decide whether to continue with the service provider or switch loyalties.

Similarly, the customers who do not complain may continue or switch loyalties.

Internal Complaining Response: Internal complaining refers to customers complaining internally to employees of a company. It indicates constructive attempts by a customer who actively works with the company to remedy problems (Hirschman, 1970). Attitudinally loyal customers with a favourable disposition towards a company may be more prone to complain internally. Their objective could be to give the company enough opportunities to take corrective actions and deliver better service performance (Zeithaml et al., 1996). Prior research has shown that internal complaining (or voice) response is positively related to satisfaction

External Complaining Response: External complaining response involves customers complaining to entities external to a company (e.g., other customers, consumer courts, media, trade associations, etc.) as a result of dissatisfaction with the product or service offered. It is retaliatory in nature and may result in far more severe consequences for the companies than internal complaints. Externally complaining customers have a higher likelihood of defection. They have deeply held frustration.

Some statistics on customer retention after receiving complaints:

- Only 4 % of dissatisfied customers typically complain
- Yet by being able to solve problems effectively, 80 per cent of customers will stay &
- by solving problems fast and effectively, 95 percent will stay, sometimes becoming

Check Your Progress A

1 Describe what service recovery is.

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2 What are the stages of the service recovery process?

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3 What are internal and external complaining responses?

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11.4 POTENTIAL AREAS OF SERVICE FAILURES IN RETAILING

To satisfy customers is a very tough task but not impossible. If retailers understand the customers' needs and expectations, they can resolve the customers problems and complaints. To determine the customers' issues, retailers should understand the areas of service failure. There are several areas of service failures in retailing, and these are broadly categorised into three parts:

1) Service Delivery Failure

It is the main reason behind customer dissatisfaction and defection. Poor service delivery systems not only consume the valuable time of retailers but also irritate the customers. Following are the instances of failure of the service delivery system:

i) Brand not available as per the customer's requirement

ii) Quality of the brand demanded by the customer not available

iii) Customer service is slow

iv) Service personnel is not available

v) Service personnel is not knowledgeable

vi) Bill payment errors

vii) Proper attention is not given to customers

viii) Longer check-out time

ix) Delay in problem resolution

x) Discounts/schemes not available due to stock run out

xi) Product fill rates are low. Product not available on shelves.

2) **Employees Related Failure**

   i) No proper attention to customer complaints

   ii) Not empowered to handle the issues

   iii) Lack of responsibility

   iv) Lack of training for sales personnel

   v) Customer communication-related issues

   vi) Low product knowledge

3) **Failure in External Communication**

   i) Goods not available as communicated in their advertisements

   ii) Dual-meaning communication regarding offers and schemes

   iii) Goods not as per the packaging and advertising

   iv) Promotions are not attractive

   v) Parking management issues

Self-Assessment Activity

Identify the worst service recovery experience and the best service recovery experience that you may have had with any retailer. Discuss what has been learned about service failure and service recovery.

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11.5 STRATEGIES OF SERVICE RECOVERY

Service recovery is not just a one-time action or resolving a service failure. It is a step-by-step process of determining the customer's issues.

Strategies of Service Recovery

1) **Fail-Safe the Service**: When a service is provided perfectly the first time ,then the question of service recovery does not arise. The training and systems must be so designed that every task is performed flawlessly. Zero defect service must be a goal, and this ensures there are no failures.

   There must be advance planning so that employees know how to react the during service failures. The employees must be aware of solutions in the event of a problem rather than panic in such a situation. The employees must be regularly trained to handle customer service issues.

2) **Welcome and Encourage Complaints**: If the customer encounters a problem but does not complain and switches to another retailer, we have a serious service problem. However hard the retailers try, failures will occur. Therefore, it is essential to encourage customers to complain. It should be easy for the customer to complain, and the retailer should

create enough channels for this, such as helpline numbers, drop boxes, websites, customer satisfaction surveys, etc. The employees, too, must quickly recognise signs of customer dissatisfaction.

3) **Act Quickly**: The complaint must be resolved at the earliest. Quick responses may require the support of sound systems and procedures within the organisation. It may also be necessary to empower the employees to tospeedily make some decisions to resolve complaints quickly. For example, if a product is to be repaired for which some expenses must be borne, the employee must have the authority to incur that expenditure.

4) **Treat Customers Fairly**: Customers must be treated fairly as outlined in the section above–whereby outcome fairness, procedural fairness and interaction right must be adhered to.

5) **Learn from Recovery Experiences**: A competent retail organisation will learn from its mistakes and ensure they do not reoccur. All-service issues must be documented and analysed to understand the root causes. These causes must be addressed as soon as possible.

6) **Learn from Lost Customers**: It is vital to understand why customers have switched to other retailers, the service failures etc.

A customer database must be maintained to conduct regular surveys and unearth reasons for the switching behavior. There can be several causes, including

- High prices
- Inconvenience – long waiting period/working hours/location etc.
- Service failures- service mistakes
- Service encounter failures- unresponsive behaviour/not having knowledge
- Competitors' service is superior
- Ethical problems - cheating
- Poor response to service failure

11.6 SERVICE RECOVERY STRATEGY-IMPLEMENTATION

1) **Emotional Response**

When customers face service issues, they get emotionally charged. Employees have to handle angry customers. This is not easy and is a skill which must be learned. When employees sense that customers are getting irritated, they must engage with them immediately and be able to calm them down.

2) **Empowerment**

A lot of service issues can be resolved if immediate action is taken. If a customer has a problem, the problem must be fixed immediately. If it is not decided there and then the customer gets agitated. Employees must be trained in making decisions. It is also essential that certain decision-making authority be given to employees. Many employees would be scared to make decisions; therefore, it is necessary to train them regarding the decision to take in a given situation.

3) **Instilling Customer Confidence**

Employees must be trained in assuring customers that even though a service problem has occurred, it will not be repeated. The customer must be confident that it was a temporary problem and not something which will reoccur in every encounter.

4) **Information Processing**

To solve customer issues, sometimes it becomes essential to access some information. Accessing such information speedily and using it requires a certain level of skill. To develop this skill, training is vital.

5) **Values**

Retailers must have a particular value system where it is recognised that customer satisfaction is the critical mission of the retail organisation. The employees must genuinely believe in this value system, and this should give them sufficient confidence to go to any length to please customers. The management must, by their words and deeds, reinforce this value system.

Critical points of service recovery

- Convert angry, frustrated customers into loyal ones.
- Good service recovery can win a customer for life.
- Each employee is responsible for service recovery and must have the necessary skills, motivation and authority to handle service recovery.
- Recovery skills can be developed through role-playing.
- Employees must be rotated through various jobs in the retail organisation.
- Employees must be empowered to enable service recovery.
- Service recovery must be an integral part of the retailer's strategy.

11.7 LET US SUM UP

It is not enough to merely rectify service failures. Retaining the customer's goodwill is vital so that he remains loyal.

The service recovery process has four stages whereby the service issues are understood, documented, analysed and remedied. The remedy involves a systemic change so that problems do not recur again. Customer value expectations in cases of service failure are to be heard and to be adequately compensated in a fair manner. Customers wish to be treated fairly in terms of the process followed, the nature of the interaction, and the outcome of the service recovery process.

When customers are dissatisfied, they may complain or silently switch to other service providers. When they complain, it may be internal or external. External complaints create more damage, and retailers must ensure dissatisfaction does not reach such a level.

The key service recovery strategies include doing it right the first time, welcoming complaints, quickly responding to complaints, treating customers fairly and learning from lost customers and recovery experiences.

Employee empowerment and training are vital elements in creating a suitable service recovery mechanism.

Key Learning:

Importance of Customer Goodwill:

- Merely rectifying service failures is insufficient; maintaining customer goodwill is crucial for loyalty.

Service Recovery Process:

- The service recovery process consists of four stages: understanding, documenting, analyzing, and remedying service issues.
- Remedies should include systemic changes to prevent future occurrences of the same problems.

Customer Expectations:

- Customers expect their concerns to be heard and to receive fair compensation in cases of service failure.
- Fair treatment encompasses the process, nature of interaction, and outcome of the service recovery process.

Customer Dissatisfaction:

- Dissatisfied customers may either complain or silently switch to other service providers.
- External complaints can inflict more damage, emphasizing the need for proactive management of dissatisfaction.

Service Recovery Strategies:

- Key strategies include getting it right the first time, welcoming complaints, promptly addressing concerns, treating customers fairly, and learning from both lost customers and recovery experiences.

Employee Role:

- Employee empowerment and training are essential elements in establishing an effective service recovery mechanism.

11.8 KEYWORDS

Service Failure: Not meeting the satisfaction level of customers during service delivery.

Service Recovery: Putting a smile on a customer's face after service failure.

Service Delivery System: Combination of all the efforts performed during service delivery.

11.9 TERMINAL QUESTIONS

1) Define service recovery and why it is essential?
2) Explain the service recovery process.
3) What are the various service recovery strategies? Explain.
4) “Service recovery creates more loyal customers”. Give your comment.
5) Why is employee training essential for service recovery? Explain.
6) What are the potential areas of service failures in retail?

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