Service Quality

The material in this chapter prepares students to:

- Understand the importance of quality in services.
- Implement appropriate service guarantees.
- Have a plan to recover from poor service.

- Describe why service quality is important.
- Identify the five key processes in developing a quality service culture.

- Identify the current service quality initiatives.

"Quality cannot be seen as separate from overall performance or the bottom line."

Curt W. Reimann, Director, Baldrige Quality Award

Quality is an increasingly important element that differentiates between competing services. Unlike tangible goods, though, many services are not easily measured or tested for quality. Often, one cannot even assess their quality until after consuming them. All across the service economy, however, leading companies are obsessed with service excellence. They use service to increase productivity. They use it to be different and to earn their customers' loyalty. They seek some shelter from price competition through quality service. Companies ranging from The Ritz-Carlton Company, Southwest Airlines, Land's End, Nordstrom, and The Walt Disney Company actively market themselves based on excellent service.

In manufacturing, companies may focus on Total Quality Management (TQM) and gurus such as Deming, Juran, and Crosby. TQM involves "managing the entire organization so that it excels on all dimensions of products and services that are important to the customer" (Chase, Acquilano, and Jacobs, 2001). TQM took hold in the United States after competition from the Japanese's excellent manufacturing quality hit U.S. companies hard in the late 1970s and 1980s. Consumer confidence in U.S. goods' quality diminished and caused a quality revolution across U.S. industry. The movement affected service organizations when consumers demanded quality in everything they purchased—both goods and services.

As the U.S. economy shifts ever more to one dominated by services and consumers demand more and better quality of their service providers, managers strive to provide "customer delight" with their services by adopting parts of the quality

movement so effectively utilized by manufacturers. In fact, in a recent Gallup survey, executives ranked the improvement of service and tangible product quality as the single most critical challenge facing U.S. business.

Improving the quality of services is more difficult than improving the quality of products because of the temporary nature of a service. An unsatisfactory or defective product can be replaced or repaired. However, a delivery of an unsatisfactory service is something that cannot be undone, so it is vital to deliver a satisfactory—or preferably superior—service the first time (Pegels, 1995, p. 34).

The primary rule of total quality management is to know your customer. A good example of this axiom can be found in excellent companies like The Ritz-Carlton, Southwest Airlines, and The Walt Disney Company. Each prides itself on exceeding customer expectations and works diligently to create and maintain a culture of service quality. They have each developed extensive databases of customer information so that they can analyze how successful their service has been, where it might be improved, and how to predict what these same customers may expect in the future. They have processes in place to solicit feedback from employees and clients alike on how their service is working and where it might be improved. These companies are never satisfied with their current level of service and have processes in place for continual improvement.

Gradually, the TQM movement has shifted to one of return on quality (ROQ). With TQM, the drivers are too often defined internally. With ROQ, the customers set the parameters and the marketer selects those quality improvements that lead to the greatest return on investment.

WHY DOES QUALITY MATTER?

Evidence abounds in the business press and trade magazine articles that high quality and profitability go together. The American Customer Satisfaction Index (ACSI) is a quarterly survey conducted by the University of Michigan in Ann Arbor. The Michigan economists began watching customer satisfaction levels in 1994. From 1994–1998, the quality of service got worse each year. Then, it began to rise.

The overall ACSI reflects changes in the nation's quality of economic output, as experienced by the household users of that output. The economy's ability to create increasing consumer utility is central to economic health and real economic growth. Consumer utility, or satisfaction, is the ultimate standard for productive growth, not only because consumer spending makes up two-thirds of GDP but also because this is the fundamental premise of a market economy: Companies compete for the satisfaction of their customers. If they succeed, they are rewarded with more repeat business and lower price elasticity. Economic growth at the expense of customer satisfaction, which occurred in 1995–1996, is not sustainable, as it has a negative effect on demand. Rather, the continued improvements in ACSI contribute to upward shifts in consumer demand, which translate into GDP growth.

"A person who has a good purchase experience is more inclined to spend again," said Claes Fornell, director of the University of Michigan's National Quality Research Center, which compiles and analyzes the data. "Sustainable economic growth ultimately links to the availability of goods, services, and experiences for which people are willing to repeatedly open their wallets" (ACSI Web site, 2004).

"This is a healthy increase in Americans' satisfaction with their buying experiences, and is the continuation of a two-quarter upward movement," stated Fornell,

who heads the Index at the University of Michigan. "Positive consumption experiences contribute to increased consumer demand and stimulate household spending. Based on the economy's customer satisfaction performance in the first quarter, we can expect a fairly strong increase in household spending. Since consumer spending accounts for two-thirds of the Gross Domestic Product, it is vital to economic growth."

"Every . . . industry has major players that have been taking deliberate, specific steps to better match product, service, and process quality with the customer's definition of how things should be," according to Jack West, past president of the American Society for Quality Control. "In a tough economy, many companies recognize that improving quality and delivering better experiences for customers is the way to stimulate spending."

The performance of e-commerce is impressive, also, especially given that the data also show customer expectations to be among the highest of any industry measured. Some companies, the ASCI reports, have mastered the considerable advantages of the Internet—so much so that they are producing among the most satisfying shopping and consumption experiences of any category of goods, services, and channels used by American consumers.

"E-commerce is getting better and better at first determining what constitutes an excellent experience in the minds of customers and then quickly delivering," said Larry Freed, an online satisfaction expert and CEO of ForeSee Results. "The barriers to making improvements are definitely lower on the Internet, and companies like Amazon.com, barnesandnoble.com, and eBay are showing they know how to use that advantage effectively."

DEFINING SERVICE QUALITY

Quality is much easier to define when manufacturing tangible products. Manufacturing quality may simply involve conformance to specifications. A manufacturer can evaluate the level of a product's quality based on what was produced relative to the design specifications. A defect means a product failed to meet those specifications. The specifications come from product engineers who may be designing the product based on what market research data show that customers want or from some other type of communication that indicates customer wants and needs.

In services, evaluating the level of quality is much more elusive. Quality specifications, for services, come from multiple simultaneous sources, including the company and the individual customers. The company presents specifications as standard operating procedures. Customers present specifications based on their personal expectations for what their service experience will be. Misalignment between company and customer specifications for the service process leads to dissatisfaction, even when the process goes exactly as it was designed. The misalignment of specifications can be avoided through communication. However, if the service performance does not address individual customer needs, the customer will not require the service (Sampson, 1999).

Understanding how this process works requires understanding the difference between quality and value. Service quality is often defined as the satisfaction of expectations. The expectations, of course, are subjective and based on cognitive or formal descriptions of the service process and outcome. Service value is the satisfaction of needs. Needs are the changes that customers perceive will increase their "happiness" or decrease their "happiness." When expectations for a service provider appear to fill customer needs, customers will consider purchasing the service, otherwise they will

not. For example, the same waiter who is considered witty and urbane by some diners may seem outrageous and rude to others, even though the base service is identical.

A variety of available tools can help determine customer expectations, including customer satisfaction surveys, customer perception surveys, focus groups, complaint analysis, employee research, similar industry studies, and transaction analysis.

The true key to delivering quality service comes in identifying and understanding what dimensions of quality are important to *your* customers. High quality does not have to carry a high price. Even low-cost services can be viewed as high quality when they meet the needs and expectations of the customer and the customer values the service.
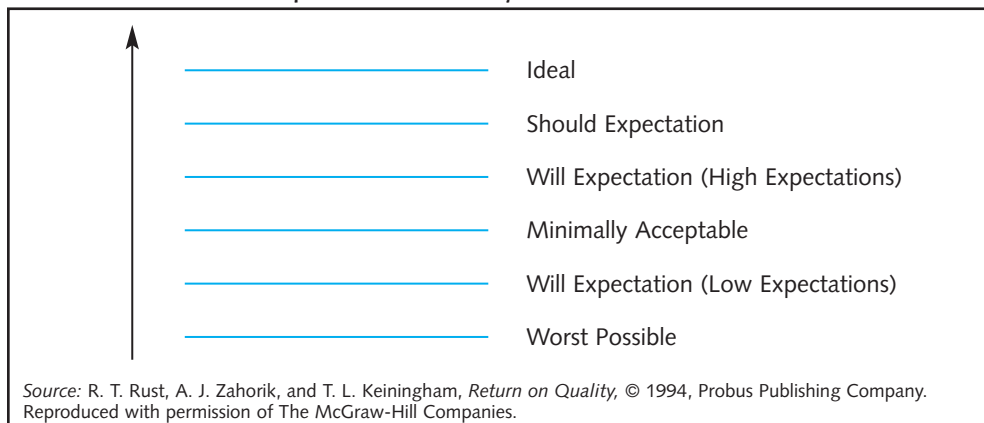
Definitions of Service Quality

Many definitions attempt to describe what constitutes quality service. Some proponents of quality service state that quality can be defined only by customers and occurs when an organization supplies goods or services to a specification that satisfies the customer's needs. Others simply define quality as the satisfaction of customer expectations.

Rust, Zahorik, and Keiningham (1994) claimed that customer satisfaction and delight are both strongly influenced by customer expectations and that the term *expectations* as used by behavioral researchers is not as precise as the usage by mathematicians, which is "what is likely to happen, on average." They found a bewildering array of "expectations" that reflected what might, could, will, should, or better not happen as shown in Figure 10.1.

They define the *will expectation* as coming closest to the mathematics definition. It is the "average level of quality that is predicted based on all known information." It represents the expectation level most often meant by customers and used by researchers. When someone says that the "service exceeded my expectations," what they generally mean is that the service was better than they had predicted it would be (Rust et al., 1994).

The *should expectation* is what the customer feels he or she deserves from the transaction. The *ideal expectation* is what would happen under the best of circumstances and is useful as a barometer of excellence. The *minimally acceptable* level (the threshold at which mere satisfaction is achieved) is the other end of the scale along with *worst possible* (the worst outcome that can be imagined).

FIGURE 10.1:   *The Expectations Hierarchy*

	Ideal
	Should Expectation
	Will Expectation (High Expectations)
	Minimally Acceptable
	Will Expectation (Low Expectations)
	Worst Possible

Source: R. T. Rust, A. J. Zahorik, and T. L. Keiningham, *Return on Quality,* © 1994, Probus Publishing Company. Reproduced with permission of The McGraw-Hill Companies.

Most quality definitions fall short, however, of reflecting all the various perspectives of the various stakeholders. The following categories of quality definitions reflect five different perspectives (Haksever et al., 2000; Garvin, 1988):

1. *Transcendent*. According to the transcendent view, quality is innate excellence and can be recognized only through experience. In other words, "You cannot define quality but you know it when you see it." It, however, provides little practical guidance to managers in the quest for quality.

2. *Product-based*. Product-based definitions rely on measurable quantities to define quality. For goods, the measures may include length of useful life, amount of a desirable ingredient (e.g., "100% cotton") or amount of a desirable output (e.g., "45 miles per gallon"). For services an example might be the length of time before a service is provided. Because it is based on measurable quantities, this definition allows an objective assessment of quality. The disadvantage of a product-based definition is that it assumes all customers desire the same attributes and hence fails to account for differences in tastes and preferences of individual consumers.

3. *User-based*. This approach to defining quality begins where the product-based definition ends; it defines quality from an individual consumer's perspective. The "fitness for use" definition of quality is consistent with this approach. In other words, it is based on the premise that "quality is in the eyes of the beholder." For example, a tastefully prepared and presented meal that takes 30 minutes to deliver to a customer's table may be seen as a sign of poor quality if the meal is for lunch and the customer is in a hurry. The subjectivity of this approach leads to two problems: (1) how to decide which attributes should be included in a good or service to appeal to the largest numbers of customers, and (2) how to differentiate between attributes that provide satisfaction and those that imply quality.

4. *Manufacturing-based*. Manufacturing-based definitions view quality as an outcome of engineering and production processes. According to this approach, quality is "conformance to requirements." In other words, how well does the output match the design specifications? For example, if an airline service specifies arrival within 15 minutes of the schedule, the level of quality in terms of this specification can easily be determined by comparing actual flight arrivals with the schedule. The disadvantage of this approach is that, unless specifications are based on customers' needs and preferences, quality becomes an internal issue that helps simplify production control but fails to deliver what customers want.

5. *Value-based*. This approach incorporates value and price into the definition of quality. Quality is defined as a balance between conformance or performance and an acceptable price to the customer.

The various departments within a company each use different perspectives in their definition of quality and their subsequent measurement of the quality they produce. Marketing, for example, will be much more focused on the user-based definition.

MEASURING SERVICE QUALITY

Clearly, quality is something customers expect and something they value when they purchase a service. But how do we define and then measure these expectations in order to meet them?

Companies utilize a wide variety of measures by which to judge their success in creating customer satisfaction and service quality. Though there are more than 50 national and international awards and standards for quality, most of them are for

manufacturing quality, not service quality. A few of them, though, directly assist companies to identify their quality processes, measure them, and improve them.

The Malcolm Baldrige National Quality Award is the United States' highest honor for quality and performance excellence. It focuses mainly on outputs and the financial perspective of customer satisfaction. The Baldrige Award is weighted towards results.

The International Organization for Standardization's (ISO) standards identify and detail the processes in place to ensure quality in doing business. They are output oriented and are focused on all of the company's processes, not a single measurement. The ISO standards identify what a company's processes are and then measure if they match the processes the business actually performs.

Six Sigma is a useful tool for measuring service processes. It uses a strategic approach to improve business performance by reducing process variation. It is covered in depth in Chapter 11.

The Malcolm Baldrige National Quality Award

Arguably, the most prestigious U.S. quality award is The Baldrige. It is awarded by the President of the United States to businesses—manufacturing and service, small and large—and to education and health care organizations that apply and are judged to be outstanding in seven areas: leadership, strategic planning, customer and market focus, information and analysis, human resource focus, process management, and business results.

In the early and mid-1980s, many industry and government leaders saw that a renewed emphasis on quality was no longer an option for American companies but a necessity for doing business in an ever expanding, and more demanding, competitive world market. But many American businesses either did not believe quality mattered for them or did not know where to begin. The Baldrige Award was envisioned as a standard of excellence that would help U.S. organizations achieve world-class quality.

Malcolm Baldrige was Secretary of Commerce from 1981 until his death in a rodeo accident in July 1987. Baldrige was a proponent of quality management as a key to this country's prosperity and long-term strength. He took a personal interest in the quality improvement act that was eventually named after him and helped draft one of the early versions. In recognition of his contributions, Congress named the award in his honor.

Congress established the award program to recognize U.S. organizations for their achievements in quality and performance and to raise awareness about the importance of quality and performance excellence as a competitive edge. The award is not given for specific products or services. Three awards may be given annually in each of these categories: manufacturing, service, small business and, since 1999, education and health care.

While the Baldrige Award and the Baldrige recipients are the very visible centerpiece of the U.S. quality movement, a broader national quality program has evolved around the award and its criteria. A report, *Building on Baldrige: American Quality for the 21st Century,* by the private Council on Competitiveness, said, "More than any other program, the Baldrige Quality Award is responsible for making quality a national priority and disseminating best practices across the United States."

The U.S. Commerce Department's National Institute of Standards and Technology (NIST) manages the Baldrige National Quality Program in close cooperation with the private sector. The 2003 Baldrige Award winners for service were Boeing Aerospace Support in St. Louis, MO, and Caterpillar Financial Services Corporation, in Nashville, TN.

The ISO 9000 and ISO 14000 Standards

The ISO 9000 and ISO 14000 standards established by the International Organization for Standardization are implemented by some 610,000 organizations in 160 countries. ISO 9000 has become an international reference for quality management requirements in business-to-business dealings, and ISO 14000 is well on the way to achieving as much, if not more, in enabling organizations to meet their environmental challenges.

The ISO 9000 family is primarily concerned with "quality management." This means what the organization does to fulfill the customer's quality requirements and applicable regulatory requirements while aiming to enhance customer satisfaction and achieve continual improvement of its performance in pursuit of these objectives. The ISO 14000 family is primarily concerned with "environmental management." This means what the organization does to minimize harmful effects on the environment caused by its activities and to achieve continual improvement of its environmental performance.

The vast majority of ISO standards are highly specific to a particular product, material, or process. However, the standards that have earned the ISO 9000 and ISO 14000 families a worldwide reputation are known as "generic management system standards." "Generic" means that the same standards can be applied to any organization, large or small, whatever its product, including whether its "product" is actually a service, in any sector of activity, and whether it is a business enterprise, a public administration, or a government department. "Generic" also signifies that no matter what the organization's scope of activity, if it wants to establish a quality management system or an environmental management system, then such a system has a number of essential features for which the relevant standards of the ISO 9000 or ISO 14000 families provide the requirements. "Management system" refers to the organization's structure for managing its processes—or activities—that transform inputs of resources into a product or service which meet the organization's objectives, such as satisfying the customer's quality requirements, complying to regulations, or meeting environmental objectives.

The prime objective of these standards is customer orientation: the ISO 9000:2000 series focus on satisfying the customers (whatever they are called or designated) of the organization in the case of ISO 9001, and on satisfying all interested parties (society in the broadest sense, shareholders, etc.) in the case of ISO 9004 and ISO 14001. All organizations have customers or interested parties, or both, and are therefore potentially concerned with this series of standards. An organization wishing to build up its quality management system should therefore start by taking into account the needs and expectations of its customers.

This system will be constructed around the normal operation of the organization, which will have to identify the processes and then control these processes through its management system to ensure the sustained satisfaction of its customers (ISO 9001) and interested parties (ISO 14001). The concept of process, already present in the ISO 14001 standard, makes a noted entry in the new version of ISO 9001/ISO 9004. Process is the basic concept that reverses previous trends and, rather than encouraging organizations to adapt their management system to a standard, enables the standards to be adapted to any type of organization, provided the latter's general operation is effective and efficient. Therefore, there can be as many quality management systems or environmental management systems (according to the ISO 9000 and ISO 14000 models) as there are organizations. ISO 9001:2000 states, for example, that the documentation implemented by the company should be adapted to the organization and not to the structure of the model.

GAPS IN SERVICE QUALITY

Parasuraman, Zeithaml, and Berry (1985) recognized the idea that service quality is a function of the expectations-performance gap and conducted a broad-based exploratory study in the early 1980s. Their research results began to appear in 1985 and continue today with expansion into e-SQ, or electronic service quality.

Parasuraman and colleagues (1985) conducted studies in several industry sectors to develop and refine SERVQUAL, a multiple-item instrument to quantify customers' global (as opposed to transaction-specific) assessment of a company's service quality. Their model is also commonly known as the Gaps model.
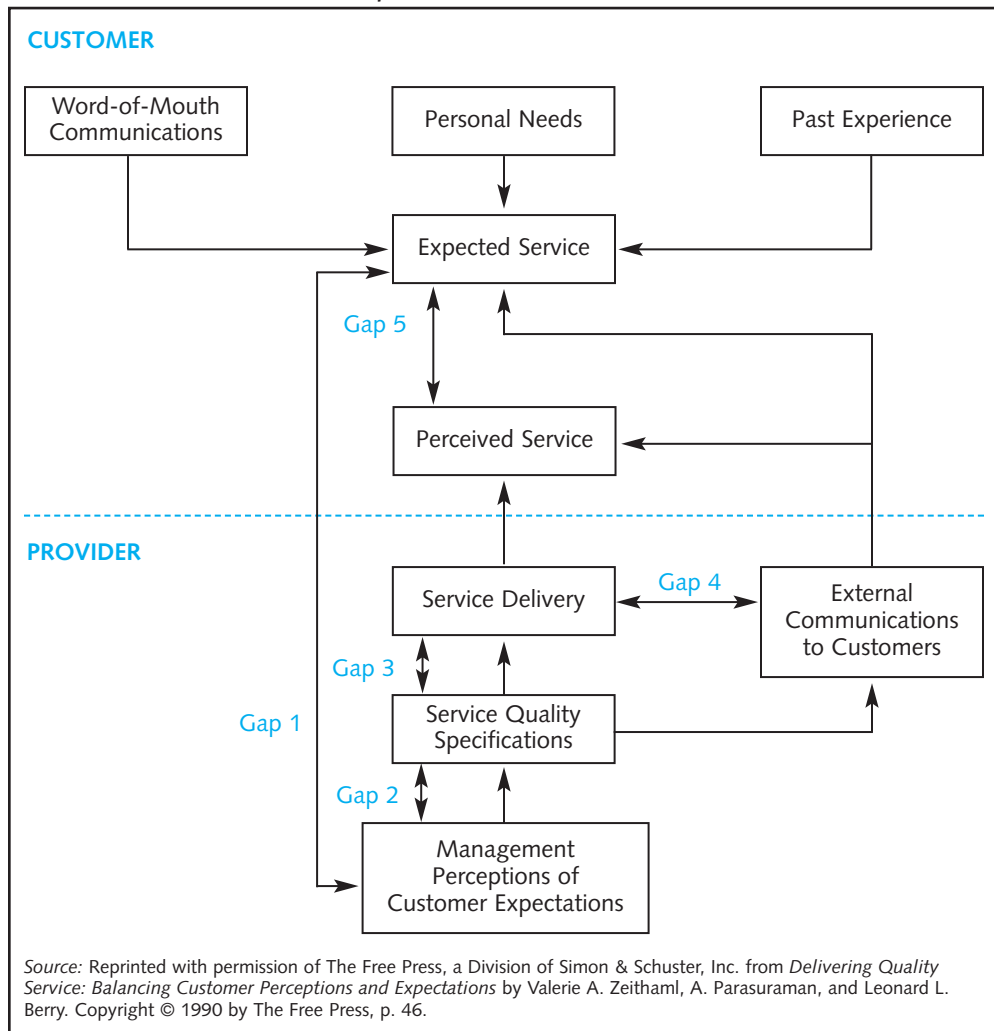
Their scale involved expectations-perceptions gap scores along five dimensions: reliability, responsiveness, assurance, empathy, and tangibles (Parasuraman et al., 1985).

1. *Reliability*. Reliability involves consistency of performance and dependability. It means that the firm performs the service right the first time and that it honors its promises. Specifically, it involves accuracy in billing, keeping records correctly, and performing the service at the designated time.
2. *Responsiveness*. The willingness or readiness of employees to provide service. It involves timeliness of service, including mailing a transaction slip immediately, calling the customer back quickly, and giving prompt service (e.g., setting up appointments quickly).
3. *Assurance*. This dimension relates to the knowledge, competence, and courtesy of service employees and their ability to convey trust and confidence. Competence means possession of the required skills and knowledge to perform the service. Courtesy involves politeness, respect, consideration, and friendliness of contact personnel. It also includes trustworthiness, believability, and honesty of service employees.
4. *Empathy*. The caring and individualized attention provided to customers includes the approachability and ease of contact with the service providers and their efforts to understand the customers' needs.
5. *Tangibles*. Tangibles include the physical evidence of the service, such as physical facilities, appearance of service providers, tools or equipment used to provide the service, physical presentation of the service, and other customers in the service facility.

When Zeithaml, Parasuraman, and Berry asked more than 1,900 customers of five nationally known companies to allocate 100 points across the five service quality dimensions, they averaged as follows: reliability 32%, responsiveness 22%, assurance 19%, empathy 16%, and tangibles 11%. Though customers consistently reported that their most important quality dimension was reliability, this area seems to be where many service companies fail.

The SERVQUAL model conceptualizes service quality on the basis of the differences between customers' expectations with respect to the five dimensions and their perceptions of what was actually delivered. When a difference exists, it is characterized as a "gap." This model was fashioned after remarkably consistent patterns emerged from the study's interviews. Though some perceptions about service quality were specific to the industries selected, commonalities among the industries prevailed. The commonalities suggested that a general model of service could be developed.

The most important insight obtained from analyzing the responses was that "a set of key discrepancies or gaps exists regarding . . . perceptions of service quality and the tasks associated with service delivery to consumers. These gaps (Figure 10.2) can be

FIGURE 10.2: *Service Quality Model*

Source: Reprinted with permission of The Free Press, a Division of Simon & Schuster, Inc. from *Delivering Quality Service: Balancing Customer Perceptions and Expectations* by Valerie A. Zeithaml, A. Parasuraman, and Leonard L. Berry. Copyright © 1990 by The Free Press, p. 46.

major hurdles in attempting to deliver a service which consumers would perceive as being of high quality" (Parasuraman et al., 1985). The service-quality shortfall perceived by customers is defined as Gap 5 and the shortfalls within the service provider's organization are defined as Gaps 1 through 4.

Gap 1: Consumer expectation–management perception gap. Service firm executives may not always understand what features connote high quality to consumers in advance, what features a service must offer in order to meet consumer needs, and what levels of performance on those features are needed to deliver high-quality service. Lack of a marketing research orientation, inadequate upward communication from contact personnel to management, and too many levels of management separating contact personnel from top managers are some of the reasons for this gap.

Gap 2: Management perception–service quality specification gap. A variety of factors—resource constraints, market conditions, or management indifference—may result in a discrepancy between management perceptions of consumer expectations and the actual specifications established for a service. This discrepancy is predicted

to affect quality perceptions of consumers. A key way in which this gap can surface is poor understanding of the system being designed (i.e., poor understanding of basic process design principles).

Gap 3: Service quality specifications–service delivery gap. Even when guidelines exist for performing services well and treating consumers correctly, high-quality service performance may not be a certainty. Executives recognize that the service quality perceived by consumers and employee performance cannot always be standardized.

Gap 4: Service delivery–external communications gap. External communications can affect not only consumer expectations about a service but also consumer perceptions of the delivered service. Alternatively, discrepancies between service delivery and external communications—in the form of exaggerated promises or the absence of information about service delivery aspects intended to serve consumers well—can affect consumer perceptions of service quality. Promising more than can be delivered raises initial expectations but lowers perceptions of quality when the promises are not fulfilled.

Gap 5: Expected service–perceived service gap. Judgments of high and low service quality depend on how consumers perceive the actual service performance in the context of what they expected. The quality that a consumer perceives in a service is a function of the magnitude and direction of the gap between expected service and perceived service.

It is important to note that the gaps on the marketer side of the equation can be favorable or unfavorable from a service quality perspective; that is, the magnitude and direction of each gap affect service quality. For instance, Gap 3 will be favorable when actual service delivery exceeds specifications; it will be unfavorable when service specifications are not met.

Parasuraman and colleagues found in their focus groups that, regardless of the type of service, consumers used basically similar criteria in evaluating service quality. These criteria fall into 10 key categories as presented in Table 10.1.

A consumer's view of service quality is elaborated in Figure 10.3. It reveals that perceived service quality is the result of the consumer's comparison of expected service with perceived service. The comparison and the perceived service evaluation are not unlike that performed by consumers when evaluating goods. What differs with services is the *nature* of the characteristics upon which they are evaluated.

SERVQUAL results can be used to identify which components or facets of a service the company is particularly good or bad at, relative to customer expectations. It can be used to monitor service quality over time, to compare performance with that of competitors, or to measure customer satisfaction with a particular service industry generally.

An organization or industry group can use the information collected through SERVQUAL to improve its position by acting upon the results and ensuring that it continuously surpasses customers' expectations. Additionally, the expectations-perceptions results, along with the demographic data, may facilitate effective customer segmentation.

It is important that service providers decide upon a target level of service quality and then communicate the level of service offered to both consumers and employees. This quality goal allows employees to know what is expected of them, and customers will have an idea of the level of service they can expect.

The SERVQUAL model highlights the difficulties in ensuring a high quality of service for all customers in all situations. More specifically, it identifies gaps where a

TABLE 10.1: *Determinants of Service Quality*

Reliability involves consistency of performance and dependability. It means that the firm performs the service right the first time. It also means that the firm honors its promises. Specifically, it involves:
- accuracy in billings;
- keeping records correctly;
- performing the service at the designated time.

Responsiveness concerns the willingness or readiness of employees to provide service. It involves timeliness of service:
- mailing a transaction slip immediately;
- calling the customer back quickly;
- giving prompt service (e.g., setting up appointments quickly).

Competence means possession of the required skills and knowledge to perform the service. It involves:
- knowledge and skill of the contact personnel;
- knowledge and skill of operational support personnel;
- research capability of the organization, e.g., securities brokerage firm.

Access involves approachability and ease of contact. It means:
- the service is easily accessible by telephone (lines are not busy and they don't put you on hold);
- waiting time to receive service (e.g., at a bank) is not extensive;
- convenient hours of operation;
- convenient location of service facility.

Courtesy involves politeness, respect, consideration, and friendliness of contact personnel (including receptionists, telephone operators, etc.) It includes:
- consideration for the consumer's property (e.g., no muddy shoes on the carpet);
- clean and neat appearance of public contact personnel.

Communication means keeping customers informed in language they can understand and listening to them. It may mean that the company has to adjust its language for different consumers—increasing the level of sophistication with a well-educated customer and speaking simply and plainly with a novice. It involves:
- explaining the service itself;
- explaining how much the service will cost;
- explaining the trade-offs between service and cost;
- assuring the consumer that a problem will be handled.

Credibility involves trustworthiness, believability, honesty. It involves having the customer's best interests at heart. Contributing to credibility are:
- company name;
- company reputation;
- personal characteristics of the contact personnel;
- the degree of hard sell involved in interactions with the customer.

Security is the freedom from danger, risk, or doubt. It involves:
- physical safety (Will I get mugged at the automatic teller machine?);
- financial security (Does the company know where my stock certificate is?);
- confidentiality (Are my dealings with the company private?).

Understanding/Knowing the Customer involves making the effort to understand the customer's needs. It involves:
- learning the customer's specific requirements;
- providing individualized attention;
- recognizing the regular customer.

Tangibles include the physical evidence of the service:
- physical facilities;
- appearance of personnel;
- tools or equipment used to provide the service;
- physical representations of the service, such as a plastic credit card or a bank statement;
- other customers in the service facility.

Source: Parasuraman, Zeithaml, and Berry (1985), p. 47.

FIGURE 10.3: *Determinants of Perceived Service Quality*

Determinants of Service Quality
1. Access
2. Communications
3. Competence
4. Courtesy
5. Credibility
6. Reliability
7. Responsiveness
8. Security
9. Tangibles
10. Understanding/ Knowing the Customer

W.O.M.*   Personal Needs   Past Experiences

Expected Service

Perceived Service

Perceived Service Quality

*W.O.M. = word-of-mouth

Source: Reprinted with permission from *Journal of Marketing,* published by the American Marketing Association, A. Parasuraman, Valerie A. Zeithaml, and Leonard L. Berry, Fall 1985/Vol. 49, p. 48.

shortfall between expectation of service level and perception of actual service delivery may occur (Palmer and Cole, 1995, pp. 153–154). The culmination of these four gaps in service quality results in Gap 5: the potential discrepancy between the expected and the perceived service from the customer's standpoint.

SERVICE QUALITY DESIGN

It is often important to design certain fail-safe techniques into a service to ensure the safety of service providers and consumers. Fail-safe constructs procedures that block mistakes from becoming service defects. Developing a service blueprint enables a company to identify potential areas where service failures can occur. Similar to the design process utilized in manufacturing, a service blueprint generally consists of four stages: direction, design, testing, and introduction (Scheuing and Johnson, 1989, pp. 25–34). During the design phase, the company can create fail-safe procedures or devices to signal potential mistakes and allow for their correction immediately.

FOOLPROOF SERVICE USING POKA-YOKE[1]

The quality assurance challenge for services is to achieve zero defects in the day-to-day provision of services. The late Shigeo Shingo, (known as "Mr. Improvement" in Japan), conceived of the idea of fail-safing or mistake-proofing to prevent the inevitable mistake from turning into a defect.

Shingo, an industrial engineer at Toyota, is credited with creating and formalizing Zero Quality Control (ZQC), an approach to quality management that relies

1. Baka/yoke is an early term, which was later replaced by poka-yoke. Baka/yoke is translated as fool-proofing. Shigeo Shingo changed the term to poka-yoke (mistake-proofing) when a worker was offended by the implication that she was a fool (Myers, 1995).

heavily on the use of poka-yoke (pronounced POH-kah YOH-kay) devices. J.P. Lafferty (1992) observed that, "Shingo brought his Poka-Yoke devices to America in the mid-80s . . . Unfortunately; the reception to Shingo's methods in this country is similar to our response to Dr. W. Edwards Deming in the 50s. It took us 30 years to become convinced Deming was right about statistical control. Must we wait 30 more to believe Shingo?" Fortunately, since his remark in the early 1990s, service quality and poka-yoke designs have both come a long way . . . for the better.

Although widely used in manufacturing operations, poka-yoke is less well known in services. A poka-yoke (from the Japanese *yokeru*, meaning "to prevent," and *poka*, meaning "inadvertent errors") is a simple, built-in step in a process that must be performed before the next stage can be performed. In essence, it is a device or procedure that signals a mistake is about to be made. Done well, a fail-safing procedure is also usually fairly simple and inexpensive to develop.

In services, hospitals use task poka-yokes in their medical processes. Indentations on trays that hold surgical instruments mean that all the instruments needed for a given operation will be nested on the tray. It is immediately evident not only if an instrument is missing, but also which specific instrument is missing before the patient's incision is closed.

Encounter poka-yoke devices and procedures can be used to warn and control customer actions to prevent customer errors during the encounter. Examples of this type of poka-yoke include frames in airport check-in for passengers to gauge the allowable size of carry-on luggage, locks on airplane lavatory doors that must be turned to switch on lights (and at the same time activate the "Occupied" sign), height bars at amusement rides to assure that riders meet or do not exceed size requirements, and beepers to signal customers to remove their cards from the ATM. Another hospital innovation involves electronic order entry. Doctors enter orders for prescriptions, X-rays, and lab tests into a computer system, which instantly checks the order for possible problems such as drug interactions or allergies.

Figure 10.4 illustrates how fail-safing can be incorporated into a design design. The figure shows a blueprint of an automotive service operation and how poka-yoke can be used to prevent service failures and create a robust service.
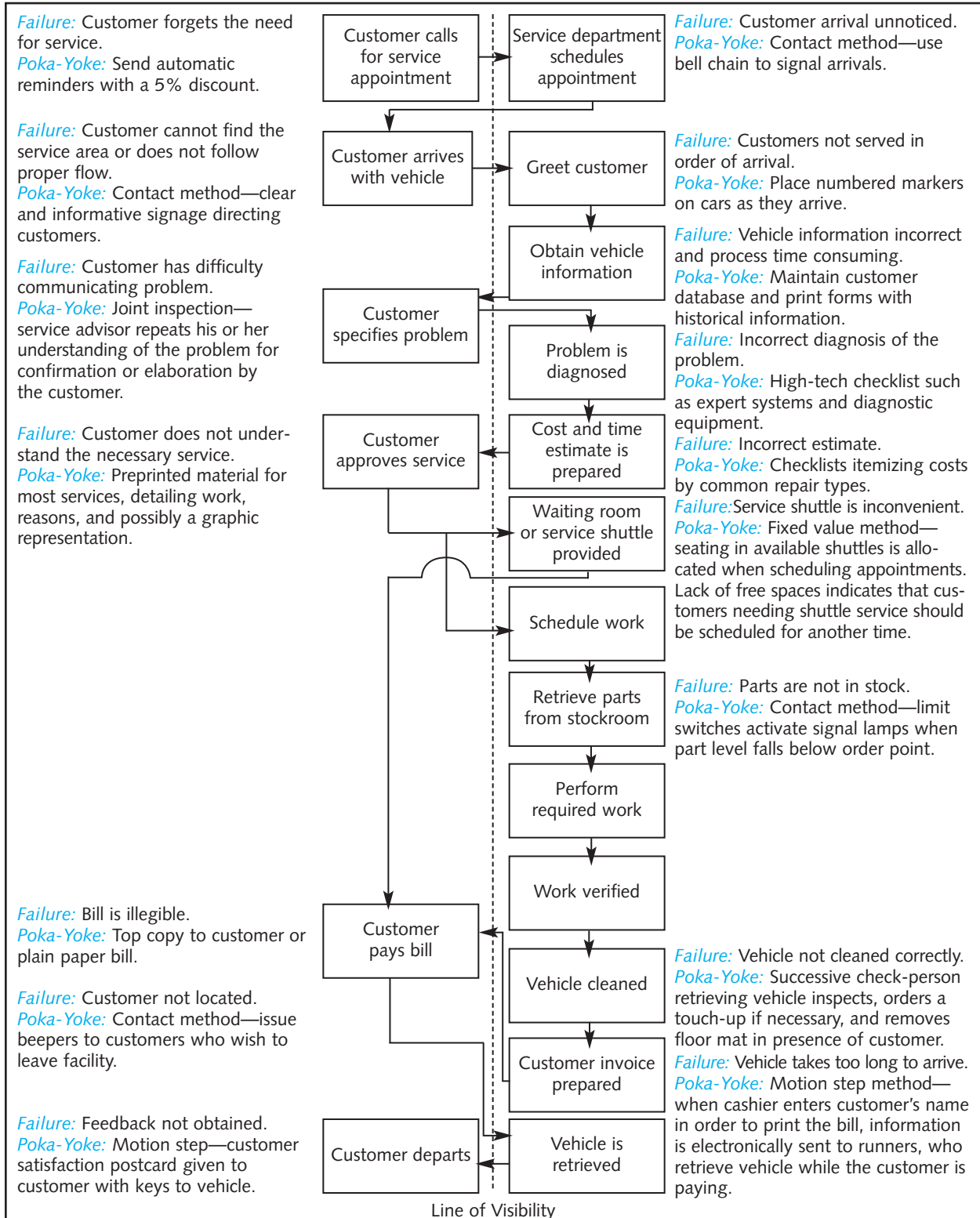
MEASURES OF CUSTOMER SATISFACTION

Good customer service and high customer satisfaction requires the commitment of management, supervisors, and front-line employees to create and maintain a strong business philosophy. These factors are influential in any business. Mastering these aspects means becoming more competitive in the marketplace today.

Excellent companies know their customers; they know their customers' needs and requirements. Although each company may approach it in different ways, they usually go to great lengths to gather this information. This information allows them to design effective and efficient services and delivery systems that satisfy customers, to position and market services effectively, and to forecast and manage demand.

L.L.Bean is often thought of as synonymous with great customer service and customer satisfaction. It displays a poster prominently all around its Freeport, Maine, facilities, which defines the customer (Figure 10.5).

Rust, Zahorik, and Keiningham suggested that service operations measure their quality management success by calculating their Return on Quality (ROQ). Figure 10.6 shows the steps involved in determining a company's ROQ. These steps can be broken down into four main sections: (1) exploratory research, (2) quantitative research, (3) impact of quality on satisfaction, and (4) market share and profit impact.

FIGURE 10.4: *Fail-Safing a Typical Automotive Service Operation*

Failure: Customer forgets the need for service.
Poka-Yoke: Send automatic reminders with a 5% discount.

Failure: Customer cannot find the service area or does not follow proper flow.
Poka-Yoke: Contact method—clear and informative signage directing customers.

Failure: Customer has difficulty communicating problem.
Poka-Yoke: Joint inspection—service advisor repeats his or her understanding of the problem for confirmation or elaboration by the customer.

Failure: Customer does not understand the necessary service.
Poka-Yoke: Preprinted material for most services, detailing work, reasons, and possibly a graphic representation.

Failure: Bill is illegible.
Poka-Yoke: Top copy to customer or plain paper bill.

Failure: Customer not located.
Poka-Yoke: Contact method—issue beepers to customers who wish to leave facility.

Failure: Feedback not obtained.
Poka-Yoke: Motion step—customer satisfaction postcard given to customer with keys to vehicle.

Customer calls for service appointment → Service department schedules appointment

Customer arrives with vehicle → Greet customer

Obtain vehicle information

Customer specifies problem

Problem is diagnosed

Customer approves service ← Cost and time estimate is prepared

Waiting room or service shuttle provided

Schedule work

Retrieve parts from stockroom

Perform required work

Work verified

Customer pays bill

Vehicle cleaned

Customer invoice prepared

Customer departs ← Vehicle is retrieved

Line of Visibility

Failure: Customer arrival unnoticed.
Poka-Yoke: Contact method—use bell chain to signal arrivals.

Failure: Customers not served in order of arrival.
Poka-Yoke: Place numbered markers on cars as they arrive.

Failure: Vehicle information incorrect and process time consuming.
Poka-Yoke: Maintain customer database and print forms with historical information.

Failure: Incorrect diagnosis of the problem.
Poka-Yoke: High-tech checklist such as expert systems and diagnostic equipment.

Failure: Incorrect estimate.
Poka-Yoke: Checklists itemizing costs by common repair types.

Failure: Service shuttle is inconvenient.
Poka-Yoke: Fixed value method—seating in available shuttles is allocated when scheduling appointments. Lack of free spaces indicates that customers needing shuttle service should be scheduled for another time.

Failure: Parts are not in stock.
Poka-Yoke: Contact method—limit switches activate signal lamps when part level falls below order point.

Failure: Vehicle not cleaned correctly.
Poka-Yoke: Successive check-person retrieving vehicle inspects, orders a touch-up if necessary, and removes floor mat in presence of customer.

Failure: Vehicle takes too long to arrive.
Poka-Yoke: Motion step method—when cashier enters customer's name in order to print the bill, information is electronically sent to runners, who retrieve vehicle while the customer is paying.

FIGURE 10.5: *Sign Prominently Displayed at L.L.Bean in Freeport, Maine*

What Is a Customer?

- A customer is the most important person ever in this office . . . in person or by mail.
- A customer is not dependent on us . . . we are dependent on him.
- A customer is not an interruption of our work . . . he is the purpose of it. We are not doing him a favor by serving him . . . he is doing us a favor by giving the opportunity to do so.
- A customer is not someone to argue or match wits with. Nobody ever won an argument with a customer.
- A customer is a person who brings us his wants. It is our job to handle them profitably to him and to ourselves.

Source: Courtesy of L.L.Bean, Inc.

FIGURE 10.6: *Steps Involved in Determining Return on Quality (ROQ)*

Determine customer needs from the service

↓

Relate customer needs to internal business processes

↓

Collect data on customer satisfaction with business processes

↓

Relate customer satisfaction with various processes and customer retention

↓

Determine the shift in customer satisfaction with the firm or a business process resulting from the quality improvement effort

↓

Estimate the customer retention rate after the quality improvement effort

↓

Estimate the market share impact corresponding to the new retention rate

↓

Determine the profit impact resulting from the change in market share, plus any cost savings, minus the cost of the quality improvement effort

Source: R. T. Rust, A. J. Zahorik, and T. L. Keiningham, *Return on Quality,* © 1994, Probus Publishing Company. Reproduced with permission of The McGraw-Hill Companies, p. 8.

The central chain of events that leads from quality to profits can be summarized as follows: Service performance impacts customer satisfaction, which impacts customer retention, which changes market share, which impacts profits. Figure 10.7 illustrates this quality-to-profits sequence.

This chain of events, however, focuses on customer retention and does not include three sources of profits generated by quality improvement: (1) cost reductions due to increased efficiency, (2) the attraction of new customers resulting from positive word-of-mouth, and (3) the ability to charge higher prices (Rust, 1994, p. 8).

Based on the concept that the primary purpose of every business is performing a service for customers, the service always centers on meeting customer needs. Thus, a mission of management is to identify and fulfill customer needs. To do so, companies must find out what the customer needs are, whether they are being met, and how to meet them better.

Thinking of a company as a service designed specifically to fulfill customer needs is not the natural way for most managers to view their organizations. It is essential, however, if they are to understand how customers perceive their firms. As a result, managers need to understand what is meant by "service performance," and then use that understanding to determine the actual benefits their companies offer to customers.

Common measurement tools used by market researchers to reveal service performance levels include customer satisfaction surveys, customer perception surveys, focus groups, complaint analysis, employee research, similar industry studies, and transaction analysis.

ACHIEVING SERVICE QUALITY

Costs of Service Quality

A lot of confusion surrounds the issue of whether quality costs money or saves money. In one sense, quality means the features of a service that make people willing to buy it. So it is income-oriented and affects income. To produce features, ordinarily you

FIGURE 10.7: *Chain of Events Leading from Quality to Profits*

Service Performance

↓

Customer Satisfaction

↓

Customer Retention

↓

Market Share

↓

Profits

Source: R. T. Rust, A. J. Zahorik, and T. L. Keiningham, *Return on Quality,* © 1994, Probus Publishing Company. Reproduced with permission of The McGraw-Hill Companies, p. 7.
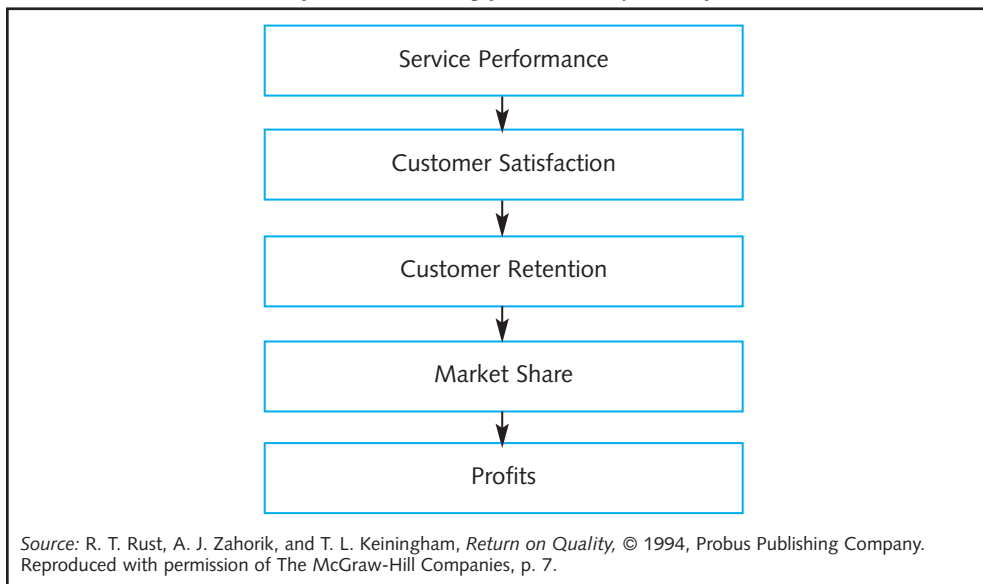
must invest money. In that sense, higher quality costs more. Quality also means free-dom from trouble, freedom from failure, which is cost-oriented. If things fail internally, it costs the company. If they fail externally, it also costs the customer. In these cases, quality costs less (Stewart, 1999).
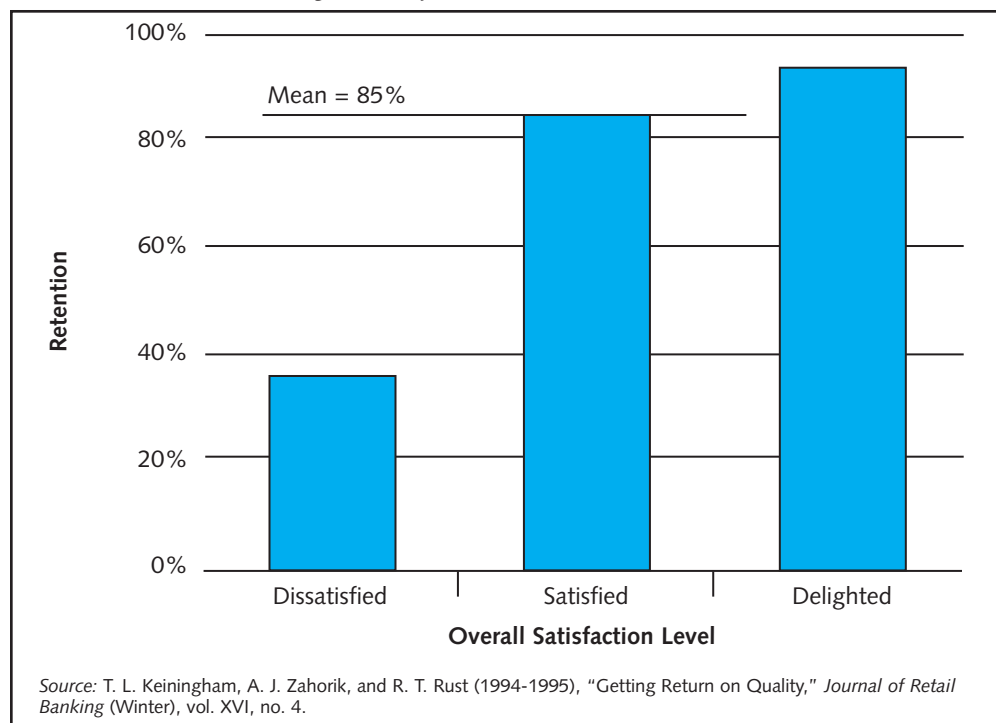
Many executives still do not agree that investments in quality pay off in terms of service improvement and profits. Indeed, many companies waste money annually in the name of quality improvement that fails to lead to increased quality or profits. The thing that actually does pay off is improving service in the eyes of the customers. Quality becomes a profit strategy when service improvements lead to perceived serv-ice improvements (Zeithaml et al., 1990, p. 9). Studies show that, in the long run, the most important single factor affecting a business unit's performance is the quality of its products and services relative to those of competitors.

Quality service pays off, in the final analysis, because it creates *true* customers who are glad they selected a firm after the service experience, who will use the firm's services again, and who will sing the firm's praises to others. The essence of services operations is service or, more directly, the *performance* of that service. When every-thing comes together to produce customer delight, profits result (see Figure 10.8).

Roland Rust and colleagues (1994) summarized the facts around the costs involved with attaining and then keeping quality customers:

- It costs five times more money to acquire a new customer than to retain a current customer.
- Increasing the length of a customer relationship increases the lifetime value of the customer.
- Longer-term customers tend to purchase more.
- Familiar customers may be more efficient to deal with.

FIGURE 10.8: *The Delighted Stayed*

Source: T. L. Keiningham, A. J. Zahorik, and R. T. Rust (1994-1995), "Getting Return on Quality," *Journal of Retail Banking* (Winter), vol. XVI, no. 4.

SERVICE OPERATIONS MANAGEMENT PRACTICES

Develop a Culture to Achieve Customer Satisfaction

Having a good customer service and customer satisfaction requires the commitment of management, supervisors, and front-line employees to create and maintain a strong business philosophy. These are all influential factors of any business. Mastering these aspects means becoming more competitive in the marketplace today.

Initialize Idea Campaigns

Implement Service Standards

Support a Service-Driven Philosophy

Discover Current Service Trends

Customer Satisfaction

Select Service-Driven Employees

Create Reward Systems

Change Attitudes and Behaviors

Teach Quality Service Skills
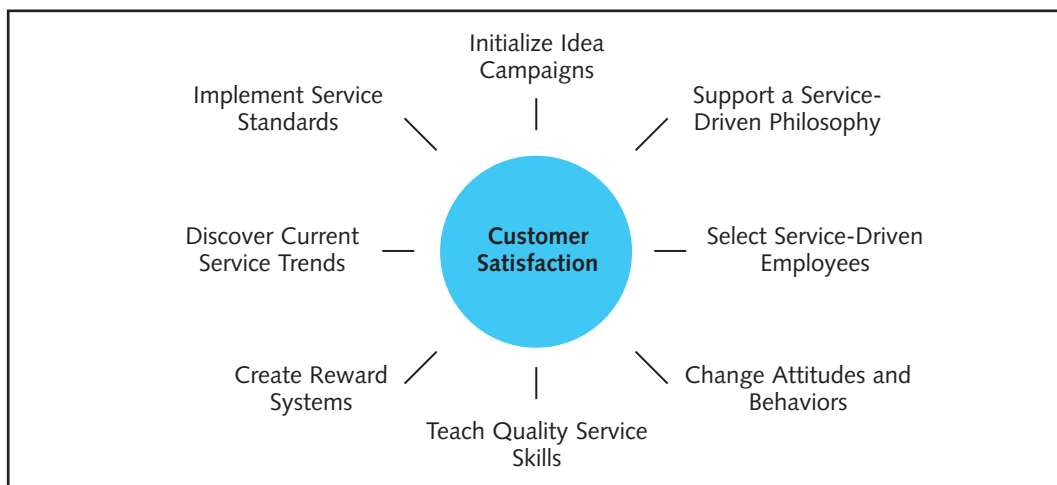
Profits Tied to Quality

Quality service, in and by itself, cannot guarantee higher profits or a better bottom-line number. Failure to link a company's quality program to the bottom line through cost reductions or revenue increases could, in fact, lead to corporate failure. Research evidence shows a relationship between quality and profits. Buzzell and Gale defined this relationship by calculating return on sales (ROS) and return on investment (ROI) as percentages. They found that inferior quality resulted in an 8% ROS and 18% ROI. Superior quality, however, resulted in 12% ROS and 32% ROI (Buzzell and Gale, 1990, p. 107).

Cost reductions from improving processes to do things right the first time were the basis for the initial enthusiasm for quality improvement processes in the manufacturing sector. To implement such a program, though, everybody in the organization must be convinced that things must to be done right the first time. W. Edwards Deming suggested that the cost of quality is the cost to the company of doing things

wrong. He insisted that management is responsible for 85% of a company's quality problems; workers are responsible for only 15%. Some estimate that product (service) design is itself responsible for 50% or more of a firm's quality problems (Buzzell and Gale, 1990).

Rust and colleagues (1994) stated that the resources spent to provide quality on a consistent basis can be known collectively as the "cost of quality" and that spending usually occurs in four areas:

1. Prevention of problems
2. Inspection and appraisal to monitor ongoing quality
3. The cost to redo a defective product before it is delivered to the customer (also known as internal failures)
4. The cost to make good on a defective product after it reaches the customer (also known as external failures)

They also concede that identifying and estimating these costs can be difficult, particularly in a service setting.

DEVELOPING A CULTURE OF SERVICE QUALITY

Companies who regularly deliver quality service usually have a corporate culture that encourages and supports quality throughout the company. Starting at the very top and moving down through the ranks to the newest employee, these companies not only "talk the talk" but also enthusiastically "walk the walk" together as a team. It's just part of how they go about doing their daily business. Their names have become synonymous with quality. They include such giants as Boeing Aerospace Support, The Ritz-Carlton Hotel Company, Southwest Airlines, and The Walt Disney Company.

Boeing Aerospace Support won the Baldrige Award in 2003 for quality service. Boeing Aerospace Support (AS) is part of the Boeing Company, the largest aerospace company in the world. Boeing Airlift and Tanker Programs received the 1998 Baldrige Award in the manufacturing category. As evidenced by these two separate groups within The Boeing Company winning Baldrige Awards, the culture at Boeing clearly fosters quality results.

The Ritz-Carlton Hotel Company won the Baldrige Award in 1992, the first organization in the hospitality industry to do so. Using the extensive feedback of the Baldrige evaluators, they again won the prestigious award in 1999, becoming only the second American company to earn the Baldrige twice.

Southwest boasts the best on-time record, best baggage handling, and fewest customer complaints in the airline industry and won the industry's Triple Crown award for Best Airline five times in a row from 1992-1996.

So, what is so special about the culture at these companies that makes them consistently able to provide not just good service, but outstanding service? A closer look into some of these outstanding companies reveals that they all have **H.E.A.R.T.** in their corporate culture. They live and breathe the philosophy of:

Hire the right people.

Educate and train them well.

Allow them to fix anything.

Recognize and reward them regularly.

Tell them everything, every day.

Hire the Best

Hire the right people and treat them with respect. Analysis of successful service companies show cultures that value each employee. This respect is evident from the first encounter with potential employees. Potential Disney "cast members" first arrive at a special whimsical building built specifically to introduce their culture from the first moment an applicant arrives. They consider the casting process itself to be a process of entertainment and make it a pleasurable experience.

At The Ritz-Carlton the motto, "Ladies and Gentlemen Serving Ladies and Gentlemen" extends to every person, both employees and guests, at every encounter. Potential applicants are treated with respect, as equals, by everyone they meet.

Quality cultures recognize that you must hire the best people you can find who already support your corporate values and then train them for the skills you need. Find people with the right spirit, are other people oriented, are outgoing, and work hard.

Educate and Train Them Well

A common theme at companies with a quality culture is an excellent ongoing training program. New hires are immediately immersed in the company's culture, learn its values, and become a valued team member. "Walt Disney established Disney University when he realized the need for a structured learning environment to teach the unique skills that are required of Disney cast members. It was the first corporate university and remains one of the largest corporate training facilities in the world" (Paton, 1997). Every new cast member attends a class there on "Disney Traditions."

The Disney Institute provides business professionals with a unique opportunity to benchmark the "Disney approach" to business and management issues. Program offerings include people management, quality service, loyalty, and organizational creativity. In addition to taking classes at The Institute, training is also provided via satellite from some of America's top business schools to Disney's front-line supervisors and mid- to upper-level managers.

The Ritz-Carlton's "7 Day Countdown" for new hires includes two days devoted entirely to orienting employees to the Ritz-Carlton culture and values. The remaining five days involve more specific skills training and trial runs of service delivery. Every day, all Ritz-Carlton employees worldwide meet at the beginning of each shift for a daily "Line Up" to discuss one of the 20 Key Principles employees must follow. They discuss the same one again 20 days later.

The Ritz-Carlton Leadership Center, launched in 2000, has shared the secrets of their culture with thousands of leaders from diverse industries such as Healthcare, Automotive, Financial, Banking, Hospitality, Food Service, and Retail. The Center offers benchmarking workshops and seminars including Legendary Service at The Ritz-Carlton, Creating a Dynamic Employee Orientation, and Selecting and Retaining Highly Effective Performers.

The common theme here? Every new hire at these companies, from management on down to the basic entry positions, attends these "culture and values" classes together. While all these values seem idealistic, they are exactly the kind of values on which the actions of the most admired and successful companies are based. A company must be a place where people feel they are part of something bigger than themselves. They must identify their personal successes on the job with that something. Loyalty breeds loyalty, it moves everyone away from a "blame the person" mentality to a "blame the process and let's fix it" approach to problems and improvement.

Since about 80 to 95 percent of all problems, depending on whether you believe Juran or Deming, are due to variation in processes, it just does not make a lot of sense

to blame individuals for problems. But the best reason for fostering a heavy process orientation? It is the most *realistic* position you can take. It affirms that improvement happens when people understand, measure, and reduce variation or reengineer those processes to be more efficient and effective at delivering value for customers.

Allow Them to Fix Anything

Quality cultures require the empowerment of employees to do whatever is required to create a satisfactory customer service experience. At Southwest, every employee is given the general guidelines of their responsibilities and role in the company, then expected and encouraged to go outside those guidelines fearlessly.

Each Ritz-Carlton employee is informally allotted $2,000 to spend on solving a particular customer's complaint. This "resolution" includes such things as subtracting the cost of a room or a meal from the bill. More importantly, though, each incident must be reported by filling out a QIA, a Quality Incident Action, with the aim of preventing similar problems in the future.

Disney has a program they call "Take Five" in which cast members take five minutes out of their day to proactively do something special for a guest. The cast members look for opportunities for magic moments—those little things that happen for guests that are utter surprises (Emory, 2001).

At retail giant Lands' End, its Eight Principles of Doing Business are clearly spelled out for all of its customers and employees on its web site. These principles describe how at Lands' End the philosophy is to "believe that what is best for our customer is best for all of us. Everyone here understands that concept. Our sales and service people are trained to know our products, and to be friendly and helpful. They are urged to take all the time necessary to take care of you" (Lands' End Web site, 2004).

Lands' End believes that a guarantee is a reflection of the quality of not just its products, but also its people. The company philosophy is that a guarantee makes everyone try harder to get it right the first time, then attend to the problem (not the terms of the guarantee) if something goes wrong.

Recognize and Reward Them Regularly

Rewards are a key element in developing a quality culture, both on an individual and team basis. Set up recognition programs for people and teams. Most such recognition should be more symbolic than material. It should reward behaviors and actions that support the cultural values of "we're all in this together" or open communication or process improvement and so on. The Ritz-Carlton's Daily Line-Up gives management an opportunity to "nourish" their employees while repeating the corporate services standards. Top performers are also regularly rewarded with dinners, gift certificates, gift coupons, or weekend stays at the hotel.

Celebrate everything, together. Celebration encourages creativity, creates a mini-vacation, transcends routines, leads to unconventional thoughts, raises self-esteem, motivates, creates memories, and bonds relationships. On-the-spot type rewards (i.e.: dinners, gift certificates) can be given to employees when something extraordinary occurs.

Disney cast members are rewarded daily for guest service, performance, behavior, and longevity. In addition, cast members can treat themselves to a getaway at Mickey's Retreat, a cast-only resort.

Other ways to introduce and reinforce culture include legends and symbols. Legends, found in every company, are stories that capture the culture and the acts of certain people that demonstrate a commitment to the company's cultural

values. These may be formal or informal stories passed around the company. Whichever they are, they help people understand what the company is about and what they are supposed to do. Symbols are like a brand name. In one way or another they say what the company is all about. People around the world recognize Mickey Mouse and the quality customer service he represents.

The legend behind The Ritz-Carlton begins with the celebrated hotelier César Ritz . . . the "king of hoteliers and hotelier to kings." César was a Swiss sheepherder's son who had been fired from four jobs before he opened a hotel under his name in Paris in 1898. Ritz, who by some accounts coined the phrase "the customer is never wrong," formed a philosophy of service and innovations that redefined the luxury hotel experience in Europe.

Symbols for a culture can be an animal, a phrase, anything that people can use to represent the culture. One travel agency has adopted the salmon as their corporate symbol, because of its can-do behavior, famous for swimming upstream. They have salmon awards and use this symbol in many different contexts to reinforce their values. You can work with others in your company to come up with one that exemplifies what makes your culture special (Woods, 1996).

Tell Them Everything, Every Day

In a large, widespread organization, communication is vital. Create processes that solicit and reward complaints and feedback. When you create an environment where there is no fear of retribution, employees will communicate system failures or problem opportunities before they impact your customer service. This gives you the opportunity to improve the system, or to fix a mistake or defect. This also gives you a vehicle to receive suggestions for improvements from the people closest to your customers.

Be honest and consistent with communication while assuring that everyone has access to all the information they need. The Ritz-Carlton was a leader in developing databases that track information on their repeat customers. A complete guest file is readily available to all Ritz-Carlton employees during a guest's stay that includes guest preferences. Staff members are encouraged to update these files with current information if they note a guest making a special request or having a fondness for a certain food or drink. If a guest moves the room furniture during a visit, for example, the furniture is placed in that position for him or her on all future visits.

Employees at Boeing AS are encouraged to "shamelessly share" information across businesses, sites, and functions. A continuous flow of information also comes from a wide range of sources, including meetings, roundtable discussions, online newsletters, and functional and business councils.

The company-wide belief that every cast member has valuable information to share is given life through Disney's ongoing employee communication efforts. Cast members receive a biweekly newsletter with company information and updates available in English, Spanish, and Haitian Creole. They can find updated information online via the Disney intranet as well, which contains everything a cast member could need, from the current Disney stock price to the day's weather forecast. Cast members get consistent feedback on their own performances as well, participating in beginning, mid- and end-year reviews on how well they meet Disney's quality standards (Blassingame, 2003).

Business leaders have a powerful influence on the development of whatever the culture is in their company. You might not be very aware of your culture, or you may just think of it as "the way we do things around here." But each company does have a culture, and it probably reflects its leader's values for good or bad. People adopt the behaviors and attitudes of their leaders toward their work.

IMPLEMENTING QUALITY SERVICE

Designing Fail-Safing into Service

We already discussed one method of ensuring proper service, that of designing poka-yoke devices to help fail-safe a service. Companies often use software, procedures, or gimmicks whose purpose is to make the quality way of delivering the service the only way the service gets delivered. The good part of these devices is that they involve relatively little capital goods investment. An example is the fast-food restaurants' use of a french-fry scoop for quick action and proper portion control. Software often prompts for the next piece of data or buzzes when the wrong piece of data has been entered.

Other fail-safing devices relate to customers and affect their behavior. Reminder cards for appointments, special uniforms or other clues so customers know whom to ask for help, and directions mailed ahead of time.

Sometimes things work even when they don't. Service failure can also be something that merely degrades a service, rather than stopping it entirely. An escalator doesn't really "break;" it becomes stairs. You rarely see an 'Escalator Out of Order' sign. You might see an 'Escalator Temporarily Stairs. Sorry for the inconvenience' sign, though. Contrast this with elevators which, when broken, are useless. Other examples of items with built-in recovery failure modes are:

- Radio-operated car keys which can also be used in the physical lock.
- Magnetic stripes on keycards (of any sort, such as library cards) which can also be used by manual entry of their ID numbers.
- ISBNs given as both barcodes and numerals, so that people wanting to read the number without a scanner can do so.

Service Guarantees and Refunds

Many firms meet the quality challenge by offering *service guarantees* to their customers. Guarantees can be a powerful marketing tool to increase sales, but the primary objective of a guarantee should be to foster repeat business. They can even work to create and define specific service "niches," such as FedEx's guarantee of overnight delivery. Market leaders can establish the new "rules of the game" for niches they create and develop. Guarantees can take many forms. Domino Pizza's former guarantee of 30 minutes delivery or L.L.Bean's policy of "no questions asked returns" are two well-known examples.

A good service guarantee should be identified and clearly defined as part of the initial design of a service. Unfortunately, many service guarantees don't really do the job they are designed to do because they are limited in scope or are difficult to use. Often a guarantee will be offered with conditions that negate the guarantee. Airlines, for instance, guarantee on-time arrivals *except* when the delay is weather-related or air-traffic delays occur.

Christopher Hart (1988) studied service guarantees and indicated they work best when they include the following characteristics:

- *Unconditional:* Customer satisfaction without exceptions
- *Easy to understand and communicate:* Written in simple, concise language that pinpoints the promise
- *Meaningful:* Important to customers and financially significant without being overly generous
- *Easy to invoke:* No red tape or runaround to hurdle, no guilt involved
- *Easy to collect:* The procedure needs to be quick and hassle-free

SERVICE OPERATIONS MANAGEMENT PRACTICES

Keep Those Customers Coming Back!

It is an old marketing maxim that it costs roughly five times more to obtain a new customer than it does to keep an existing one. This seems so absolutely sensible that it almost does not bear repeating. Yet every one of us can cite dozens of examples—from our own experiences—where a business' actions do not support this truth. Businesses that spend heavily to attract new customers can sometimes seem oblivious to the needs of customers they already have.

Businesses that operate in the virtual world face special problems when it comes to improving their existing "customer care." Online shoppers may not receive the visual and "in-person" clues that let traditional shoppers know they are important. To help online merchants build a better shopping environment for their valuable existing customers, the Better Business Bureau OnLine (BBBOnLine) Update offers the following tips:

- **Always say "thank you."** Most of us have placed an online order at one time or another. And we almost always receive an e-mail acknowledgement of that order. But how many times does a company send a follow-up e-mail after the order has been delivered? This second e-mail can not only thank the customer for his or her patronage, but can also ask the customer to let you know if she has experienced any problems or has any suggestions to make her next shopping experience better.
- **Reward loyalty.** Companies in the travel industry recognize this with "frequent flyer/driver/guest" programs. Give your better customers advance notice of sales— or special sale prices available only to "gold" customers—or "points" that repeat customers can earn toward discounts or gifts. These can help encourage and retain repeat customers.

- **Forge a customer bond.** Since you will never get to meet your online customers the way you could meet customers who visit a physical place of business, finding substitute ways to build a bond with online customers is critically important. Some online merchants have created regular monthly or quarterly newsletters to keep in touch with customers. The best of these are more than just electronic marketing brochures. Often written by the owner or manager of the business, they strive to create a personal relationship. Weblogs (blogs) that allow direct conversation between a business and its customers are increasingly popular. The point is not what the site is marketing, but how you can help the customer connect—and remain connected—with your business.
- **Do not get too creative.** Your Web site is your storefront. Customers get used to the way your site is laid out. Avoid changing your site just for the sake of change. Unless the changes really enhance the ease of the customer's shopping experience, you may frustrate your best customers.
- **Find a way to reward referrals.** One of the best types of new customers (and the least expensive to acquire) is a new customer referred from an existing customer. Find a way to reward existing customers for making referrals.
- **Solicit problems.** A customer who has one unsatisfactory experience with your business may become a former customer. Do not wait for a customer to tell you he has a problem. Actively seek out customer problems and suggestions. Provide ways for your customers to let you know how you could have done a better job. Then, meet or exceed their expectations!

(BBBOnline, 2004)

Hart gave five reasons why a guarantee provides a powerful tool in achieving marketing and service quality:

1. It forces the service to focus on the customers' definition of good service, rather than the expectations of management. If a company identifies the wrong things to guarantee, it will be worthless to its customers.
2. It sets up clear performance standards, which boost employee performance and morale. Employees take pride in good service and a great reputation.
3. It generates reliable data (through payouts) when performance is poor. When a payout causes financial pain, it will be easier to ensure that every necessary step will be taken to correct and prevent future such occurrences.
4. It forces an organization to examine its entire service delivery system for possible failure points. Continual review of the service goals will ensure an ongoing process improvement all through the company systems. A guarantee provides customers an easy method of giving feedback on possible failure points so that management can direct attention to remedying them as quickly as possible.
5. It builds customer loyalty, sales, and market share. A good guarantee reduces the risk of the purchase decision for customers, and it generates more sales to existing customers by enhancing loyalty.

Some service firms will not benefit from a guarantee when they already have a reputation for sterling service. These types of firms usually instill a mission of absolute customer satisfaction in all of their employees and empower them to make amends as needed. Hotels such as The Ritz-Carlton and the Four Seasons Hotels are good examples. Guests at these hotels don't need a guarantee, because it is assumed that the service will be absolutely terrific. When it is not, employees go out of their way to make it right for the guest.

Lands' End is so confident it can deliver the products and service its customers want that it has instituted a guarantee program that is more than a marketing tool, it's a philosophy. The company's GUARANTEED. PERIOD.® Program promises customers a full refund if they aren't satisfied with their purchases, even if it's been worn and washed, with no questions asked and no exceptions. Lands' End offers other valuable services, as well. If, for example, a child loses a mitten during the same season it was purchased from the company, the Lost Mitten Club will replace it at half the price of a pair and Lands' End will pay for the shipping. If customers lose their luggage belt or button, the company offers free replacements.

The downside of guarantees, of course, is their implication that the service may fail. A guarantee might actually make customers more aware of service defects. It might also entice some customers to cheat. Great service providers, however, live by the philosophy that only 1% of their customers will cheat, which should not prevent them from providing great service to the other 99%. Many also believe that customers resort to cheating only when they feel they are not receiving value for their money.

SERVICE RECOVERY

All service providers experience moments of service failure at some point. Equipment failure, delivery delays, severe weather, or human frailties (no-shows, forgetful or careless employees) can affect a service profoundly.

For consumers, the coming years are going to be bleak, according to Gartner Research. "Through 2007, more than 75% of businesses will fail to fully meet expectations for customer service excellence—and, as a consequence, they will experience 100% turnover of their customer base every five years, on average. Although customer

service and support, as a high-level concept, is discussed endlessly, businesses are failing to deliver sustained innovative processes at the point of customer interaction," said Michael Maoz, vice president and research director for Gartner.

Many Customer Relationship Management (CRM) software systems are available to businesses today that allow them to track and manage information about their customers' buying behaviors, predict possible future behaviors, and assist them to interact positively with their customers when a service failure occurs. Many of these programs, however, fail to roll customer feedback into forward-looking product and marketing plans. A bad purchase experience can alter customers' future buying decisions—leading them to take their business elsewhere. Yet, many current CRM systems do not indicate that there was a customer service problem until long after the situation occurred.

Predictive analytics (predicting the needs of your customers) depends on many data points, and thus is effective for industries with a high volume of transactions per customer, such as telecommunications or consumer goods. In low-volume, high-ticket areas, though, a company cannot gather enough data to make predictive analytics work. The same goes for many business-to-business relationships.

Mike Trotter, executive director of Purdue University's Center for Customer Driven Quality, agreed that enterprises do not solicit enough feedback from customers. "Most organizations," he told CRMDaily, "are not in touch enough with their customers. They see surveying customers as a necessary evil." He asserted that companies that understand the sometimes intangible benefits of customer input are, not surprisingly, also known as leaders in the customer loyalty realm. That's why companies like Schwab are doing such a good job of retaining customers. Shortly after they finish a customer transaction, they're sending out a follow-up to say, "How'd we do?" (Hill, 2002).

The most important step in service recovery is to find out as soon as possible when a service fails to meet customers' expectations. Customers who are dissatisfied but have no way of communicating their dissatisfaction to the organization may never come back. Worse yet, they will probably relate the bad experience to everyone they know. It is, therefore, imperative that companies facilitate customer feedback and find opportunities to correct any failure situations and create a "delighted" customer.

This feedback procedure needs to be part of the initial service design process. A key consideration focuses on empowering front-line personnel to remedy the situation immediately. These front-line emissaries need to be able to express empathy while taking concrete steps to assist the customer. All attempts to rectify the situation should occur at the time and place most critical from the *customer's* perspective.

Recovering from service failures does not happen automatically; an organization must carefully prepare for it. Hart, Heskett, and Sasser (1990) recommended the following approach:

1. *Measure the costs.* The old adage, "What gets measured gets managed," is the principle here. Service failures cost both the customer and the service organization. (See the Service Operations Management Practices: Keep Those Customers Coming Back.)
2. *Break the silence and listen closely for complaints.* Many customers do not complain if they are not happy with a product or service. Consider the most frequently given reasons found by Technical Assistance Research Programs (TARP), a Washington, D.C.–based research and consulting organization:

   • It's not worth the time or effort.
   • No one would be concerned with my problem or interested in acting on it.
   • I don't know where to go or what to do.

SERVICE OPERATIONS MANAGEMENT PRACTICES

Empathy + Responsiveness = Quality Service Recovery

Due to massive thunderstorms across the eastern seaboard, airlines canceled flights and held flights at every airport on a Sunday afternoon in August 2004. When a mother and daughter arrived at Philadelphia's airport to catch a flight home to Atlanta, they discovered US Airways canceled their flight while they were en route to the airport. They were told they would be put on the next available flight out, but probably not until the next morning.

An empathetic and efficient ticket agent, though, turned around what could have easily been a nightmare. When David Chaplin couldn't figure out how to get them back in time for the daughter's first day of school the next morning, he sought his manager's advice and assistance. Together the agent and manager identified two passengers on the last flight out who would be missing their connections in Atlanta anyway and changed their flights. The mother and daughter finally made it back to Atlanta much later that evening in this textbook example of quality service and excellent service recovery.

Clearly, if a service organization does not know about service failures, it cannot do anything about them. Using toll-free 800 numbers for complaints or suggestions; offering rewards for suggestions; conducting regular surveys, focus groups, and interviews of lost customers all can offer new information to uncover and thus prevent service problems.

3. *Anticipate needs for recovery.* A plan and a procedure for each potential failure must be developed, and employees must be trained in these procedures. Managers who understand the service and its delivery system can anticipate where failures may occur and make plans for recovery.

4. *Act fast.* A service organization that acts quickly to correct the situation will probably impress the customer and make her or him forget the incident. Long, drawn-out processes and weeks of waiting will not help the customer forget the failure easily even if it is eventually resolved satisfactorily.

5. *Train employees.* Effective service recovery is not possible if the employees who handle complaints are not prepared for occasional service failures. Preparation involves training and empowerment. Training should include developing good communication skills, creative thinking, quick decision making, and developing an awareness of customers' concerns. One of the most effective training methods is stimulated situations and role-playing.

6. *Empower the front line.* Quick and decisive action to remedy a service failure is not possible without empowered employees. Many rules and limits on authority are established because of a fear that employees will "give away the store," which is not likely to happen with a well-trained and motivated employee. Losing customers, however, is much more likely if their problem is not solved.

7. *Close the loop.* Recovery and complaint handling must achieve closure. If the condition that led to the problem cannot be remedied, the customer must be given an explanation. If the complaint leads to a change in the service or the delivery system, the customer should be told so.

Summary

As services constitute a larger and larger percentage of the economy, service quality becomes a competitive tool. Improving this quality, however, is more elusive due to the temporary nature of a service. As the TQM movement shifts to a focus on return on quality, customers set the parameters for quality service based on their needs.

Service quality is often defined as the satisfaction of expectations based on a customer's need for the service. A customer's expectations can reflect his or her "expectations" of what might, could, should, or better not happen. Service quality definitions often do not reflect the perspectives of all the various stakeholders, though.

SERVQUAL, also commonly known as the Gaps model, conceptualizes service quality on the basis of the differences between customers' expectations, with respect to five dimensions, and their perceptions of what was actually delivered. When asked which of SERVQUAL's five dimensions (reliability, responsiveness, assurance, empathy, or tangibles) was most important, customers consistently chose reliability, the area where many service companies fail.

Service design can greatly affect the quality of a service. Creating a service blueprint can identify where service failures may occur. Designing fail-safing techniques and poka-yoke devices into the service can often block mistakes before they become service defects.

The cost of quality is often seen as an added expense in the design of additional features. It can also be seen as freedom from a service failure that can cost a company. Service quality generally pays off in the final analysis, because it creates loyal customers. Scientific study links quality with profits.

Implementing quality service can include offering service guarantees and refunds. A good guarantee should be identified and clearly defined as part of the initial service design. Service recovery is another critical part of delivering quality service. All services experience moments of failure, and the response to that failure creates either a delighted customer or a lost customer. Organizations must, therefore, prepare carefully for their service recovery response.

Review Questions

1. What is the difference between customer *expectations* and customer *needs*? Between service *value* and service *quality*?
2. Choose a local company known for its quality service. Would you evaluate its quality processes using the Baldrige Award criteria or the ISO standards? Both? Why?
3. Which of the five different perspectives on quality definitions do you agree with most? Why?
4. How does a poka-yoke improve quality? Give two examples.
5. What is a "Gap" in service quality? How can a company utilize SERVQUAL to improve its service quality?

6. List and evaluate the H.E.A.R.T. processes of developing a culture that nurtures service quality.

7. Identify a Web site that you feel offers great customer service. Why do you think it does a great job? How could they improve their service?

8. Evaluate the following situations for how well the service provider responded. What did they do well? How could they have improved their response? Would you patronize the provider again? Have you had similar experiences?

a. **Faulty Elevator:** Washington, D.C. area Metro riders had developed a certain complacency about the train system's hit-and-usually-miss maintenance service when they read in the local media about the plight of one customer in a wheelchair. The man found himself stuck in the subway system because the elevator he needed to take to his exit was broken at his downtown stop—as were the elevators at the next two stops. Frustrated by his predicament, he let loose a string of obscenities as he made his third fruitless attempt to leave the system—for which he was promptly ticketed $25 by a nearby Metro officer. Eventually, the man found a working elevator and wound up taking a taxi to his destination. Complaints poured in about his treatment and about maintenance in general. And Metro officials *were* sorry. So sorry, in fact, that the Metro police chief personally drove to the passenger's home in Maryland to reimburse him for the ticket and taxi ride.

b. **Book Order:** The first order the customer ever placed with Amazon.com was for a travel guide to Hong Kong, requesting it be sent overnight as she was about to make an unplanned trip to the city. Though she was billed for overnight express, the book was shipped by regular mail. Amazon credited her the shipping charge, but she complained in an e-mail to its customer service department, that really wasn't the point. She had wanted a travel guide for her first—and maybe only—trip to Hong Kong. A customer service rep answered back offering an apology and—to the customer's complete shock—a few suggestions of sights to see. It wasn't the same as having the actual travel guide, she acknowledged, but she hoped it would help.

c. **Frequent Flyer:** The executive flew every month or so from San Diego to San Francisco to meet with clients. She recently discovered, however, that Southwest has a much lower fare between San Diego and San Jose than United does between San Diego and San Francisco, so she switched. After two or three months of her absence, United flagged her account for a special offer or communication.

d. **Lost Baggage:** Upon his arrival in Chicago O'Hare's airport, the weary traveler went to collect his suitcase. But it never appeared. After filing a lost bag report, he was told that when his bag was found, it would be delivered to his hotel. When he asked how soon that might be, he was told most bags are located and delivered within 24 hours. "That just won't do!" he exclaimed. "I just completed a training session for this client in a Florida location where we all wore business casual outfits, like the one I am currently wearing. I have to make a presentation to the client's executive board tomorrow morning at 8:30 A.M. I must have my suit for that presentation!" The claim's manager replied, "If you're such a hot-shot consultant, that shouldn't be a problem."

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CASE STUDY

The Ritz-Carlton Hotel Company

The company now known worldwide as The Ritz-Carlton Hotel Company began with celebrated hotelier César Ritz' opening, in 1898, of the first Ritz Hotel in Paris. Ritz' philosophy of service and innovations redefined the luxury hotel experience in Europe. His policy of maintaining the privacy of his guests attracted the elite to his hotels. Guests now routinely expect nothing less than the finest service, food, and accommodations at every Ritz-Carlton property.

Headquartered in Chevy Chase, Maryland, The Ritz-Carlton Hotel Company, L.L.C., has 59 hotels worldwide (35 city hotels and 24 resorts), employing over 25,000 people. Its name is synonymous with luxury and excellent service. The company has expanded from luxury hotels to include such innovative new businesses as The Ritz-Carlton Club for fractional home ownership, a Club and Golf Division, and The Residences at The Ritz-Carlton.

César Ritz's vision of a great hotel was one with excellent personalized service that satisfied the most discerning guest. In order to ensure that every guest receives impeccable service, Horst Schulze, The Ritz-Carlton's president and COO for nearly 20 years, believed it was necessary to establish standards to focus employees on the core company values. His focus was on creating a high-performance environment through leadership systems and processes where passionate employees could take ownership of their work. Believing in the importance of system and process development, in the early 1980's he helped to create The Ritz-Carlton Hotel Company's "Gold Standards."

The Gold Standards, the foundation of The Ritz-Carlton Hotel Company, encompass the values and philosophy by which the company operates. These standards include The Credo, The Motto, The Three Steps of Service, The Basics, and The Employee Promise.* Together they create a culture of excellent service quality in every aspect of customer service at a Ritz-Carlton property.

By living these standards in everything they do, Ritz-Carlton employees walk and talk the company's culture of quality service to each other and to each guest they encounter.

THE CREDO

The Ritz-Carlton Hotel is a place where the genuine care and comfort of our guests is our highest mission.

We pledge to provide the finest personal service and facilities for our guests who will always enjoy a warm, relaxed, yet refined ambience.

The Ritz-Carlton experience enlivens the senses, instills well-being, and fulfills even the unexpressed wishes and needs of our guests.

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* All the Gold Standards can be found in their entirety on the company Web site: http://www.ritzcarlton.com.

CASE STUDY

Before opening a new property, a common procedure is to hold a job fair. Individuals who show up arrive first at a "Warm Welcome" station where they are greeted by several employees who wish them luck and escort them to a Registration Area. During this time it is common for the company to have musical entertainers, beverages, and snacks available while a Ritz-Carlton video is running. On the video will be current employees describing their experiences at the company.

THE MOTTO

We Are Ladies and Gentlemen Serving Ladies and Gentlemen.

Various screening levels must be met before someone is offered employment. Upon leaving, each individual will be personally escorted again to an area where he or she is thanked for applying, often given Ritz-Carlton chocolates, and escorted out of the building.

Regardless of whether someone is hired or not, all applicants are treated equally well. Each is made to understand that he or she is valued as a person. This type of attitude permeates every part of the Ritz-Carlton culture.

Once hired, employees come back for a Seven Day Countdown. The first two days of this Countdown are devoted entirely to orienting employees to The Ritz-Carlton culture and values. The remaining days are devoted to specific skills training and trial runs of service delivery.

The first day of orientation can be likened to a pep rally for the company, its culture, and its values. Over and over the new employee is sincerely welcomed as a new member of The Ritz-Carlton family by the scores of current employees and managers involved in the training. The new employees learn about the company's history, philosophy, and values.

THREE STEPS OF SERVICE

1. A warm and sincere greeting. Use the guest name, if and when possible.
2. Anticipation and compliance with guest needs.
3. Fond farewell. Give them a warm good-bye and use their names, if and when possible.

The company philosophy emphasizes that the employees are not servants. Their profession is service. As their motto states, they are all Ladies and Gentlemen, just as the guests are. Guests and employees alike should be respected as such. Each

CASE STUDY

employee of The Ritz-Carlton believes this motto deeply as a promise by the organization that everyone should be respected as a lady or gentleman. It is also a demand on all employees, especially managers and leaders, to believe and to live by the company's Employee Promise.

THE EMPLOYEE PROMISE

At The Ritz-Carlton, our Ladies & Gentlemen are the most important resource in our service commitment to our guests.

By applying the principles of trust, honesty, respect, integrity, and commitment, we nurture and maximize talent to the benefit of each individual and the company.

The Ritz-Carlton fosters a work environment where diversity is valued, quality of life is enhanced, individual aspirations are fulfilled, and The Ritz-Carlton mystique is strengthened.

Once employees have been trained in the company culture and in specific job skills, they start their new jobs each day with the daily "lineup." Each day, at the beginning of each shift, at every Ritz-Carlton hotel around the world, staffers are supposed to discuss the same Ritz-Carlton basic, one of the 20 key principles employees must follow. They do this together in each department with their managers. They discuss this same basic again 20 days later with the purpose being to keep the Ritz-Carlton philosophy front and center in each employee's mind. At this gathering, they also discuss hotel goings-on, particular guests' likes and dislikes, special needs, and any of their own concerns.

By using identical training and orientation programs at every new hotel and with every new employee, The Ritz-Carlton aims to maintain its high level of prestige as the epitome of luxury hotel accommodations internationally. At the same time, The Ritz-Carlton is expanding into uncharted areas with some of its new innovations. One of these, The Residences at the Ritz-Carlton, is promising to redefine the concept of an elegant lifestyle. In addition to spaciously proportioned condominiums, owners will enjoy all the legendary amenities and service points that have been a hallmark of The Ritz-Carlton from its beginning. These will include a dedicated concierge, gourmet dining, butler service, and the prestige of living at The Ritz-Carlton.

The Residences are already available in many key Ritz-Carlton destinations, including Berlin, Boston, Georgetown, New York, and Grand Cayman. They each have unique features to entice buyers to purchase. For example, The Residences in

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Boston offer spectacular one- to four-bedroom condominiums with incredible views, access to a 100,000-square-foot sports and spa facility, and fronts Boston Common.

The Residences are a new service concept from operating a hotel property. The service challenges will be many and varied and not the same types Ritz-Carlton employees have come to expect and to manage. They have the potential to erode the prestige of The Ritz-Carlton or to enhance it. Only time will tell. (http://www.ritzcarlton.com/corporate/residential/default.asp)

Questions:

1. How does the training of Ritz-Carlton employees instill a culture of quality?
2. What is The Ritz-Carlton really selling?
3. What unique challenges might the employees of a Ritz-Carlton Residence experience? How will the service need to expand or change to meet the needs of owners versus guests?
4. How could less expensive hotels incorporate some of the Ritz-Carlton Hotel Company's quality standards into their company culture at a reasonable cost to their customers?
5. Does excellent service have to cost extra to the company or the customers?