

# Chapter 13

## **Services: the intangible product**

- Describe how the marketing of services differs from the marketing of products.
- Discuss how firms can provide a good service
- Examine the five service quality dimensions
- Explain the zone of tolerance
- Identify service recovery strategies

# Service Definition

**Service:** intangible offering that involves an effort and performance that cannot be physically possessed.



# Service-Product Continuum



Most offerings lie somewhere in the middle

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ALPHABETICAL BRAND INDEX # · A · B · C · D · E · F · G · H · I · J · K · L · M · N · O · P · Q · R · S · T · U · V · W · X · Y · Z

**SHOP WOMEN'S**  
Clothing  
Shoes  
Sandals  
Sneakers & Athletic Shoes  
Dresses

**SHOP MEN'S**  
Clothing  
Shoes  
Sandals  
Sneakers & Athletic Shoes  
Jeans

**SHOP KIDS'**  
Girls' Clothing  
Boys' Clothing  
Girls' Shoes  
Boys' Shoes

**BAGS & ACCESSORIES**  
Handbags & Wallets  
Accessories  
Jewelry  
Watches  
Sunglasses

## Factors differentiating products from services

1. Intangible
2. Inseparable
3. Heterogeneous
4. Perishable

- Requires using **cues** (signals) to convey value/benefits
  - Furnishing quality
- **Atmosphere** is important to convey value
  - E.g., show happy families
- **Images** are used to convey benefit of value



- Production and consumption are **simultaneous** (hotels, restaurants, etc.)
- Little opportunity to **test** a service before use (e.g., no returns)
  - E.g., haircut
- Lower risk by offering **guarantees** or warranties
  - Hotels often offer satisfaction guarantees



# Heterogeneous



- Cannot be stored and reused!
- **Challenges** of firms that offer services:
  - Service cannot be recalled
  - Matching supply and demand
    - Ski area can be opened only if there is snow...but demand peaks during holidays



How can firms  
provide a good service?

- **KNOWLEDGE:** Firms need to understand customers' expectations
  - E.g., when I stay at the Hilton (or any other hotel) I expect the room to be ready and clean when I check-in
  - Expectations vary depending on:
    - The service (Hilton vs Motel 6)
    - The situation (Business travel vs Leisure travel)

## **Marketing research**

(Useful to understand customers expectations)

+

## **Evaluation of service quality**

(difficult to measure!)

## How do customers measure quality

### 1. Reliability

- Ability to perform a service accurately (training)

### 2. Responsiveness

- Willingness to help customers/prompt service

### 3. Assurance

- Employees ability, knowledge, trust, etc. (empower)

### 4. Empathy

- Care about your customers

### 5. Tangibles

- Appearance of the firm's physical facilities

## Hotel example

### 1. Reliability

- Give accurate time of service

### 2. Responsiveness

- Bathroom dirty → Promptly apologize/take actions

### 3. Assurance

- Server able to address situations like wrong meal delivered

### 4. Empathy

- Address guests by name

### 5. Tangibles

- Rooms are updated with latest tech

Range of **acceptable outcomes**

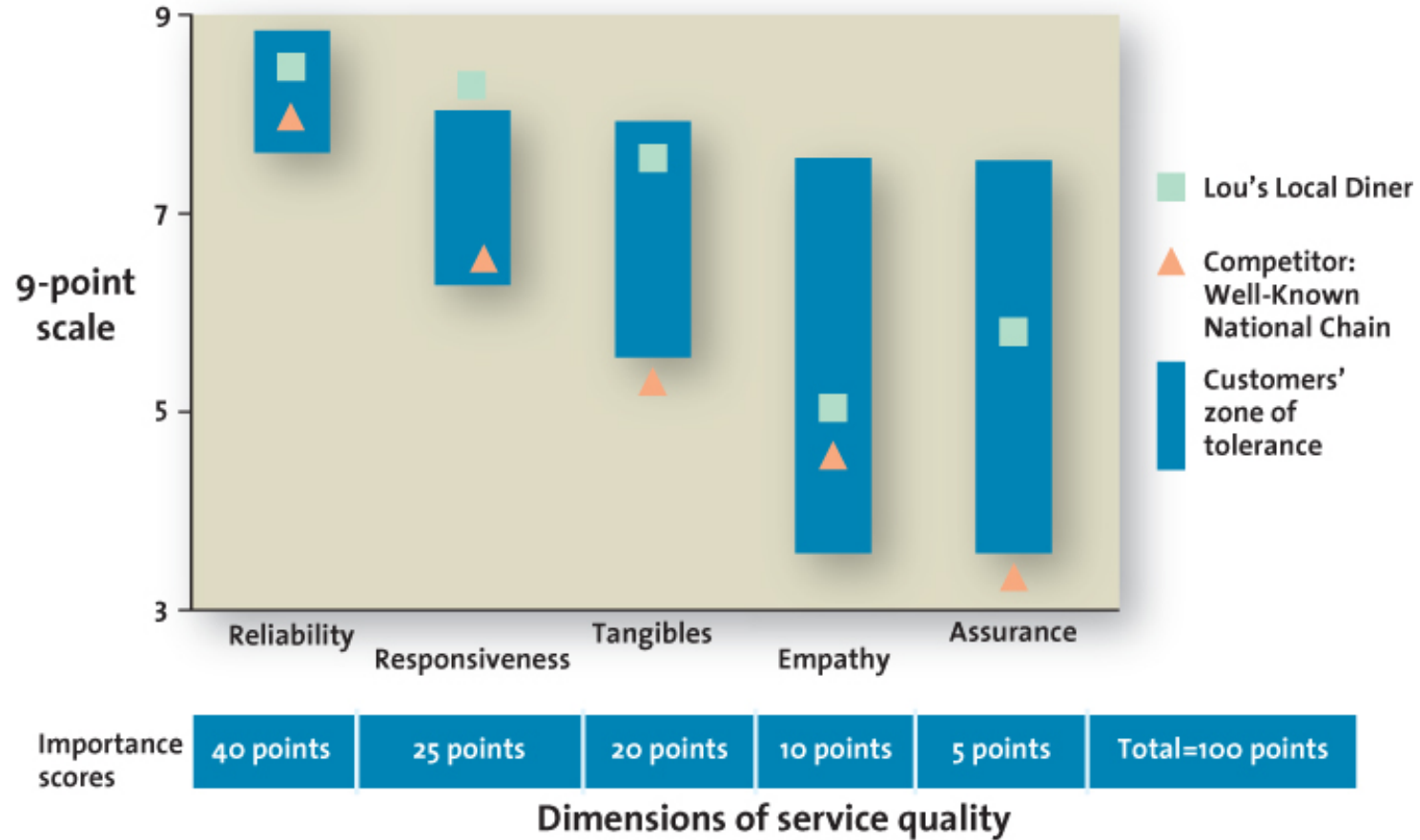
– E.g., hotel room



- Bed type
- Bathroom
- Breakfast
- ...



# Zone of Tolerance



Note: The scale ranges from a 9 indicating very high service quality on a given service quality dimension to a 1 indicating very low service quality.

# Providing a Good Service

- **STANDARDS**: Firms need to set standards
  - To do so they need to **train and monitor** employees
    - Incentives, awards



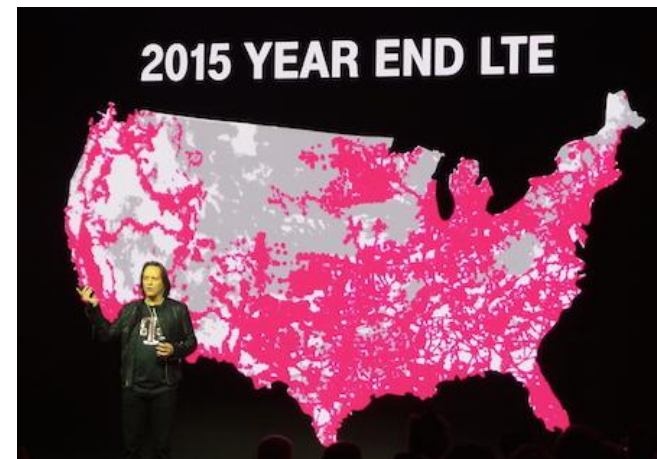
VS



- **DELIVERY:** Firms need to meet their standard expectations
  - Empower employees (let them make decisions)
  - Technology
    - Supermarkets self-checkout
    - Nest thermostat in hotel rooms

- **COMMUNICATION:** Firms must delivery the product they describe and communicate

T-Mobile®



# Some Good Service Providers



[https://www.buzzfeed.com/rachelysanders/why-wegmans-is-the-greatest-supermarket-ever?utm\\_term=.gIMrOeYLR#.ykwo3YLw9](https://www.buzzfeed.com/rachelysanders/why-wegmans-is-the-greatest-supermarket-ever?utm_term=.gIMrOeYLR#.ykwo3YLw9)

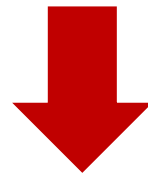
## Key concepts to deliver a good service

1. **Knowledge**: understand customers' expectations
2. **Standards**: the service standards firms set
3. **Delivery**: actual service that firms provide to customers
4. **Communication**: firms deliver the service promoted

# Service Failure



- Customers **post-purchase** evaluation
  - Satisfied → Loyalty
  - Unsatisfied → Problem
    - Firm fails to meet one (or all) of previous concepts: KNOWLEDGE, STANDARDS, DELIVERY, COMMUNICATION



- **Lost** potential repeated customer
- **Bad** word of mouth (online and offline)
- The **profitability** of the firm is **damaged**



## 1. Listen to the customer

- You need to know what is the problem to solve it!

## 2. Provide a fair solution

- E.g., problem with hotel room -> change (and even upgrade) customer room

## 3. Do it quickly!

- The longer it takes to resolve service failure the more irritated the customers

"A good recovery can turn angry, frustrated customers into loyal ones. It can, in fact, create more goodwill than if things had gone smoothly in the first place" -- Etzel, M. and Silverman, B. (1981).

\* A Managerial Perspective on Directions for Retail Customer Dissatisfaction Research  
Etzel, M. and Silverman, B. (1981).

# Service recovery paradox

- A situation in which a customer satisfaction is higher after the firm has **fixed a service problem**, compared to the case in which failure did not happen
- Why? Successful recovery of a faulty service leads to **increased assurance and confidence** among customers

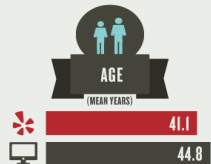
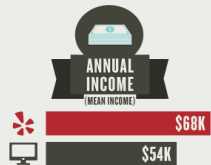
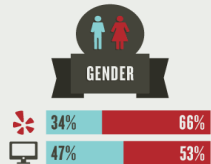
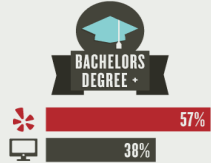
- Reviews and ratings (online word of mouth)
  - TripAdvisor, Amazon, Yelp, etc.
  - **Shift control of firm image from firms to consumers!**
- Good proxy of firm quality
  - Predict future earnings/revenue of a firm [Luca 2009, Mayzlin et al. 2006]
- Many firms use reviews to improve their service quality
  - Hotels read about complaints and fix them



# DRIVES LOCAL PURCHASES

## WHO USES YELP?

**YELP USERS**  
**ONLINE USERS**

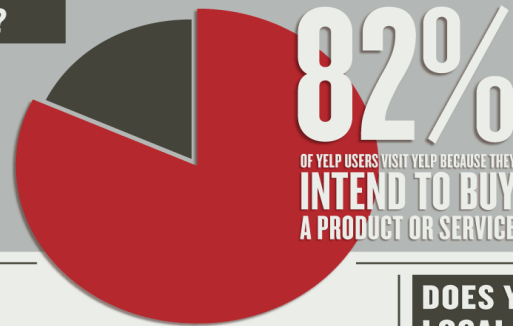


## METHODOLOGY

The Yelp Consumer Survey was fielded in the U.S. between March 29 and April 15, 2013 using Nielsen's online panel. A total of 1,415 responses were collected.

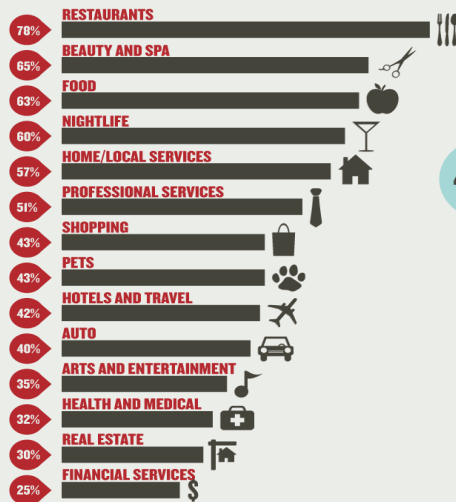
## WHY DO PEOPLE USE YELP?

When you visit Yelp, do you typically visit because you intend to buy a product or service and are trying to inform your decision?



## WHAT DO YELP USERS SEARCH FOR?

For which of the following activities do you use Yelp when looking for locations for a purchase?



## HOW DO YELP USERS CHOOSE A LOCAL BUSINESS?

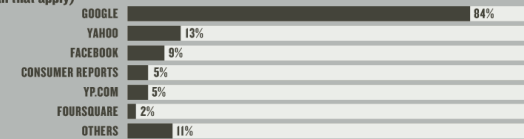
Please rank the following factors you might consider when researching a local business on Yelp based on their importance to you.\*



\*Percentages above indicate the percentage of respondents that selected each factor as the most important when researching a local business.

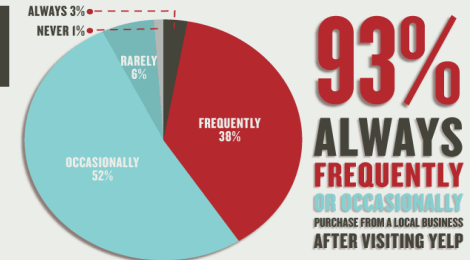
## IF NOT YELP, WHO?

If Yelp is typically not the first site you go to.... Which site(s) do you tend to go to first? (Select all that apply)



## DOES YELP LEAD TO LOCAL PURCHASES?

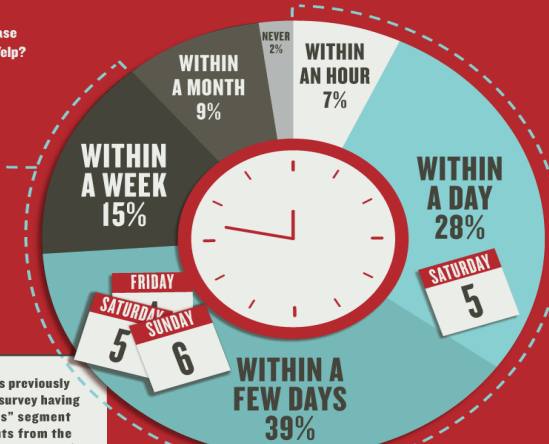
How often does visiting Yelp lead you to purchase from a local business?



## WHEN DO YELP USERS BUY?

How long after you visit Yelp do you typically make a purchase from a business you found on Yelp?

**89%** MAKE A PURCHASE WITHIN A WEEK




Qualified respondents participated in household purchase decisions and used the internet when searching for information on local businesses or services. The final sample consists of two main groups:

1) Online Rep Sample - Consists of 1,006 responses weighted to represent the population of internet users that search online for information on local businesses or services.

2) Yelp Sample - Consists of 409 responses from panelists previously identified as having visited Yelp, who also indicated in the survey having visited Yelp. In the following analysis, the "Yelp Visitors" segment consists of respondents from this group and respondents from the Online Rep Sample that indicated having visited Yelp (106 respondents). The total size of the Yelp sample was 515 respondents.

- However....
  - Reviews can be promotional (fake)[Mayzlin et al, 2014]
    - Firms post negative reviews for their competitor and positive review for their own
  - On Yelp **16%** of reviews are filtered [Luca, Zervas 2016]



Why Does Yelp Recommend Reviews?

We use automated software to recommend the reviews we think will be the most helpful to the Yelp community based primarily on quality, reliability and the reviewer's activity on Yelp. [Advertisers get no special treatment](#). The reviews below didn't make the cut and are therefore not factored into this business's overall star rating. Watch the video above or [check out our FAQ](#) for more details.

# On the Hunt of Fake Reviews

Fraudulent reviews often carry telltale signs, which are picked up by software and flagged for review by moderators. Some of the signs are illustrated in these Globe-created examples:

1. One reviewer's opinions consistently run counter to the majority.
2. Multiple reviews share many of the same phrases and typos.
3. The IP address, a device's electronic fingerprint, is the same on multiple reviews for the same business.

**1** **“Awesome Boston hotel!”**  
 ●●●●●● Reviewed Sept. 24, 2013  
 My wife and I stayed at this hotel in Boston and **it couldn't be beat!** From check-in to check-out, the whole experience was **second to none.** Worth the price!  
 IP: 192.0.1.23

**2** **“Great hotel in Boston!”**  
 ●●●●●● Reviewed Sept. 24, 2013  
 While in Boston, my husband and I stayed at this hotel and **it couldn't be beat!** Everything, from check-in to check-out, was **second to none.** Worth your money!  
 IP: 192.0.1.23

**1** **“Dirty and too small”**  
 ●○○○○○ Reviewed Sept. 24, 2013  
 I've seen jail cells with better accommodations.

**Other indicators**

- ▶ The writer is reviewing multiple products from the same company.
- ▶ One group of users is reviewing the same hotels.
- ▶ Many reviews share identical timestamps.

SOURCE: Globe staff research

ROBERT S. DAVIS/GLOBE STAFF

- Everyone loses
  - **Firms** image and reputation is harmed
  - **Consumers** trust in review platform decreases
- What can we do about it?





- How do firms manage their reputation (and thus quality perception) online?
  - Non-ethical methods
    - Fake reviews (we just saw it)
    - Sue negative reviewers:
      - <https://www.cbsnews.com/news/yelp-negative-online-review-texas-couple-sued-jeremy-stoppelman/>
  - Ethical method (recently emerged)
    - Respond to reviews

*“Terrible Hotel, do not stay here”*

●○○○○○ Reviewed July 25, 2016

We rented a 2-bedroom executive suite for our family of 5 for a weekend in Austin to visit family. Our room was not available at check-in, even though I had used the express check-in 2 days prior. The wifi did not work in our room or in the lobby for the 3 days we were there. We had 3 tvs...

[More](#) ▾

Review collected in partnership with Omni Hotels & Resorts ⓘ

Helpful?

 Thank Vanessa E

[Report](#)

**GenMgrAustin, General Manager at Omni Austin Hotel Downtown, responded to this review**

Please accept our sincerest apologies for the numerous challenges you encountered during your stay. We do truly appreciate your candid feedback so that we may rectify the areas that need attention. We value your patronage and hope you decide to return in the future so that we can provide you with a positive and memorable experience.

[More](#) ▾

- After hotel managers respond to reviews:
  - Star-rating increases
    - Fewer negative reviews...
    - ...but longer!
  - Repeated customers
    - Returning to the same hotel after a bad experience if response → + 36%
    - And reviews left by these returning customers have higher ratings



Service recovery