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One of the surest signs of a bad or declining relationship is the absence of complaints from the customer. Nobody is ever that satisfied, especially not over an extended period of time.

Theodore Levitt

To err is human; to recover, divine.

Christopher Hart, James Heskett, and Earl Sasser

(paraphrasing 18th-century poet Alexander Pope)

LEARNING OBJECTIVES (LOs)

By the end of this chapter, the reader should be able to:

LO1 Recognize the actions customers may take in response to service failures.

LO2 Understand why customers complain.

LO3 Know what customers expect from the firm when they complain.

LO4 Understand how customers respond to effective service recovery.

LO5 Know the principles of effective service recovery systems.

LO6 Be familiar with the guidelines for frontline employees on how to handle complaining customers and recover from a service failure.

LO7 Recognize the power of service guarantees.

LO8 Understand how to design effective service guarantees.

LO9 Know when firms should not offer service guarantees.

LO10 Be familiar with the seven groups of jaycustomers and understand how to manage them effectively.
Too Little, Too Late—JetBlue’s Service Recovery!

It was a terrible ice storm on the East Coast of the United States. Hundreds of passengers were trapped for 11 hours inside JetBlue planes at the John F. Kennedy International Airport in New York. These passengers were furious. No one from JetBlue did anything to get the passengers off the planes. On top of that, JetBlue cancelled more than 1,000 flights over six days, leaving even more passengers stranded. This incident cancelled out much that JetBlue had done right to become one of the strongest customer service brands in the United States. JetBlue was going to be ranked number four by Business Week in a list of top 25 customer service leaders, but because of this incident it was pulled from the rankings. What happened?

No service recovery plan was in place. No one—not the pilot, flight attendants, or station manager—had the authority to get the passengers off the plane. JetBlue’s offer of refunds and travel vouchers did not seem to reduce the anger of the passengers, who had been stranded for so many hours. David Neeleman, JetBlue’s CEO, sent a personal email to all customers in the company’s database to explain what caused the problem, apologized profusely, and detailed its service recovery efforts. He even appeared on late-night television to apologize and admitted that the company should have had better contingency planning—but the airline still had a long way to go to repair the damage to its reputation.

Slowly, the airline rebuilt its name, starting with its new Customer Bill of Rights, which required the airline to provide vouchers or refunds in certain situations when flights were delayed. Neeleman also changed information systems to keep track of the locations of its crew, upgraded the website to allow online rebooking, and trained staff at headquarters to help out at the airport when needed. All these activities were aimed at climbing its way back up to the heights it fell from.

CUSTOMER COMPLAINING BEHAVIOR

The first law of service quality and productivity might be: Do it right the first time. But we can’t ignore the fact that failures continue to occur, sometimes for reasons outside the organization’s control such as the ice storm that caused the JetBlue incident in our opening vignette. Many “moments of truth” in service encounters are vulnerable to breakdowns. Such distinctive service characteristics as real-time performance, customer involvement, and people as part of the product greatly increase the chance of service failures to occur. How well a firm handles complaints and resolves problems frequently determines whether it builds customer loyalty or watches its customers take their business elsewhere.

Customer Response Options to Service Failures

Chances are, you’re not always satisfied with at least some of the services you receive. How do you respond to your dissatisfaction with these services? Do you complain informally to an employee, ask to speak to the manager, or file a complaint? Or, perhaps you just mutter darkly to yourself, grumble to your friends and family, and choose an alternative supplier the next time you need a similar type of service.

If you are among those who do not complain about poor service, you are not alone. Research around the globe has shown that most people will not complain, especially if they think it will do no good. Figure 13.2 depicts the courses of action a
customer may take in response to a service failure. This model suggests at least three major courses of action:

1. Take some form of public action (including complaining to the firm or to a third party, such as a customer advocacy group, a consumer affairs or regulatory agency, or even civil or criminal court).
2. Take some form of private action (including abandoning the supplier).
3. Take no action.

It’s important to remember that a customer can pursue any one or a combination of alternatives. Managers need to be aware that the impact of a defection can go far beyond the loss of that person’s future revenue stream. Angry customers often tell many other people about their problems. The Internet allows unhappy customers to reach thousands of people by posting complaints on bulletin boards or setting up their own websites to publicize their bad experiences with specific organizations. A popular strategy in the past when creating such sites was to add a derogatory suffix (such as “sucks”) to the name of the offending company.

Understanding Customer Complaining Behavior

To be able to deal effectively with dissatisfied and complaining customers, managers need to understand key aspects of complaining behavior, starting with the questions posed below.

WHY DO CUSTOMERS COMPLAIN? In general, studies of consumer complaining behavior have identified four main purposes for complaining:

1. Obtain restitution or compensation. Consumers often complain to recover some economic loss by seeking a refund, compensation, and/or have the service performed again.
2. Vent their anger. Some customers complain to rebuild self-esteem and/or to vent their anger and frustration. When service processes are bureaucratic and unreasonable, or when employees are rude, deliberately intimidating, or apparently uncaring, the customers’ self-esteem, self-worth, or sense of fairness can be negatively affected. They may become angry and emotional.

FIGURE 13.2 Customer Response Categories to Service Failures
3. Help to improve the service. When customers are highly involved with a service (e.g., at a college, an alumni association, or their main banking connection), they give feedback to try and contribute toward service improvements.

4. For altruistic reasons. Finally, some customers are motivated by altruistic reasons. They want to spare other customers from experiencing the same shortcomings, and they may feel bad if they fail to draw attention to a problem that will raise difficulties for others if it remains uncorrected.

WHAT PROPORTION OF UNHAPPY CUSTOMERS COMPLAIN? Research shows that on average, only 5 percent to 10 percent of customers who have been unhappy with a service actually complain. Sometimes the percentage is far lower. A review of the records of a public bus company showed that formal complaints occurred at the rate of about three complaints for every million passenger trips. Assuming two trips a day, a person would need 1,370 years (roughly 27 lifetimes) to make a million trips. In other words, the rate of complaints was incredibly low, especially since public bus companies are rarely known for service excellence. However, although generally only a minority of dissatisfied customers complain, there’s evidence that consumers across the world are becoming better informed, more self-confident, and more assertive about seeking satisfactory outcomes for their complaints.

WHY DON’T UNHAPPY CUSTOMERS COMPLAIN? TARP, a customer satisfaction and measurement firm, has identified a number of reasons why customers don’t complain. Customers may not want to take the time to write a letter, send an email, fill in a form, or make a phone call, particularly if they don’t see the service as worth the effort. Many customers see the payoff as uncertain and believe that no one would be concerned about their problem or would be willing to resolve it. In some situations, people simply don’t know where to go or what to do. Also, many people feel that complaining is unpleasant (Figure 13.3). They may be afraid of confrontation, especially if the complaint involves someone whom the customer knows and may have to deal with again.

Complaining behavior can be influenced by role perceptions and social norms. Customers are less likely to voice complaints in service situations in which they perceive they have “low power” (ability to influence or control the transaction). This is particularly true when the problem involves professional service providers such as doctors, lawyers, or architects; because of their perceived expertise, social norms tend to discourage customer criticism of such individuals.

WHO IS MOST LIKELY TO COMPLAIN? Research findings consistently show that people in higher socioeconomic levels are more likely to complain than those in lower levels. Their better education, higher income and greater social involvement give them the confidence, knowledge, and motivation to speak up when they encounter problems. Further, those who complain also tend to be more knowledgeable about the product in question.

WHERE DO CUSTOMERS COMPLAIN? Studies show that the majority of complaints are made at the place where the service was received. One of the authors of this book recently completed a consulting project developing and implementing a customer feedback system and found that more than 99 percent of customer feedback was given face-to-face or over the phone to customer service representatives. Less than 1 percent of all complaints were submitted via email, letters, customer feedback cards, or the firm’s website. A survey of airline passengers
found that only 3 percent of respondents who were unhappy with their meal actually complained about it, and they all complained to the flight attendant. None complained to the company’s headquarters or to a consumer affairs office. Also, customers tend to use noninteractive channels to complain (e.g., email or letters) when they mainly want to vent their anger and frustration, but resort to interactive channels such as face-to-face or the telephone when they want a problem to be fixed or redressed. In practice, even when customers do complain, managers often don’t hear about the complaints made to frontline employees. Without a formal customer feedback system, only a tiny portion of the complaints may reach corporate headquarters.

What Do Customer Expect Once They Have Made a Complaint?

Whenever a service failure occurs, people expect to be adequately compensated in a fair manner. However, recent studies show that many customers feel they have not been treated fairly nor received adequate recompense. When this happens, their reactions tend to be immediate, emotional, and enduring.

Stephen Tax and Stephen Brown found that as much as 85 percent of the variation in the satisfaction with a service recovery was determined by three dimensions of fairness (see Figure 13.4):

- **Procedural justice** concerns policies and rules that any customer has to go through to seek fairness. Customers expect the firm to assume responsibility, which is the key to the start of a fair procedure, followed by a convenient and responsive recovery process. That includes flexibility of the system and consideration of customer inputs into the recovery process.
- **Interactional justice** involves employees of the firm who provide the service recovery and their behavior toward the customer. Giving an explanation for the failure and making an effort to resolve the problem are very important. However, the recovery effort must be perceived as genuine, honest, and polite.
- **Outcome justice** concerns compensation a customer receives as a result of the losses and inconveniences incurred because of a service failure. This includes compensation for not only the failure but also time, effort, and energy spent during the process of service recovery.

![Figure 13.4 Three Dimensions of Perceived Fairness in Service Recovery Processes](source: Adapted from Stephen S. Tax and Stephen W. Brown, “Recovering and Learning from Service Failure,” Sloan Management Review 49, no. 1 (Fall 1998), 75–88. Copyright © 1998 by Massachusetts Institute of Technology. All rights reserved.)
CUSTOMER RESPONSES TO EFFECTIVE SERVICE RECOVERY

“Thank Heavens for Complainers” was the provocative title of an article about customer complaining behavior, which also featured a successful manager exclaiming, “Thank goodness I’ve got a dissatisfied customer on the phone! The ones I worry about are the ones I never hear from.” Customers who do complain give a firm the chance to correct problems (including some the firm may not even know it has), restore relationships with the complainer, and improve future satisfaction for all.

Service recovery is an umbrella term for systematic efforts by a firm to correct a problem following a service failure and to retain a customer’s goodwill. Service recovery efforts play a crucial role in achieving (or restoring) customer satisfaction and loyalty. In every organization, things may occur that have a negative impact on relationships with customers. The true test of a firm’s commitment to satisfaction and service quality isn’t in the advertising promises, but in the way it responds when things go wrong for the customer. Success in this area includes employee training and motivation. Simon Bell and James Luddington have found that although complaints generally tend to have a negative effect on service personnel’s commitment to customer service, employees with a positive attitude toward service and their own jobs may be more likely to view complaints as a potential source of improvement and to explore additional ways in which they can help customers.

Effective service recovery requires thoughtful procedures for resolving problems and handling disgruntled customers. It is critical for firms to have effective recovery strategies, because even a single service problem under the following conditions can destroy a customer’s confidence in a firm:

- The failure is totally outrageous (e.g., blatant dishonesty on the part of the supplier).
- The problem fits a pattern of failure rather than an isolated incident.
- The recovery efforts are weak, serving to compound the original problem rather than correct it.

The risk of defection is high, especially when a variety of competing alternatives is available. One study of customer switching behavior in service industries found that close to 60 percent of all respondents who reported changing suppliers did so because of a service failure: 25 percent cited failures in the core service, 19 percent reported an unsatisfactory encounter with an employee, 10 percent reported an unsatisfactory response to a prior service failure, and 4 percent described unethical behavior on the part of the provider.

Impact of Effective Service Recovery on Customer Loyalty

When complaints are satisfactorily resolved, there is a much higher chance that the customers involved will remain loyal. TARP research found that intentions to repurchase for different types of products ranged from 9 percent to 37 percent when customers were dissatisfied but did not complain. For a major complaint, the retention rate increased from 9 percent when dissatisfied customers did not complain to 19 percent if the customer complained and the company offered a sympathetic ear but was unable to resolve the complaint to the satisfaction of the customer. If the complaint could be resolved to the satisfaction of the customer, the retention rate jumped to 54 percent. The highest retention rate, 82 percent, was achieved when problems were fixed quickly—typically on the spot.

We can conclude that complaint handling should be seen as a profit center, not a cost center. When a dissatisfied customer defects, the firm loses more than just the value of the next transaction. It may also lose a long-term stream of profits from that customer and from anyone else who switches suppliers or is deterred from doing business with that firm, because of negative comments from an unhappy friend. However, many organizations have yet to buy into the concept that it pays to invest in service recovery designed to protect those long-term profits.

The Service Recovery Paradox

The service recovery paradox refers to the effect that customers who experience a service failure and then have it resolved are sometimes more satisfied than customers who have...
had no problem in the first place.\textsuperscript{20} Research has shown that the service recovery paradox is far from universal.\textsuperscript{21} For example, a study of repeated service failures in a retail banking context showed that the service recovery paradox held for the first service failure that was recovered to customers’ full satisfaction.\textsuperscript{22} However, if a second service failure occurred, the paradox disappeared. It seems that customers may forgive a firm once, but become disillusioned if failures recur. Furthermore, the study also showed that customers’ expectations were raised after they experienced a very good recovery; thus, excellent recovery becomes the standard they expect for dealing with future failures.

Whether a customer comes out delighted from a service recovery probably may also depend on the severity and “recoverability” of the failure—no one can replace spoiled wedding photos, a ruined holiday, or eliminate the consequences of a debilitating injury caused by service equipment. In such situations, it’s hard to imagine anyone being truly delighted even when a most professional service recovery is conducted. Contrast these examples with a lost hotel reservation for which the recovery is an upgrade to a better room—or even a suite. When poor service is recovered by delivery of a superior product, you’re usually delighted and probably hope for another lost reservation in the future.

The best strategy, of course, is to do it right the first time. As Michael Hargrove puts it, “Service recovery is turning a service failure into an opportunity you wish you never had.”\textsuperscript{23} Unfortunately, empirical evidence shows that some 40 percent to 60 percent of customers reported dissatisfaction with the service recovery processes they experienced.\textsuperscript{24}

**PRINCIPLES OF EFFECTIVE SERVICE RECOVERY SYSTEMS**

Recognizing that current customers are a valuable asset base, managers need to develop effective procedures for service recovery following unsatisfactory experiences. Unfortunately, as already discussed, many service recoveries fail and some of the common causes for failure are shown in Service Perspective 13.1.

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**SERVICE PERSPECTIVE 13.1**

**COMMON SERVICE RECOVERY MISTAKES**

Here are some typical service recovery mistakes made by many organizations:

- **Managers disregard evidence that shows how service recovery provides a significant financial return.** In recent years, many organizations have focused on cost cutting, paying only lip service to retaining their most profitable customers. On top of that, they have also lost sight of the need to respect all their customers.
- **Companies do not invest enough in actions that would prevent service issues.** Ideally, service planners address potential problems before they become customer problems. Although preventive measures don’t eliminate the need for good service recovery systems, they greatly reduce the burden on frontline staff and the service recovery system in its entirety.
- **Customer service employees fail to display good attitudes.** The three most important things in service recovery are attitude, attitude, and attitude. No matter how well designed and well planned the service recovery system is, it won’t work well without the friendly and proverbial smile-in-the-voice attitude from frontline staff.
- **Organizations fail to make it easy for customers to complain or give feedback.** Although some improvement can be seen, such as hotels and restaurants offering comment cards, little is done to communicate their simplicity and value to customers. Research shows that a large proportion of customers are unaware of the existence of a proper feedback system that could help them get their problems solved.

Next, we discuss three guiding principles for how to get it right: (1) make it easy for customers to give feedback, (2) enable effective service recovery, and (3) establish appropriate compensation levels. A fourth principle, learning from customer feedback and driving service improvements, will be discussed in Chapter 14 in the context of customer feedback systems. The components of an effective service recovery system are shown in Figure 13.5.25

**Make It Easy for Customers to Give Feedback**

How can managers overcome unhappy customer’s reluctance to complain about service failures? The best way is to address the reasons for their reluctance directly. Table 13.1 gives an overview of potential measures that can be taken to overcome those reasons we identified earlier in this chapter. Many companies have improved their complaint-collection procedures by adding special toll-free phone lines, links on

<table>
<thead>
<tr>
<th>Complaint Barriers for Dissatisfied Customers</th>
<th>Strategies to Reduce These Barriers</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Inconvenience</strong></td>
<td>Make feedback easy and convenient:</td>
</tr>
<tr>
<td>• Difficult to find the right complaint procedure</td>
<td>• Print customer service hotline numbers, email website and/or postal addresses on all customer communications materials (letters, bills, brochures, website, phone book and yellow pages listings, etc.)</td>
</tr>
<tr>
<td>• Effort, e.g., writing and mailing a letter</td>
<td></td>
</tr>
<tr>
<td><strong>Doubtful payoff</strong></td>
<td>Reassure customers that their feedback will be taken seriously and will pay off:</td>
</tr>
<tr>
<td>• Uncertain whether any or what action will be taken by the firm to address the issue the customer is unhappy with</td>
<td>• Have service recovery procedures in place and communicate this to customers, e.g., in customer newsletter and web site.</td>
</tr>
<tr>
<td>• Feature service improvements that resulted from customer feedback.</td>
<td></td>
</tr>
<tr>
<td><strong>Unpleasantness</strong></td>
<td>Make providing feedback a positive experience:</td>
</tr>
<tr>
<td>• Fear of being treated rudely</td>
<td>• Thank customers for their feedback (can be done publicly and in general by addressing the entire customer base).</td>
</tr>
<tr>
<td>• Fear of being hassled</td>
<td>• Train service employees not to hassle and to make customers feel comfortable.</td>
</tr>
<tr>
<td>• Feeling embarrassed</td>
<td>• Allow for anonymous feedback.</td>
</tr>
</tbody>
</table>
their websites, prominently displayed customer comment cards in their branches, or even providing video terminals for recording complaints. In their customer newsletters, some companies feature service improvements that were the direct result of customer feedback under the motto “You told us, and we responded.”

Enable Effective Service Recovery

Recovering from service failures takes more than just pious expressions of determination to resolve any problems that may occur. It requires commitment, planning, and clear guidelines. Specifically, effective service recovery procedures should be (1) proactive, (2) planned, (3) trained, and (4) empowered.

SERVICE RECOVERY SHOULD BE PROACTIVE. Service recovery needs to be initiated on the spot, ideally before customers have a chance to complain (see Best Practice in Action 13.1). Service personnel should be sensitized to signs of dissatisfaction and ask

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**BEST PRACTICE IN ACTION 13.1**

Effective Service Recovery in Action

The lobby is deserted. It’s not hard to overhear the conversation between the night manager at the Marriott Long Wharf Hotel in Boston and the late-arriving guest.

“Yes, Dr. Jones, we’ve been expecting you. I know you are scheduled to be here for three nights. I’m sorry to tell you, sir, but we are booked solid tonight. A large number of guests we assumed were checking out did not. Where is your meeting tomorrow, sir?”

The doctor told the clerk where it was.

“That’s near the Omni Parker House! That’s not very far from here. Let me call them and get you a room for the evening. I’ll be right back.”

A few minutes later, the desk clerk returned with the good news.

“They’re holding a room for you at the Omni Parker House, sir. And, of course, we’ll pick up the tab. I’ll forward any phone calls that come here for you. Here’s a letter that will explain the situation and expedite your check-in, along with my business card so you can call me directly here at the front desk if you have any problems.”

The doctor’s mood was moving from exasperation toward calm. But the desk clerk was not finished with the encounter. He reached into the cash drawer. “Here are two $10 bills. That should more than cover your cab fare from here to the Parker House and back again in the morning. We don’t have a problem tomorrow night, just tonight. And here’s a coupon that will get you a complimentary continental breakfast on our concierge level on the fifth floor tomorrow morning... and again, I am so sorry this happened.”

As the doctor walks away, the night manager turns to the desk clerk, “Give him about 15 minutes and then call to make sure everything went okay.”

A week later when it was still a peak period for hotels in that city, the same guest who had overheard the exchange was in a taxi, en route to the same hotel. Along the way, he tells about the great service recovery episode he had witnessed the week before. The two travelers arrive at the hotel and make their way to the front desk, ready to check in.

They are greeted with unexpected news: “I am so sorry, gentlemen. I know you were scheduled here for two nights. But we are booked solid tonight. Where is your meeting scheduled tomorrow?”

The would-be guests exchange a rueful glance as they give the desk clerk their future plans. “That’s near the Méridien. Let me call over there and see if I can get you a room. It won’t but take a minute.” As the clerk walks away, the tale teller says, “I’ll bet he comes back with a letter and a business card.”

Sure enough, the desk clerk returns to deliver the solution; it’s not a robotic script but all the elements from the previous week’s show are on display. What the tale teller thought was pure desk-clerk initiative the previous week, he now realizes was planned, a spontaneous yet predetermined response to a specific category of service problem.

whether customers might be experiencing a problem. For example, the waiter may ask a guest who has only eaten half of his dinner, “Is everything all right, sir?” The guest may say, “Yes, thank you, I am not very hungry,” or “The steak is well done, but I had asked for medium rare, plus it is very salty.” The latter response then gives the waiter a chance to recover the service, rather than have an unhappy diner leave the restaurant and potentially not return.

**RECOVERY PROCEDURES NEED TO BE PLANNED.** Contingency plans have to be developed for service failures, especially for those that can occur regularly and cannot be designed out of the system. Revenue management practices in the travel and hospitality industries often result in overbooking, and travelers are denied boarding or hotel guests are “walked” even though they had confirmed seats or reservations. To simplify the task of frontline staff, firms should identify the most common service problems such as overbooking and develop predetermined solution sets for employees to follow. In contact centers, the customer service representatives have prepared scripts to guide them in a service recovery situation.

**RECOVERY SKILLS MUST BE TAUGHT.** As a customer, you may quickly feel insecure at the point of service failure because things are not turning out as anticipated. So you look to an employee for assistance. But are they willing and able to help you? Effective training builds confidence and competence among frontline staff, enabling them to turn distress into delight.

**RECOVERY REQUIRES EMPOWERED EMPLOYEES.** Service recovery efforts should be flexible, and employees should be empowered to use their judgment and communication skills to develop solutions that will satisfy complaining customers. This is especially true for out-of-the-ordinary failures for which a firm may not have developed and trained potential solution sets on. Employees need to have the authority to make decisions and spend money in order to resolve service problems promptly and recover customer goodwill. At the Ritz-Carlton and Sheraton hotels, employees are given the freedom to be proactive, rather than reactive. They take ownership of the situation and help resolve the customers’ problems to the best of their ability.

**How Generous Should Compensation Be?**

Clearly, vastly different costs are associated with possible recovery strategies. How much compensation should a firm offer when there has been a service failure? Or would an apology be sufficient instead? The following rules of thumb can help managers to answer these questions:

- **What is the positioning of your firm?** If a firm is known for service excellence and charges a high premium for quality, then customers will expect service failures to be rare, so the firm should make a demonstrable effort to recover the few failures that do occur and be prepared to offer something of significant value. In a more downscale, mass market business, customers are likely to consider something quite modest, such as a free coffee or dessert as fair compensation.

- **How severe was the service failure?** The general guideline is “Let the punishment fit the crime.” Customers expect little for minor inconveniences, but a much more significant compensation if major damage in terms of time, effort, annoyance, or anxiety was created by the failure.

- **Who is the affected customer?** Long-term customers and those who spend heavily at a service provider expect more, and it is worth making an effort to save their business. One-time customers tend to be less demanding and have less economic importance to the firm. Hence, compensation can be less, but should still be fair.
There is always the possibility that a first-time user will become a repeat customer if he or she is treated well.

The overall rule of thumb for compensation at service failures should be “well dosed generosity.” Being perceived as stingy adds insult to injury, and the firm will probably be better off apologizing rather than offering a minimal compensation. Doing too much is also not advisable. Overly generous compensation is not only expensive, customers may even interpret such a response negatively raising questions in their minds about the soundness of the business and leading them to become suspicious about the underlying motives. Customers may worry about the implications for the employee as well as for the business. Also, overgenerosity does not seem to result in higher repeat purchase rates than simply offering a fair compensation.29 There is a risk, too, that a reputation for overgenerosity may encourage dishonest customers to actively “seek” service failures.

Dealing with Complaining Customers

Both managers and frontline employees must be prepared to deal with distressed customers, including jaycustomers who become confrontational in unacceptable ways and sometimes behave in insulting ways toward service personnel who aren’t at fault in any way. Service Perspective 13.2 provides specific guidelines for effective problem resolution, designed to help calm upset customers and to deliver a resolution they will see as fair and satisfying.

SERVICE GUARANTEES

One way for particularly customer-focused firms to institutionalize professional complaint handling and effective service recovery is service guarantees. In fact, a growing number of companies offer customers a service guarantee, promising that if service delivery fails to meet predefined standards, the customer will be entitled to one or more forms of compensation, such as an easy-to-claim replacement, refund, or credit. A well-designed service guarantee not only facilitates effective service recovery, but also institutionalizes learning from service failures and subsequent system improvements.30

The Power of Service Guarantees

Christopher Hart declares that service guarantees are powerful tools for both promoting and achieving service quality for the following reasons:31

1. Guarantees force firms to focus on what their customers want and expect in each element of the service.
2. Guarantees set clear standards, telling customers and employees alike what the company stands for. Payouts to compensate customers for poor service cause managers to take guarantees seriously, because they highlight the financial costs of quality failures.
3. Guarantees require the development of systems for generating meaningful customer feedback and acting on it.
4. Guarantees force service organizations to understand why they fail and encourage them to identify and overcome potential fail points.
5. Guarantees build “marketing muscle” by reducing the risk of the purchase decision and building long-term loyalty.

From the customer’s perspective, the primary function of service guarantees is to lower the perceived risks associated with purchase.32 The presence of a guarantee may also make it easier for customers to complain and more likely that they will do so, because they will anticipate that frontline employees will be prepared to resolve the problem and provide appropriate compensation. Sara Björlin Lidén and Per Skålén found that even when dissatisfied customers were unaware that a service guarantee existed
1. **Act fast.** If the complaint is made during service delivery, then time is of the essence to achieve a full recovery. When complaints are made after the fact, many companies have established policies of responding within 24 hours, or sooner. Even when full resolution is likely to take longer, fast acknowledgment remains very important.

2. **Acknowledge the customer's feelings.** Do this either tacitly or explicitly (for example, “I can understand why you’re upset”). This action helps to build rapport, the first step in rebuilding a bruised relationship.

3. **Don’t argue with customers.** The goal should be to gather facts to reach a mutually acceptable solution, not to win a debate or prove that the customer is an idiot. Arguing gets in the way of listening and seldom diffuses anger.

4. **Show that you understand the problem from each customer’s point of view.** Seeing situations through the customers’ eyes is the only way to understand what they think has gone wrong and why they’re upset. Service personnel should avoid jumping to conclusions with their own interpretations.

5. **Clarify the truth and sort out the cause.** A failure may result from inefficiency of service, misunderstanding by customers, or the misbehavior of a third party. If you’ve done something wrong, apologize immediately. The more the customer can forgive you, the less he or she will expect to be compensated. Don’t be defensive; acting defensively may suggest that the organization has something to hide or is reluctant to explore the situation fully.

6. **Give customers the benefit of the doubt.** Not all customers are truthful and not all complaints are justified. However, customers should be treated as though they have a valid complaint until clear evidence to the contrary emerges. If a lot of money is at stake (as in insurance claims or potential lawsuits), careful investigation is warranted. If the amount involved is small, it may not be worth haggling over a refund or other compensation. However, it’s still a good idea to check records to see if there is a past history of dubious complaints by the same customer.

7. **Propose the steps needed to solve the problem.** When instant solutions aren’t possible, telling customers how the organization plans to proceed shows that corrective action is being taken. It also sets expectations about the time involved (so firms should be careful not to overpromise).

8. **Keep customers informed of progress.** Nobody likes being left in the dark. Uncertainty breeds anxiety and stress. People tend to be more accepting of disruptions if they know what’s going on and receive periodic progress reports.

9. **Consider compensation.** When customers do not receive the service outcomes they believe they have paid for or have suffered serious inconvenience and/or loss of time and money because the service failed, either a monetary payment or an offer of equivalent service in kind is appropriate. This type of recovery strategy may also reduce the risk of legal action by an angry customer. Service guarantees often lay out in advance what such compensation will be, and the firm should ensure that all guarantees are met.

10. **Persevere to regain customer goodwill.** When customers have been disappointed, one of the biggest challenges is to restore their confidence and preserve the relationship for the future. Perseverance may be required to defuse customers’ anger and to convince them that actions are being taken to avoid a recurrence of the problem. Truly exceptional recovery efforts can be extremely effective in building loyalty and referrals.

11. **Check the service delivery system and pursue eminence.** After the customer has left, you should check to determine whether the service failure was caused by accidental mistakes or system defects. Take advantage of every complaint to perfect the whole service system. Even if the complaint is found to be a result of a misunderstanding by customer, this implies that some part of your communication system is ineffective.
before making their complaint, they were positively impressed to learn that the company has a preplanned procedure for handling failures and to find that their complaints were taken seriously.

The benefits of service guarantees can be seen clearly in the case of Hampton Inn’s “100% Hampton Guarantee” (“If you’re not 100% satisfied, you don’t pay”—see Figure 13.6), which has now been extended to Embassy Suites, and Homewood Suites. As a business-building program, Hampton’s strategy of offering to refund the cost of the room to a guest who expresses dissatisfaction has attracted new customers and also served as a powerful retention device. People choose to stay at a Hampton Inn because they are confident they will be satisfied. At least as important, the guarantee has become a vital tool to help managers identify new opportunities for quality improvement.

In discussing the impact on staff and managers, the vice president of marketing for Hampton Inn stated, “Designing the guarantee made us understand what made guests satisfied, rather than what we thought made them satisfied.” It became imperative that everyone from reservationists and frontline employees, to general managers and personnel at corporate headquarters, listen carefully to guests, anticipate their needs to the greatest extent possible, and remedy problems quickly so that guests were satisfied with the solution. Viewing a hotel’s function in this customer-centric way had a profound impact on the way the firm conducted business.

**FIGURE 13.6** Hampton Inn Includes Its "100% Satisfaction Guarantee" in Its Advertising

Source: Courtesy of Hilton.
The guarantee “turned up the pressure in the hose,” as one manager put it, showing where “leaks” existed and providing the financial incentive to plug them. As a result, the guarantee has had an important impact on product consistency and service delivery across the Hampton Inn chain. Finally, studies have shown a dramatically positive effect of the “100% Hampton Guarantee” on financial performance.

**How to Design Service Guarantees**

Some guarantees are simple and unconditional. Others appear to have been written by lawyers and contain many restrictions. Compare the examples in Service Perspective 13.3 and ask yourself which guarantees instill trust and confidence in you and would make you like to do business with that firm.

**SERVICE PERSPECTIVE 13.3**

**EXAMPLES OF SERVICE GUARANTEES**

**United States Postal Service Express Mail Guarantee**

_Service Guarantee:_ Express Mail international mailings are not covered by this service agreement. Military shipments delayed due to customs inspections are also excluded. If the shipment is mailed at a designated USPS Express Mail facility on or before the specified deposit time for overnight delivery to the addressee, delivery to the addressee or agent will be attempted before the applicable guaranteed time. Signature of the addressee's agent, or delivery employee is required upon delivery. If a delivery attempt is not made by the guaranteed time and the mailer files a claim for a refund, the USPS will refund the postage unless the delay was caused by: proper retention for law enforcement purposes; strike or work stoppage; late deposit of shipment; forwarding, return, incorrect address, or incorrect ZIP code; delay or cancellation of flights; governmental action beyond the control of the Postal Service or air carriers; war, insurrection, or civil disturbance; breakdowns of a substantial portion of the USPS transportation network resulting from events or factors outside the control of the Postal Service or Acts of God.

*Source:* Printed on back of Express Mail receipt, January 2006.

**L.L. Bean’s Guarantee**

_Our Guarantee._ Our products are guaranteed to give 100 percent satisfaction in every way. Return anything purchased from us at any time if it proves otherwise. We do not want you to have anything from L.L. Bean that is not completely satisfactory.


**MFA Group Inc. (a Professional Recruitment Agency)**

We “put our money where our mouth is” in two ways, not just one:

1. **Money back:** We offer an unconditional money back guarantee—if at any point during the search process you are unhappy with progress, simply address the fact with us and if you are still not 100 percent satisfied after that discussion, we will cheerfully and unconditionally refund every cent you have paid as a retainer. No quibble, no hassle, guaranteed period.

2. **Twelve-month candidate guarantee:** All candidates placed by us are guaranteed for a full 12 months. If, during this period they leave your firm, for any reason whatsoever, we will conduct an additional search, completely free of charge, until a suitable replacement has been found.

Excerpt from the “Quality Standard Guarantees” from an Office Services Company

- We guarantee six-hour turnaround on documents of two pages or less . . . (does not include client subsequent changes or equipment failures).
- We guarantee there will be a receptionist to greet you and your visitors during normal business hours . . . (short breaks of less than five minutes are not subject to this guarantee).
- You will not be obligated to pay rent for any day on which there is not a manager on site to assist you (lunch and reasonable breaks are expected and not subject to this guarantee).


The Bugs Burger Bug Killer Guarantee (a Pest Control Company)

- You don’t owe us a penny until all the pests on your premises have been eradicated.
- If you’re ever dissatisfied with the BBBK’s service, you will receive a refund for as much as 12 months of service—plus fees for another exterminator of your choice for the next year.
- If a guest spots a pest on your premises, the exterminator will pay for the guest’s meal or room, send a letter of apology, and pay for a future meal or stay.
- If your premises are closed down because of the presence of roaches or rodents, BBBK will pay any fines, as well as all lost profit, plus $5,000.


All three guarantees—from L.L. Bean, MFA Group, and BBBK—are powerful, unconditional, and instill trust. The other two are weakened by the many conditions. The United States Postal Service has added six new conditions in recent years. Hart argues that service guarantees should be designed to meet the following criteria:35

1. **Unconditional**—Whatever is promised in the guarantee must be totally unconditional, and there should not be any element of surprise for the customer.
2. **Easy to understand and communicate** to the customer so that he is clearly aware of the benefits that can be gained from the guarantee.
3. **Meaningful to the customer** in that the guarantee is for something important to the customer, and the compensation should be more than adequate to cover the service failure.36
4. **Easy to invoke**—It should be easy for the customer to invoke the guarantee.
5. **Easy to collect on**—If a service failure occurs, the customer should be able to easily collect on the guarantee without any problems.
6. **Credible**—The guarantee should be believable.

Is Full Satisfaction the Best You Can Guarantee?

Full satisfaction guarantees generally have been considered the best possible design. However, it has been suggested that the ambiguity associated with such guarantees can lead to discounting of their perceived value. Customers may raise questions such as “What does full satisfaction mean?” or “Can I invoke a guarantee when I am dissatisfied, although the fault does not lie with the service firm?”37 The combined guarantee addresses this issue by combining the wide scope of a full satisfaction guarantee with the low uncertainty of specific performance standards.38 The type of guarantee has been shown to be superior to the pure full satisfaction or attribute-specific guarantee designs. Specific performance standards are guaranteed (e.g., on-time delivery), but should the consumer be dissatisfied with any other element of the service, the full-satisfaction coverage of the combined guarantee applies. Table 13.2 shows examples of the various types of guarantees.
Part IV • Implementing Profitable Service Strategies

Is It Always Appropriate to Introduce a Service Guarantee?
Managers should think carefully about their firm’s strengths and weaknesses when deciding whether or not to introduce a service guarantee. Amy Ostrom and Christopher Hart identified a number of situations in which a guarantee may be inappropriate:

- Companies that already have a strong reputation for service excellence may not need a guarantee. In fact, it might even be incongruent with their image to offer one as it might even confuse the market. Rather, best in class service firms will be expected to do what is right without offering a service guarantee.
- In contrast, a firm whose service currently is poor must first work to improve quality to a level above what is guaranteed. Otherwise, too many customers will invoke the guarantee with serious cost implications.
- Service firms whose quality is truly uncontrollable because of external forces would be foolish to consider a guarantee. For example, when Amtrak realized that it was paying out substantial refunds because it lacked sufficient control over its railroad infrastructure, it was forced to drop a service guarantee that included reimbursement of fares in the event of unpunctual train service.
- In a market in which consumers see little financial, personal, or physiological risk associated with purchasing and using a service, a guarantee adds little value but still costs money to design, implement, and manage.

Furthermore, in markets where little perceived difference exists in service quality among competing firms, the first firm to institute a guarantee may be able to obtain a first mover advantage and create a valued differentiation for its services. If more than one competitor already has a guarantee in place, offering a guarantee may become a

### TABLE 13.2 Types of Service Guarantees

<table>
<thead>
<tr>
<th>Term</th>
<th>Guarantee Scope</th>
<th>Example</th>
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<tbody>
<tr>
<td>Single attribute-specific guarantee</td>
<td>One key attribute of the service is covered by the guarantee.</td>
<td>“Any of three specified popular pizzas is guaranteed to be served within 10 minutes of ordering on working days between 12 A.M. and 2 P.M. If the pizza is late, the customer’s next order is free.”</td>
</tr>
</tbody>
</table>
| Multiattribute-specific guarantee | A few important attributes of the service are covered by the guarantee.     | Minneapolis Marriott’s guarantee: “Our quality commitment to you is to provide:  
  • A friendly, efficient check-in  
  • A clean, comfortable room, where everything works  
  • A friendly efficient check-out  
  If we, in your opinion, do not deliver on this commitment, we will give you $20 in cash. No questions asked. It is your interpretation.” |
| Full-satisfaction guarantee | All aspects of the service are covered by the guarantee. There are no exceptions. | Lands’ End’s guarantee: “If you are not completely satisfied with any item you buy from us, at any time during your use of it, return it and we will refund your full purchase price. We mean every word of it. Whatever. Whenever. Always. But to make sure this is perfectly clear, we’ve decided to simplify it further. GUARANTEED. Period.” |
| Combined guarantee | All aspects of the service are covered by the full-satisfaction promise of the guarantee. Explicit minimum performance standards on important attributes are included in the guarantee to reduce uncertainty. | Datapro Information Services guarantees “to deliver the report on time, to high quality standards, and to the contents outlined in this proposal. Should we fail to deliver according to this guarantee, or should you be dissatisfied with any aspect of our work, you can deduct any amount from the final payment which is deemed as fair.” |

qualifier for the industry, and the only real way to make an impact is to launch a highly distinctive guarantee beyond what is already offered by competitors.\textsuperscript{41}

\textbf{DISCOURAGING ABUSE AND OPPORTUNISTIC CUSTOMER BEHAVIOR}

Throughout this chapter, we advocate that firms should welcome complaints and invocations of service guarantees and even encourage them. But while we discussed the importance of professional complaint handling and service recovery, we have to acknowledge that not all complaints are honest. When firms have generous service recovery policies or offer guarantees, there is always the fear that some customers may take advantage. Also, not all complaining customers are right or reasonable in their behavior, and some may actually be the cause of complaints by other customers. We refer to such people as \textit{jaycustomers}.

Visitors to North America from other English-speaking countries often are puzzled by the term “jaywalker,” that distinctively American word used to describe people who cross streets at unauthorized places or in a dangerous manner. The prefix “jay” comes from a nineteenth-century slang term for a stupid person. We can create a whole vocabulary of derogatory terms by adding the prefix “jay” to existing nouns and verbs. How about “jaycustomer,” for example, to denote someone who “jayuses” a service or “jayconsumes” a physical product (and then “jaydisposes” of it afterward)? We define a jaycustomer as someone who acts in a thoughtless or abusive way, causing problems for the firm, its employees, and other customers.

Customers who act in uncooperative or abusive ways are a problem for any organization. However, they have even more potential for mischief in service businesses, particularly those in which many other customers are present in the service factory. As you know from your own experience, other people’s behavior can affect your enjoyment of a service. If you like classical music and attend symphony concerts, you expect audience members to keep quiet during the performance, not spoiling the experience for others by talking, coughing loudly, or failing to turn off their cell phones. By contrast, a silent audience would be deadly during a rock concert or team sports event, where active audience participation adds to the excitement. There’s a fine line, however, between spectator enthusiasm and abusive behavior by supporters of rival sports teams. Firms that fail to deal effectively with customer misbehaviors risk damaging their relationships with all the other customers they’d like to keep.

Every service has its share of jaycustomers, but opinions on this topic seem to polarize around two opposing views of the situation. One is denial: “the customer is king and can do no wrong.” The other view sees the marketplace of customers as positively overpopulated with nasty people who cannot be trusted to behave in ways that self-respecting service providers should expect and require. The first viewpoint has received wide publicity in gung-ho management books and in motivational presentations to captive groups of employees. But the second view often appears dominant among cynical managers and employees who have been burned at some point by customer misbehaviors. As with so many opposing viewpoints in life, there are important grains of truth in both perspectives, however, it is clear that no self-respecting firm wants an ongoing relationship with an abusive customer.

Every service has its share of jaycustomers. Jaycustomers are undesirable. At best, a firm should avoid attracting them in the first place, and at worst, a firm needs to control or prevent their abusive behavior. Let us first describe the main types of jaycustomers before we discuss how to deal with them.

\textbf{Seven Types of Jaycustomers}\textsuperscript{42}

Defining a problem is the first step in resolving it, so let’s start by considering the different types of jaycustomers. We’ve identified seven broad categories and given them generic names, but many customer contact personnel have come up with their own special terms.
THE CHEAT. There are many ways in which customers can cheat service firms. Cheating ranges from writing compensation letters with the sole purpose of exploiting service recovery policies and cheating on service guarantees, to inflating or faking insurance claims and “wardrobing” (e.g., using an evening dress or tuxedo for an evening and then returning it back to the retailer). The following quotes describe the thinking of these customers nicely:

On checking in to a hotel I noticed that they had a 100 percent satisfaction or your money back guarantee, I just couldn’t resist the opportunity to take advantage of it, so on checking out I told the receptionist that I wanted a refund as the sound of the traffic kept me awake all night. They gave me a refund, no questions asked. These companies can be so stupid they need to be more alert.

I’ve complained that service was too slow, too quick, too hot, too cold, too bright, too dark, too friendly, too impersonal, too public, too private...it doesn’t matter really, as long as you enclose a receipt with your letter, you just get back a standard letter and gift coupon.

Firms cannot easily check whether a customer is faking dissatisfaction or truly is unhappy. At the end of this section, we will discuss how to deal with this type of consumer fraud.

THE THIEF. The thief customer has no intention of paying and sets out to steal goods and services (or to pay less than full price by switching price tickets, or contesting bills on baseless grounds). Shoplifting is a major problem in retail stores. What retailers euphemistically call “shrinkage” is estimated to cost them huge sums of money in annual revenues. Many services lend themselves to clever schemes for avoiding payment. For those with technical skills, it’s sometimes possible to bypass electricity meters, access telephone lines free of charge, or circumvent normal cable TV feeds. Riding free on public transportation, sneaking into movie theaters, or not paying for restaurant meals are also popular. And we mustn’t forget the use of fraudulent forms of payment such as using stolen credit cards or checks drawn on accounts without any funds. Finding out how people steal a service is the first step in preventing theft or catching thieves and, where appropriate, prosecuting them. However, managers should try not to alienate honest customers by degrading their service experiences. And provision must be made for honest but absent-minded customers who forget to pay.

THE RULEBREAKER. Just as highways need safety regulations (including “Don’t Jaywalk”), many service businesses need to establish rules of behavior for employees and customers to guide them safely through the various steps of the service encounter. Some of these rules are imposed by government agencies for health and safety reasons. The sign found in many restaurants that states “No shirt, no shoes, no service” demonstrates a health-related regulation. And air travel provides one of the best of examples of rules designed to ensure safety—there are few other environments outside prison where healthy, mentally competent, adult customers are quite so constrained (albeit for good reason).

In addition to enforcing government regulations, suppliers often impose their own rules to facilitate smooth operations, avoid unreasonable demands on employees, prevent misuse of products and facilities, protect themselves legally, and discourage individual customers from misbehaving. Ski resorts, for instance, are getting tough on careless skiers who pose risks to both themselves and others. Collisions can cause serious injury and even kill. So ski patrol members must be safety-oriented and sometimes take on a policing role. Just as dangerous drivers can lose their licenses, so can dangerous skiers lose their lift tickets.

At Vail and Beaver Creek in Colorado, ski patrollers once revoked nearly 400 lift tickets in just a single weekend. At Winter Park, Colorado, skiers who lose their passes for dangerous behavior may have to attend a 45-minute safety class before they can get their passes back. Ski patrollers at Vermont’s Okemo Mountain may issue warnings to reckless skiers by attaching a bright orange sticker to their lift tickets. If pulled over again for inappropriate behavior, such skiers may be escorted off the mountain and
banned for a day or more. “We’re not trying to be Gestapos on the slopes,” says the resort’s marketing director, “just trying to educate people.”

How should a firm deal with rulebreakers? Much depends on which rules have been broken. In the case of legally enforceable ones—theft, bad debts, trying to take guns on aircraft—the courses of action need to be laid down explicitly to protect employees and to punish or discourage wrongdoing by customers.

Company rules are a little more ambiguous. Are they really necessary in the first place? If not, the firm should get rid of them. Do they deal with health and safety? If so, educating customers about the rules should reduce the need for taking corrective action. The same is true for rules designed to protect the comfort and enjoyment of all customers. There are also unwritten social norms such as “thou shalt not cut in line” (although this is a much stronger cultural expectation in the United States or Canada than in many countries, as any visitor to Paris or Hong Kong Disneyland can attest). Other customers often can be relied upon to help service personnel enforce rules that affect everybody else; they may even take the initiative in doing so.

There are risks attached to making lots of rules. They can make an organization appear bureaucratic and overbearing. And they can transform employees—whose orientation should be to serve customers—into police officers who see (or are told to see) their most important task as enforcing all the rules. The fewer the rules, the more explicit the important ones can be.

**THE BELLIGERENT.** You’ve probably seen him (or her) in a store, at the airport, in a hotel, or restaurant—red in the face and shouting angrily or perhaps icily calm and mouthing off insults, threats, and obscenities. Things don’t always work as they should: machines break down, service is clumsy, customers are ignored, a flight is delayed, an order is delivered incorrectly, staff are unhelpful, a promise is broken. Or perhaps the customer in question is expressing resentment at being told to abide by the rules. Service personnel often are abused, even when they are not to blame. If an employee lacks authority to resolve the problem, the belligerent may become madder still, even to the point of physical attack. Unfortunately, when angry customers rant at service personnel, the latter sometimes respond in kind, thus escalating the confrontation and reducing the likelihood of resolution (Figure 13.7).

Drunkenness and drug abuse add extra layers of complication. Organizations that care about their employees go to great efforts to develop skills in dealing with these difficult situations. Training exercises that involve role-playing help employees develop the self-confidence and assertiveness they need to deal with upset, belligerent customers (sometimes referred to as “irates”). Employees also need to learn how to defuse anger, calm anxiety, and comfort distress (particularly when there is good reason for the customer to be upset with the organization’s performance).

“We seem to live in an age of rage,” declare Stephen Grove, Raymond Fisk, and Joby John, noting a general decline in civility. They suggest that rage behaviors are learned via socialization as appropriate responses to certain situations. Research by Roger Bougie and his colleagues determined that anger and dissatisfaction are qualitatively different emotions. Whereas dissatisfied customers had a feeling of unfulfillment or “missing out” and wanted to find out who or what was responsible for the event, angry customers were thinking how unfair the situation was, sought to get back at the organization, and wanted to hurt someone.

The problem of “Air Rage” has attracted particular attention in recent years because of the risks it poses to innocent people (see Service Perspective 13.4). Blair Berkley and Mohammad
Service Perspective 13.4

Air Rage: Unruly Passengers Pose a Continuing Problem

Joining the term “road rage”—coined in 1988 to describe angry, aggressive drivers who threaten other road users—is “air rage,” describing the behavior of violent, unruly passengers who endanger flight attendants, pilots, and other passengers. Incidents of air rage are perpetrated by a tiny fraction of all airline passengers—reportedly about 5,000 times a year—but each incident in the air may affect the comfort and safety of hundreds of other people.

Although terrorism is an ongoing concern, out-of-control passengers pose a serious threat to safety, too. On a flight from Orlando to London, a drunken passenger smashed a video screen and began ramming a window, telling fellow passengers they were about to “get sucked out and die.” The crew strapped him down, and the aircraft made an unscheduled landing in Bangor, Maine, where U.S. marshals arrested him. Another unscheduled stop in Bangor involved a drug smuggler flying from Jamaica to the Netherlands. When a balloon filled with cocaine ruptured in his stomach, he went berserk, pummeling a bathroom door to pieces and grabbing a female passenger by the throat.

On a flight from London to Spain, a passenger who was already drunk at the time of boarding became angry when a flight attendant told him not to smoke in the lavatory and then refused to serve him another drink. Later, he smashed her over the head with a vodka bottle before being restrained by other passengers (she required 18 stitches to close the wound). Other dangerous incidents have included throwing hot coffee at flight attendants, head-butting a copilot, trying to break into the cockpit, throwing a flight attendant across three rows of seats, and attempting to open an emergency door in flight. On a U.S. domestic flight with a tragic outcome, a violent passenger was restrained and ultimately suffocated by other passengers after he kicked through the cockpit door of an airliner 20 minutes before it was scheduled to land in Salt Lake City.

A growing number of carriers are taking air rage perpetrators to court. Northwest Airlines permanently blacklisted three violent travelers from flying on its aircraft. British Airways gives out “warning cards” to any passenger getting dangerously out of control. Celebrities are not immune to air rage. Rock star Courtney Love blamed her “potty mouth” after being arrested on arrival in London for disruptive behavior on a flight from Los Angeles. Some airlines carry physical restraints to subdue out-of-control passengers until they can be handed over to airport authorities.

In April 2000, U.S. Congress increased the civil penalty for air rage from $1,100 to $25,000 in an attempt to discourage passengers from misbehaving. Criminal penalties—a $10,000 fine and up to 20 years in jail—can also be imposed for the most serious incidents. Some airlines have been reluctant to publicize this information for fear of appearing confrontational or intimidating. However, the visible implementation of antiterrorist security precautions has made it more acceptable to tighten enforcement of procedures designed to control and punish air rage.

What causes air rage? Psychological feelings of a loss of control or problems with authority figures may be causal factors for angry behavior in many service settings. Researchers suggest that air travel, in particular, has become increasingly stressful as a result of crowding and longer flights; the airlines themselves may have contributed to the problem by squeezing rows of seats more tightly together and failing to explain delays. Findings suggest that risk factors for air travel stress include anxiety and an anger-prone personality; they also show that traveling on unfamiliar routes is more stressful than traveling on a familiar one. Another factor may be restrictions on smoking. However, alcohol abuse underlies a majority of incidents.

Airlines are training their employees to handle violent individuals and to spot problem passengers before they start causing serious problems. Some carriers offer travelers specific suggestions on how to relax during long flights. And some airlines have considered offering nicotine patches to passengers who are desperate for a smoke but are no longer allowed to light up. Increased security in the air may be curtailing rage behavior on board flights, but concern continues to grow about passenger rage on the ground. An Australian survey of airport employees found that 96 percent of airport staff had experienced air rage at work: 31 percent of agents experienced some form of air rage daily, and 15 percent of agents reported they had been physically touched or assaulted by a passenger.

Ala note that violent passengers were considered the number one security concern in the airline industry.48

What should an employee do when an aggressive customer brushes off attempts to defuse the situation? In a public environment, one priority should be to move the person away from other customers. Sometimes supervisors may have to arbitrate disputes between customers and staff members; at other times, they need to stand behind the employee’s actions. If a customer has physically assaulted an employee, then it may be necessary to summon security officers or the police. Some firms try to conceal such events, fearing bad publicity. Others, however, feel obliged to make a public stand on behalf of their employees, like the Body Shop manager who ordered an ill-tempered customer out of the store, telling her: “I won’t stand for your rudeness to my staff.”

Telephone rudeness poses a different challenge. Service personnel have been known to hang up on angry customers, but that action doesn’t resolve the problem. Bank customers, for instance, tend to get upset upon learning that checks have been returned because the account is overdrawn (which means they’ve broken the rules) or that a request for a loan has been denied. One approach for handling customers who continue to berate a telephone-based employee is for the latter to say firmly: “This conversation isn’t getting us anywhere. Why don’t I call you back in a few minutes when you’ve had time to digest the information?” In many cases, a break for reflection is exactly what’s needed.

THE FAMILY FEUDERS. People who get into arguments with members of their own family (or worse, with other customers)—make up a subcategory of belligerents we call family feuders. Employee intervention may calm the situation or actually make it worse. Some situations require detailed analysis and a carefully measured response. Others, such as customers starting a food fight in a nice restaurant (yes, such things do happen), require almost instantaneous response. Service managers in these situations need to be prepared to think on their feet and act fast.

THE VANDAL. The level of physical abuse to which service facilities and equipment can be subjected is truly astonishing. Soft drinks are poured into bank cash machines; graffiti are scrawled on both interior and exterior surfaces; burn holes from cigarettes scar carpets, tablecloths, and bedcovers; bus seats are slashed and hotel furniture broken; telephone handsets are torn off; customers’ cars are vandalized; glass is smashed and fabrics are torn. The list is endless. Customers don’t cause all of the damage, of course. Bored or drunk young people are the source of much exterior vandalism. And disgruntled employees have been known to commit sabotage. But much of the problem does originate with paying customers who choose to misbehave. Alcohol and drugs are sometimes the cause, at other times psychological problems may contribute, and carelessness can play a role. On some occasions, unhappy customers, feeling mistreated by the service provider, try to take revenge in some way.

The best cure for vandalism is prevention. Improved security discourages some vandals. Good lighting helps, as does open design of public areas. Companies can choose pleasing yet vandal-resistant surfaces, protective coverings for equipment, and rugged furnishings. Educating customers on how to use equipment properly (rather than fighting with it) and providing warnings about fragile objects can reduce the likelihood of abuse or careless handling. And there are economic sanctions: security deposits or signed agreements in which customers agree to pay for any damage they cause.

What should managers do if prevention fails and damage is done? If the perpetrator is caught, they should first clarify whether there are any extenuating circumstances (because accidents do happen). Sanctions for deliberate damage can range from a warning to prosecution. As far as the physical damage itself is concerned, it’s
best to fix it fast (within any constraints imposed by legal or insurance considerations). The general manager of a bus company had the right idea when he said: “If one of our buses is vandalized, whether it’s a broken window, a slashed seat, or graffiti on the ceiling, we take it out of service immediately, so nobody sees it. Otherwise, you just give the same idea to five other characters who were too dumb to think of it in the first place!”

**THE DEADBEAT.** Leaving aside those individuals who never intended to pay in the first place (our term for them is “the thief”), there are many reasons why customers fail to pay for services they have received. Once again, preventive action is better than a cure. A growing number of firms insist on prepayment. Any form of ticket sale is a good example of this. Direct marketing organizations ask for your credit card number as they take your order, as do most hotels when you make a reservation. The next best thing is to present the customer with a bill immediately on completion of service. If the bill is to be sent by mail, the firm should send it fast, while the service is still fresh in the customer’s mind.

Not every apparent delinquent is a hopeless deadbeat. Perhaps there’s good reason for the delay, and acceptable payment arrangements can be worked out. A key question is whether such a personalized approach can be cost justified, relative to the results obtained by purchasing the services of a collection agency. There may be other considerations, too. If the client’s problems are only temporary, what is the long-term value of maintaining the relationship? Will it create positive goodwill and word-of-mouth to help the customer work things out? These decisions are judgment calls, but if creating and maintaining long-term relationships is the firm’s ultimate goal, they bear exploration.

### Consequences of Dysfunctional Customer Behavior

Lloyd Harris and Kate Reynolds emphasize that dysfunctional customer behavior has consequences for frontline staff, other customers, and the organization itself. Abused employees may not only find their mood or temper negatively affected in the short run, but also may eventually suffer long-term psychological damage. Their own behavior, too, may take on negative dimensions, such as taking revenge on abusive customers. Staff morale can be hurt, with implications for both productivity and quality.

The consequences for customers can take both positive and negative forms. Other customers may rally to the support of an employee whom they perceive as having been abused; however, bad behavior can also be contagious, leading a bad situation to escalate as others join in. More broadly, being exposed to negative incidents can spoil the consumption experience for many customers, even leading them to terminate their use of the service in question. Companies suffer financially when demotivated employees no longer work as efficiently and effectively as before, or when employees are forced to take medical leave. There may also be direct financial losses from restoring stolen or damaged property, legal costs, and paying fraudulent claims.

As suggested in the earlier discussion of air rage, the nature of jaycustomer behavior is likely to be shaped by the characteristics of the service industry in which it occurs. Research Insights 13.1 reports on a study of jaycustomers in the hospitality industry.

### Dealing with Consumer Fraud

Dishonest customers can take advantage of generous service recovery strategies, service guarantees, or simply a strong customer orientation in a number of ways. For example, they may steal from the firm, refuse to pay for the service, fake dissatisfaction, purposefully cause service failures to occur, or overstate losses at the time of
CATEGORIZING JAYCUSTOMERS IN HOTELS, RESTAURANTS, AND BARS

To learn more about dysfunctional customer behavior in the hospitality industry, Lloyd Harris and Kate Reynolds developed a research project to identify and categorize different types of misconduct. Open-ended interviews, typically lasting one hour (but sometimes longer) were conducted with 31 managers, 46 frontline employees, and 29 customers. These interviews took place in 19 hotels (all of which had restaurants and bars), 13 restaurants, and 16 bars. A purposive sampling plan was employed, with the goal of selecting informants with extensive participation in and insights of service encounters. All informants had encountered—or had perpetrated—what could be considered as jaycustomer behavior and were invited to give details of specific incidents. In total, the 106 respondents generated 417 critical incidents.

Based on analysis of these incidents, Harris and Reynolds codified eight types of behavior:

1. Compensation letter writers who deliberately and fraudulently wrote to centralized customer service departments with largely unjustified complaints in anticipation of receiving a check or gift voucher.
2. Undesirable customers whose behavior fell into three subgroups: (a) irritating behavior by “jaykids” and “jayfamilies;” (b) criminal behavior, typically involving drug sales or prostitution; and (c) homeless individuals who used an organization’s facilities and stole other customers’ refreshments.
3. Property abusers who vandalized facilities and stole items—most often to keep as souvenirs.
4. [Off-duty] service workers who know how to work the system to their own advantage as customers and deliberately disrupt service encounters, either for financial gain or simply to cause problems for frontline staff.
5. Vindictive customers who are violent toward people or property, possibly because of some perceived injustice.
6. Oral abusers include professional complainers seeking compensation and “ego hunters” who take pleasure in offending frontline staff and other customers.
7. Physical abusers who physically harm frontline staff.
8. Sexual predators—often acting in groups—who engage in sexual harassment of frontline personnel either verbally or behaviorally.

Some of these behaviors, such as letter writing and property abuse, are covert in nature (that is, not evident to others at the time they are committed). Certain underlying causes assert themselves across multiple categories; they include desire for personal gain, drunkenness, personal psychological problems, and negative group dynamics.

Table 13.3 shows the percentage of employees and customers reporting incidents within each category. Rather remarkably, with the exception of the “undesirable customers” category, the incidents in the customer column are all self-reports of the respondents’ own misbehavior.

The verbatim reports of jaycustomer behavior recorded in this study make somber—even scary—reading. In particular, they demonstrate especially the challenges posed to management and staff by manipulative customers seeking personal financial gain and by the abusive behavior of individuals, sometimes acting in groups and fueled by alcohol, who appear unconstrained by traditional societal norms.

<table>
<thead>
<tr>
<th>Category</th>
<th>Employees</th>
<th>Customers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compensation letter writers</td>
<td>30%</td>
<td>20%</td>
</tr>
<tr>
<td>Undesirable customers</td>
<td>39%</td>
<td>47%</td>
</tr>
<tr>
<td>Property abusers</td>
<td>51%</td>
<td>20%</td>
</tr>
<tr>
<td>[Off-duty] service workers</td>
<td>11%</td>
<td>11%</td>
</tr>
<tr>
<td>Vindictive customers</td>
<td>30%</td>
<td>22%</td>
</tr>
<tr>
<td>Oral abusers</td>
<td>92%</td>
<td>70%</td>
</tr>
<tr>
<td>Physical abusers</td>
<td>49%</td>
<td>20%</td>
</tr>
<tr>
<td>Sexual predators</td>
<td>38%</td>
<td>0%</td>
</tr>
</tbody>
</table>

genuine service failures. What steps can a firm take to protect itself against opportunistic customer behavior?

Treating customers with suspicion is likely to alienate them, especially in situations of service failure. The president of TARP notes:

Our research has found that premeditated rip-offs represent 1 to 2 percent of the customer base in most organizations. However, most organizations defend themselves against unscrupulous customers by...treating the 98 percent of honest customers like crooks to catch the 2 percent who are crooks.\textsuperscript{50}

Using this knowledge, the working assumptions should be “if in doubt, believe the customer.” However, as Service Perspective 13.5 shows, it’s crucial to monitor the invocations of service guarantees or repeated compensation payments to the same customer. For example, one Asian airline found that the same customer lost his suitcase on three consecutive flights. The chances of this truly happening are probably lower than winning the national lottery, so frontline staff were made aware of this individual. The next time he checked in his suitcase, the check-in staff videotaped the suitcase almost from check-in to pickup in the baggage claim at the traveler’s destination. It turned out that a companion collected the suitcase and took it away while the traveler again made his way to the lost baggage counter to report his missing suitcase. This time, the police were waiting for him and his friend.

In another example, Continental Airlines consolidated 45 separate customer databases into a single data warehouse to improve service and to detect customer fraud. The airline found one customer who received 20 bereavement fares in

\section*{SERVICE PERSPECTIVE 13.5}

\textbf{TRACKING DOWN GUESTS WHO CHEAT}

As part of its guarantee tracking system, Hampton Inn has developed ways to identify guests who appeared to be cheating—using aliases or various dissatisfaction problems to invoke the guarantee repeatedly in order to get the cost of their room refunded. Guests showing high invocation trends receive personalized attention and follow-up from the company’s Guest Assistance Team. Wherever possible, senior managers telephone these guests to ask about their recent stays. The conversation might go as follows: “Hello, Mr. Jones. I’m the director of guest assistance at Hampton Inn, and I see that you’ve had some difficulty with the last four properties you’ve visited. Since we take our guarantee very seriously, I thought I’d give you a call and find out what the problems were.”

The typical response is dead silence. Sometimes the silence is followed with questions of how headquarters could possibly know about their problems. These calls have their humorous moments as well. One individual, who had invoked the guarantee 17 times in what appeared to be a trip that took him across the U.S. and back, was asked, innocuously, “Where do you like to stay when you travel?” “Hampton Inn,” came the enthusiastic response. “But,” said the executive making the call, “our records show that the last seventeen times you have stayed at a Hampton Inn, you have invoked the 100 percent Satisfaction Guarantee.” “That’s why I like them!” proclaimed the guest (who turned out to be a long-distance truckdriver).

12 months, off the same dead grandfather. To be able to effectively detect consumer fraud, maintaining a central data warehouse of all compensation payments, service recoveries, returned goods, and any other benefits given to customers based on special circumstances are needed (i.e., such transactions cannot be retained only at the local or branch level, but must be captured in a centralized system), and it is important to merge customer data across silos and channels for detecting unusual transactions and the systems that allow them.51

Recent research shows that the amount of a guarantee payout (e.g., whether it is a 10 percent or 100 percent money-back guarantee) had no effect on consumer cheating. However, repeat purchase intention significantly reduced cheating intent. These findings suggest important managerial implications: (1) Managers can implement and thus reap the bigger marketing benefits of 100 percent money-back guarantees without worrying that the large payouts would increase cheating; and (2) guarantees can be offered to regular customers or as part of a membership program, because repeat customers are unlikely to cheat on service guarantees. A further finding was that customers were also reluctant to cheat if the service quality provided was truly high than when it was just satisfactory. This implied that truly excellent services firms have less to worry about cheating than the average provider.52

CONCLUSION

Encouraging customer feedback provides an important means of increasing customer satisfaction and retention. It is an opportunity to get into the hearts and minds of the customer. In all but the worst instances, complaining customers are indicating that they want to continue their relationship with the firm, but they are also indicating that all is not well and that they expect the company to make things right. Here, service firms need to develop effective strategies to recover from service failures so they can maintain customer goodwill. That is vital for the long-term success of the company.

Having professional and generous service recovery systems does not mean “the customer is always right” and that the firm is open to customer abuse. Rather, it is important for the benefit of all (i.e., other customers, service employees, and the service firm) to effectively deal with jaycustomers.

Chapter Summary

**LO1** When customers are dissatisfied, they have several alternatives. They can take some form of:
- Public action (e.g., complain to the firm, a third party, or even take legal action).
- Private action (e.g., switch to another provider and/or spread negative word of mouth).
- Take no action.

**LO2** To effectively recover from a service failure, firms need to understand customer complaining behavior and motivations and what customers expect in response.
- Customers typically complain for any combination of the following four reasons. They want: (1) restitution or compensation, (2) to vent their anger, (3) help to improve the service, and (4) to spare other customers from experiencing the same problems (i.e., they complain for altruistic reasons).
- In practice, most dissatisfied customers do not complain as they may not know where to complain, they find it too much effort and unpleasant, and they perceive the payoffs of their effort uncertain.
- The people most likely to complain tend to be better educated, have higher incomes, and be more socially involved.

**LO3** Once customers make a complaint, they expect firms to deal with them in a fair manner along three dimensions of fairness:
• Procedural fairness—customers expect the firm to have a convenient, responsive, and flexible service recovery process.
• Interactional justice—here, customers expect an honest explanation, a genuine effort to solve the problem, and polite treatment.
• Outcome justice—customers expect a compensation that reflects the loss and inconvenience suffered as a result of the service failure.

LO4 Effective service recovery can in many cases avoid customer switching and restore confidence in the service firm. When customers complain, they give the firm a chance to correct problems, restore the relationship with the complainer, and improve future satisfaction. Service recovery is therefore an important opportunity to retain a valued customer.

LO5 Effective service recovery systems should:
• Make it easy for customers to give feedback (e.g., provide hotline numbers and email addresses on all communications materials) and encourage them to provide feedback.
• Enable effective service recovery by making it (1) proactive, (2) preplanned, (3) trained, and (4) empowered.
• Establish appropriate compensation levels. Compensation should be higher if a firm is known for service excellence, if the service failure is serious, and if the customer is important to the firm.

LO6 The guidelines for frontline employees to effectively handle customer complaints and service recovery include:
• (1) act fast; (2) acknowledge the customer’s feelings; (3) don’t argue with the customer; (4) show you understand the problem from the customer’s point of view; (5) clarify the truth and sort out the cause; (6) give customers the benefit of the doubt; (7) propose the steps needed to solve the problem; (8) keep customers informed of progress; (9) consider compensation; (10) persevere to regain customer goodwill; and (11) check the service delivery system and improve it.

LO7 Service guarantees are a powerful way to institutionalize professional complaint handling and service recovery. Service guarantees set clear standards for the firm, and they also reduce customers’ risk perceptions and can build long-term loyalty.

LO8 Service guarantees should be: (1) unconditional, (2) easy to understand and communicate, (3) meaningful to the customer, (4) easy to invoke, (5) easy to collect on, and (6) credible.

LO9 Not all firms stand to gain from service guarantees. Specifically, firms should be careful offering service guarantees when: (1) they already have a reputation for service excellence; (2) service quality is too low and has to be improved first; (3) aspects of service quality are uncontrollable because of external factors (e.g., weather); and (4) customers perceive low risk when buying the service.

LO10 Not all customers are honest, polite, and reasonable. Some may want to take advantage of service recovery situations and others may inconvenience and stress frontline employees and other customers alike. Such customers are called jaycustomers.
• There are seven groups of jaycustomers: (1) the cheat, (2) the thief, (3) the rule breaker, (4) the belligerent, (5) the family feuders, (6) the vandal, and (7) the deadbeat.
• The different types of jaycustomers cause different problems for firms and may spoil the service experience of other customers. Hence, firms need to manage their behavior, even if that means, for example, keeping track of how often a customer invokes a service guarantee, or as a last resort, blacklisting them from using the firm’s facilities.

Review Questions

1. How do customers typically respond to service failures?
2. Why don’t many more unhappy customers complain? And what do customers expect the firm to do once they filed a complaint?
3. Why would a firm prefer its unhappy customers to come forward and complain?
4. What is the service recovery paradox? Under what conditions is this paradox most likely to hold? Why is it best to deliver the service as planned, even if the paradox does hold in a specific context?
5. What can a firm do to make it easy for dissatisfied customers to complain?
6. Why should a service recovery strategy be proactive, planned, trained, and empowered?
7. How generous should compensations related to service recovery be?
8. How should service guarantees be designed? What are the benefits of service guarantees over and above a good complaint handling and service recovery system?

9. Under what conditions is it not suitable to introduce a service guarantee?

10. What are the different types of jaycustomers, and how can a service firm deal with such customers?

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**Application Exercises**

1. Think about the last time you experienced a less-than-satisfactory service experience. Did you complain? Why? If you did not complain, explain why not.

2. When was the last time you were truly satisfied with an organization’s response to your complaint? Describe in detail what happened and what made you satisfied.

3. What would be an appropriate service recovery policy for a wrongly bounced check for (a) your local savings bank, (b) a major national bank, and (c) a private bank for high net-worth individuals? Please explain your rationale, and compute the economic costs of the alternative service recovery policies.

4. Design an effective service guarantee for a service with high perceived risk. Explain (a) why and how your guarantee would reduce perceived risk of potential customers and (b) why current customers would appreciate this guarantee even though they are already a customer of that firm and therefore likely to perceive lower levels of risk.

5. How generous should compensation be? Review the following incident and comment. Then evaluate the available options, comment on each, select the one you recommend, and defend your decision.

   “The shrimp cocktail was half frozen. The waitress apologized and didn’t charge me for any of my dinner,” was the response of a very satisfied customer about the service recovery he received. Consider the following range of service recovery policies a restaurant chain could set, and try to establish the costs for each policy:

   - **Option 1**: Smile and apologize, defrost the prawn cocktail, return it, smile, and apologize again.
   - **Option 2**: Smile and apologize, replace the prawn cocktail with a new one, and smile and apologize again.
   - **Option 3**: Smile, apologize, replace the prawn cocktail, and offer a free coffee or dessert.
   - **Option 4**: Smile, apologize, replace the prawn cocktail, and waive the bill of $80 for the entire meal.
   - **Option 5**: Smile, apologize, replace the prawn cocktail, waive the bill for the entire dinner, and offer a free bottle of champagne.
   - **Option 6**: Smile, apologize, replace the prawn cocktail, waive the bill for the entire dinner, offer a free bottle of champagne, and give a voucher valid for another dinner, to be redeemed within three months.

6. Identify the possible behavior of jaycustomers for a service of your choice. How can the service process be designed to minimize or control the behavior of jaycustomers?

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**Endnotes**


Part IV • Implementing Profitable Service Strategies


41. For a decision support model and whether to have a service guarantee, and if yes, on how to design and implement it, see Louis Fabien, “Design and Implementation of a Service Guarantee,” *Journal of Services Marketing*, 19, No. 1, 2005, 33–38.


49. Lloyd C. Harris and Kate L. Reynolds, “The Consequences of Dysfunctional Customer Behavior,” *Journal of Service Research*, 6, November 2003, 144–161; Lloyd C. Harris and

