The Role of Guarantees in Superior Quality Services

by

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Submitted to the Alfred P. Sloan School of Management and the School of Engineering in Partial Fulfillment of the Requirements for the Degree of

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Abstract

Over the last decades, the service sector has developed significantly, from the traditional family-run businesses we are used to associate service with, to become a highly professional and competitive sector of the economy (e.g. telecommunications, airline services, etc.). The increased level of competition has made it harder for service companies to differentiate themselves and maintain long-term growth and profitability levels.

In an industry where new ideas and concepts that might differentiate the company from its competitors are easy to copy and difficult to protect through patents, achieving a reputation for providing superior quality service is perhaps the single most effective way in which a company can continuously differentiate itself from the competition, creating a sustainable source of competitive advantage. Superior quality service is hard to copy, because it frequently involves a change in the company's values and requires a tremendous amount of commitment. Moreover, it increases the level of customer retention, a critical issue for the long term success of service companies.

This thesis work analyses the issue of quality from the point of view of consistently delivering service that meets or exceeds customers' expectations. It explores the hypothesis that a satisfaction guarantee program, whereby a service company shows explicit commitment to satisfy its customers, or else they are entitled to a guarantee pay out, leads the company to superior levels of service quality. It shows the effect of a satisfaction guarantee program as a tool to symbolize the search for quality in the company, and how it affects the employees' commitment to quality. Furthermore, it analyzes the particular impact that satisfaction guarantee programs have on the elements that influence customer satisfaction. Finally, it analyzes the effect of guarantee programs on customer retention.

Thesis Supervisor: Gabriel Bitran
Title: Nippon Telephone and Telegraph Professor of Management
To Marisa, my beloved wife

To my children João Guilherme and Maria Beatriz
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1. Introduction

The service sector represents a significant and increasing portion of the GDP in the USA and most western countries. From half to over two-thirds of the economic activity in these economies take place in the service sector. Moreover, a constantly growing percentage of the active workforce is employed in service companies.

Services such as health care, telecommunications, transportation, arts & entertainment, education, etc., have become an important component of modern lifestyle. Moreover, services are becoming an important part of manufactured goods, as more and more manufacturing companies realize that the delivery of complementary services together with their product is highly valued by customers. As it becomes harder for many manufacturing companies to differentiate through the product itself, the strategy of bundling services to the product as a tool to differentiate is increasingly widespread.

Services represent a large fraction of most economies but, somewhat paradoxically, until the mid 80’s researchers in management science and business educators paid little attention to the service industry¹.

Perhaps the historic lack of interest in services can be partly explained by the fact that there was little understanding of the differences between the management of service and the management of manufacturing organizations. Although it is true that basic management principles are similar for both types of companies, services have some characteristics that require a different emphasis from management on some of those principles².
Quality Management in Services:

Services have some characteristics that make the issue of quality in services different from manufactured goods. Quality should be a measure of the level of customer satisfaction with the service. Therefore, a company that is committed to deliver high quality service must pursue consistent customer satisfaction. The characteristics that differentiate services from manufacturing in terms of quality management are:

- **The nature of the product.** Although services often include tangible actions, the service performance itself is basically an **intangible** product. In services it is often the case that what is being sold is not a physical product, but something intangible that cannot be inspected (e.g. a phone call, a musical performance). Services address higher order customer needs, such as convenience and satisfaction, and involve feelings such as anxiety, relief and joy. Therefore, customer satisfaction with the service is not only influenced by objective measures of performance, as in manufactured goods, but also influenced by intangible aspects during the service performance (the server was polite, the environment was adequately setup, etc.).

- **The human contact.** As opposed to manufacturing, services are often characterized by the existence of human contact between the service provider (customer contact employee) and the customer. Sometimes with the physical presence of the service provider (as in restaurants and airlines) and in other cases by other means of interaction (as in the case of telephone banking). Moreover, the customer is often **actively engaged** in part of the service delivery process (as in a supermarket or a self service restaurant). The success of the service delivery is strongly dependent on how the interaction evolves between the customer contact
employee and the customer. This is a challenge to quality management because
the company must be able to influence the behavior not only of the customer
contact employee but also of the customer.

- **Simultaneity.** Most of the services are produced and consumed at the same time.
  This again is a challenge to quality management because the service cannot be
  inspected before its consumption, and it is usually not feasible to actively monitor all
  service delivery transactions that are taking place. It reinforces the importance of
  having highly skilled, motivated and trained employees at the customer contact
  positions.

- **Heterogeneity.** Each customer has different expectations and behavior towards
  the service being provided. This characteristic of services creates another challenge
  for quality management, because quality in this case is not just ensuring conformity
  to standards or ensuring consistency in behavior among service providers, but also
  taking into account the diversity of customers, relying on the ability of the service
  provider to understand, while the service delivery is taking place, the behavior and
  expectations of the customer that is being served and to customize the service
  delivery accordingly.

The characteristics described above make it hard for service organizations to control
quality, i.e. to offer a product that consistently delivers customer satisfaction. However,
obtaining a reputation of consistent delivery of quality service is perhaps the single
most important issue for a service company to guarantee a safe path to long term
success. No matter how difficult and challenging it is to consistently obtain customer
satisfaction, it will be shown in this document that the elements that influence customer
satisfaction are all within management's control. It is therefore in the hands of
management to decide whether the company is going to be successful in the journey for customer satisfaction or not.

The Impact of Satisfaction Guarantee Programs on Service Quality and Customer Retention:

In this document, I explore the hypothesis that that a satisfaction guarantee program, whereby a service company shows explicit commitment to satisfy its customers, or else they are entitled to a guarantee pay out, leads the company to superior levels of service quality. I explore the effect of a satisfaction guarantee program as a tool to symbolize the search for quality in the company, how it affects the employees' commitment to quality, and then I explore the particular impact they have on the elements that influence customer satisfaction.

Furthermore, I analyze how satisfaction guarantee programs help reduce the number of lost customers. In a scenario of increased competition, long term success of a service company is related to the ability to retain its existing customers. High levels of customer retention can only be achieved if the company provides consistent quality service.

Structure of this Document:

To present the arguments that support the hypothesis above, this document was structured as following:

- Chapter 2 is dedicated to revisit concepts and characteristics of service companies. Out of these concepts, the issues that are directly related to or affected by service guarantees and service quality are explored in more depth than the others. Chapter 2 is based on the “Framework for Analyzing Service Operations” and the
“Framework for Analyzing the Quality of the Customer Interface”

- Chapter 3 is an overview of the concept of service guarantees. It contains a description of the kinds of service guarantees, the characteristics that are important to design an effective service guarantee, and what are the aspects to be considered for a successful implementation of a guarantee program. At the end of this chapter, a discussion is made about cheating, one of the major concerns companies have when considering the adoption of a satisfaction guarantee.

(Chapters 2 and 3 are a foundation for the remaining work, developed in chapter 4)

- Chapter 4 is dedicated to explore how a carefully designed satisfaction guarantee program contributes to the delivery of superior quality service. It presents a framework that analyses the elements that influence customer satisfaction, derives the critical tasks to achieve customer satisfaction, and then analyses how satisfaction guarantee programs influence each of these elements. This chapter is an attempt to superpose the concept of satisfaction guarantee programs with the gap model of service quality framework. The final part of chapter 4 is devoted to an analysis of the value of retained customers, and how satisfaction guarantee programs help reduce the number of forgone customers.

- The main conclusions of the study are drawn in chapter 5. It summarizes the role of service guarantees in the context of a firm's overall quality program.

- Appendix 1 provides a detailed analysis of the guarantee programs of a group of eight companies, considered useful to provide practical examples of the issues covered throughout the document. The description of each of the companies'
guarantee program contains a description of the guarantee program itself, an assessment of the situation in the company before the implementation of the guarantee, the reason why the guarantee was adopted, and the effects of the guarantee in the company, both externally (perception of customers) and internally (improved quality, employee commitment, etc.). Finally, if relevant, there are some additional comments about the company's guarantee program, most of which were used throughout the main document. The analysis was not restricted to service companies only. Some of the examples are from manufacturing companies (Xerox and Saturn). They were included in the analysis because, in addition to their products, these companies are strongly committed to provide excellent service to their customers, before and after the purchase of the product they manufacture, and the satisfaction guarantee program is an integral part of this commitment.
2. Characteristics of Service Companies

This chapter is dedicated to revisit the main concepts and characteristics of the service industry. Out of these concepts, the issues that are directly related to or affected by satisfaction guarantees are explored in more depth than the others. Therefore, this chapter does not cover all the issues with the same degree of intensity. For further and more detailed information, refer to the original literature that is referenced.

In order to structure the discussion and utilize an uniform terminology in this document, two Frameworks were adopted as the basis for discussion of Service Companies:

- **A Framework for Analyzing Service Operations**
- **A Framework for Analyzing the Quality of the Customer Interface**

These frameworks offer a comprehensive analysis of the issues related to the service industry, and will be referenced throughout the document. They:

- partition the context in which a service company operates in three segments (external environment, internal environment and customer interface)
- summarize the characteristics that distinguish services from manufacturing
- create the notion of product/service concept and service delivery systems as a tool to understand the service proposition and separate the elements of the service that are core to customer satisfaction from those that are supporting the service delivery
- address quality in services, not as an issue of conformance to specifications, but as an issue of consistently meeting or exceeding customers' expectations
• give a strong emphasis on the service encounter, the "moment of truth" where the customer shapes most of the perceptions about the service being provided.

**Environments in which a Service Company Operates**

The frameworks divide the context in which a service company operates in three parts: the external environment, the customer interface and the internal environment.

![Diagram](Figure 1: Environments in which a Service Company Operates)

The **external environment** is where customers and competitors are present. Tasks of management in this environment consist of understanding the customers' needs, understanding the industry structure and the forces that shape it, define and maintain differentiated products that add value to customers in the company's targeted market segments, to create effective mechanisms to understand customers' needs, and to
establish communications with customers in order to shape their expectations as to what the service proposition is.

The **internal environment** is characterized by the absence of customer contact. Services provided in this environment either support the customer contact services (e.g. maintaining the information technology infrastructure in operation) or, when directly provided to customers, are "decoupled" from the customer interface (e.g. in a bank, monthly statements and overnight check processing are services provided in the absence of the customer contact). The absence of customer contact makes it such that efficiency of operations is the major performance measure in the internal environment. Besides, the decoupling of services from the customer interface also helps smoothing the supply and demand of services, allowing a search for optimization of the available infrastructure.

The definition of which services should be decoupled from the customer interface is critical to overall customer satisfaction and should be carefully analyzed in the design of the service delivery system. As mentioned above, services provided in the internal environment generally favor the optimizations in the infrastructure, because they can be processed more efficiently and demand can be smoothed over time without causing inconvenience to the customers. However, some services that are key to customer satisfaction still require the human contact between server and customer, for a number of reasons. Sometimes the level of contact should even be improved to enhance customer satisfaction (e.g. banks are trying to increase the use of ATMs and telephone banking systems for routine banking services, so that representatives have more time to support customers in the case of more specific, less frequent transactions and that involve more uncertainty from the point of view of the customer, such as
financial consultation, decision of the best insurance package, etc.). The adequate balance between services where customer contact should be enhanced and services where customer contact should be reduced is critical for customer satisfaction and for infrastructure optimization.

The customer interface is characterized by the moment of the delivery of the service to the customer -- the service encounter. It is the “moment of truth”, the most critical part, because it is where the customer will shape most of the perceptions of the service being provided. Due to its importance, this part will be explored in further details at the end of this chapter, with the support of the “Framework for Analyzing the Quality of the Customer Interface”.

According to the degree of contact and interaction between server and customer in the customer interface, services can be classified between the extremes of low contact services, where most of the services are decoupled from the customer interface, and high contact services, where a high degree of contact is required between the server and the customer (e.g. financial consultation, teaching, haircut, etc.)

Characteristics of Service Operations

Basic management principles are similar for services and manufacturing companies. However, services have some characteristics that require a different emphasis on some of those principles. These characteristics are: intangibility, appropriability, perishability, heterogeneity, cultural specificity and transferability. It is important for managers of service companies to be aware of these characteristics and the impact they have on aspects such as: the elements that influence customers' expectations and perceptions
about the service, the importance of the customer contact function, management of supply and demand of services, etc.

**Intangibility:** service companies usually sell bundles of tangible goods / services and intangible services. For example, in a beauty salon, a hair cut comprises the use of some hair care products such as shampoo, and the hair cut itself (tangible goods and services) but also comprises the customer’s need to feel more beautiful after the hair cut, and the need to have a pleasant time while the hair cut is taking place (intangible services).

Services address higher order customer needs, such as convenience and satisfaction, and involve feelings such as anxiety, relief and joy. Therefore, the customer perception of the service cannot always be associated only with objective measures of performance, as is possible in the case of most manufactured goods.

Due to the intangible nature of services, shaping customers’ **expectations and perceptions** becomes critical to achieve overall customer satisfaction. To shape customers’ expectations, the company must make clear what the customer should expect from the service provided, making adequate use of information, communication and advertising. To shape customers’ perceptions, the company must create awareness in the customers’ minds of all the services that are being provided in the bundle, through the adequate use of materialization of services (see below).

The need for **materialization**: There are many services that are taken for granted by the customers and they tend to go unnoticed unless not performed (e.g. street cleaning is only noticed when streets are dirty. Room cleaning in a Hotel is only noticed when the room is dirty). In order to enhance customers’ perceptions, the company should
look for ways to **materialize** some or several aspects of the service (e.g. the candy in
the hotel bed is a way to materialize the service of preparing the room before bedtime).

Also due to the intangibility characteristic, new products or features are usually **easy to
copy** and difficult to protect through patents. For example, suppose a bank that
introduces a new feature in its bank account, such as automatic transfer from savings
account when the checking account balance is negative. Such feature could be copied
in a couple of days by competitors that have a reasonable information technology
infrastructure. It becomes a challenge for a company to sustain differentiation of its
services for a long period of time.

One way of obtaining sustainable differentiation is if the new feature or product is
strongly dependent on certain infrastructure (e.g. some kind of equipment). In this case,
copying can be prevented either through patents or through high capital investments
that are required to implement such infrastructure.

Another way to differentiate is by the delivery of **excellent service**, with an
unquestionable commitment to consistently exceed customer satisfaction. Excellent
service is very hard to copy, because it involves the employees’ motivation to serve the
customer, and is often related to the company’s set of norms and values. Also,
companies committed to provide excellent service have a better understanding of their
customers’ needs, and therefore are more capable of continuously introducing new
services that are meaningful to their customers, creating a sustainable differentiation
from the competition.

**Perishability:** Services cannot be inventoried in the traditional sense of the word.
Although in many cases it is possible to produce components of the service before or
after the service encounter, the service delivery itself cannot be inventoried. As a consequence, infrastructure in service companies tend to be idle over some periods of time, when demand is lower than existing capacity (a typical example is the hotel industry in the low season), and saturated in other periods of time when demand exceeds maximum available capacity (e.g. a bank branch near a large factory during pay day tends to have much more demand than in other days). Peaks in demand generate queues to wait for service or even result in denial of service to some customers (e.g. a telephone answering system that gives busy signals because there are no more available lines), resulting in a deterioration of service quality, stressed customer contact employees, and anxious customers waiting for service.

Efforts to smooth the demand and supply are critical to service companies, in order to enhance overall capacity utilization and customer satisfaction. There are two basic approaches to the issue of supply and demand\textsuperscript{10}. The first is to tailor capacity to meet variations in demand. The use of part-time employees, the use of employees usually dedicated to other activities, renting extra facilities and making an assessment of the services that can be decoupled from customer interface and processed in the internal environment are examples of the first approach. The second is to manage the level of demand. Offering services that make use of the same infrastructure but with demand concentrated in periods that currently show low levels of demand, adopting pricing policies that stimulate spreading demand over time, providing the customer with information about the best (less busy) hours to demand service, and adequate queuing or reservation techniques are some of the examples of the second approach.

**Heterogeneity:** Services often involve the contact between human beings (the customer and the server), either physically or through other means of communication.
Different human beings have different reactions towards things, and that affects the way in which they provide services or consume services. The impact of the heterogeneity characteristic is stronger the higher the level of human contact required for the service to be provided. The heterogeneity characteristic of services makes the management of quality a challenge, because managing quality in this case is not just ensuring conformity to standards or ensuring consistency in behavior among servers, which in itself is a major challenge for high contact services, but also to take into account the diversity of customers, understanding their behavior and expectations, and within boundaries defined by the service concept, customizing the service delivery to enhance the customer satisfaction. For example, some customers prefer the server to focus exclusively on the service process and would rather not disturb him/her while performing the service, while other customers are willing to use this moment as an opportunity to socialize with the server while the service is being provided. Take another example: customers that are not familiar with a service need to have support and detailed information on how the service system operates and what is expected from them, while customers that are already familiar with the service want the service to be processed as fast as possible.

As we will see in the customer interface section of this chapter, the diagnostic phase of the service encounter plays an important role in helping the server to understand the customers’ behavior and expectations.

The existence of cultural differences between countries, regions or ethnic groups reinforce the importance of the issues related to the heterogeneity aspect, discussed above, specially in service companies that operate in multiple sites.
**Simultaneity:** Most of the services are produced and consumed at the same time. This again is a challenge to quality management, because the service cannot be inspected before its consumption, and usually it is not feasible to have managers monitoring all service delivery transactions that are taking place.

Therefore, in order to deliver high quality service, a company must have customer contact employees that are highly motivated and trained to search for customer satisfaction. Also the whole company must be committed to learning from past mistakes and customer complaints/suggestions in order to avoid the same mistakes and enhance the service in the future.

**Transferability:** As opposed to tangible goods, where for example it is not that meaningful to compare characteristics of a car and a TV, different services have several aspects in common. For example, the telephone reservation systems of an airline or a hotel chain can be very similar. Due to the transferability characteristic, customers tend to transfer expectations about services between different industries. A raise in the quality standards of the telephone reservation system of an airline, for example, will influence the expectations the customer has about the hotel telephone reservation system.

**Product / Service Concept**

In order to be competitive and profitable, a service company must deliver products that add value to the customer at a competitive price, higher than the cost to deliver it. The word product here is used meaning the bundle of goods and services that are provided to the customer.
The product/service concept is the set of characteristics that define the product: the core product and all additional (complementary) services that are provided with it (product augmentation). For example, Domino’s Pizza’s core product is the pizza delivered at home, but several other services complement the core product: they must take orders by phone, the pizza must arrive in time, telephone representatives and deliverers must be polite and knowledgeable, etc. While developing the product/service concept, managers should also define which services will be provided through high contact and which services will be decoupled (low contact) from the customer interface. The issue of materialization of the core and complementary services is also important when defining the product/service concept.

As a certain complementary service, that used to be a differentiation tool from competition, starts to be offered by competitors and customers already take it for granted, it ceases to be a differentiation, and becomes incorporated in the core product (core product growth).

Introduction of New Services

Continuous and successful introduction of new services are a critical task to sustain a company’s profitability and growth in a competitive scenario. When planning the introduction of a new service, two important considerations must be taken into account:

1. The perceived value added by the service to the customer, and therefore the amount that he/she is willing to pay for that service. Managers must continuously keep track of the evolution in customers’ needs and expectations, and design new services that effectively address such needs.
2. The obstacles for selling or using the service. Obstacles may be such as high price, switching costs, sophistication required to use the product, limited distribution, etc. To increase likelihood of acceptance of new services that are being introduced in the market, companies must pursue ways to reduce the customers' switching costs from a competitor's service or a substitute service. The notion of switching costs is associated to a long established relationship with the supplier of a similar or substitute service, and also associated to the notion of risk / uncertainty that normally arises in the customer's mind when confronted with a new service being offered ("What if the product is not so good as they say it is?", "What will my boss say if this new service proves to be a bad purchase decision?"). As discussed in further sections of this document, the fear for unreliable service and for loss of control over the service transaction are two important components of customer uncertainty. Identifying effective ways to reduce customer uncertainty are critical to achieve success in the introduction of new services.

**Service Delivery Systems**

Once the product/service concept, i.e. the product has been defined, an operations system must be designed to support its delivery. This is the service delivery system. It entails:

- The **environment** in which the service delivery takes place. The environment includes the physical installations, their cleanliness and tidiness, the visual manifestation of the company's establishments, the signs to orient the customer, etc.
• The **service delivery processes** that are necessary to provide the service. It includes the description of the processes, including customer interface processes and back room support processes, the definition of performance level standards and goals, the way waiting lines are handled, the process for handling complaints and to resolve customer problems, etc.

• The choice of **technologies** to support the service delivery. For example, which information technology infrastructure should be used to support the delivery of the service. The selection of technologies that will be used in the service delivery system is important when building the infrastructure, and should be such that enough flexibility is built into it, to allow for the changes and enhancements to the product/service concept, necessary to maintain competitiveness.

• The **capacity planning**, to manage an adequate balance between supply and demand. There are two basic approaches to the issue of supply and demand. The first is to tailor capacity to meet variations in demand, and the second is to manage the level of demand.

• The **human resources planning**. As we will see in the customer interface section of this chapter, the human resources aspect is of critical importance in services, to achieve overall customer satisfaction. Therefore, in the design of the service delivery system, job descriptions must be carefully developed, regarding not only the tasks to be performed, but also the skill levels required, training modules, motivation and rewarding schemes in order to retain high performing employees, and reduce turnover levels.
It is sometimes hard to separate the service concept from the service delivery system. The two are often so intimately related that it becomes difficult to separate one from another. However, the effort is useful to enhance understanding of what is core to the service concept and therefore key to achieve customer satisfaction, and what is part of the supporting activity. Understanding what is part of the service concept and what is part of the service delivery system also facilitates understanding on how to use the same delivery system, or parts of it, to support the introduction of new services.

**Service Quality**

The search for quality in services is not a recent one. In an industry where new ideas and concepts that might differentiate the company from its competitors are easy to copy and difficult to protect through patents, achieving a reputation for providing consistent quality service is perhaps the single most effective way in which a company can continuously differentiate itself from the competition, creating a sustainable source of competitive advantage.

In a scenario of increased competition, it becomes increasingly important to the long term success of a service company to be able to retain its existing customer base. As the main reason for customer defection is poor quality service, a company can achieve high levels of customer retention only if it provides consistent quality service.

However, quality in services cannot be handled in the same way as in manufacturing. Services have some characteristics, more specifically the intangibility, heterogeneity and simultaneity characteristics, that make the issue of quality in services different from manufactured goods. Quality in services is measured from the customer standpoint, the customer is the one and only one who judges service quality, whether satisfied with the
service or not. Therefore, a service company must pursue consistent customer satisfaction to achieve a reputation of quality.

The quality of services depends not only on meeting customers' needs satisfied by the core product, but it also depends on creating an atmosphere and overall experience that is satisfying. Services must satisfy higher order human needs, along several dimensions, as described in the next section.

Dimensions of Quality

Service quality is perceived by the customer through several dimensions, some of them more important than the others. One attempt to classify these dimensions is proposed by Zeithaml et al. According to Zeithaml's work, service quality dimensions are:

- **Tangibles**: Appearance of physical facilities, equipment, personnel, and communication materials.

- **Reliability**: Ability to perform the promised level of service dependably and accurately

- **Responsiveness**: Willingness to help customers and provide prompt service

- **Assurance**: Knowledge and courtesy of employees and their ability to convey trust and confidence

- **Empathy**: Caring, individualized attention that the company provides to its customers.

An extensive research conducted by Zeithaml et al with existing customers of service companies allowed for establishing the relative importance of each of the dimensions:
Table 1: Relative Importance of Dimensions of Quality

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Relative Importance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Empathy</td>
<td>16%</td>
</tr>
<tr>
<td>Assurance</td>
<td>19%</td>
</tr>
<tr>
<td>Responsiveness</td>
<td>22%</td>
</tr>
<tr>
<td>Reliability</td>
<td>32%</td>
</tr>
<tr>
<td>Tangibles</td>
<td>11%</td>
</tr>
</tbody>
</table>

Reliability is consistently reputed by customers of service companies in different industries as the most important dimension of service quality. Breaking the service promise is the single most important way service companies fail their customers. The fear for unreliable service creates strong obstacles for selling a service. Customers, when purchasing a service that is new to them, want to be sure that they made the right decision. Therefore, the service company that wants to attract new customers must not only offer reliable service, but it must convey to the customers a clear message that it offers reliable service and that it stands behind it.

Expectations and Perceptions Determine Satisfaction

The quality of services is more difficult to measure inspect and control than the quality of manufactured goods. Three characteristics of services account for this difficulty.

- **Intangibility**, because it is harder to measure characteristics of intangible services than it is to inspect goods. It is not possible to define precise specifications for quality, because services are performances, and not tangible goods.

- **Heterogeneity**, because every individual is different from the other. Different customers have different expectations. Moreover, it is difficult to standardize and control the performance of the servers with different characteristics.
• simultaneity, because services are produced and consumed at the same time.

Services cannot be inventoried in the same way as manufactured goods, making it virtually impossible to inspect the product before it is sold to the customer.

Management cannot be present at each and every service encounter, therefore they depend on the customer contact employee to deliver the service at the adequate level of quality.

The characteristics of intangibility, heterogeneity and simultaneity are reinforced in those services where there is a high degree of contact and interaction between the server and the customer (high contact services). In the extreme of low contact services, where services are decoupled from the customer interface, quality essentially means conformance to specifications. However, in high contact services it is not sufficient to define quality as conformance to specifications, because the encounter between two human beings cannot be completely specified and measured\(^\text{13}\).

Throughout this document, I will use the following definition of quality, which I believe is the best applicable to service industries:

\[
\text{Quality is achieved when the company consistently meets or exceeds customers' expectations}
\]

In order to achieve quality, a company must succeed both in terms of shaping the customers' expectations according to its service proposition and, while delivering the service, to meet or exceed the expectations created in the customer. Notice that it is the perception of the customer about the service delivery that matters, and not the quality according to internal company's standards. The customer is the sole judge of service quality. But to deliver high quality service is not enough. In order to achieve customer satisfaction the company must successfully shape the customers'
expectations as well. If a company delivers very good service, but advertises it as even better than it actually delivers, customers' expectations when being serviced will not be met, and he/she will be unsatisfied.

Moreover, when a company not only meets, but consistently exceeds the customer's expectations, it can achieve a strong reputation for quality service. This will lead to customers that are very satisfied, or enthusiastic about the service. These customers are more likely to become loyal customers to the company and to provide a positive word of mouth effect. The delivery of services that consistently exceed customers' expectations is also referred to as the delivery of excellent service.

![Diagram of Customer Satisfaction - Meeting or Exceeding Expectations](image)

Figure 2: Customer Satisfaction – Meeting or Exceeding Expectations
The Gap Model of Quality

Quality problems result when the perception of the service that is actually delivered does not meet the customers' expectations or, in other words, when there is a gap between the perceptions and expectations of the customer. Diagnosing the source of quality problems requires discovering exactly where the gaps between expected and perceived service are. The **GAP Model of Service Quality**, developed by Zeithaml et al.\textsuperscript{14}, is a useful tool to understand and evaluate the sources of mismatches between expectations and perceptions.

![Diagram of the Gap Model of Quality]

**Figure 3: The Gap Model of Quality**

Gap 5, the gap between expected service and perceived service, determines the customer satisfaction, and therefore is the overall measure of quality. Gap 5 is the resultant of the summation of gaps 1 to 4.
One possible source of problems is managers misunderstanding the customers' expectations. This is represented by gap 1. The organization is unlikely to provide the desired service if their perception of the customer's need is distorted. Knowing what customers expect is only part of the quality challenge. Another part is actually meeting these expectations. Gap 2 arises if management fails to create service specifications that accurately reflect their perception of the customers' needs. In this case, employees may be doing exactly what is asked of them, but their service will still fail to satisfy the customer. However, even when specifications are well formulated, servers may fail to meet them, creating gap 3. The fourth gap concerns external communications to consumers. Advertisements and other marketing mechanisms not only help to shape the customers' expectations, but can also affect how the service is perceived by them. If this communication does not truthfully represent the service that the company actually delivers, or fails to communicate what is expected from customers during the service delivery process, gap 4 will be created.

There are several factors that influence each of the quality gaps. The key factors, according to Zeithaml et al., are listed in the following tables, together with comments that illustrate the meaning of each of the factors.
**Gap 1: Not knowing what customers expect**

<table>
<thead>
<tr>
<th>Factor and Definition</th>
<th>Specific Illustrative Issues</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Marketing Research Orientation:</strong> Extent to which managers make an effort to understand customers' needs and expectations through formal and informal information-gathering activities.</td>
<td>Is research conducted regularly to generate information about what customers want? Are customer complaints used as a tool to understand their expectations? Does the marketing research a company conducts focus on quality of service delivered by it? Do managers understand and utilize the research findings? Do managers mingle with customers to learn what is on their minds?</td>
</tr>
<tr>
<td><strong>Upward Communication:</strong> Extent to which top management seeks, stimulates, and facilitates the flow of information from employees at lower levels.</td>
<td>Do managers encourage suggestions from customer contact employees concerning quality of service? Are there formal or informal opportunities for customer contact employees to communicate with management? How frequently do managers have face to face contact with customer contact employees?</td>
</tr>
<tr>
<td><strong>Levels of Management:</strong> Number of managerial levels between the topmost and bottommost positions.</td>
<td>Do too many managerial levels separate top managers from those responsible for dealing with and serving customers?</td>
</tr>
</tbody>
</table>
## Gap 2: The wrong service-quality standards

<table>
<thead>
<tr>
<th>Factor and Definition</th>
<th>Specific Illustrative Issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management Commitment to Service Quality: Extent to which management views service quality as a key strategic goal.</td>
<td>Are resources committed to departments to improve service quality? Do internal programs exist for improving the quality of service to customers? Are managers who improve the quality of service to customers more likely to be rewarded than other managers? Does the company emphasize its sales goals as much as or more than it emphasizes serving customers? Are upper and middle managers committed to providing quality service to their customers?</td>
</tr>
<tr>
<td>Perception of Feasibility: Extent to which managers believe that customer expectations can be met.</td>
<td>Does the company have the necessary capabilities to meet customer requirements for service? Can customer expectations be met without hindering financial performance? Do existing operations systems enable customer expectations to be met? Are resources and personnel available to deliver the level of service that customers demand? Does management change existing policies and procedures to meet the needs of customers?</td>
</tr>
<tr>
<td>Task Standardization: Extent to which hard and soft technologies are used to standardize service tasks</td>
<td>Is automation used to achieve consistency in serving customers? Are programs in place to improve operating procedures so that consistent service is provided?</td>
</tr>
<tr>
<td>Goal-Setting: Extent to which service quality goals are based on customer standards and expectations rather than company standards</td>
<td>Is there a formal process for setting quality of service goals for employees? Does the company have clear goals about what it wants to accomplish? Does the company measure its performance in meeting its service quality goals? Are service quality goals based on customer-oriented standards rather than company-oriented standards?</td>
</tr>
</tbody>
</table>
**Gap 3: The Service Performance Gap**

<table>
<thead>
<tr>
<th>Factor and Definition</th>
<th>Specific Illustrative Issues</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Role Ambiguity</strong>: Extent to which employees are uncertain about what managers or</td>
<td>Does management provide accurate information to employees concerning job instruction, company policy and procedures, and performance assessment?</td>
</tr>
<tr>
<td>supervisors expect from them and how to satisfy those expectations</td>
<td>Do employees understand the products and services offered by the company?</td>
</tr>
<tr>
<td></td>
<td>Are employees able to keep up with changes that affect their jobs?</td>
</tr>
<tr>
<td></td>
<td>How often does management communicate company goals and expectations to employees?</td>
</tr>
<tr>
<td></td>
<td>Do employees understand what managers expect from them and how to satisfy those expectations?</td>
</tr>
<tr>
<td><strong>Role Conflict</strong>: Extent to which employees perceive that they cannot satisfy all the</td>
<td>Do customers and managers have the same expectations of employees?</td>
</tr>
<tr>
<td>demands of all the individuals (internal and external) they must serve.</td>
<td>How often do customer contact employees have to depend on other support services employees to provide quality service to customers?</td>
</tr>
<tr>
<td></td>
<td>Do employees have more work to do than they have time to do it?</td>
</tr>
<tr>
<td></td>
<td>Does the number of demands in employees' jobs make it difficult to effectively serve customers?</td>
</tr>
<tr>
<td></td>
<td>Do too many customers want service at the same time?</td>
</tr>
<tr>
<td></td>
<td>Do employees cross-sell services to customers in situations where it is inappropriate?</td>
</tr>
<tr>
<td><strong>Employee-Job Fit</strong>: The match between the skill of employees and their jobs.</td>
<td>Do employees believe that they are able to perform their jobs well?</td>
</tr>
<tr>
<td></td>
<td>Does the company believe that they are able to perform their jobs well?</td>
</tr>
<tr>
<td></td>
<td>Does management devote sufficient time and resources to the hiring and selection of employees?</td>
</tr>
<tr>
<td><strong>Technology-Job Fit</strong>: The appropriateness of the tools and technology that employees</td>
<td>Are employees given the tools and equipment needed to perform their jobs well?</td>
</tr>
<tr>
<td>use to perform their jobs.</td>
<td>How often does equipment fail to operate?</td>
</tr>
</tbody>
</table>
**Gap 3: The Service Performance Gap (cont'd)**

| Supervisory Control Systems: The appropriateness of the evaluation and reward systems in the company. | Do employees know what aspects of their jobs will be stressed most in performance evaluations?  
Are employees evaluated on how well they interact with customers?  
Are employees who do the best job serving customers more likely to be rewarded than other employees?  
Do employees who make a special effort to serve customers receive increased financial rewards, career advancement, and/or recognition?  
Do employees feel appreciated for their contributions? |
|---|---|
| Perceived Control: Extent to which employees perceive that they can act flexibly rather than by rote in problem situations encountered in providing services. | Do employees spend time in their jobs trying to resolve problems over which they have little control?  
Are employees given the freedom to make individual decisions to satisfy customers' needs?  
Are employees encouraged to learn new ways to better serve their customers?  
Are employees required to get approval from another department before delivering service to customers? |
| Teamwork: Extent to which employees and managers pull together for a common goal. | Do employees and managers contribute to a team effort in servicing customers?  
Do support services employees provide good service to customer contact employees?  
Are employees personally involved and committed to the company?  
Do customer contact employees cooperate more than they compete with other employees in the company?  
Are employees encouraged to work together to provide quality service to customers? |

**Gap 4: When promises do not match delivery**

<table>
<thead>
<tr>
<th>Factor and Definition</th>
<th>Specific Illustrative Issues</th>
</tr>
</thead>
</table>
| Horizontal Communication: Extent to which communication occurs both within and between different departments of a company. | Do customer contact employees have input in advertising planning and execution?  
Are customer contact employees aware of external communications to customers before they occur?  
Does the sales force interact with the customer contact employees to discuss the level of service that can be delivered to customers?  
Are the policies and procedures for serving customers consistent across departments and branches? |
| Propensity to Overpromise: Extent to which a company's external communications do not accurately reflect what customers receive in the service encounter. | Is there increasing pressure inside the company to generate new business?  
Do competitors overpromise to gain new customers? |
How to Measure Quality in Services

Service Companies, in their quest for quality, are starting to build strong commitment to customer satisfaction. Quality, however, doesn’t improve unless there are concrete and objective measures to see whether the company is improving its quality levels.

But how should service quality be measured? If we define quality in services as meeting or exceeding customers’ expectations in a consistent way, it is from the customers’ standpoint that the company should measure quality.

On the other hand, it is a known fact that very few dissatisfied customers come to the company to express their dissatisfaction explicitly. Most customers simply stop to purchase the service from that company and are therefore silently lost to competitors or substitutes. Even from those who take the trouble to complain, a great part does not get a satisfactory response from the company\(^\text{15}\). This leaves us with the dilemma of how to measure quality if the one who should be telling it to us (the customer) is not inclined to do it?

Three complementary approaches to overcome the difficulty of measuring quality in services are described in this section: measure the level of customer “defection”\(^\text{16}\); translate customer expectations into clear service standards and goals that are measurable by the company and easily understood by the employees\(^\text{17}\); and improve mechanisms for customer complaint\(^\text{18}\).

Customer Defection:

Managers are frequently aware of quality problems in their companies, but do not address it properly because it is their belief that increasing quality increases costs. However, the cost of low quality service in terms of lost customers is higher than the
cost of providing "zero defection" service, certainly true for companies where repeat customers are an important part of the total revenues of the company (e.g. catalog sales, banking, etc.). The problem is that the cost of forgone customers (measured in terms of the customer lifetime value) is not visible, while the cost of the program to increase retention is clearly visible in the company's budget. Programs to increase quality have to compete internally with other projects, for the company's limited resources. Therefore, if a company is really committed to pursue quality, it should look for ways to measure the level of customer "defection" and to measure the costs of lost customers, and take these costs into account in the project prioritization process.

One of the few industries where customer lifetime value is a widespread notion is the Catalog Sales Industry. In this industry, it is so evident that repeat customers are important for the success of the companies that they devised several methods to evaluate customer lifetime value.¹⁹

Definition of Standards for Service:

Customers' expectations should be translated into clear and measurable standards for service. The establishment of such standards has the power to bring a customer focus into the employee's day-to-day reality of service delivery.

In order to be effective, standards must be clear and meaningful to the employees that will have to pursue them. They also must be easily measurable in order to provide continuous feedback into the organization. Moreover, as customers' expectations dynamically evolve over time, it is important to continuously monitor this evolution and align the standards accordingly.
AT&T's Credit Card business, Universal Card Services (UCS), is probably one of the best examples where the creation and persistent measurement of service standards has led to outstanding quality levels.

**Customer Complaint Mechanisms:**

As quality is defined to be meeting or exceeding customers' expectations, the customer is the only one who assesses the company's quality. If there is some kind of problem in the product/service concept, in the service delivery system, or in the way customer contact employees are delivering the service, it is important to obtain this feedback immediately from the customer, before the same problem is repeated with many others. Therefore, customer complaints are a valuable source of information to a service company.

If the service company creates mechanisms that stimulate the dissatisfied customer to complain and effectively uses the information contained in these complaints, with the objective to enhance quality, a strong quality measurement tool is in place.

Moreover, an effective complaint resolution mechanism is also a powerful tool for customer retention. If a customer has a problem with the service, but the problem is handled by the company in a superb way, the likelihood of retaining the customer is higher.

**The Service Encounter**

As seen in the "Framework for Analyzing Service Operations," the customer interface is the environment where the service is actually delivered to the customer. The service encounter is the interaction that takes place in this environment, and it is during this interaction that most of the customers' perception of the service is shaped. Therefore,
the service encounter is considered to be the most critical moment for the success of the company, the moment of truth.

**Phases of the Service Encounter**

In order to facilitate evaluating and managing the quality of the service being provided, the service encounter is divided in phases and pervasive elements, elements that are present in all phases of the encounter.

The **phases** of the service encounter are:

- **Access**: there are several ways in which a customer can get access to a service provider (by telephone, walking in, making an appointment, etc.). The easier it is to get access to a service provider, the better the overall impression of the service will be, and can put the customer in a favorable state of mind that will smooth the remaining phases of the service encounter.

- **Check-In**: this is where the customer identifies himself/herself. It can be through the name, registration number or some other information. In this phase, it is important to make the customer feel welcome, and that he/she is important to the service provider.

- **Diagnosis**: In this phase, the server identifies the needs of the customer, the reason why the customer accessed the service provider and checked in. It is a very important phase of the service encounter, because it is here that, apart from identifying the customers' needs, it is the phase where the server will have the opportunity to sense the customers' overall expectations of the service and identify the customers' individuality (refer to the heterogeneity characteristic of services),
and decide the way in which this specific customer should be served in order to enhance his/her satisfaction.

- **Service Delivery**: The customers' needs are met in this phase. All the former phases are preparatory phases for the delivery phase to be executed adequately. It is the phase where most of the customers' perceptions are shaped, therefore critical to determine overall satisfaction.

- **Disengagement**: This phase provides the closure to the service encounter. This phase is taken for granted, but often poorly executed. The disengagement phase should be used to make sure all customers' needs have been fulfilled during the service encounter. It is a good opportunity to assess the customers' satisfaction with the service provided, and to correct eventual mistakes that were made during the service delivery. Together with the follow-up phase, it is also a very good opportunity to obtain feedback from the customer about the service he/she received.

- **Follow-up**: It is the phase where the quality of the service can be assessed. It is a difficult phase to implement, because customers do not feel stimulated to make complaints or suggestions to the service provider. But it is a very important phase, because it is from customer complaints and suggestions that some of the most valuable quality improvement opportunities arise. Finding ways to improve customer feedback mechanisms is a powerful tool to improve quality in the company.

Due to the differences between distinct product/service concepts and delivery systems, not all of the phases described above occur in every service encounter, but the effort to
structure the encounter into these phases can be a valuable tool to enhance understanding of the service encounter, and to find ways to improve service quality.

Apart from the phases of the service encounter, there are elements that are present in all phases of the encounter. These are the pervasive elements of the service encounter:

- **Waiting time**: There are two types of waiting time. The time spent before a phase of the service encounter begins (waiting in some sort of a queue), and the time spent while a phase of the service encounter is taking place (in-process waiting time). The delivery system and the capacity of the installations should be designed in order to minimize waiting times. However, due to mismatches in supply and demand, which are normal in service companies, waiting times may be unavoidable or economically unfeasible to be completely eliminated. Therefore, managing the perception of time customers spend waiting for service is important to determine their overall satisfaction.

- **Personal Interactions**: In order to obtain a successful service encounter, the behavior of both the server and the customer is critical. In designing and managing service delivery systems, managers must take into consideration the participants of the service encounter (the customer and the server), and the factors that influence their interactions, such as the interaction with co-workers, other customers, management, and the general environment (installations, lay-out, etc.). Two factors of particular relevance to the success of the interaction between the server and the customer are: the employee motivation to serve the customers' needs and the struggle for control over the transaction that can take place between the server and the customer if one of the parties feels challenged by the other.
Expectations and Perceptions: The service encounter is where the customers' expectations are met with the perceptions of the service provided, determining the overall quality of the service. Adequate management of the expectations and perceptions of the customer are critical in all phases of the service encounter, from access to disengagement and follow-up.

Customer Contact Employees

With the exception of professional service companies, most personal contacts between the customer and the service company occur through employees at a low level in the hierarchy (bank tellers, telephone representatives, flight attendants, waiters, etc.). No matter how low these employees are in the hierarchy, it is often their performance that will determine the customers' perception of quality of the service provided.

Service quality is multidimensional, i.e. it is perceived by customers along many dimensions (reliability, tangibles, responsiveness, assurance and empathy). Services are addressed to satisfy not only basic but also higher order customers needs, such as convenience and satisfaction, and involve feelings such as anxiety, relief and joy. Due to the heterogeneity characteristic of services, these higher order needs are not completely specifiable. It is the customer contact employee that must be able to assess what these higher order needs are and customize the service in accordance to that.

The behavior of the customer contact employee strongly determines the success of the service encounter.

It is shown that the customer contact employees' motivation to pursue customer satisfaction is directly related with the satisfaction with their jobs, in a self reinforcing cycle. Satisfied employees have a better attitude towards the service encounter and
regard the customers as the reason for their jobs. Well treated customers tend to give
servers a positive feedback, reinforcing the employee satisfaction. Therefore, achieving
job satisfaction must be one of management's primary objectives in service
companies\textsuperscript{25}. Therefore, customer contact employees should have a working
environment in which they feel highly motivated and prepared (trained) to provide high
quality service.
3. An Overview of Service Guarantees

The concept of warranty as a guarantee that the product sold will conform to a set of specifications, during a certain period of time, is a widespread notion in the customer supplier relationship. If the promised performance specifications are not met by the product, it is then repaired or replaced by the supplier, at no direct cost to the customer.

In the US, the concept of such warranties started to be used more extensively in the middle of last century. Warranties were used as a marketing tool by regional or national companies such as McCormick, Wanamaker and Sears, to reduce obstacles to switch from local suppliers to larger, regional or national suppliers. Customers at the time used to have long established relationships with local suppliers, members of their same community, and explicit warranties were in fact not necessary because the intimate relationship with suppliers made it easy for customers to complain is something was wrong with the product they purchased. In a way, the established relationship created an implicit warranty. When dealing with large companies represented by unknown and impersonal clerks, however, customers felt uncertain about what would happen if the products purchased had any kind of problem. Explicit warranties were the way those regional and national companies successfully reduced the customer uncertainty to levels that made them switch suppliers.

Since then, the concept of warranties has evolved, and is now used by almost every supplier of products and goods. In a way, these “traditional” warranties became part of the core product offered by companies and, in the case of many products, customers take it for granted. Traditional warranties are by no means a differentiation tool any more as they were in the past.
In the last decade, some leading manufacturing companies started to offer more ambitious guarantee programs to their customers. These companies do not restrict themselves to offer traditional warranties to their customers, i.e. to repair or replace the product in the case of non-conformance to specifications. Instead, they commit themselves unconditionally to overall customer satisfaction with the product, in any dimension. For example, Xerox offers a guarantee to customers that have a service agreement with them. The guarantee states that, if the customer is not satisfied with the equipment that is installed in its facilities, it will be replaced by another until the customer is satisfied. No questions are asked, thus the customer is the sole arbiter of satisfaction. The guarantee program was adopted because of a perception of Xerox’s management that it’s commitment to quality was not being fully perceived by the customers. They also expected that such a guarantee would leverage internal motivation and lead the organization to higher levels of performance and customer satisfaction. In another example, Saturn, a GM subsidiary that produces compact cars to compete with the Japanese compact cars, offers to its customers 30 days or 1,500 miles to test their cars, and if they are not satisfied, they can return the car. They have a money-back guarantee, no questions asked*.

The commitment to overall customer satisfaction, shown in the examples of Xerox and Saturn, is much more ambitious than the commitment offered by traditional warranties, and has had profound impact on the way these companies see their customers, their needs and expectations. Such commitment created a search for excellence in the products and services they offer. In the eyes of these companies, quality ceased to be just an issue of conformance to specifications, to become an issue of understanding

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* For more details about the Xerox and Saturn satisfaction guarantee programs, refer to Appendix 1.
their customers’ needs and expectations and striving to consistently exceed them. For example, Saturn employees are in constant search for “customer enthusiasm.”

In services, the traditional notion of warranties, i.e. to guarantee conformance to a set of specifications, is not always that clear. As mentioned in chapter 2, service companies sell to their customers a bundle of tangible and intangible goods and services. The higher the intangible content of the bundle, the more difficult it is to create specifications or performance measures for some of the higher order needs that customers wish to have satisfied when buying services (for example, how can you set standards for customer happiness?). It is always possible to guarantee some specific aspects of the service that are specifiable and measurable. For example, Domino’s Pizza 30-minute delivery guarantee program stated that the pizza would be delivered within 30 minutes, or the customer would receive a $3 discount on the price. It is a guarantee where one specific aspect of the service was covered. Wells Fargo, a San Francisco based bank, promised 5 dollars to any customer in a teller line who wasn’t helped within 5 minutes.

Guaranteeing specific aspects of the service, however, does not cover the whole set of customer needs that are addressed by the service. In the case of the home delivery pizza, apart from the delivery time, the pizza should have a good taste, the deliverer must be polite and well dressed, the telephone ordering system must be easily accessible, telephone representatives must be knowledgeable of the products and responsive, etc. In the example of a bank account, the bank statements must be timely

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b The guarantee was dropped later in 1993, after a St. Louis Jury awarded a $78 million in punitive damages to a woman who suffered injuries after she was hit by a Domino’s driver that ran a red light and hit her car. There was a rising concern in the public that the 30-minute delivery guarantee program did induce Domino’s drivers to adopt unsafe driving habits.
and correct, the teller must be polite, the ATMs must always be accessible, the financial advisor must be knowledgeable and responsive, etc.

The fact that it is not possible to create a comprehensive set of performance measures for services does not mean, however, that it is not possible to offer guarantees on services. Similarly to the examples of Xerox and Saturn, it is always possible to offer to customers an unconditional satisfaction guarantee. Several leading service companies offer such guarantees, and most of them argue that, apart from providing them with a strong marketing tool, unconditional satisfaction guarantees are powerful to enhance their notion of what quality really means, and reinforce their commitment to provide excellent service to their customers. In fact, satisfaction guarantees are even more meaningful to customers of service companies, because of the intangibility characteristic of services.

Hampton Inn, a leading chain of economy hotels in the US, launched a 100-Percent satisfaction guarantee program in 1989. According to the program, customers of the hotel chain did not have to pay anything if they were not satisfied with their stay overnight. The decision is completely up to the customer, and there are no conditions attached to the guarantee.

L.L.Bean, a catalog sales company, goes even further. Its guarantee promises the customer to replace any product that is not completely satisfactory to him/her, or refund the amount paid. A rather uncommon and aggressive characteristic of this guarantee is that it holds for an unlimited time period (it is a life time guarantee).

In essence, what these companies offer is the guarantee that the customer will be totally satisfied with the service provided, and that if they are not satisfied they can reclaim their money back, and no questions will be asked. They are offering an
unconditional satisfaction guarantee, similarly to what is being offered by Saturn and Xerox.

Kinds of Guarantees

Throughout this document, guarantees are classified according to three dimensions. First, according to whether there are conditions attached to the guarantee, it can be conditional or unconditional. Second, according to whether the guarantee covers all aspects of the service provided or only part of them, it can be specific or comprehensive. Third, according to whether the guarantee is communicated to the public, it can be implicit or explicit.

Conditional guarantees are those that can only be invoked if certain conditions are met. One of the main reasons why companies impose conditions on their guarantees is when they feel that factors that might influence the quality of the service provided are out of the company’s control. Lufthansa, the German airline that guarantees that its flights will arrive on time, makes this guarantee conditional to good weather conditions. Another reason why companies impose conditions is to prevent or reduce cheating from dishonest customers. Bank of America, a San Francisco based bank introduced a "Service Guarantee" program. The guarantee is a promise that Bank of America's personal checking account customers will be satisfied with the service they receive. If not, they can close their checking accounts and request a full refund of monthly checking service charges paid during the guarantee period. The drawback is the fact that the customer has to close the account when he declares himself unsatisfied. The creation of this condition probably reflects the fear that too many customers would cheat the bank, by declaring themselves unsatisfied with the services just in order to
avoid paying the service charges. The condition as posted forces the honest customer, already dissatisfied with the bank's service, to go through the hassle of changing banks to collect just a few dollars.

Unconditional guarantees are those that are possible to invoke regardless of any particular condition that might have affected the quality of the service. It is much stronger than the conditional guarantee because it conveys a message that the company is in control over the factors that affect the quality of the service, and that the customer will not have to go through an unpleasant process of proving that the conditions were met in order to invoke the guarantee. Hampton Inn's and L.L.Bean's satisfaction guarantee programs are examples of unconditional guarantees.

Specific guarantees are those that guarantee one or some specific parts of the service being provided, usually those parts that are quantifiable and measurable.

Domino's 30-minute delivery guarantee and Wells Fargo's less than 5-minute waiting guarantees are examples of that.

Delta Dental's “Guarantee of Service Excellence” is an example of a specific guarantee that is not restricted to one specific aspect, but encompasses several aspects of the service provided. It is a seven-point program that guarantees, among other things, a minimum of 10% savings every year, smooth conversion from another insurance company to Delta Dental and a no-hassle customer relation, whereby they commit to solve each question addressed to customer service immediately or to give feedback to the customer within at the most one business day. For each of the seven items, there is a clearly defined refund policy, that is paid to the customer by Delta's own initiative when they recognize the service was not according to promised service (it is not necessary that the customer asks for it). It is a case of a very thorough service
guarantee program, where several aspects of the service are covered, but still a specific guarantee.

Specific guarantees are often used by companies as a way to guarantee only those parts of the service that they feel are completely under their control. In other words, it is a way to offer unconditional guarantees, but restricted to aspects of the service being provided. Delta Dental's guarantee program is one example of that. It is out of the insurance company's span of control whether the customer will be completely satisfied with all aspects of the dental treatment, because it involves the dentists, and even the dental health of the customer, but Delta Dental commits itself unconditionally to those aspects that are in its span of control.

Specific guarantees can also be used as a tool to convey a specific message to the public. For example, to make explicit to customer the feature(s) of the service that differentiates the company from its competitors. One of the best branding examples using specific guarantees is Federal Express' promise of overnight delivery. It did such a good job of delivering packages to their destinations the next day, that FedEx became synonymous with the term overnight.

**Comprehensive guarantees** are those that guarantee the service as a whole, i.e. all aspects of the service being provided, not restricted only to parts of it. Comprehensive guarantees convey a stronger message to the customers than specific guarantees do, because customers are assured that the service will satisfy them in all dimensions and if not, they can trigger the guarantee. Hampton Inn's “100-Percent Satisfaction Guarantee” Program and L.L. Bean’s “Satisfaction Guaranteed” Program are typical examples of comprehensive guarantees, because they guarantee satisfaction in “every way”, not restricted to parts of the service.
Figure 4: Kinds of Service Guarantees

Implicit guarantees are those that are not communicated to the public, but are automatically triggered by the service provider when it senses that the customer is not satisfied, or when the customer complains about the service received. Implicit guarantees can sometimes be powerful as a tool to retain unhappy customers, and positively surprise the customer, but have several downsides:

- Not necessarily all unhappy customers are motivated to complain to the service provider about their problems. In fact, the majority of unhappy customers do not complain to the service provider at all. Instead, they complain to friends and colleagues, creating a negative word of mouth effect for the company.
• Another downside of the implicit guarantee is that it is triggered by the server and not by the customer. It is therefore the server that decides whether the customer is satisfied or not, inverting the role of who should be the arbiter of satisfaction.

• Finally, as implicit guarantees are not communicated to the public, they are not helpful as a marketing tool to reduce customers’ uncertainty, and therefore increase customer’s propensity to buy from the company.

Implicit guarantees are sometimes used by companies to cover those aspects of the service that are not totally under control of the company. In such cases, well trained employees, when identifying a situation where the customer is dissatisfied with a certain aspect, and the mistake was indeed made by the company, could trigger the implicit guarantee. Delta Dental, additionally to the seven point guarantee program, created the so called “mythical eighth guarantee”. It is an implicit guarantee that is triggered by the employees whenever it is their judgment that the customer’s dissatisfaction was due to Delta’s inability to provide adequate service, even if the aspect the customer is dissatisfied about is not covered by the seven point program of the explicit guarantee.

Explicit guarantees are those that, as the name says, are explicitly communicated to the public through a guarantee statement. Explicit guarantees are much more powerful than the implicit guarantees, in the sense that it is in the customers’ hands to trigger the guarantee, instead of the server. An explicit guarantee is applicable to all customers that are dissatisfied with the service, not only those who deliberately complain. It is a strong incentive to customers who normally would not make their complaint directly to the company providing the service, giving the company the opportunity to try to retain the dissatisfied customer. Explicit guarantees can also be used for marketing purposes.
Pizza Hut makes extensive use of its guarantee program in its merchandising. For example, the top cover of the boxes used for delivery is totally occupied by the logo of its guarantee program – “Your pizza’s right, or it’s free - GUARANTEED”.

**Characteristics of Effective Service Guarantee Programs**

In order to provide all its potential benefits, a service guarantee program must be carefully designed. Most of the service guarantee programs fail to achieve the desired results because they are limited in scope (do not cover all dimensions of customer satisfaction) and difficult for the customer to invoke. Effective guarantee programs implemented by service companies usually contain most, if not all, of the characteristics described below:

**Unconditional:** The less conditions that are attached to the guarantee, the stronger its appeal to the customer. Conditions are immediately associated by the customer to a lack of commitment of the supplier to pursue customer’s satisfaction. The higher the number of “ifs” in the guarantee statement, the higher the customer uncertainty will be when deciding to purchase that service.

**Comprehensive:** The more comprehensive the guarantee, the stronger the message of commitment to customers, that they will be satisfied along all dimensions of the service. One might argue there are several factors that affect customer satisfaction that are out of the company’s control (e.g. a flight can be late due to weather conditions, a telephone line may be down because of a major winter storm, or even the customer of a hotel is in a terrible mood that day because of some particular reason). It is true that there are factors that are out of the company’s control, but even so the company can still guarantee overall satisfaction with the service (e.g. if the flight is late, but the
customer is superbly treated while he/she is waiting — receiving up to date information of what is happening, being provided with good waiting installations and meals/accommodations if that is the case, he/she will notice the company’s commitment, and most probably feel satisfied with the service provided; if a telephone line is down, but the customer notices that the telephone company is doing its best to fix the problem as soon as it can, and is being kept informed of the advancements, again he/she most probably will feel satisfied with the service provided).

Explicit: The decision to trigger the guarantee pay out has to be in the customer’s hands. It should not depend on the assessment of an employee of the company. The customer should be the only judge of the level of satisfaction with the service.

Guarantees that are explicit, unconditional, and comprehensive are the true Unconditional Satisfaction Guarantees, that have the strongest impact on customers, and potentially provide the most benefits to the company.

Furthermore, effective service guarantees have to be:

Easy to understand: When customers read the guarantee statement, it must be clear to them what it means and what they can expect from it. The easier it is to understand how the guarantee works, the more uncertainty it removes from the customer’s mind when deciding to purchase the service. Also, the easier it is to understand the guarantee, the fewer situations there will be where customers mistakenly try to trigger the guarantee. When employees are introduced to the guarantee program, it must be clear to them what is expected of them, and how they have to deal with customers that trigger the guarantee, avoiding the embarrassing situation of having customers trying to trigger the guarantee, but employees that don’t know how to handle it.
**Meaningful:** A service guarantee program must guarantee aspects of the service that are important to the customer. There is little advantage in offering guarantees on aspects that are of secondary importance to the customer. In times where telephone and ATMs are more and more the principal way to obtain banking services for certain market segments such as the urban and young professionals, guaranteeing waiting time in a teller line may not be that meaningful to them any more. On the other hand, for example, if a bank guarantees overall satisfaction with the telephone banking system, that is a meaningful guarantee to that market segment.

**Easy to invoke and to collect:** If the customer is not satisfied with the service, and decides to invoke the guarantee, he/she should be able to invoke it and collect the pay out without having to go through a painful process, such as: having to talk to several different people in different locations, or; having to fill in a form that can only be picked up in specific locations, and send this form to another address explaining the situation where the problem occurred and what were the reasons for dissatisfaction.

One of the purposes of a service guarantee program is to increase customer loyalty and retention, but if the customer is already unhappy with the service, and the process to invoke the guarantee and collect the pay out is cumbersome and time consuming, this will reinforce his/her unhappiness with the service provider instead of providing for an opportunity to retain that unhappy customer.

**Success Factors in the Design and Implementation of a Service Guarantee**

The decision to offer a satisfaction guarantee represents a major commitment for the company, both on the operational and in the cultural aspects. Therefore, a careful design of the guarantee program, making sure making sure that it has the
characteristics that make it an effective guarantee (unconditional, comprehensive, explicit, meaningful to customers and employees, easy to understand, easy to invoke and to collect), is critical to the success of the program. Hart dedicates one whole chapter of his book\textsuperscript{29} to the task of designing the guarantee program.

Once the guarantee program has been designed, the success of its implementation is dependent on the credibility it has with the customers and employees. In this section, the impact of the existing level of quality delivered by the company on the credibility of the guarantee program is discussed.

LL. Bean, Xerox, Delta Dental Plan, Hampton Inn, Saturn are some of the companies that implemented successful guarantee programs (see Appendix 1). Analyzing the context in which the guarantees were implemented, we can see that those programs were supported by a strong commitment to quality in the company (where quality means satisfying or exceeding customer expectations). In some cases, the guarantee program was implemented concomitantly with the quality program (e.g. Hampton Inn, Saturn) and in others it was implemented at a later stage of the quality program (e.g. Xerox, Delta).

What is clear in all cases, however, is that the guarantee program is an integral part of the company's overall commitment to quality:

- as a way to explicitly convey the quality message to the customers and shape their expectations according to the company's service proposition.
- as a clear message to the employees that top management is not only talking about quality but really meaning it, reinforcing the continuity of the quality program.
- to contribute to the clarity of goals and the communication inside the company.
• to create a sphere of strong rapport with the customer: increasing the customers' willingness to complain if not satisfied; the employees' willingness to respond to this complaint; and the willingness to learn from these complaints and improve the service to avoid similar problems in the future.

Those are all very attractive advantages, but they will only be obtained if the guarantee program is successful. The success of a satisfaction guarantee program is strongly dependent on the credibility it has with the employees (internal reaction) and the customers (external reaction). Such credibility is tied to the company's existing level of quality at the moment the program is launched and the perceived level of commitment to improve quality, as we will see below.

**Internal Credibility of the Satisfaction Guarantee Program:**

Internally to the company, the satisfaction guarantee has the same effect on employees as the setting of goals. According to Locke et al\(^{30}\), one critical step in goal-setting is to encode the appropriate level of challenge in the goals. In general, difficult goals fairly consistently lead to better performance than easy goals, however, it must be clear that in the employee's mind the goal is difficult but not impossible. As we can see in Figure 5, effort tends to increase as goals become more difficult, only to diminish when the employee feels the task is impossible to achieve. Note that the difficulty is in the eyes of the employee, and not the supervisor.
Figure 5: Relationship Between Goal Difficulty and Performance
(Source: Locke et al)

The reaction of employees to the guarantee will depend on how their perception of how realistic the goals are, and how committed top management is to enhance the level of quality delivered by the company. True commitment from top management has the power to stretch the employees' notion of goal difficulty, i.e. how realistic the goals are (see Table 2). Commitment can be shown in several ways, such as the creation of better working environment, increased interaction with employees on issues related to quality, changes in the rewarding schemes, etc.
Table 2: Internal Credibility of the Guarantee Program

<table>
<thead>
<tr>
<th>Internal Perception:</th>
<th>Promised Quality Level</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than current commitment to quality</td>
<td>More than current commitment to quality, but seen as achievable (top management as a partner)</td>
<td>More than what is considered possible to achieve (top management as an opponent)</td>
</tr>
<tr>
<td>The guarantee program is seen by the employees as a marketing program, and is not considered a challenge to them. The effect is neutral, or even negative, because the employees will lose motivation to deliver to the same levels as they were before.</td>
<td>The guarantee program is seen as a positive challenge, and if adequately managed, tends to produce positive results in terms of even more commitment to quality, as employees feel motivated to reach the new standards.</td>
<td>The guarantee program is seen as an additional source of pressure on the employees, and as a sign that management does not know what is going on in the company they are managing. The reaction tends to be negative. Before adopting such a guarantee, the company should have adopted internal programs to reach a level of quality that allows for the adoption of the guarantee.</td>
</tr>
</tbody>
</table>

External Credibility of the Satisfaction Guarantee Program:

Similarly to the internal reaction, the customer reaction to the guarantee will be either positive or negative depending on how the existing level of perceived quality compares to the level of quality that is promised through the guarantee (Table 3).

Table 3: External Credibility of the Guarantee Program

<table>
<thead>
<tr>
<th>External Perception:</th>
<th>Promised Quality Level</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than current perceived quality</td>
<td>More than current perceived quality, but seen as achievable</td>
<td>More than what is considered possible to achieve</td>
</tr>
<tr>
<td>For a company with high levels of perceived quality, the guarantee program does not create any additional effect on customers, or it may even create the fear that the company is lowering its standards. However, it may have positive effects on attracting prospects. * If the existing perceived level of quality delivered by the company is low, the guarantee will sound even worse, expliciting the company’s low level of quality.</td>
<td>For a company with high levels of perceived quality, this is the ideal situation, because it will create positive reactions both on existing customers and prospect customers. * If the existing perceived level of quality is low, the guarantee will make explicit the company’s low level of quality (e.g. a bank guarantees that the waiting time in a line will not exceed 30 minutes).</td>
<td>The guarantee will have no credibility. Customers will not believe the promised levels of quality, and the only thing the company may attract is non legitimate buyers, that purchase the service with the intention of applying for refund.</td>
</tr>
</tbody>
</table>
As can be seen from the tables above, the reaction to a guarantee program will be positive only if the promised quality is higher than the existing level of quality, but not more than what is considered possible to achieve.

**Cheating**

Fear of customers cheating in order to receive the pay outs is probably the first thing that comes to the mind of most managers when thinking about implementing a service guarantee program in their companies. Fear for cheating is a strong motivation for companies that decide to implement service guarantee programs to make the guarantee conditional and/or to create a bureaucratic process to invoke the guarantee, consequently weakening the whole guarantee program by design.

Experience in companies that have implemented easy to invoke unconditional guarantee programs shows that the amount of pay outs is very low compared to what has been expected, and out of those pay outs, what could be attributed to cheating is a very small portion. The advantages of easy to invoke unconditional guarantees in increasing customer retention and loyalty are much larger than the total pay outs due to the guarantee program.

However, it is important to set procedures to deal with cheaters. Hart\textsuperscript{31} analyses several possible strategies to deal with cheaters. These include using specific guarantees, adding conditions to the guarantee, making the invoking process more bureaucratic, refusing to pay specific customers when it is believed that they are cheating, personalizing the complaints, and as an ultimate action, to revoke the guarantee.

As already discussed in this document, conditional guarantees are much weaker than unconditional guarantees, and specific guarantees are weaker than comprehensive
guarantees. Bureaucratizing the complaint process certainly reduces cheating, but on the other hand reduces potential for retaining customers that are legitimately invoking the guarantee.

Refusing to pay customers when it is believed they are cheating can end up offending many honest customers who will be explicitly considered as cheaters, if mistakes in judgment are made or if the customers invoke the guarantee in good faith, but the conditions are not met.

In summary, companies that are afraid of cheating while adopting a guarantee tend to create several conditions in the guarantee statement and to bureaucratize the invoking process, but this will create several weaknesses in the guarantee program, reducing the ability to provide excellent service to honest customers (the vast majority) and reducing the probability to retain them when they are not satisfied with the service provided.

Personalizing the complaint process, allowing to track those customers who frequently invoke the guarantee, is probably the best way to handle the cheating problem. Frequent invaders could be proactively reached and requested to do business elsewhere. This approach does not have any negative impacts on the guarantee design, and is totally transparent to honest customers, that invoke the guarantee because they are really dissatisfied.
4. The Impact of Guarantees on Service Quality

This chapter focuses on how a satisfaction guarantee program reinforces the delivery of quality service in companies where they are implemented.

Initially, I propose a framework to help describe the elements that influence customer satisfaction. The framework shows that quality of services, although a challenging task, is totally under control of management, and therefore the success in the quality journey is a responsibility of management. Carefully designed satisfaction guarantee programs can be a strong tool to help leverage the effort to improve quality of service. Based on the framework, a further analysis is made on how satisfaction guarantees influence each of the elements that influence customer satisfaction.

A Framework to Analyze the Elements that Influence Customer Satisfaction

![Diagram](image)

Figure 6: Quality -- Meeting or Exceeding Expectations
As shown in Figure 6, service companies achieve customer satisfaction when they deliver services that are consistently perceived by customers as meeting or exceeding their expectations. The "Framework to Analyze the Elements that Influence Customer Satisfaction", shown in Figure 7, describes both the elements that influence customers' expectations and the elements that influence customers' perceptions.

![Diagram showing the framework to analyze elements influencing customer satisfaction]

**Figure 7: Framework to Analyze the Elements that Influence Customer Satisfaction**

Customers' needs and expectations are created by the external environment in which the customer lives, the customers' previous experiences with the company or with other companies, and by the information received about the company's and competitors' level of service. At the moment of service delivery (i.e. during the service encounter), customers shape their perceptions and compare them with the needs and expectations they had, determining the level of satisfaction.
The elements that influence the customers' perceptions during the service encounter are:

**The Product/Service Concept:**

The product/service concept is the set of features and characteristics that define the product. It includes both the core product and the facilitating/complementary services that are delivered to augment the core product, i.e. the bundle of goods and services provided to the customer. Take the overnight delivery service as an example: the core product is the fast delivery of the envelope or package, but the customers also expect other features such as tracking of the package, pick up service at home or at the office, polite and well dressed employees, etc. Such additional features, and
certainly many others that are part of the product/service concept, actively contribute to shape the customers' perceptions.

The product/service concept will shape the customers' perceptions to the extent that the product, with all its features and characteristics, adds more value to them than the price paid for it. The sources of value added can be in the core product itself (e.g. how fast is the delivery of the package) or in the complementary services provided (e.g. how convenient is the package pick up process).

The amount of value added a product delivers to a customer is not static. It changes over time, as the needs and expectations of the customers evolve. It is therefore of critical importance to deeply understand the sources of value added to the customer, and how they evolve over time, in the effort to design and maintain each of the company’s the product/service concepts.

The Service Delivery System:

Given the product/service concept, a system must be designed to support its delivery. From the perspective of the customer, the service delivery system entails aspects such as the environment in which the service encounter takes place (the installations, the cleanliness and tidiness of the installations, the visual effects of the physical installations, the signs to orient the customer, etc.); the service delivery processes (the level of performance in each phase of the service delivery, how clear it is what is expected from the customer during the service encounter, how the waiting lines are managed, the process for handling complaints and for problem solving, etc.); the choices of technologies to support the service delivery (e.g. IT infrastructure) and the capacity available (management of supply and demand, etc.).
The service delivery system shapes the customers' perceptions to the extent that, no matter how effectively the product/concept addresses the customers' expectations, it has to be supported by a delivery system that is equally effective. For example:

- The installations and the atmosphere of the environment where the service is provided affect the customers' perceptions of the service (tangibles dimension of quality).

- The repeatability and reliability of the services are a direct consequence of the customer interface and back room processes, the performance standards and measures adopted, the task descriptions, the technology used to deliver the service, etc.

- The delivery process and the capacity of the installations should be designed in order to minimize waiting times. However, due to mismatches in supply and demand, that arise due to the perishability characteristic of services, waiting times may be unavoidable or economically unfeasible to be completely eliminated. Therefore, managing the perception of time customers spend waiting for service is important to determine their overall satisfaction. The customers' perception of time while waiting for service can be considerably influenced by the way waiting lines are managed.

- The ability to resolve customers' problems, whenever they occur, in a fast and painless way to the customer (responsiveness dimension of quality).

- etc.
The Behavior of the Customer Contact Employees:

Most personal contacts between the customer and the service company occur through employees at a low level in the hierarchy (bank tellers, telephone representatives, flight attendants, waiters, etc.). No matter how low these employees are in the hierarchy, it is often their performance that will determine the customers’ perception of quality of the service provided. They are the agents to deliver the service according to the standards defined in the product/service concept and in the service delivery system. But it is not feasible to specify each and every detail of the human interaction. Therefore, the customer contact employee must be able to assess customers’ needs and customize the service accordingly.

Customers perceive services along many dimensions (reliability, tangibles, responsiveness, assurance and empathy), and customer contact employees are, to a larger or smaller degree, responsible to convey the company’s image along all of these dimensions.

The success of the service encounter is a direct consequence of the ability of the customer contact employee to show not only skills and knowledge, but also respect to the customer, flexibility to respond to different expectations from customers, and commitment to deliver service that will lead to high levels of customer satisfaction.

The Behavior of the Customer:

The service encounter involves a human interaction between the server and the customer. Therefore, it is not only the performance of the customer contact employee that determines the success of the service encounter, but also the behavior of the customer.
Bitran and Hoech⁵³ make the hypothesis that the way a customer contact employee and a customer interact in a service relationship depends on:

- The amount of exercisable power held by each
- The interest of each party in exercising that power (i.e. assuming control) for their own benefit or the willingness of each party to forgo their power for the benefit of the other party (i.e. showing respect for the other party)

The most obvious sources of server power arise from the company being in a unique position to deliver a service, because of some sort of market dominance, like a local or national monopoly or oligopoly condition, a government concession (e.g. local telephone companies), or because the company delivers some feature(s) in the service that is not matched by competition (e.g. a new movie in town, a special show in the night club, etc.).

Another source of potential server power develops after the provision of the service has been authorized by the customer. At some point of the service delivery process, the customer becomes dependent on the customer contact employee, because the service has already been authorized. For example, the author recently purchased tickets for an Ice Hockey game. If for some reason he wanted to return the ticket, it would no longer be accepted. Power has shifted from the customer to the buyer at the moment the sale ticket was purchased.

The customer's primary source of power is the authorization of the service and the payment for the service received. Customers are aware of their power as paying clients and are willing to defend it should they feel challenged. Unless there are other
mechanisms in the design of the service that prevent it from happening, after authorizing the service and paying for it, the customer loses this source of power.

For example, consider a retail store that does not offer a 30-day money back guarantee for the products sold. In such case, the manufacturer’s warranty against defective parts is the only guarantee the customer has, but that does not enable him/her to change to another model or brand if not satisfied with the unit purchased. Except for those that are very knowledgeable about what they want to buy, customers buying e.g. a TV in this store will feel uncertain. Due to this uncertainty, they may be inclined to request the salesperson to go into each and every detail of all the features and characteristics, including the warranty statement, of the models they are considering to buy.

Furthermore, if allowed, they will try to bargain on the price because they cannot return it if they find the product at a lower cost somewhere else. All this surrounded by a dose of uncertainty and anxiety on the customers’ side. This is a rather stressful situation for the salesperson to handle.

If, on the other hand, the service is designed in such a way that the customer does not lose power as the transaction evolves, the behavior is positively influenced. Back to the TV store example, if the store had a 30-day money back refund policy with no questions asked, and additionally it offered a low price guarantee, the customer would be in a complete different mood while deciding which TV to buy. It is likely that there would be no anxiety and uncertainty, only excitement about the new purchase that is about to be made. The customer’s behavior just described has a complete different, and much more positive impact on the quality of the interaction with the salesperson.

Another source of potential power for the customer is the ability not to repurchase a service. Customers that are not content with the service provided are less likely to
come back, and are inclined to inform to others (peers, friends, consumer groups) that the service delivered by the company is of low quality. This “word-of-mouth” effect is extremely negative for the company’s reputation, because customers’ decision to purchase is strongly influenced by it. Moreover, the uncertainty generated by the fear of loss of power creates obstacles for selling a service. Customers are less likely to purchase a new service if they have the impression that they will lose control once they have paid for the service.

![Diagram showing sources of customer and server power and possible reactions](image)

**Figure 9: Sources of Customer and Server Power and the Impact on the Service Encounter**

A struggle for control may develop during the service encounter, between the customer contact employee and the customer. The customer, when faced with a situation of uncertainty whether the sources of power are challenged, may start a struggle for control. The customer contact employees’ reactions to customers’ attempts to control
the service encounter are related to the fact that, because the act of serving is the
essence of their job, they supposedly know better than the customer "how to do it".

Besides, the customer contact employees also have the responsibility to achieve
certain levels of productivity that are imposed on them by management. In order to
achieve those productivity levels, customer contact employees feel they have the right
to control the transaction and handle it in their own way, and therefore, employees
attempt to control the service encounter. The way in which customer contact employees
react strongly determines the success of the service encounter. They can react
positively, showing respect and commitment to satisfy the customer, and trying to
engage him/her in the service encounter. They can also react negatively, starting a
direct confrontation, ignoring the customer or deliberately dropping the service quality34.

In summary, the success of the service encounter is a function of the behavior of both
the customer contact employee and the customer. As soon as one of the parties lacks
in respect to the other or starts a struggle for control over the transaction, the quality
and smoothness of the service encounter is in danger.

Customer contact employees can be trained and motivated to avoid starting a struggle
for control, and their working conditions and environment can be designed to reduce
the stress generated by the series of situations they are faced with. It is not possible,
however, to train customers in the same way as customer contact employees are
trained. The customers' behavior has to be influenced in a different way.

How can the company influence the attitude of the customer? By showing commitment
to service, demonstrating respect, engaging the customer in the process of service
delivery, and by giving assurance that the customer will remain in control during the
whole transaction. The behavior of the customer also depends on the previous
experiences with the service delivered by the company. If the customer has consistently had positive experiences with the company, he/she will be more likely to adopt a positive attitude. On the other hand, if the customer has had some sort of unresolved negative experience with the company in the past, this will most likely reflect on the behavior during the next service encounters.

Interaction of the Elements that Shape Customers' Perceptions:

The four elements that influence customers' perceptions (Product/Service Concept, Service Delivery System, Behavior of Customer Contact Employees and Behavior of the Customer) actively interact while the service encounter is taking place. Take the product/service concept and the service delivery system for example. They are intimately related to each other, and it is often difficult to separate one from another. The behavior of the customer contact employee is dependent on his level of knowledge about the product/service and the service delivery system (e.g. the processes to deliver the service, the overall environment in which the service delivery takes place, etc.). The behavior of the customer strongly influences the behavior of the customer contact employee and vice versa.

The resulting interaction of these elements will determine the customer's overall perception of the service received.
The elements that influence the customers' expectations are:

Customer's Experience with the Company:

A customer that has experience with the service provided by a company has a clearer notion of what level of service to expect from the company than a new customer has.

While new customers' expectations are more influenced by the other elements (Communications From the Company, External Environment and External Communications), existing customers' expectations are also strongly influenced by:
• The consistency of the service provided in the past. A consistent delivery of service helps reduce the customers' uncertainty as to what level of service to expect the next time he/she comes in.

• The number of problems experienced in the past, and the company's demonstrated capability to resolve those problems adequately.

• The rate of introduction of innovations in the products/services, that were meaningful to the customers.

**Communications From the Company:**

This includes all means of communications used by the company. Selling, advertising, direct marketing, merchandising in the points of sale, visual effects of the physical installations, and signs to orient customers are the most common means of communication. The level of service that is advertised by the company strongly shapes the expectations. Therefore, it is important to align the advertised service with the what the actual service proposition is. For example, if advertising sets up unrealistic expectations to customers, the service encounter will probably disappoint them. Overpromising may facilitate the sales and advertising process, but has devastating effect on customer satisfaction levels. If, on the other hand, communications are consistent with the level of service that is actually delivered, customers understand what to expect from the service, and there is a higher likelihood that their expectations will be met.

**External Environment:**

Customers are an integral part of the external environment in which they live and work. It is argued that the rate of change in the external environment is increasingly faster, in
the economical, political, social and technical dimensions, and with a wider impact on several aspects of life and work. Such changes in the external environment often lead to changes in customers' needs. For example, the increasing participation of women in the workforce created the need for a whole range of new services to support the household, in the absence of the traditional housewife (e.g. child care and child transportation, take-away food, housecleaning services, etc.).

Competition and other service companies also have a strong role in shaping customers' expectations. A company's customers expect to receive the same levels of service as they receive from the company's competitors or from other service providers. For example, in the banking industry, if a competitor provides fast access to tellers with no waiting lines, the customer expects the company to provide fast access to tellers too. Expectations are not only transferred from experiences with competitors, but also from experiences with companies operating in other industries. A raise in the quality standards of the telephone reservation system of an airline company, for example, will influence the expectations the customer has about the quality of the telephone reservation system of a hotel.

**External Communications:**

Customers, in their work and social life, listen to their friends' and peers' opinions about services provided by companies. Such word of mouth strongly influences customers' expectations. Communications received from competitors (advertising, etc.) also shape expectations to the extent that the customer would like to receive service at the same or higher level of quality that is delivered by a competitor. The media also affects the level of expectations the customer has because, implicitly or explicitly, it provides information about the company itself and about other service companies. Media
coverage is becoming increasingly global, and consumers all over the world are kept up-to-date and have their opinions molded by a wide variety of information received through the media.

**Interaction of the Elements that Shape Customers’ Expectations:**

The four elements that influence customers’ expectations (Customer’s Experience with the Company, Communications From the Company, External Environment and External Communications) continuously interact among themselves, shaping the expectations about the services. This interaction takes place in the customers’ mind, until the moment of the service delivery, when the expectations are compared with the perceptions of the delivered service.

**The Search for Customer Satisfaction: A Journey as Opposed to a Destination**

The “Framework to Analyze Elements that Influence Customer Satisfaction”, described in the former section, shows the elements that influence customer satisfaction.

These elements are not static. Instead, they continuously change over time. Customers’ expectations about the service are in constant evolution, either because the needs change or because competition offers service at a higher level of quality.

In order to maintain customer satisfaction at high levels, the company must understand and be responsive to the environment in which it operates, how it is changing, and how these changes affect customers’ expectations. For example, people are increasingly attributing more value to the amount and quality of their leisure time. Service companies are responding to this trend, offering faster service and convenience features such as home delivery or around the clock operations. Companies that fail to
follow trends in customers’ needs and expectations are sentenced to lose their customers until they get out of business.

Moreover, if the company is determined to exceed customers’ expectations (and achieve customer enthusiasm), just reacting to the trends in customers’ expectations is not enough. The company has to be in the leading edge of this dynamic process. It must be innovative, and search for ways to continuously launch new products/services or new features for its existing products/services that positively surprise the customers.

The dynamic nature of the search for customer satisfaction is often compared to a journey as opposed to a destination. The journey metaphor better conveys the notion that customer satisfaction is something that has to be pursued continuously, by all employees, in order to assure a safe path to the future as a successful service company.

Customer Satisfaction: A Management’s Responsibility

Management is able to monitor and directly influence most of the elements that shape customer satisfaction. As for the elements that it cannot directly influence (external environment and external communications), it should be able to monitor them closely, analyze them and anticipate their impact in their business.
Elements that Influence Customers’ Expectations

Elements that Influence Customers’ Expectations

* Ability to monitor and directly influence

** Unable to directly influence, but still able to monitor and anticipate impact in business

Figure 11: Customer Satisfaction — A Management’s Responsibility

In other words, none of the elements that influence customer satisfaction can be considered to be out of management’s control. It is in management’s hands to decide whether the company is going to be successful in the journey for customer satisfaction or not.

The key to the success of the company as a quality service provider is dependent on how effective management is to anticipate and respond to the changes in the environment, and how effective their decisions are in influencing the key elements that shape customer perceptions and expectations. Table 4 displays a sequence of tasks that can be used as a guideline of management’s responsibilities in the search for customer satisfaction.
Table 4: Critical Tasks to Achieve Customer Satisfaction

| ✚ Understand and anticipate the changes in the external environment |
| ✚ Understand and anticipate the customers' needs and expectations and how they are expected to change over time |
| ✚ Design products/services that satisfy customers' needs/expectations |
| ✚ Create a delivery system to adequately support the service proposition |
| ✚ Motivate employees to deliver quality service |
| ✚ Identify ways to positively influence customer behavior during the service encounter |
| ✚ Identify ways to shape customers' expectations in line with the service proposition |

Satisfaction Guarantees Lead to Superior Quality Service

Over the last couple of years, several service companies started to offer guarantees to their customers. While some of these guarantee programs failed to produce significant results (e.g. Lufthansa, Domino’s, Bank of America), others proved to be extremely successful (e.g. Hampton Inn, L.L.Bean, Delta Dental, Xerox, Saturn). The reasons that explain the success or failure are often related to:

- The design of the guarantee. Does it have the characteristics that make it an effective guarantee: unconditional, comprehensive, explicit, meaningful to customers and employees, easy to understand, easy to invoke and to collect.

- The external credibility of the guarantee, i.e. the perception of customers on the level of commitment to customer satisfaction that is reflected in the

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* See Chapter 3 for more details on Satisfaction Guarantees
guarantee. If the guarantee lacks credibility with customers, it will fail as a marketing tool, and will fail as a way to give back to the customer the sense of control over the service transaction.

- The internal credibility of the guarantee, i.e. the perception of employees on how realistic the guarantee statement is and on how committed top management is to improve the company's level of quality. If the guarantee lacks credibility with employees, it will fail to leverage employees' commitment to deliver quality service. The role of top management is critical to make sure that internal credibility of the guarantee is high.

Guarantees vary considerably according to the level of commitment to customer satisfaction that is reflected in the guarantee statement. The companies that have obtained the most benefits from their guarantee programs were the ones that showed a strong commitment to customer satisfaction and really meant it. They offer a guarantee that the customer will be totally satisfied with the service provided, and if not they can reclaim their money back, and no questions will be asked. They are offering a true unconditional satisfaction guarantee.

My hypothesis is that a carefully designed satisfaction guarantee program that is created not only as a marketing tool but as a strong symbol of commitment to customer satisfaction leads the company to a high level of service quality. It provides management and employees with a clear focus as to what the objectives and priorities of the company are, and therefore enhances their actions. The following sections of this chapter are dedicated to explore in further details how a satisfaction guarantee program enhances the level of quality of the company.
Satisfaction Guarantees Symbolize the Search for Quality

Facts are interpreted by human beings according to their set of norms and values, with a strong influence on their attitudes and reactions toward such facts. In the case of a company, not only the personal but also the norms and values of the company are of relevance. For example, consider a situation where a customer is requesting service in a slightly different way than what is specified (e.g. a hotel guest wants the bed to be prepared in a different hour, a restaurant customer wants a dish prepared differently than what the menu says). Such requests can be interpreted by the customer contact employees as a disturbance to the efficiency and productivity levels that are supposed to be achieved, and therefore trigger a negative reaction towards the customer's request, or as an opportunity to respond to the customer's request, and therefore deliver service that has the potential to positively surprise the customer. In this example, the way in which the employee interprets and reacts to the fact (i.e. the customer's request) makes the difference between customer dissatisfaction and customer delight.

Given the strong emphasis given to the quality issue over the last decade, it should now be common knowledge between managers that the long term success of any service company is dependent on the level of customer satisfaction with the delivered service. However, in many companies, managers still interpret quality as programs dedicated to the improvement of standards that turn out to be company oriented, forgetting the most important aspect: the customers' perspective. Under these circumstances, quality programs deviate from their original purpose, i.e. to achieve customer satisfaction. When starting a journey for quality, one of the first and perhaps the most challenging tasks is to create in the employees a mentality and an attitude
towards quality (i.e. to shape their norms and values such that they frame facts and take decisions based on a customers’ perspective). It is only when the employees are conscious of the quality agenda and committed to be part of this journey that the company will be able to aspire for any significant results.

The implementation of a satisfaction guarantee program is perhaps the strongest and most compelling tool to symbolize the company’s commitment to customer satisfaction. A satisfaction guarantee program rescues the issue of customer satisfaction as the main driver of any quality program, and transforms it into an issue to be addressed right now, creating a sense of urgency in the search for quality. It becomes also clear that the failure to achieve customer satisfaction has severe financial impact on the company, through the increase in the volume of pay outs. Furthermore, the guarantee pay out, which is an integral part of any service guarantee program, can be used as a clear and tangible measure of satisfaction quality, that directly reflects the level of service quality of the company from a customers’ standpoint.

Take the example of Delta Dental Plan’s satisfaction guarantee. According to T. Raffio, the champion of Delta’s satisfaction guarantee program, it has enabled Delta to:

1. Define and focus on customer needs

2. Understand the service delivery process

3. Establish key customer satisfaction performance indicators

4. Concentrate resources on providing the promised levels of service

5. Make service failures costly in a tangible sense

6. Create a sense of positive urgency toward the goal of satisfying the customer
All items above are directly related to customer satisfaction. Items 1 and 2 show the positive effect of Delta’s service guarantee program on the commitment to better understand the customers’ needs and improve the service proposition according to that. Item 4 shows the effect of the guarantee program on the commitment to actually deliver service according to what has been designed and promised. Items 3 and 5 show the effect of the guarantee program on the adoption of quality measures that are based on customers’ standards rather than on company’s standards. Finally and more generally, item 6 shows the effect of the guarantee program in the change of attitude of all Delta’s employees towards customer satisfaction.

The next sections are dedicated to explore in further details the impact of service guarantees on each of the “Critical Tasks to Achieve Customer Satisfaction”, shown in Table 4.

**Improving the Understanding of Customers’ Needs and Expectations**

Knowing what customers expect is the first step in delivering quality service. The alternative may mean losing a customer when a competitor hits the target exactly, or it may also mean spending time and money into projects that when implemented, are not as meaningful to customers as originally thought.

According to the gap model of quality, if there is a difference between what customers expect and what management of the company perceives they expect, gap 1 is created. The main reasons why managers have a misunderstanding of customers’ needs are:

- managers are not fully aware of the need to understand customers’ needs.
- managers feel they “already know” what it is that customers really need, feeling it is unnecessary to spend further time and effort to go ask customers what their needs
are. Even if it is true that managers know what customers want at a certain point in time, customers’ needs and expectations are dynamically changing and evolving over time. Therefore, the effort to assess customers’ needs and expectations must be continuous.

- managers fail to make adequate use of the available tools to assess customers’ needs, such as market research, interaction with customers, interaction with customer contact employees, etc.

The implementation of a satisfaction guarantee makes clear the importance of the customers’ perspective. It creates the awareness that understanding customers’ needs is a critical task for the success of the company, and therefore managers feel compelled to review their attitudes towards understanding customers. Questions such as “Did we ask the customers about this idea?” or “What do the customers think?” will become more common in the company, replacing comments such as “I already know what the customers want!” or “These market research reports are useless!”. Managers are therefore willing to make more extensive use of the tools to understand the customer and to participate more actively in the development of such tools.

**Market Research:**

The involvement of managers in the market research process is likely to increase. This stronger involvement leads to market research of better quality (i.e. more tuned to what managers really need to know about their customers) and to a more extensive use of its results in making decisions.
Interaction with Customers:

In addition to the formal market research mechanisms, managers feel more inclined to increase the level of interaction with customers, in order to have a more in-depth notion of the customers and how they react to the services provided by the company. By the identification of “lead users”\(^{39}\), managers are able to understand how customers’ needs and expectations are changing and anticipate the impact of such changes in the products/services of the company. Interaction with customers can also reveal potential problem areas not yet reflected in the formal market research reports.

Universal Card Services, AT&T’s Credit Card Business, in an example of a company that strongly emphasizes the need for the interaction of managers with customers. It is part of UCS' managers duties to periodically listen and/or actively interact with customers that call to service centers.

Interaction with Customer Contact Employees:

Although it is known that customer contact employees do not have a complete perspective of customers’ needs as managers do, essentially because their knowledge of the customer is restricted to the moment of the service encounter\(^{40}\), they are a valuable source of suggestions for improvement in the service provided. As they interact with a diversity of customers, with different degrees of expectations, they may contribute to detect trends in customer’s needs, or to detect new features in competitors’ services. Research suggests that customer contact employees can accurately predict customer expectations of the services\(^{41}\). With a satisfaction guarantee in place, managers feel more inclined to maintain more intense contact with customer contact employees, trying to create both informal and formal channels of
communication. The customer contact employees, also under the influence of the strong and symbolic message of commitment to customer satisfaction delivered by the satisfaction guarantee program, feel that there will be an echo to their suggestions and opinions, and therefore are more motivated to express them.

**Complaint Management to Improve Understanding of Customers’ Needs:**

Even though listening to complaints is not sufficient to thoroughly understand customers’ expectations, complaints play a major role in the larger effort of staying in touch with customers. They can be used as an inexpensive and continuous source of information about the failures or breakdowns in the service system, and to create suggestions on how to improve the service design. Complaints offer the companies the opportunity to improve the understanding of customer needs and how those needs change over time.

However, only a very small percentage of dissatisfied customers of service companies actually complain to the companies. Some studies show that this number is close to 4% of the dissatisfied customers. The other 96% of the customers with problems remain dissatisfied, telling an average of nine to ten other people of their dissatisfaction. Services are intangible by nature, and that makes it even more difficult for customers to complain when they have a problem. If a tangible good fails to perform, this can be readily and explicitly shown to the supplier, making it easy to complain about goods. In services, sometimes complaints are about tangible aspects of the service, and then it is easy to complain, but most of the time dissatisfaction is about intangible aspects such as the behavior of a server, the taste of a food, etc. Customers do not feel certain that there will be adequate response from the company when complaining about intangible aspects.
Some of the critical issues in a customer complaint management system are:

- to have the customer actually complain when not satisfied with the service
- to make sure that the customer's complaint is actually fed back into the company's
  learning process to avoid similar mistakes in the future, creating a continuous
  improvement process.

Satisfaction guarantee programs have a particularly strong impact on customer
complaint management, because dissatisfied customers now have a larger propensity
to complain, stimulated by the guarantee pay out. Once the complaint has been made,
more attention is given to the customer complaints as a tool to learn from this
experience and avoid similar mistakes in the future (e.g. Hampton Inn feeds customer
complaints by computer to the operations center, where improvements can be made
and suggested to all units). Figure 12 shows schematically the effects of a well
designed guarantee program on a customer complaint system.
Figure 12: Effect of Satisfaction Guarantee Programs on Customer Complaint Management, to Improve Understanding of Customers' Needs

A careful design of the guarantee's characteristics is critical to the success in leveraging customers' propensity to complain. According to the design of the guarantee, the dissatisfied customer may or may not feel inclined to contact the company and make a complaint. For example, if the guarantee is difficult to understand, if it is not clear enough about how to proceed to make a complaint, if the pay out is not meaningful to the customer, or difficult to invoke, the customer may as well decide not to make the complaint, even when entitled to a pay out.

In addition to contributing to a better understanding of customers' needs, effective complaint resolution is also critical to improve the level of customer retention. With a

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\[d\] The section "Satisfaction Guarantees Help Increase Customer Retention" gives an overview of the value of a customer over the years, and how satisfaction guarantees help increase customer retention.
satisfaction guarantee program, dissatisfied customers feel more inclined to complain because they are entitled to a pay out. This gives the company an opportunity to make up for the original problem created to the customer. Showing genuine commitment to quickly and effectively solve the problem will have a positive impact on the customer perception, and increase the likelihood of retention of this customer.

**Setting Customer Relevant Standards for Services**

Once managers get to understand the expectations of their customers, they should be able to use this knowledge as an input to define the standards in:

- new products/services
- new features for the existing products/services, and
- the service delivery system

In many cases however, even when knowledgeable, managers fail to create service standards to meet customers' needs. If this is the case, even if the service delivery occurs exactly according to the defined standards (which in itself is another challenge to service firms), there will be a gap between customers' expectations and perceptions of the service.

The main reasons for the gap between management's knowledge of customers' needs and the standards they set for the service are:

- The lack of management commitment to customer satisfaction. Many managers believe they are committed to quality, but their notion of quality is related to internal measures of productivity and adherence to standards that are relevant to the company, and not necessarily to the customer. Managers should change this
notion, and become committed to quality as an issue of achieving customer satisfaction.

- The perception that projects to enhance customer satisfaction have low priority in the company. In many companies, projects dedicated to improve short term efficiency and productivity have a higher priority than projects to increase quality, stimulating managers to focus their efforts into this kind of projects instead of projects to enhance customer satisfaction.

As mentioned before, a satisfaction guarantee program is a strong symbolic commitment, whereby top management makes it clear to all employees that customer satisfaction has become a top priority for the company. Middle managers, who are the ones actually responsible to set the standards of quality for their working units, will interpret a satisfaction guarantee program as a much more serious commitment than the usual statements of commitment to customer satisfaction. They will realize that top management will look with different eyes into efforts to improve customer satisfaction.

The satisfaction guarantee program will influence:

**The Way Product/Service Concepts and Service Delivery Systems are Designed**

With a satisfaction guarantee program, managers are motivated to pursue initiatives to improve quality in all aspects* of the product/service concept and of the service delivery system. Their decisions will be influenced by the impact of the decision customer satisfaction, and not based exclusively on financial and/or operational standards.

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* The aspects of the product/service concept and the service delivery system include:
  ⇒ The amount of value added to the customer provided by the design the core product and the complementary services
  ⇒ The environment for the service encounter
  ⇒ How effective the processes and technologies are, from the point of view of the customer
  ⇒ How well managed is the issue of supply and demand for services
  ⇒ etc.
The Adoption of Customer Oriented Measures of Quality

Service companies, in their quest for quality, are starting to build strong commitment to customer satisfaction. Quality, however, doesn’t improve unless there are concrete and objective measures to see whether the company is improving its quality levels. But how should service quality be measured?

If we define quality in services as meeting or exceeding customers’ expectations in a consistent way, the only arbiter of the delivered quality is the customer, and it is from his/her standpoint that the company should measure quality. Customers’ expectations should be translated into clear and measurable standards for service, that bring a customer focus into the employee’s day-to-day reality of service delivery. They must be clear and meaningful to the employees that will have to pursue them. They also must be easily measurable in order to provide continuous feedback into the organization. As customers’ expectations evolve over time, it is important to continuously monitor this evolution and align the standards accordingly.

However, if customer oriented measures of quality is the way to go, how do we obtain consistent customer feedback if it is a known fact that very few dissatisfied customers come to the company to express their dissatisfaction explicitly? In fact, most dissatisfied customers simply stop to purchase the service from that company and are silently lost to competitors or substitutes. With a satisfaction guarantee program, dissatisfied customers’ propensity to complain increases because of the guarantee pay outs, boosting the level of customer feedback to the company.

With a satisfaction guarantee program, there is a higher motivation for managers to adopt performance goals that are based on customer standards rather than on company standards. AT&T’s Credit Card business, Universal Card Services (UCS), is
probably one of the best examples where the creation and persistent measurement of service standards, that accurately reflect what is really meaningful to the customer, has led to outstanding quality levels.

The guarantee pay out level is in itself a customer oriented measure, that could be used by the company as an effective measure of quality. It is a tangible measure, totally customer oriented and easily understood by the employees. When using the level of guarantee pay outs as a quality measure, however, the company has to make sure that employees will not feel motivated to create obstacles to customers that are invoking their guarantees. As mentioned in chapter 3, guarantees that are difficult to invoke fail to deliver the desired results to the company. If the customer is already dissatisfied with the service, and for some reason it becomes hard to invoke the guarantee and collect the pay out, this will reinforce dissatisfaction with the service provider instead of providing for an opportunity to retain that unhappy customer.

The Notion of Feasibility of Projects Dedicated to Enhance Customer Satisfaction

Managers are frequently aware of quality problems in their companies, but do not address it properly because it is their belief that increasing quality increases costs.

What is not taken into account is that low quality service increases likelihood of losing customers, and with it all the expected revenues during the customer’s lifetime. The cost of forgone customers\textsuperscript{1} is not always clearly understood by managers, while the cost of a project to increase quality is a concrete budget line item. Therefore, projects to enhance customer satisfaction have a hard time competing with other projects for the company’s (limited) resources.

\textsuperscript{1} The section “Satisfaction Guarantees Help Increase Customer Retention” gives an overview of the cost of forgone customers, measured in terms of the customer lifetime value
The whole notion of project prioritization and project feasibility changes with the implementation of a satisfaction guarantee program. As a consequence of the guarantee program, quality from the customer standpoint becomes an important company goal and projects dedicated to achieve customer satisfaction are likely to obtain a higher priority when competing with other projects in the budgeting process. Take the example of the Chicago unit of Marriot Hotels Corp. Management of the hotel had a line in the budget, of $22,000, to replace TV sets in the bathrooms of concierge-level guest rooms. However, when analyzing the history of complaints from guests in these rooms, management noticed that there were no complaints about the quality of the TV sets, while two thirds of all comments from those guests to housekeeping were to request iron boards. Management decided to use the same budget to purchase irons and iron boards. This decision, apart from meeting customers' expectations, increased productivity of the housekeeping, and created a new feature for the rooms. All that without increasing the unit's total budget.

Acknowledging the Importance of the Customer Contact Function

Given that the company has a good product/service concept and a well designed service delivery system, customer satisfaction is now dependent on a successful interaction between the customer and the customer contact employee during the service encounter. It is therefore critical to have the right people in the customer contact positions, motivated and trained to perform according to customers' expectations. Also, the company must search for ways to positively influence the customer's behavior. This section analyses the impact of satisfaction guarantees on the customer contact function while the next section analyses the impact of satisfaction guarantees on customers' behavior.
Although the importance of skilled and motivated customer contact employees should be common knowledge among managers of service companies, evidence on how this issue is managed in most companies shows the opposite. Most service companies are characterized by high turnover, low morale and lack of skilled and trained people in the customer contact positions. High turnover and less skilled workforce are considered by managers of most companies as some sort of fate that they have to live with.

Traditional management response to this scenario tends to exacerbate the problem. The service delivery system is designed to minimize the role of the customer contact person, making the service delivery system less dependent on them (usually with extensive use of technology). Managers believe that the simplification of the customer contact job will minimize the expensive tasks of selection, training and commitment building of customer contact employees. What they forget, however, is that when starting to work in their jobs, these employees will find themselves in an environment (peers, supervisors) of low commitment to job satisfaction. The motivation they had, if any, will be reduced, inducing lower customer satisfaction, and the company will lock itself in what Schlesinger and Heskett call the "self perpetuating cycle of failure".

With the implementation of a satisfaction guarantee program, managers become aware of the fact that all other efforts to improve customer satisfaction are in vain if customer contact employees are not committed and motivated. The satisfaction guarantee stimulates managers to totally reassess the customer contact function. It increases their incentive to reevaluate the design of these jobs, to identify the right people to occupy these jobs and to provide them with the adequate environment for work.

The importance of the customer contact function is rescued, to break the "cycle of failure". Customer contact employees, recognizing the efforts to create a working
environment to achieve customer satisfaction, will feel motivated to perform according to what is expected from them. There will be less role ambiguity, because the implementation of a satisfaction guarantee program is in itself a message to the employees that the company's priority is to achieve customer satisfaction.

There will also be less role conflict between what the customer expects and what management expects from the customer contact employees, because management is stimulated to focus the performance evaluation and rewarding schemes of customer contact employees on issues related to customer satisfaction.

Motivated employees, working in an environment that is designed to achieve job satisfaction, are less likely to leave the company, reducing the turnover on these positions. Before implementing the satisfaction guarantee program, turnover was high in Hampton Inn Hotels, a normal phenomenon in the hotel industry and in several other service industries. With the implementation of the satisfaction guarantee program, Hampton Inn decided to guarantee the guest a satisfying stay, and would empower all employees that have contact with customers to fulfill that guarantee. As a consequence, the job description of the customer contact employees was redesigned. The new focus was on giving the employees the authority to pursue customer satisfaction and assure them that the management would stand behind their decisions 100% (no second guessing of the employees' decisions). As a consequence, employee satisfaction and motivation increased, leading to increased customer satisfaction.

Training was also changed. Hampton Inn figured out that it would be humanly impossible to create a rule book that describes all the possible situations a customer contact employee might face given his/her new mission to pursue customer satisfaction. Instead, training focused on motivating employees to look at their work in a
different way. For example, their jobs would not any more be restricted to making beds or cleaning the carpet, but would be to make the customer happy. Again, this approach has the strong effect on employees to increase their motivation and satisfaction with their jobs. Hampton Inn has now a lower than average turnover rate in the Hotel industry.

Saturn, a division of General Motors, has always had a strong commitment to their customers, through employees and dealers. Similarly to Hampton Inn, the employees and dealers are always expected to do whatever possible in order to satisfy a customer's needs. There are no second guesses to the employee's initiative to serve a customer. The money-back guarantee had the effect to reinforce commitment of the employees, as it made clear to them that the management of the company really meant it when they said that they were customer driven.

**Positively Influencing the Customers' Behavior**

Satisfaction guarantee programs do not only influence the behavior of the customer contact employee, but also the behavior of the customer. As the guarantee gives back to the customer total control over the transaction, it reduces the risk of a struggle for control over the service transaction. Moreover, a consistent delivery of high quality service positively influences the behavior of the customer. Finally, the satisfaction guarantee is an explicit and unquestionable commitment to customer satisfaction, which shows respect to the customer and reduces customer uncertainty.

**Reducing the struggle for power**

Customers are aware of their power as paying clients and are willing to defend it should they feel challenged. The customer, when faced with a situation of uncertainty whether
the sources of power are challenged, may start a struggle for control. Unless there are other mechanisms in the design of the service that prevent it from happening, after authorizing the service and paying for it, the customer loses this source of power.

A satisfaction guarantee program gives back to the customer total control over the transaction. And what is better, control was automatically given to the customer as an intrinsic part of the satisfaction guarantee, and he doesn’t need to eventually fight for it. The mere fact that the customer feels in control positively influences the behavior during the service encounter, with a positive impact on the quality of the interaction with the customer contact employee.

However, a guarantee will fail to have a positive impact on the customer behavior, if the latter:

- does not understand the guarantee
- thinks the guarantee is not meaningful or that it is full of conditions
- perceives the guarantee as difficult to invoke and to collect the pay out

Guarantee statements that create uncertainties such as the ones described above fail to effectively transmit to the customer a feeling of regained control. Instead, they create uncertainty about the amount of hassle to collect the pay out. Therefore the importance of a careful design, taking into account all the characteristics that make a guarantee effective: unconditional, easy to understand, meaningful, easy to invoke and easy to collect (e.g. satisfaction guaranteed, no questions asked).

Delta Dental goes a step further in order to make the customer feel in total control over the service transaction. For each of the seven items of its guarantee, there is a clearly defined refund policy, that is paid to the customer by Delta’s own initiative when they
recognize the service was not delivered according to the promised level of service. It is not necessary that the customer make a complaint to receive the pay out. This "self triggered" guarantee pay out evidences Delta Dental's attempt to increase customers' confidence and trust in their services, establishing a positive setup for the service encounter.

**Consistent Delivery of Quality Service Influences Customer Behavior**

The customer behavior towards a company where service has been consistently delivered at high levels of quality is likely to be better than the behavior towards a company where the customer has experienced some sort of problem (such as lack of respect from the salesman or long lines to wait for service) and the problem was not satisfactorily resolved.

As a satisfaction guarantee program motivates the company to consistently deliver high quality service, customers are more likely to adopt a positive behavior in the subsequent times they come in, creating a self-reinforcing cycle that improves the overall quality of the service encounter. Moreover, as a satisfaction guarantee program stimulates the customer to complain when there is a problem, this gives an additional opportunity to solve the problem and compensate for the inconvenience caused.

**Explicitly Showing Commitment to the Customer**

The guarantee statement shows an explicit and unquestionable commitment from the company to deliver excellent service, and leverages the company's image as a service provider which stands behind its commitment to deliver quality services.

Strong commitments such as the one implicit in the guarantee statement are a demonstration of respect to the customer, and reduce customer uncertainty about the
service delivered by the company. Customer behavior is therefore likely to be positively influenced.

Helping to Shape the Customers’ Expectations

In the last sections we have concentrated on the elements that influence customers’ perceptions. However, in order to increase customer satisfaction, a company must attempt to influence both elements of the quality equation.

\[ \text{Satisfaction} = \text{Perceptions} - \text{Expectations} \]

In order to achieve quality, a company must succeed both in terms of shaping the customers’ expectations according to the service proposition and, while delivering the service, to meet or exceed the expectations created in the mind of the customer. For example, if a company delivers very good service, but advertises it as even better than it actually delivers, customers’ expectations when being serviced will not be met, and they will be dissatisfied.

When making explicit to the public, through the guarantee commitment, of what the service proposition is, the company is shaping the customer’s expectations as to what he/she might expect from the service delivery. Specific guarantees can be useful to convey a specific message to the public. One example is Domino’s 30-minute delivery guarantee, whereby the service proposition is immediately clear to the customer through the guarantee statement. One should be careful about specific guarantees, however, because they can become outdated and they do not necessarily help focus the company on achieving customer satisfaction.

Also, when a service guarantee is in place, the company has an additional motivation not to overpromise in its communications strategy to the public (advertising, public
relations and sales), creating expectations that will not be fulfilled in the service
encounter. Managers responsible for the communication strategy realize that
overpromising can lead to customers with higher expectations than what the company
can offer. These customers will not be satisfied with the service delivered, and
consequently there will be a larger amount of guarantee payouts. Overpromising may
facilitate the sales and advertising process, but has devastating effect on customer
satisfaction levels. In other words, a satisfaction guarantee program is an additional
stimulus to eliminate gap 4 in the gap model of quality, that describes the difference
between the actual service provided and what is promised to the customers through
communication mechanisms (advertising, merchandising, sales, etc.).

A further discussion can be found below, on how the different kinds of guarantees --
comprehensive and specific guarantees -- impact on customer’s expectations.

**Comprehensive Guarantees**

Comprehensive guarantees are those that guarantee customer satisfaction with all
aspects of the service provided, and not restricted only to parts of the service. These
guarantees are the most powerful kind, because they are of unquestionable strength in
their message of commitment to customer satisfaction, and have profound impact on
the customers’ behavior during the service encounter; and the commitment of the
company’s employees to provide quality service in order to meet customers’
expectations. Hampton Inn’s “100-Percent Satisfaction Guarantee” Program and L.L.
Bean’s “Satisfaction Guaranteed” Program are typical examples of comprehensive
guarantees, because they guarantee satisfaction in “every way”.

However, except for the fact that with a guarantee in place managers and salesmen
reduce their propensity to overpromise about what the customer is going to receive in
the service encounter, a comprehensive guarantee statement in itself has little or no
direct effect on shaping customers' expectations about what kind of service they will
receive from the company.

Statements such as Hampton Inn’s “100-Percent Satisfaction Guarantee” do not make
it clear to the customer of what he/she should expect from the service. Does it mean
that the hotel room will be the cleanest in town, does it mean that employees will be
friendly to you in order to create a positive experience, or does it mean that the
reservation and billing system will work superbly? Actually, in a comprehensive
guarantee, it means all that and even more, but the customer just doesn’t realize it
through the guarantee statement. Moreover, if the service provided by the company
has features that differentiate itself from competition, such features do not appear
explicitly in the guarantee statement.

Compared to specific guarantees, that ensure satisfaction with only part of the service,
comprehensive guarantees are much stronger, because they guarantee the service as
a whole, i.e. all aspects of the service being provided. Customers are assured that the
service will satisfy them in all dimensions and if not, they can trigger the guarantee.
However, comprehensive guarantees lack a component that helps shape customers’
expectations of what service they are supposed to expect.

**Specific Guarantees**

A specific guarantee has the effect of making a service proposition (or part of it) very
real to the customers, materializing the service provided, and helping to shape the
customers expectations about the service. It also can help a company position itself in
the marketplace. The 30-minute delivery guarantee, for example, was adopted as a
way for Domino’s to position itself early-on in the market of home delivery pizza. In
other words, the guarantee was a mechanism to show customers that Domino’s was “THE” home delivery pizza company, instead of just another take away pizza company that did home delivery as well.

However, there are some drawbacks of the specific guarantee, that must be understood before deciding to adopt them:

- In a specific guarantee, as time passes by, a feature that used to be perceived as a differentiating factor may not be so any more. Either because the same level of service is provided by the competition, or because technology has changed the nature of the service, or even for other more general reasons not directly related to the competition. For example, Domino’s promise of fast pizza delivery was initially perceived as an advantage, but later it was perceived negatively because of the safety issues associated with deliverers driving too fast in order to deliver in 30 minutes. Wells Fargo offered a specific guarantee, that customers would not wait in a teller line for more than 5 minutes. In times where telephone and ATMs are more and more the principal way to obtain banking services for certain market segments such as the urban and younger professionals, guaranteeing waiting time in a teller line may not be that meaningful to them any more. In other words, a specific guarantee may become outdated, and the company may not be aware of it in due time.

- Once the specific guarantee has been defined, it is assumed that the company will dedicate all its’ efforts to deliver according to what has been guaranteed, and will have no incentive, at least not through the specific guarantee, to focus on the customer’s evolving needs and expectations. If the customers requirements change, the specific guarantee does not help the company to be more sensible to
that. Domino's is a clear example of that. The 30-minute delivery was a strong commitment of Domino's, but somewhat failed to address other aspects of the service that were becoming of more importance to the customer, like the quality of the pizza and the quality of the service.

How to Best Shape Customers' Expectations

Comprehensive guarantee statements are strong and powerful indicators of commitment to quality, but lack a component that helps shape customers' expectations of what service they are supposed to expect. On the other hand, specific guarantees make a service proposition very real to the customers, helping to shape their expectations about the service. Therefore, perhaps the best way to shape customers' expectations is to provide a core satisfaction guarantee, surrounded with specific guarantees that shape the overall guarantee program and vary dynamically according to the competitive situation.

![Diagram: Core Satisfaction Guarantee and Specific Guarantees]

**Figure 13: Core Guarantee Shaped by Specific Guarantees**
The core satisfaction guarantee is a comprehensive guarantee, which is the foundation for excellent service. It does not need to change over time because there is no need to modify a commitment to customer satisfaction. The core satisfaction program is the strongest element of the guarantee, because it covers all dimensions of customer satisfaction and reflects the company’s total commitment to achieve it.

The specific guarantees that surround the core are used to shape the guarantee program. They may change in order to reflect modifications in the service design. Additional specific guarantees may be created, others may be updated (e.g. raise the bar of some characteristic), and those specific guarantees that reflect a feature that is not any more a tool for differentiation (competitors offer the same level of service and the feature is taken for granted by the customers) may be dropped.

L.L. Bean is an example of a comprehensive core guarantee, surrounded with specific commitments in terms of the products and services it delivers. L.L. Bean offers an unconditional comprehensive guarantee, that is strongly emphasized in its’ catalog, and shapes customers’ expectations by making a catalog that is very detailed with product information (product characteristics, available colors and sizes, etc.) and service information (methods of delivery -- fast, reliable, extra fast option, international delivery option; the toll free ordering number is shown more than 30 times in one single catalog the author examined, etc.). With this kind of catalog, L.L. Bean tries to make sure customers know everything they need to know about each and every product it sells and the service provided, and therefore the probability that their expectations will be met is much higher. It also has the flexibility to modify specific features of the service whenever necessary, without compromising the core satisfaction program. For instance, consider one of the features of the service: the promise of fast delivery, using
the partnership with FedEx. As FedEx's delivery improves and becomes faster, L.L. Bean's service automatically improves, maintaining competitiveness in that specific aspect. If FedEx for some reason ceases to deliver the products according to L.L. Bean's standards, they have the flexibility to find alternatives. L.L. Bean is a good example where the use of specific guarantees surrounding a core satisfaction guarantee creates a dynamic, evolving guarantee program, tuned to the competitive environment service companies operate in, while maintaining strong roots on the issue of customer satisfaction.
Core Guarantee

Our Guarantee
Our products are guaranteed to give 100% satisfaction in every way. Return anything purchased from us at any time if it proves otherwise. We will replace it, refund your purchase price or credit your credit card, as you wish. We do not want you to have anything from L.L. Bean that is not completely satisfactory.

Specific Commitments to “Shape” the Core Guarantee

Call 1-800-341-4341 for Customer Service
For information on your order status, repairs, exchanges or returns.

Reliable Tracking We track your order all the way from our door to yours, and can tell you when your order will arrive.

Figure 14: L.L. Bean’s Core Satisfaction Guarantee Surrounded by Specific Commitments
(Source: L.L. Bean’s Catalog – Christmas 1995)
Satisfaction Guarantees Help Increase Customer Retention

Carefully designed satisfaction guarantee programs, associated with effective complaint resolution mechanisms, lead to improved levels of customer retention.

With a satisfaction guarantee program, dissatisfied customers feel more inclined to complain because they are entitled to a pay out. This gives the company an opportunity to make up for the original problem created to the customer. If the company manages to solve the customer’s problem quickly and effectively, showing genuine commitment to the customer, there is a higher likelihood that the customer will have a positive impression of the company and will remain loyal. Higher levels of customer retention increase potential for growth in the company as less customers are lost to competition, and also increase customer profitability as the customer average lifetime value increases.

The Value of Retaining Customers

If companies knew how much it really costs to lose a customer, they would be more inclined to prioritize projects that increase customer loyalty. Unfortunately, most of today’s management information systems do not capture the value of a loyal customer. Most systems focus on current period costs and revenues and ignore expected cash flows over a customer’s lifetime.

If satisfied with the service, customers remain loyal to the company and generate increasingly more profits each year they stay with a company. Across a wide range of service businesses, the pattern is the same: the longer a company keeps the customer, the more profitable this customer becomes. Perhaps one of the most evident examples
is the credit card business. The profit generated by an average credit card customer over the years is shown in Figure 15.

![Credit Card Industry Profit over Time](image)

**Figure 15: Profit of a Credit Card Customer Over Time**  

In the first year, the costs of acquiring a customer entail advertising, promotions and the like. Once acquired, new customers use the card slowly at the beginning. As they become accustomed to the service and are satisfied with the service provided, customers use it more and the balances grow. Also, customers learn how to operate the service, and therefore operating costs decline over the customer’s lifetime.46

To analyze the impact of customer retention on the business profitability, I assumed three hypothetical credit card companies, A B and C, all with a stable number of 1 million customers (no growth in customer base), operating with the same profit / (loss)
levels over the customer lifetime as shown in Figure 15. The only difference between them is the defection rate, the rate at which customers quit the company, that varies from 25% per year (customer lifetime of 4 years) to 10% per year (customer lifetime of 10 years). Yearly profits of the companies are shown in Table 5. Profits can vary as much as 56% if customer defection rates are decreased from 25% to 10%.

Table 5: The Value of Customer Retention

<table>
<thead>
<tr>
<th>Company</th>
<th>defection rate</th>
<th>customer avg. lifetime</th>
<th>yearly profits</th>
<th>variation from basecase (A)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>25%</td>
<td>4 years</td>
<td>$28,500,000</td>
<td>0%</td>
</tr>
<tr>
<td>B</td>
<td>20%</td>
<td>5 years</td>
<td>$33,800,000</td>
<td>31%</td>
</tr>
<tr>
<td>C</td>
<td>10%</td>
<td>10 years</td>
<td>$44,400,000</td>
<td>56%</td>
</tr>
</tbody>
</table>

The example given in Table 5 considers companies A, B and C with a stable number of 1 million customers each. Now if each of those companies planned to grow its customer base at 10% per year, the cost of acquiring new customers for each of these companies would be:

Table 6: Customer Retention – Increased Growth Opportunities

<table>
<thead>
<tr>
<th>Company</th>
<th>defection rate</th>
<th>% growth per year</th>
<th>cost of acquiring new customers $ million</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>yr. 1</td>
</tr>
<tr>
<td>A</td>
<td>25%</td>
<td>10%</td>
<td>$17.85</td>
</tr>
<tr>
<td>B</td>
<td>20%</td>
<td>10%</td>
<td>$15.30</td>
</tr>
<tr>
<td>C</td>
<td>10%</td>
<td>10%</td>
<td>$10.20</td>
</tr>
</tbody>
</table>
Patterns like the one shown for the credit card industry, where profits increase with the increase in customer average lifetime, appear in many of the service industries, and are of special importance in those industries that depend on a high proportion of repeat sales (e.g. banking, catalog sales, etc.). Moreover, loyal customers, apart from being more profitable to companies, are also a source of free advertising, through word of mouth. Satisfied customers let their satisfaction show up while talking about the service with their friends and peers. The success of service companies is highly dependent on how effective they are in customer retention.

The Impact of Satisfaction Guarantees on Customer Retention

Retaining customers, however, is not a simple task. It means providing them with quality service in a consistent way, and upgrading the level of service as the customers' expectations change over time. Even in high quality companies, it may happen that customers experience problems during the service delivery. In these cases, the adequate handling of the customer complaints is critical to increase customer retention, as shown in Table 7.

Table 7: Customers' Intention to Repurchase After Experiencing a Problem
(Source: TARP Institute, 1986)

<table>
<thead>
<tr>
<th>Customers with problems</th>
<th>% Intending to Repurchase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Complained and problem was satisfactorily resolved</td>
<td>54%</td>
</tr>
<tr>
<td>Complained and problem was not satisfactorily resolved</td>
<td>19%</td>
</tr>
<tr>
<td>Did not complain</td>
<td>9.5%</td>
</tr>
</tbody>
</table>
The conclusions that can be drawn from the table are:

- Problems experienced by customers while receiving the service dramatically reduce the intention to repurchase. Therefore, improving the level of quality of the service is critical. The impact of satisfaction guarantees to improve the level of quality delivered by the company has already been discussed in the previous sections of this chapter.

- Once a problem is experienced by the customer, effective complaint resolution is critical to minimize the damage created. The intention to repurchase is higher when the complaint was satisfactorily resolved.

- If the company is committed to satisfactorily resolving customer problems, it is in its interest to encourage customers to complain, because that will give an overall positive effect on customer retention. This holds even if part of those complaints are not satisfactorily resolved\(^7\).

When a satisfaction guarantee program is in place, the unsatisfied customer’s willingness to complain increases, stimulated by the guarantee pay out. Once the complaint has been made, it is up to the company to solve the problem in a way that the customer feels satisfied, increasing the likelihood of retention of that customer. It is therefore not enough that dissatisfied customers complaint rate increases. The company has to show genuine commitment to solve the customer’s problem in a quick and effective way. Figure 16 shows schematically how satisfaction guarantees potentially improve the level of customer retention, in a company that has effective complaint resolution mechanisms.
Similarly to the case of complaint management to improve understanding of customers' needs, a careful design of the guarantee's characteristics is critical to the success in leveraging customers' propensity to complain. According to the design of the guarantee, the dissatisfied customer may or may not feel inclined to contact the company and make a complaint. For example, if the guarantee is difficult to understand, if it is not clear enough about how to proceed to make a complaint, if the pay out is not meaningful to the customer, or difficult to invoke, the customer may as well decide not to make the complaint, even when entitled to a pay out.

Hampton Inn's 100-Percent Satisfaction Guarantee Program has had a strong impact on customer retention. According to the company, 86% of the customers who actually invoked the guarantee mentioned that they would return to Hampton Inn, while 46%
already have returned. This clearly shows the strong effect the satisfaction guarantee program has on customer perception, increasing their loyalty to the hotel chain.

According to the company, the total guarantee pay outs were largely surpassed by the increased revenues.
5. Summary and Conclusions

The search for quality in services is not a recent one. In an industry where new ideas and concepts that might differentiate the company from its competitors are easy to copy and difficult to protect through patents, consistent quality service is one of the few ways in which a company can continuously differentiate itself from the competition, creating a sustainable source of competitive advantage.

However, quality in services cannot be handled in the same way as in manufacturing companies. Services have some characteristics, more specifically the intangibility, heterogeneity and simultaneity characteristics, that make the issue of quality in services different from manufactured goods. Moreover, quality in services has to be measured from the customer standpoint.

A service company must pursue consistent customer satisfaction to achieve a reputation of quality. The elements that influence customer satisfaction dynamically change over time. Customers' expectations about the service are in constant evolution, either because the needs change or because competition offers service at a higher level of quality. Therefore, the search for customer satisfaction is often compared to a journey, as opposed to a destination.

Although different and more challenging than in manufacturing, it is in management's hands whether the company is going to be successful in the journey for customer satisfaction or not. Managers are able to monitor and control all elements that influence customer satisfaction, and therefore quality is their responsibility. The quality journey is not an easy one. It is only when all employees are conscious of the quality agenda and
committed to be part of this journey that the company will be able to aspire for any significant results.

The key to the success of the company as a quality service provider is dependent on how effective management is to anticipate and respond to the changes in the environment, and how effective the management decisions are in influencing the key elements of customer perception and expectation. Their responsibilities in the search for customer satisfaction are to:

- Understand and anticipate the changes in the external environment
- Understand and anticipate the customers' needs and expectations and how they change over time
- Design products/services and delivery systems that satisfy customers' needs/expectations
- Motivate employees to deliver quality service
- Identify ways to positively influence customer behavior during the service encounter
- Identify ways to shape customers' expectations in line with the service proposition

The decision of a company to implement a satisfaction guarantee program is a very strong and compelling symbol of the company's commitment to customer satisfaction. It is an effective way to make clear to all employees of what the objectives and priorities of the company are, and therefore enhances their actions. A satisfaction guarantee program rescues the issue of customer satisfaction as the main driver of any quality
program, and transforms it into a short term issue, creating a sense of urgency in the
search for quality.

A satisfaction guarantee program leads the company to superior levels of service
quality, because:

- It improves the company's commitment to understand customers' needs and
  expectations, and to make better use of the tools available for that purpose (such
  as market research, stronger interaction with customers and customer contact
  employees). Satisfaction guarantees have a particularly strong impact on customer
  complaint management. Complaints are a valuable source of information on how
  the company is performing in the eyes of the customer, generating suggestions on
  how to improve the service quality, but only a very small percentage of dissatisfied
  customers actually complain to the company. With a satisfaction guarantee,
  dissatisfied customers have a larger propensity to complain because of the
  guarantee pay out, transforming customer complaint management into a very
  valuable tool for quality improvement suggestions.

- It transforms the way in which product/service concepts and service delivery
  systems are designed. Satisfaction guarantee programs make it clear to the
  company that customer satisfaction has become a top priority, changing the notion
  of feasibility of projects dedicated to enhance customer satisfaction. Moreover,
  satisfaction guarantees stimulate the adoption of customer oriented measures of
  quality, instead of internal measures of quality.

- It brings to light the importance of the customer contact function. Customer contact
  employees are responsible to convey the company's image of quality, and their
behavior strongly influences customer satisfaction. A satisfaction guarantee program highlights the importance of the customer contact functions, and stimulates managers to rethink the design of these jobs, identify the right people to occupy these jobs, and provide them with the adequate environment for work. Several examples of companies showed that, as a result of the satisfaction guarantee programs, customer contact functions were redesigned to increase employees’ empowerment and to reduce role ambiguity between demands from customers and demand from managers. Moreover, customer contact employees, when working in an environment that has been created to achieve customer satisfaction, feel motivated to perform better in their jobs.

- It positively influences the customer behavior. A satisfaction guarantee program automatically gives back to the customer total control over the transaction. The mere fact that the customer feels in control positively influences the behavior during the service encounter, improving the smoothness of the interaction with the customer contact employee. Moreover, the satisfaction guarantee is an explicit manifestation of respect and commitment to customer satisfaction. This again has a positive impact on customer behavior.

- It shapes customers’ expectations. When making the service proposition explicit to the public, through the guarantee commitment, the company is shaping the customer’s expectations of the service. Satisfaction guarantee programs are particularly effective in shaping expectations when the core satisfaction guarantee is surrounded by specific guarantees, that dynamically change to reflect the competitive situation and changes in customers’ needs.
It gives the company an additional opportunity to compensate for problems and inconveniences eventually caused to customers. Dissatisfied customers have more propensity to complain because of the guarantee pay out. This additional opportunity, if adequately managed, can revert the customer perception of the company, and lead to higher levels of customer retention.

For all the reasons stated above, satisfaction guarantees are a powerful tool to lead the company through its quality journey, maintaining high levels of commitment and motivation to customer satisfaction within the organization. However, not all satisfaction guarantee programs are successful. In order to provide all its potential benefits, a satisfaction guarantee program must be carefully designed. Most of the satisfaction guarantee programs that fail to achieve the desired results lack one or more of the characteristics that form a successful satisfaction guarantee program: unconditional, easy to understand, meaningful, easy to invoke and easy to collect.

Companies that choose the path of offering a carefully designed satisfaction guarantee to their customers will have made an important step in the journey for customer satisfaction, which is one of the few ways in which a service company can continuously differentiate itself from competition, creating a sustainable source of competitive advantage, and reducing customer turnover.
Appendix 1

Description of the Guarantee Programs of a Selected Group of Companies

List of companies analyzed:

- Xerox
- Delta Dental Plan
- Hampton Inn
- Bank of America
- Domino’s Pizza
- Pizza Hut
- Saturn
- L.L. Bean

The description of each of the companies’ guarantee program contains a description of the guarantee program itself, an assessment of the situation in the company before the implementation of the guarantee, the reason why the guarantee was adopted, and the effects of the guarantee in the company, both externally (perception of customers) and internally (improved quality, employee commitment, etc.). Finally, if relevant, there are some additional comments about the company’s guarantee program.

The analysis was not restricted to service companies only. Two of the examples are from manufacturing companies (Xerox and Saturn). They were included in the analysis because these companies are strongly committed to provide excellent service to their customers, before and after the purchase of the product they manufacture, and the satisfaction guarantee program is an integral part of this commitment.
Company: Xerox

Description of the Guarantee:

Xerox offers to its customers a guarantee that if the customers are not satisfied with the existing equipment, it will be replaced by others until the customer is satisfied, no questions asked. The customer is the sole arbiter. There is only one catch to it: the guarantee is only valid if the customer signs a service contract with Xerox.49

What was the situation before the implementation of the guarantee?

Xerox was, since the beginning of the 80's, strongly involved in a major customer satisfaction program. Quality in Xerox was defined as "meeting the customer's existing and latent requirements". Customer satisfaction was one of the three corporate priorities of Xerox in the 80's, and since 87 became the number one corporate priority. This program involved an extensive set of internal and external measures to manage and improve customer satisfaction. Before the satisfaction guarantee program was implemented, Xerox was already focusing on quality for approximately 10 years.

Why (for what reason) was the guarantee adopted?

The guarantee program was adopted because of a perception of Xerox management that its commitment to quality was not being fully perceived by the customers. They also expected that such a guarantee would lead the organization to even higher levels of performance and customer satisfaction.

The decision to adopt this kind of guarantee instead of a money-back guarantee was supported by an extensive research with customers. The research showed that the customer did not want a money-back guarantee. What they wanted was to have their
copying machines working to their fullest extent. Purchasers of copying machines wanted to feel that their purchase decision was the best one. According to their research, invoking a money-back guarantee would represent a failed purchase, while an unconditional replacement guarantee represents the best purchase decision. A Xerox spokesman says surveys show customers don't want their money back, and they don't want to get rid of the copier. What they want is a copier that works⁵¹.

Xerox considered starting the satisfaction guarantee program in 1987. However, they decided to postpone the implementation of the program until 1990, when Xerox was able to consistently perform and deliver on the levels offered by the guarantee⁵².

**What were the effects of the guarantee?**

**Externally:**

The initiative to offer a satisfaction guarantee was a major competitive advantage for Xerox, so much so that several other competitors in the copier industry adopted guarantees as well (e.g. Canon USA offers a Performance Guarantee Program, for some of its models, for 3 years or a specific number of copies. A temporary replacement is offered if the machine is removed for service⁵³). Xerox conveyed a message to the public that they trusted the quality of their products. The satisfaction guarantee is also a way to distinguish the product, and establish brand loyalty within its customers. The guarantee program was designed to reduce purchasing uncertainty and risk to a minimum (they guarantee that the copier will work).
Internally:

The satisfaction guarantee program reinforced the existing commitment of Xerox towards customer satisfaction, both from top management and the functional areas (sales, service and operations).

Comments:

Perception of Product x Perception of Service

A company that offers service guarantees has to focus not only on the quality of the service, but also on the quality of the underlying product that is being serviced. Therefore, the service guarantee also creates a motivation to pursue higher quality products.

\[ \text{Perception} = f(P_{\text{product}}, P_{\text{service}}) \]

The customer overall perception of quality is a function of the perception of the service he receives (P_service) and the perception of the product (P_product).

If the service is perceived as good, but the product is poorly performing (e.g. copy machine continuously fails, retail store selling underperforming products), the amount of servicing required to obtain satisfaction will be very high, incurring in high costs of service. In this case, improving quality of the service would not help the overall assessment of the customer.

On the other hand, if the product is good, but the service is perceived as bad (e.g. misinformed salesmen or unqualified/rude servicemen), overall satisfaction will be negatively influenced by the quality of the service even though the product is good.
To obtain overall customer satisfaction, a company that offers a satisfaction guarantee program must be positively regarded in both dimensions (product and service). Otherwise, the amount of pay outs will be intolerably high. Understanding the real causes of dissatisfaction of the customer becomes a priority.

The role of sales and customer service in customer satisfaction:

To achieve customer satisfaction we must shape customers expectations, clearly communicating the service proposition, and then deliver the service according to the proposition. Sales and customer service personnel have an important role in this process.

- **Role of sales:** Shape customer's expectations according to the service proposition. Overpromising may facilitate the sales process, but will certainly lead to an unsatisfied customer.

- **Role of customer service:** According to the service proposition, dedicate efforts to meet or exceed customer's expectations.
Company:  *Delta Dental Plan*

Description of the Guarantee:

Delta Dental is a health insurance company in Massachusetts that provides the

"Guarantee of Service Excellence", a seven-point program that commits itself to provide

a high level of service for all its customers.

It guarantees, among other things, a minimum of 10% savings every year, smooth

conversion from another insurance company to Delta Dental and a no-hassle customer

relation, whereby they commit to solve the customer's problem immediately or to give

feedback to the customer within one business day.

For each of the seven items, there is a clearly defined refund policy, that is paid to the

customer by Delta's own initiative when they recognize the service was not according to

promised service (it is not necessary that the customer asks for it). Additionally to the

seven items, Delta has created the so-called "mythical eighth guarantee", an implicit

guarantee that is triggered by Delta's employees whenever customers declare

themselves dissatisfied with the service, and there is evidence that the dissatisfaction

was caused by Delta's failure to perform the service adequately, even if the specific

reason for dissatisfaction is not covered by the seven points of the explicit guarantee.

It is a case of a very thorough service guarantee program, where several aspects of the

service are covered. Some of the services covered by the program are relevant to the

customer (company) directly and some are relevant to the customer's employee.
What was the situation before the implementation of the guarantee?

In 1986, Delta Dental separated from Blue Cross-Blue Shield of Massachusetts and became a stand-alone operating company, offering dental insurance plans to its subscribers. From the very beginning, Delta’s organization was based on 3 principles: 1. to be nonbureaucratic; 2. to be customer-driven; and 3. to involve employees. Active employee involvement was considered a critical part of the total quality management program. Delta’s commitment to quality and customer satisfaction started together with the creation of the company.

In March 1990, the “Guarantee of Service Excellence” was formally launched. The program has been judged a great success.

Why (for what reason) was the guarantee adopted?

The health insurance industry is a very competitive one, and Delta wanted to create a differentiation mechanism. As Delta moved deeper into its Total Quality Management program as the key for differentiation, it became increasingly obvious that the next logical step was to offer customers some sort of guarantee of service. By creating financial penalties in the event of service failure, Delta’s management wanted to provide an impetus to create breakthrough service. Management and employees would have to work together on solutions to problems that were leading to dissatisfaction.

The company also expected that the feedback from customers and the data obtained from analysis of service failures would lead to improvements that would eventually reduce the overall operating costs. Instead of an expense, the budgeted pay outs were regarded as an investment in Delta’s continuous improvement program.
What were the effects of the guarantee?

Externally:

In the health insurance business, the contracts are reviewed annually. Therefore, customer satisfaction is a critical issue to retain existing customers. On the other hand, low switching costs (financial or not) are critical to obtain new accounts. The smooth conversion guarantee was specifically designed to reduce switching costs of prospect customers.

The guarantee program has allowed Delta’s account retention rate to increase from 95% to 97.1% and to increase the number of sales leads by 50% and to increase revenues by 15% over plan.58

Internally:

T. Raffio argues that the guarantee program has enabled Delta to:

- Define and focus on customer needs
- Understand the service delivery process
- Establish key customer satisfaction performance indicators
- Concentrate resources on providing the promised levels of service
- Make service failures costly in a tangible sense
- Create a sense of positive urgency toward the goal of satisfying the customer
Employees are armed with a new awareness of past service failures, which helps them respond more appropriately in similar future circumstances. This illustrates clearly the benefits that can be obtained from a good use of customer feedback.

**Difficulties:**

The two departments that were the most resistant to the implementation of the program were the legal department and the marketing department. The legal department was concerned that the liabilities generated by the program would offset the market advantages, while the marketing department was resistant to the idea of tying most of the future advertising effort of the company to the guarantee program. However, once the decision was made to pursue with the program and the results started to appear, all departments became committed to it.

**Comments:**

The service guarantee program is a powerful tool to set new standards for quality, obtain employee motivation, both at the customer interface level and the management level. Delta Dental identified in the satisfaction guarantee a good tool to ensure continuity of its Total Quality Management Program.
Company: Hampton Inn

Description of the Guarantee:

Hampton Inn launched its “100-Percent Satisfaction Guarantee Program” in 1989.

According to the program, customers of the hotel chain did not have to pay if they were not satisfied with their stay. The decision to trigger the guarantee is completely up to the customer, and there are no conditions attached to the guarantee. It is easy to understand, easy to invoke and, as mentioned before, totally unconditional.

What was the situation before the implementation of the guarantee?

In 1989, Hampton Inn was considered by the specialized press the number one economy hotel system in the USA. It was a fast growing company, and the formula for their success (attention to every detail and motivation that comes from venturing into uncharted territory), applicable to a smaller company, would prove difficult for a company operating in more than 40 states in the USA and with more than 200 units in operation. Turnover was high and competition in the economy hotel segment was becoming stronger.

Why (for what reason) was the guarantee adopted?

Management started to devise employee retention and customer loyalty strategies, but soon realized that any centralized strategy would be of very complex implementation and doubtful effectiveness. The decision to create the 100-Percent Satisfaction Guarantee Program was a solution to this problem.
Hampton Inn would guarantee the guest a satisfying stay (satisfaction as a key to obtain loyalty), and would empower all employees that have contact with customers to fulfill that guarantee.

The guarantee program was adopted (along with all other components that support it) to allow for Hampton Inn to grow at a fast pace without losing quality.

What were the effects of the guarantee?

Externally:

A survey conducted by Hampton Inn in 1991 showed that 2% of its guests chose the hotel specifically because of its 100-Percent Satisfaction Guarantee Program. More importantly, 86% of the customers who actually invoked the guarantee mentioned that they would return to Hampton Inn, while 46% already have returned. This clearly shows the strong effect the satisfaction guarantee program has on customer perception, increasing their willingness to try the hotel if they were not yet customers and increasing their loyalty to the hotel chain. According to these numbers alone, the total pay outs were largely surpassed by the increased revenues.

In the case of this guarantee, the unsatisfied customer complains in the morning, during check out. Hampton Inn created a system whereby the complaints are sent by computer to the company’s headquarters, providing the operations staff with rich and fresh customer information that helps them to make changes nationwide.

Internally:

The 100-Percent Satisfaction Guarantee Program was supported by a complete redesign of the customer interface in Hampton Inn.
The job description of the customer contact employees was redesigned. The new focus was on giving the employees the authority to implement customer satisfaction, and assure them that the management would stand behind their decisions 100% (no second guessing of the employees decisions). As a consequence, employee satisfaction and motivation increased, resulting in increased customer satisfaction.

Training was also changed. It is humanly impossible to create a rule book that describes all the possible situations a customer contact employee may face. Instead, employees were asked to look at their work in a different way. Their jobs would not any more be restricted to e.g. making beds or cleaning the carpet, but would be to make the customer happy. Again, this approach had the strong effect on employees to increase their motivation and satisfaction with their jobs.

Hampton Inn has a lower than average turnover rate.

Comments:

Satisfaction guarantees stimulate companies to look at the customer interface in a different way. The role of the customer contact employee becomes of extreme relevance to the success of the company.

They focus on recruiting, training, and employee empowerment, as a way to increase customer satisfaction.

The customer feedback is an important component of any TQM program. The service guarantee is a way to stimulate the customer to complain and give feedback when he is not satisfied. It also increases the company's interest in listening to the customer, and therefore the customer complaints will be worked on much more intensively.
Company:  Bank of America

Description of the Guarantee:

Bank of America (San Francisco, California) introduced its "Service Guarantee" program on August 1, 1986. Designed to increase the bank's checking account market share, the program is a promise that Bank of America's personal checking account customers will be satisfied with the service they receive. If not, they can close their checking accounts and request a full refund of monthly checking service charges paid during the guarantee period.

What were the effects of the guarantee?

Externally:

This kind of guarantee is useful as a sales argument, to try to reduce the customer's uncertainty when choosing a bank to establish relationship with. But the drawback is the fact that the customer has to close the account when he declares himself unsatisfied.

The guarantee as posted forces the customer, already dissatisfied with the bank's service, to go through the hassle of changing banks to collect just a few dollars; the reward simply isn't worth it for most. Worst of all, if a claim is made, Bank of America loses business.

The creation of this condition probably reflects the fear in management that too many customers would cheat the Bank, by declaring themselves unsatisfied with the services just in order to avoid paying the service charges. It can also reflect the fear that
employees, in the impulse of creating stronger links with some of their customers, will declare them unsatisfied and refund their service charges.

We saw in the Hampton Inn analysis that customer retention was one of the biggest advantages of their guarantee program. Bank of America is not benefiting from customer loyalty with its guarantee program.

Internally:

It is questionable whether such a guarantee, whereby the customer has to close the account if he declares himself unsatisfied, creates much motivation in the employees.

Comments:

Customers want the level of service promised in the guarantee, not the reward that comes with service mistakes. Guaranteeing a significant service — and backing it with an appropriate penalty — creates business and helps retain it on those occasions, however rare, when problems arise.
Company:  Domino's Pizza

Description of the Guarantee:

The Domino's Pizza 30-minute delivery guarantee program guaranteed to the customer that ordered a Pizza that it would be delivered within 30 minutes, or the customer would receive a $3 discount on the price. Initially, the guarantee was designed to refund the total price of the pizza. The policy changed because the number of pay outs was too small. A research indicated that the customer did not invoke the guarantee even when the pizza arrived late, because he/she felt that the whole pizza for free was too much of a punishment for the delay. The $3 discount was a compromise solution, whereby the customer did not feel guilty to invoke the guarantee if the pizza was late.

It is a specific guarantee, where only one aspect of the service was covered. There was no guarantee to the other aspects of the customer satisfaction, e.g. if the taste of the pizza was not good, or if the delivery person was rude.

The guarantee was dropped late in 1993, 4 days after a St. Louis Jury awarded a $78 million in punitive damages to a woman who suffered injuries after she was hit by a Domino's driver that ran a red light and hit her car. There was a rising concern in the public that the 30-minute delivery guarantee program did induce Domino's drivers to adopt unsafe driving habits.

What was the situation before the implementation of the guarantee?

The 30-minute delivery guarantee program was part of the company's growth. It was adopted early on, and was one of the main reasons why Domino's grew so fast (Domino's is certainly not a leader in customer's perception of their food and service
quality). It helped their positioning in the market, and at the time it was a feature that was appreciated by the customers, probably because other delivery companies did take a long time to deliver their pizzas.

**Why (for what reason) was the guarantee adopted?**

The guarantee was adopted as a way for Domino's to position itself early-on in the marketplace. Domino's was one of the pioneers in this market (home delivery pizza), and the guarantee helped them establish this market beyond the concept of home delivery as just a side product of the more common take away pizza.

In other words, the guarantee was a mechanism to show customers that Domino's was "the" home delivery pizza company, instead of just another take away pizza company that did home delivery as well.

**What were the effects of the guarantee?**

**Externally:**

Initially, the 30-minute delivery guarantee program was Domino's most powerful marketing weapon. It was the way it positioned itself in the delivery pizza marketplace. Domino's chose this route because it believed the delivery time was a critical aspect of this service in the customer's point of view.

Later on, as the home delivery market developed and competition became stronger, delivery time ceased to be the only feature that was relevant to customers. The quality of the pizza and the quality of the service (order taking and delivery) also became relevant aspects in shaping the customers' perceptions. As Domino's guarantee was very specific (delivery time only), it failed to show to the public it stayed behind the quality of the food and overall customer satisfaction.
Besides, as mentioned above, the 30-minute delivery guarantee also created a notion in the public that Domino's driving habits might be influenced by the need to deliver in time, eventually disregarding safety aspects. No matter what Domino's did to show evidence against that impression, the impression would still be there.

Internally:

There is little evidence in the research I conducted showing what were the internal effects of the guarantee in Domino's. Further research will be necessary to explore this aspect.

Comments:

A specific guarantee has the effect of making a service proposition (or part of it) very real to the customers, materializing the service provided, and helping to shape the customers' expectations of the service. It also can help a company position itself in the marketplace.

There are some drawbacks of the specific guarantee, however:

- In a specific guarantee, as time passes by, a feature that used to be perceived as a differentiation may not be so any more. Either because the same level of service is provided by the competition, or because technology has changed the nature of the service, or even for other more general reasons not directly related to the competition (Domino's perception of the safety aspects is a good example of that). In other words, a specific guarantee may become old, even before the company realizes it.

- Once the specific guarantee has been defined, presumably according to the results of an extensive research of the market and customers' preferences, there is a
strong risk that the company will dedicate all its' efforts to deliver according to what has been guaranteed, and will lose the focus on the customer. If the customers requirements change, the company is not so sensible to that. The Domino's example is a clear example of that. The 30-minute delivery was pursued by Domino's and they were not able to address other aspects of the service that were becoming of even more importance to the customer.

- Once a company adopted a specific guarantee and used it as a strong positioning tool in the market, it gets locked into it, and it is very difficult (or at least very expensive) to reposition itself.
Company:  Pizza Hut

Description of the Guarantee:

In January 1995, Pizza Hut adopted a satisfaction guarantee that stipulates that customers who are not satisfied with the pizza can invoke the guarantee and receive a free pizza or a refund. Refunds are given in dine-in or carry-out units, or in the case of home delivery, customers can call an 800 Customer Satisfaction Hotline within 24 hours. The guarantee's logo is "your pizza is right or it's free - GUARANTEED".

It is an unconditional satisfaction program, as opposed to the Domino's 30-minute delivery guarantee program, which is specific. It holds for both the restaurant, take away and the delivery services.

What was the situation before the implementation of the guarantee?

In 1994, Pizza Hut was the industry leader, with an estimated 40% market share, but the company's operating profits were off 21% for the year, although the sales were up by 8%. The decline was mostly explained by the increased competition (not only from other pizza restaurants but also from other sorts of meals), and the discount wars that took place between the pizza chains in 1994.

Pizza Hut, like the other big players, seems to be moving away from the costly price and size wars, and moving toward quality and customer service. "We're concerned with elevating our customer performance and satisfaction levels," Mr. Romoser, spokesman of Pizza Hut said. "We're committed to getting it right the first time."
Why (for what reason) was the guarantee adopted?

The guarantee adopted by Pizza Hut was a way to reposition itself after a year of price wars against other pizza chains, as a provider of quality pizzas and as a company that is committed to customer satisfaction. "And our 800 callback number—'if it's not right it's free'—began this year as our product guarantee," Mr. Romoser added. "Anyone who knows PepsiCo knows that Pizza Hut is aggressive in marketing, and we're also committed to doing that in the future."67

The guarantee came as a consequence of Pizza Hut's shift in direction after the price wars, into commitment to customer satisfaction and quality of the pizzas.

What were the effects of the guarantee?

It is still early to analyze the effects of Pizza Hut's guarantee program. It is also a question mark whether Pizza Hut will be able to manage all their units and franchisees into this program. In an earlier attempt (1991) by Pizza Hut to guarantee timely delivery of home delivery pizzas, Pizza Hut offered coupons to customers when delivery was late. In an article of The Wall Street Journal of the time68, it was mentioned that in an Atlanta Pizza Hut Unit, for instance, an employee said the restaurant wasn't giving out coupons for late-arriving pizzas that week because it was running pizza specials. A Pizza Hut spokesman said, 'No, that's not so.'

Comments:

The guarantee program reflects a shift in strategic direction of Pizza Hut, out of the price wars against other pizza chains and into differentiation through a superior commitment to customer satisfaction.
The message that is conveyed in the guarantee statement is a very strong one, but it is somewhat concentrated on the quality of the product ("your pizza is right or it's free"), instead of focusing on the whole dining experience that Pizza Hut provides in their restaurants.
Company: Saturn

Description of the Guarantee:

Saturn buyers have 30 days or 1,500 miles to test their cars, and if they are not satisfied, they can return the car. They have a money-back guarantee, no questions asked.

What was the situation before the implementation of the guarantee?

Saturn is a GM subsidiary, created in 1985 as a response to Japanese companies dominance of the small car market. To do so, GM perceived that its' design, manufacturing and retailing practices had to be changed radically, and thus the decision to start Saturn as an independent subsidiary.

From the beginning, Saturn was very centered in their customers, employees and dealers, believing that this was the only way to obtain success in such a competitive market.

For example, workers' representatives participate actively in the decision making process of the company, and feel responsible for the success of the company together with the management of the company. Similar participation was expected and obtained from the dealers.

Initially, Saturn focused the sales process on the company instead of the car. In its first year, Saturn's advertisements centered on employees commitment and price. In the 2nd year, advertisements centered more on customers' experiences with their new cars and on the car retailers.
Why (for what reason) was the guarantee adopted?

To reassure potential buyers, Saturn decided to offer a money-back guarantee. It was confident about the guarantee, because it felt that the level of quality of the car was good and, most importantly, there was strong commitment of their dealers sales and service personnel. The strategy of Saturn was to provide the customers a different buying experience, where sales and service would envisage all possible efforts to have customers satisfied with their cars.

As part of the different buying experience, Saturn also created a no price-haggling policy, where there is no bargaining about the price of the car, a normal and to many customers rather annoying process that takes place in a car sale.

What were the effects of the guarantee?

Externally:

The money-back guarantee and the no price-haggling policy are two instruments that give the customers a complete sense of control over the transaction. They also work on reducing customer uncertainty about their choice in a market segment where the number of options is large and Saturn is a new car, not yet known by many of the customers.

The unusual and very aggressive money-back guarantee also gave Saturn favorable public relations in the press, that added to their marketing effort to obtain extra attention from consumers while introducing the new car.

The guarantee also attracted buyers that were not so legitimate, and that wanted a 30-day joy ride. The company believes however, that the advantages derived from the guarantee exceed the burden of illegitimate buyers.
Internally:

Saturn has a strong commitment to their customers, employees and dealers. The employees/dealers are always expected to do whatever possible in order to satisfy a customer's needs. There are no second guesses to the employee's initiative to serve a customer.

The money-back guarantee has a tendency to reinforce employee commitment, as it makes clear to them that management of the company really means it when they say that they are customer driven.

Comments:

A guarantee that removes the uncertainty of the customer ("what if this car is not the best buy?") and puts him back in control of the situation, is particularly helpful in situations where the customer decision involves a significant amount of money or when the product/service is unknown to the market.
Company: L.L. Bean

Description of the Guarantee:

L.L. Bean is a catalog sales company. Its guarantee promises the customer to replace any product that is not completely satisfactory to the customer, or refund the amount paid.

In the first page of the catalog it is stated:

"Our products are guaranteed to give 100% satisfaction in every way. Return anything purchased from us at any time if it proves otherwise. We will replace it, refund your purchase price or credit your credit card, as you wish. We do not want you to have anything from L.L. Bean that is not completely satisfactory".

It is an unconditional guarantee (100% satisfaction in every way), easy to understand, easy to invoke. The replacement is sent by Federal Express to the customer, to be as fast as possible.

A rather uncommon and aggressive aspect of this guarantee is that it holds for an unlimited time period (at any time).

What was the situation before the implementation of the guarantee?

L.L. Bean is known for the quality of the products it sells (it proudly features many "made in Maine" products), for the impeccable service it offers to the customers through the 800 lines, and the quality of the catalog itself, whereby it tries to make sure that the customers know everything they need to know about the products being sold.
As a consequence, it has earned awards from the American Catalog Silver Award in several categories\textsuperscript{70,71}. LL. Bean chose this path as a way to differentiate itself in the catalog industry.

**Why (for what reason) was the guarantee adopted?**

Catalog sales, although more convenient to the customer, have the drawback that the customer is not actually seeing the product he/she wants to buy. This creates an additional dose of uncertainty.

Unconditional satisfaction guarantees in the catalog sales industry play an important role in reducing the customer uncertainty, giving the customer back total control over the transaction.

In the case of LL. Bean, it also conveys a message of the company's commitment to quality, differentiating itself from competition.

**What were the effects of the guarantee?**

**Externally:**

L.L. Bean is widely recognized as a high quality catalog sales companies, not only by its customers but also through the several awards it has received.

The satisfaction guarantee also brings to light the issue of shaping the customers expectations (quality means exceeding customers expectations). As is L.L. Bean's custom, the catalog is fairly heavy with copy. L.L. Bean makes sure customers know everything they need to know about each and every product it sells\textsuperscript{72}. 

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Internally:

The guarantee is a reinforcement of the company's commitment to quality. According to Ettorre, B., unconditional guarantees must come as a culmination of a lengthy commitment to quality.\textsuperscript{73}

L.L. Bean has an explicit customer service policy, and dedicates a large effort to the training of the telephone operators. For example, when asked some unusual questions, for example, if the original of the painting on the Christmas catalog's cover could be bought and if the representative could tell a little about the company's history, the representatives answered with knowledge and professionalism.\textsuperscript{74}

Comments:

Isn't a life time guarantee an overkill? It does not seem necessary to offer the customer a lifetime satisfaction guarantee to convey an image of quality and to overcome his/her initial uncertainties about your product. L.L. Bean has chosen this path, and it seems it has not hurt them, as they are still offering the life time guarantee.
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