Chapter 13

Services: the intangible product
1. Describe how the marketing of services differs from the marketing of products.

2. Discuss how firms can provide a good service

3. Examine the five service quality dimensions

4. Explain the zone of tolerance

5. Identify service recovery strategies
**Service**: intangible offering that involves an effort and performance that cannot be physically possessed.
Most offerings lie somewhere in the middle
Offering a Service with Your Products
Factors differentiating services from goods

- Inseparable
- Intangible
- Heterogeneous
- Perishable
Intangible

• Requires using **cues** to aid customers
  – Furnishing quality

• **Atmosphere** is important to convey value
  – Show happy families

• **Images** are used to convey benefit of value
• Production and consumption are simultaneous (hotels, restaurants, delivery)

• Little opportunity to test a service before use (no returns!)
  – E.g., haircut

• Lower risk by offering guarantees or warranties
  – E.g., Choice Hotels
Heterogeneous
• Cannot be stored and reused!
• Service offering firms **challenges**:
  – Service cannot be recalled
  – Matching supply and demand
    • Ski area can be opened only if there is snow...but demand peaks during holidays
1. Services are **intangible**, **inseparable**, **variable**, and **perishable**.

2. Many of them are not pure service but a mix of both product and service.
How do firms can provide a good service? (Gaps model in the book)
• **KNOWLEDGE:** Firms need to understand customers’ expectations
  – E.g., when stay at the hotel I expect the room to be ready and clean when I check-in
  – Expectations vary depending on:
    • The service
    • The situation
• How do firms achieve this?

Marketing research
+
Evaluation of service quality
(difficult to measure!)
Evaluating service quality

• Through well-established metrics
  – Reliability
    • Ability to perform a service accurately
  – Responsiveness
    • Willingness to help customers/prompt service
  – Assurance
    • Employees ability, knowledge, trust, etc
  – Empathy
    • Care about your customers
  – Tangibles
    • Appearance of the firm’s physical facilities
• Range of acceptable outcomes
  – E.g., hotel room
  – Bed type
  – Bathroom
  – Breakfast
  – ...
• **STANDARDS**: Firms need to set standards
  – To do so they need to **train and monitor** employees
    • Incentives, awards
**DELIVERY**: Firms need to meet their standard expectations

- Empower employees (let them make decisions!)
- Technology
  - Supermarkets self-checkout
  - Nest thermostat in hotel rooms
- Support & incentives
• COMMUNICATION: Firms must deliver the product they describe and communicate!
  – If a hotel promises the lower rate in town, it should be true!
Some good service providers
Key concepts to deliver a good service

1. **Knowledge**: understand customers’ expectations
2. **Standards**: the service standards firms set.
3. **Delivery**: actual service firms provide to customers
4. **Communication**: firms deliver the service promoted
Service failure
• Customers **post-purchase** evaluation
  – Satisfied -> Loyalty
  – Unsatisfied -> Problem!
    • Firm fails to meet one (or all) of previous concepts: KNOWLEDGE, STANDARDS, DELIVERY, COMMUNICATION

• **Lost** potential repeated customer,
• **Bad** word of mouth (online and offline)
• The **profitability** of a firm is **damaged**
1. **Listen** to the customer
   - You need to know what is the problem to solve it!

2. **Provide a fair solution**
   - E.g., problem with hotel room -> change (and even upgrade) customer room

3. **Do it quickly!**
   - The longer it takes to resolve service failure the more irritated the customers
"A good recovery can turn angry, frustrated customers into loyal ones. It can, in fact, create more goodwill than if things had gone smoothly in the first place”

* A Managerial Perspective on Directions for Retail Customer Dissatisfaction Research
• A situation in which a customer satisfaction is higher after the firm has fixed a service problem, compared to the case in which failure did not happen.

• Why? Successful recovery of a faulty service leads to increased assurance and confidence among customers.
• Sometimes service is not satisfactory
  – Recover by:
    1. Listen
    2. Provide fair and
    3. quick solution
• Reviews and ratings (online word of mouth)
  – TripAdvisor, Amazon, Yelp, etc.
  – Shift control of firm image from firms to consumers!

• Good proxy of firm quality
  – Predict future earnings/revenue of a firm [Luca 2009, Mayzlin et al. 2006]

• Many firms use reviews to improve their service quality
  – Hotels read about complaints and fix them
WHO USES YELP?

- YELP USERS
  - ONLINE USERS

WHY DO PEOPLE USE YELP?

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

82% OF YELP USERS VISIT YELP BECAUSE THEY INTEND TO BUY A PRODUCT OR SERVICE

WHAT DO YELP USERS SEARCH FOR?

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

- RESTAURANTS (78%)
- BEAUTY AND SPA (68%)
- FOOD (68%)
- NIGHTLIFE (68%)
- HOME/LOCAL SERVICES (57%)
- PROFESSIONAL SERVICES (51%)
- SHOPPING (43%)
- NIGHT LIFE (43%)
- HOTELS AND TRAVEL (42%)
- AUTO (40%)
- ARTS AND ENTERTAINMENT (33%)
- HEALTH AND MEDICAL (32%)
- REAL ESTATE (30%)
- FINANCIAL SERVICES (29%)

HOW DO YELP USERS CHOOSE A LOCAL BUSINESS?

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

1. RATING
2. NUMBER OF REVIEWS
3. REVIEWS FROM FRIENDS OR FAMILY

DOES YELP LEAD TO LOCAL PURCHASES?

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

- ALWAYS (3%)
- FREQUENTLY (20%)
- OCCASIONALLY (52%)
- NEVER (28%)

WHEN DO YELP USERS BUY?

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

- WITHIN A MONTH (9%)
- WITHIN AN HOUR (7%)
- WITHIN A WEEK (15%)
- WITHIN A DAY (28%)
- WITHIN A FEW DAYS (39%)

METHODOLOGY

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

1) Online Rep Sample – Consisted of 1,000 responses weighted to represent the population of Internet users that search online for information on local businesses or services.

2) Yelp Sample – Consists of 409 responses from panelists previously identified as having visited Yelp, who also indicated in the survey having visited Yelp. In the following analysis, the “Yelp Visitors” segment consists of respondents from this group and respondents from the Online Rep Sample that indicated having visited Yelp (108 respondents). The total size of the Yelp sample was 515 respondents.
• However…
  – Reviews can be promotional (fake) [Mayzlin et al, 2014]
    • Firms post negative reviews for their competitor and positive review for their own
  – On Yelp 16% of reviews are filtered [Luca, Zervas 2016]
Fraudulent reviews often carry telltale signs, which are picked up by software and flagged for review by moderators. Some of the signs are illustrated in these Globe-created examples:

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

“Awesome Boston hotel!”

Reviewed Sept. 24, 2013

My wife and I stayed at this hotel in Boston and it couldn’t be beat! From check-in to check-out, the whole experience was second to none. Worth the price!

“Great hotel in Boston!”

Reviewed Sept. 24, 2013

While in Boston, my husband and I stayed at this hotel and it couldn’t be beat! Everything, from check-in to check-out, was second to none. Worth your money!

“Dirty and too small”

Reviewed Sept. 24, 2013

I’ve seen jail cells with better accommodations.

Other indicators

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

SOURCE: Globe staff research

ROBERT S. DAVIS/GLOBE STAFF
Fake reviews

• Everyone loose
  – Firms image and reputation is harmed
  – Consumers trust in review platform decreases

• What can we do about it?
How do firms manage their reputation (and thus quality perception) online?

- Non-ethical methods
  - Fake reviews (we just saw it)
  - Sue negative reviewers

- Ethical method (recently emerged)
  - Respond to reviews
“Terrible Hotel, do not stay here”
Reviewed July 25, 2016

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

More ▼

Review collected in partnership with Omni Hotels & Resorts

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

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

More ▼
• After hotel managers respond to reviews:
  – Star-rating increases (+0.1-stars)
    • Fewer negative reviews...
    • ...but longer!

  – Repeated customers
    • Returning to the same hotel after a bad experience if response -> + 36%
    • and reviews are over ½-star higher!

Service recovery
• Service failure generates negative externalities

• Now more than ever because of online word of mouth (reviews)

• Firms need to implement a service recovery strategy and be ready to execute it