

# *Customer Behavior in Service Environments*

## Understanding Technology Users— From Mouse Potatoes to Media Junkies

Delivering services through the Internet is an appealing strategy for many firms. However, not every prospective customer is enthusiastic about this concept.<sup>1</sup> As the consumer market for technology grows, companies selling products from cellular phones to Internet services are struggling to understand who their customers are and what motivates them to buy. The failure of some highly publicized high-tech goods and services, such as Kodak's PhotoCD and Web TV, has convinced many marketers that new approaches are needed to help us understand what makes technology users tick (or not tick, as the case may be). For instance, traditional consumer research may identify who bought a computer, but it won't specify which of four different household members use it and for what purposes.

Delivery of many information-based services depends not only upon customers having access to relevant equipment—such as computers, cell phones, and PDAs—but also on customers being willing and able to use it to access the services in question. Consequently, market researchers have been working to determine whether the purchase process is different for such goods and services and to examine how people actually use information technology in their home and work environments.

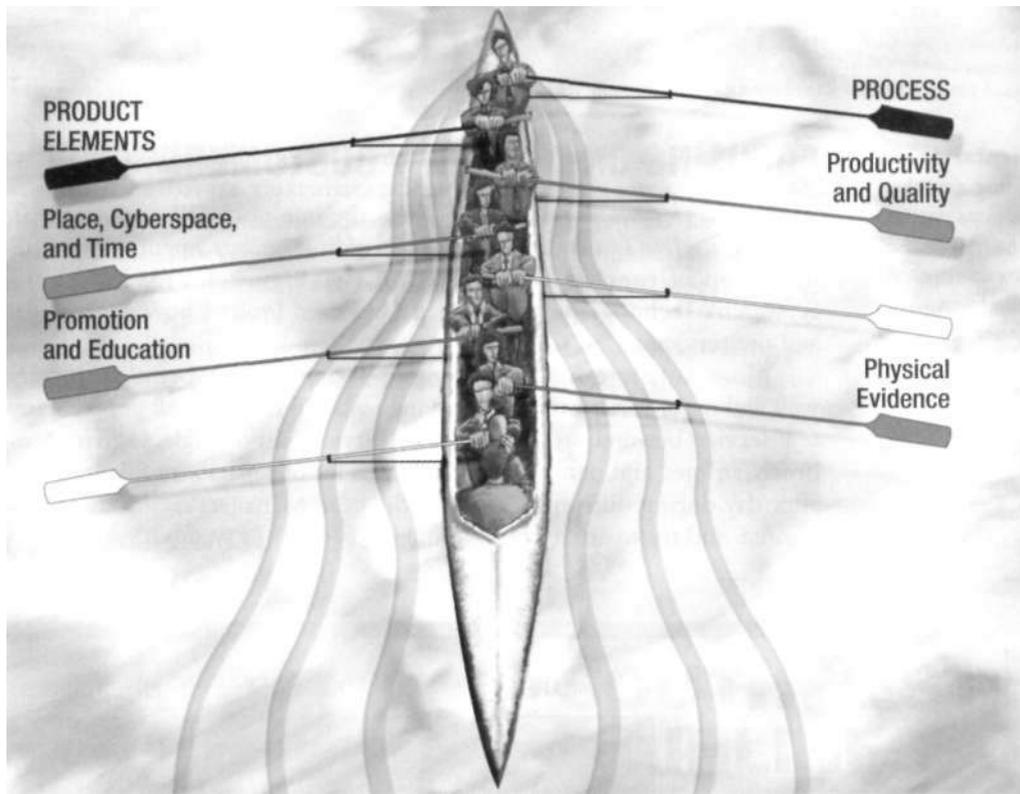
Forrester Research Inc., a technology consulting firm based in Cambridge, Massachusetts, has created a subscription research service called Technographics that processes continuous survey data from more than 375,000 online and off-line households in the United States, Canada, and Europe. Forrester asks consumers about their motivations, buying habits, and financial ability to buy technology-

related goods and services. Many big-name service providers, like Sprint, Visa, and Bank of America, are willing to pay handsomely to receive the results of these surveys. "Technology is not just changing the way consumers spend time," says Technographics client Gil Fuchsberg. "It's also changing the way nearly every company is making, selling, and delivering products."

To help companies identify the right target customers, Forrester has defined 10 "technographical" categories ranging from the tech-crazy "Fast Forwards" to the disinterested "Sidelined Citizens."

To get an idea of how this segmentation scheme works, consider the Williams family. Cindy, age 46, is an administrative secretary in Tulsa, Oklahoma. She and her husband Gary, 44, have one computer they bought three years ago. They don't use this computer much themselves and are not connected to the Internet (which makes them unable to access online services). Their sons, ages 11 and 12, would like an upgraded PC that is better for the computer-based games they love, but their parents have no plans to get one. Because of the Williams' status and income—two traditional segmentation variables—many researchers might identify them as promising technology buyers.

But Forrester maintains such a conclusion would be misleading because it fails to take into account the family's priorities as revealed through their behavior. The firm believes that any high-tech firm attempting to market sophisticated products to a family such as the Williams would be wasting its money. Technographics classifies the Williams as "Traditionalists"—family-oriented buyers who could afford



new technology-based products but are not convinced that they're worth buying. Why would the Williams be Traditionalists? The age of their computer (three years old is ancient by tech standards) and the lack of an Internet connection are two big clues. On the basis of this information, marketers of high-tech goods and services might decide to bypass the Williams in spite of their promising demographic profile.

## Learning Objectives

**After reading this chapter, you should be able to**

- =£> recall the principles of segmentation, particularly as they relate to customer behavior
- =£> describe the three different types of attributes that consumers use to evaluate products and how they relate to service offerings
- =^> discuss why service characteristics like intangibility and quality control problems affect consumer evaluation processes
- ^> describe the relationship between customer expectations and customer satisfaction
- =£> explain the purchase process for services
- =£> construct a simple flowchart showing a service process from the customers perspective

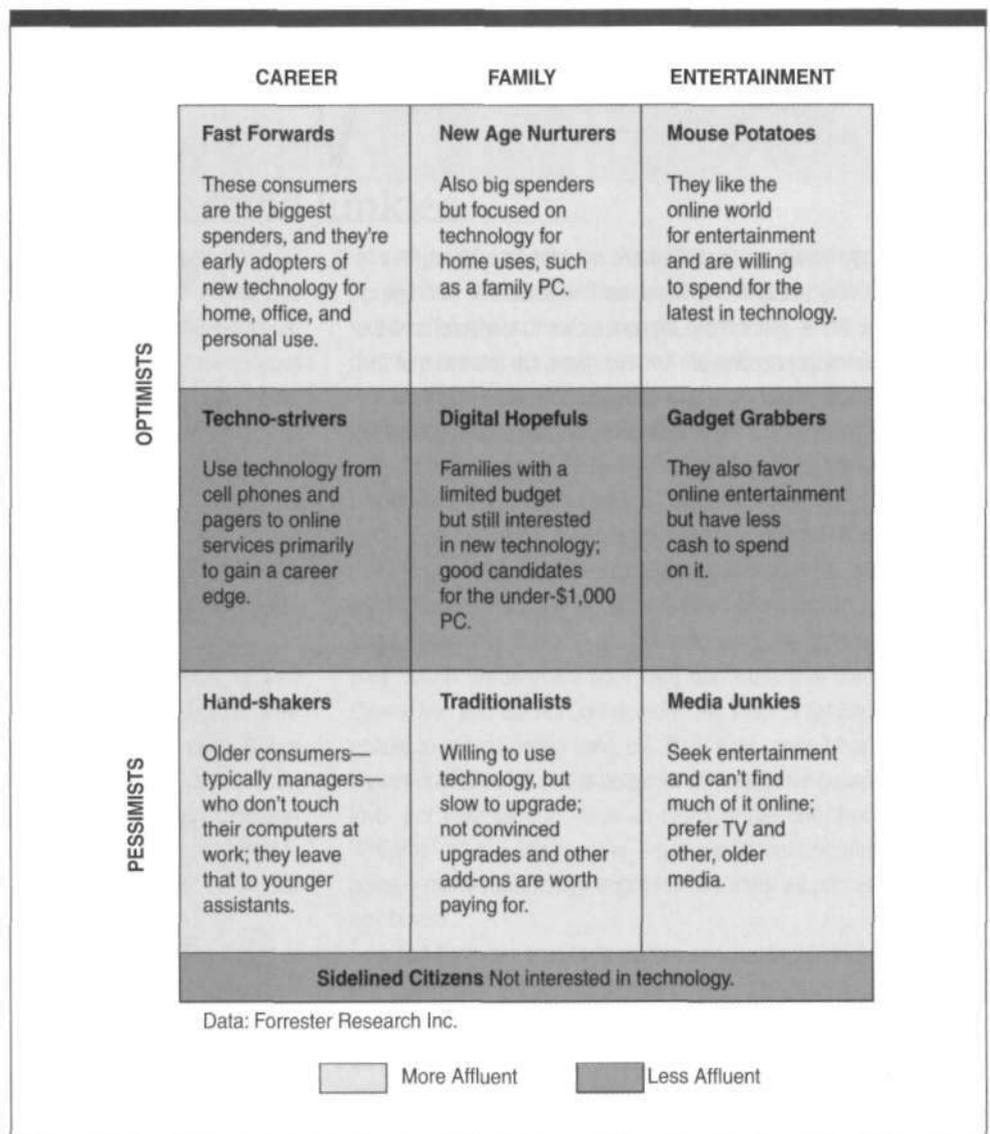
**market segmentation:** the process of dividing a market into different groups within which all customers share relevant characteristics that distinguish them from customers in other segments.

**segment:** a group of current or prospective customers who share common characteristics, needs, purchasing behavior, or consumption patterns.

## FOCUSING ON THE RIGHT CUSTOMERS

In this chapter, we continue to address the question, *Who are our customers and how should we relate to them?* We start by building on our opening vignette with a further discussion of **market segmentation** (see Figure 4.1 for a depiction of Forrester Research's Technographics approach) and then look at how people evaluate, purchase, and use services.

More and more, firms are trying to decide which types of customers they can serve well and make loyal, rather than trying to be all things to all people. However, relatively few service businesses can survive by serving just a single **segment**, especially if, like hotels, airlines, and restaurants, they have a lot of capacity to fill, hour after hour and day after day during different seasons of the year. Managers facing this problem need to be creative and try to attract new segments that will fit well with the firm's capabilities.



**FIGURE 4.1**  
Segmenting Customers Relative to Technology Use

Source: Paul C. Judge, "Are Tech Buyers Different?" *Business Week*, 26 January 1998, 65.

We hear the term "mass marketing" less and less these days. Instead the talk is of "focus" or "targeting" or "**mass customization.**" Underlying such terms is the notion of market segmentation, which calls for dividing any given market into distinctive groups or segments. Segmentation is a key concept in marketing, so if you have not previously taken a marketing course, please review the key aspects of segmentation in the box on pages 78—79.

As service providers explore innovative alternatives to creating and delivering services, especially those relating to the Internet and automated machines, they are discov-

**mass customization:** offering a service with some individualized product elements to a large number of customers at a relatively low price.

## *Attracting Older Passengers at Southwest Airlines*

Like most airlines, Southwest Airlines can divide its passengers into two broad groups: business travelers and leisure travelers. Although business travelers fly far more frequently than most leisure travelers, the latter help fill the aircraft outside commuting hours and enable Southwest to offer more frequent service at lower prices. A significant target segment within the broad leisure group is older customers, who are growing in numbers as the population ages and has the time and inclination to travel—and can afford to do so at Southwest's very low fares.

However, many senior citizens are not experienced flyers. In fact, some have never flown before in their lives. To encourage these people to fly, Southwest has created a brochure titled "Travel Tips for Seniors" (see the reproduced cover), which is educational in nature rather than promotional. It begins by pointing out that the airline offers special fares to people aged 65 and older, then continues with bullet-pointed tips on Packing and Travel, Making Reservations, Checking In, and Travel Talk Language. The brochure concludes with a map of the United States, showing the cities that Southwest serves, plus the head office address, the airline's toll-free phone number, and its Web site address.

Through such efforts, the airline seeks to demystify air travel; help older people prepare for a journey by air; and explain each step in what is, for an inexperienced traveler, a relatively complex process. The brochure also explains the terms commonly used in airline travel, many of which (such as *preboarder* or *gate agent*) are not often heard outside an airport. In this way, older travelers will know what to expect and—equally important—what is expected of them. Knowledge reduces anxiety, thus eliminating one of the barriers to trying something new. To the extent that readers of the brochure appreciate the advice, try a flight on Southwest, and enjoy it, the airline can expect to create loyal customers and stimulate positive word of mouth.

# SOUTHWEST AIRLINES

## TRAVEL TIPS FOR SENIORS



Dreaming of jetting away to explore the history and fun of these United States? Southwest Airlines would like to make getting away as easy and fun as possible for those **age 65 or over** by offering some travel tips to Seniors who are keen on life and life's adventures!

ering that not all customers are equally receptive to new technologies. This situation has led to development of segmentation schemes based on how willing and able customers are to use the latest technologies, as illustrated by our discussion of the Technographics framework developed by Forrester Research.

An individual's behavior often reflects personal attitudes and beliefs. Recent research by Parasuraman shows that certain personal characteristics are associated with customer readiness to accept new technologies. These attributes include innovativeness, a positive view of technology, and a belief that technology offers increased control, flexibility, and efficiency in people's lives. Factors that are negatively associated with the adoption of technology include distrust, a perceived lack of control, feelings of being overwhelmed by technology, and skepticism about whether the technology will perform satisfactorily. Service providers must consider these factors before implementing new technologies that may negatively affect customers' evaluations of the service experience.

## UNDERSTANDING CUSTOMER NEEDS AND EXPECTATIONS

needs: subconscious, deeply felt desires that often concern long-term existence and identity issues.

Customers buy goods and services to meet specific **needs**, and they evaluate the outcomes of their purchases based on what they expect to receive. Needs, which may represent a useful basis for segmentation, are often deeply rooted in people's unconscious minds and may concern long-term existence and identity issues. When people feel a need, they are motivated to take action to fulfill it. In many instances, purchase of a good or service may be seen as offering the best solution to meeting a particular need. Subsequently, consumers may compare what they received against what they expected, especially if it cost them money, time, or effort that could have been devoted to obtaining an alternative solution.

### *Review of Principles of Market Segmentation*

Market segmentation is central to almost any professionally planned and executed marketing program. The concept of segmentation recognizes that customers and prospects within a market vary across a variety of dimensions and that not every segment constitutes a desirable target for the firm's marketing efforts.

**Market segments.** A segment is composed of a group of current and potential customers who share common characteristics, needs, purchasing behavior, or consumption patterns. Effective segmentation should group buyers into segments in ways that result in as much similarity as possible on the relevant characteristics *within* each segment but dissimilarity on those same characteristics *between* each segment. Two broad categories of variables are useful in describing the differences between segments. The first deals with user characteristics, the second with usage behavior.

**User characteristics** may vary from one person to another, reflecting demographic characteristics (e.g., age, income, and education), geographic location, and psychographics (the attitudes, values, lifestyles, and opinions of decision makers and users). Another important variable is the specific benefits that individuals and corporate purchasers seek from consuming a particular good or service.

**Usage behavior** relates to how a product is purchased and used. Among such variables are when and where purchase and consumption take place, the quantities consumed ("heavy users" are always of particular interest to marketers), frequency and purpose of use, the occasions under which consumption takes place (sometimes referred to as "occasion segmentation"), and sensitivity to such marketing variables as advertising, pricing, speed and other service features, and availability of alternative delivery systems.

**Target segment.** After evaluating different segments in the market, a firm should focus its marketing efforts by targeting one

## Types of Needs

Abraham Maslow identified five categories of human needs—physiological, safety, love, esteem, and self-actualization—and proposed that basic needs like food and shelter must be met before others can be fulfilled.<sup>3</sup> Although poverty, malnutrition, and lack of housing remain pressing issues around the world, including North America, physiological needs have long ceased to be the sole issue for most residents of advanced industrialized countries like the United States and Canada.

Greater prosperity means that increasing numbers of individuals are seeking to satisfy social and self-actualization needs. These needs create demand for more sophisticated goods and services. For instance, travel and leisure services have been a major beneficiary of increased disposable income, leading many firms to develop a variety of enticing vacation packages. However, as customer needs and preferences continue to evolve, the leisure industry needs to adapt its offerings accordingly.

In North America, as in other highly developed regions of the world, there is evidence that many consumers are reaching the point where they have most of the physical goods they want and are now turning to services to fill new or still unmet needs. Increased spending on more elaborate vacations, sports, entertainment, restaurant meals, and other service experiences is assuming greater priority, even at the expense of spending slightly less on physical goods. According to Daniel Bethamy of American Express, consumers want "memorable experiences, not gadgets."<sup>4</sup> This shift in consumer behavior and attitudes provides opportunities for those service companies that understand and meet changing needs, continuing to adapt their offerings over time as needs evolve. For example, some astute service providers have capitalized on the increased interest in extreme sports by offering services like guided mountain climbs, paragliding, white water rafting trips, and mountain biking adventures. And new financial services (like online investment brokers) have been introduced to cash in on consumers' willingness to risk their financial futures by trading in the stock market.<sup>5</sup> The notion of service experiences also extends to business and industrial situations; con-

or more segments that fit well with the firm's capabilities and goals. Target segments are often defined on the basis of several variables. For instance, a hotel in a particular city might target prospective guests who shared such user characteristics as (1) traveling on business (demographic segmentation), (2) visiting clients within a defined area around the hotel (geographic segmentation), and (3) willing to pay a certain daily room rate (user response).

**Issues for research.** When studying the marketplace, service marketers should be looking for answers to such questions as:

- >• In what useful ways can the market for our firm's service be segmented?
- >• What are the needs of the specific segments that we have identified?
- >- Which of these segments best fits both our institutional mission and our current operational capabilities?
- >- What do customers in each segment see as our firm's competitive advantages and disadvantages? Are the latter correctable?
- >- In light of this analysis, which specific segment(s) should we target?
- >• How should we differentiate our marketing efforts from those of the competition to attract and retain the types of customers that we want?
- \*- What is the long-term financial value to us of a loyal customer in each of the segments that we currently serve (and those that we would like to serve)?
- >• How should our firm build long-term relationships with customers from the target segments? And what strategies are needed to create long-term loyalty?

sider the example of modern trade shows where exhibitors, including manufacturers, set out to engage the customer's interest through interactive presentations and even entertainment.<sup>6</sup>

### Expectations and How They Are Formed

**expectations:** internal standards that customers use to judge the quality of a service experience.

Customers' **expectations** about what constitutes good service vary from one business to another. For example, although accounting and veterinary surgery are both professional services, the experience of meeting an accountant to talk about your tax returns tends to be very different from visiting a vet to get treatment for your sick pet. Expectations are also likely to vary in relation to differently positioned service providers in the same industry. While travelers expect no-frills service for a short domestic flight

## *Club Med Responds to Changing Customer Needs*

When Gilbert Trigano launched "Club Med" in the 1950s, the concept of holiday villages, offering limitless food and innumerable sporting activities in splendid natural surroundings at a single price, was unique. It also reflected a significant change in social behavior. Trigano recognized the emergence of a new, younger segment among French and other European consumers, who were influenced by growing affluence and American values rather than traditional formality. The Club Med concept provided an attractive form of escapism with its informality and friendly customer service from an enthusiastic staff. The atmosphere attracted a crowd that was primarily young, affluent, educated, and single. These people enjoyed sports, travel, and exotic locations. It was a burgeoning market.

By the late 1960s, Club Med, with its communal lifestyle—which included shared huts, group activities, and large dining tables designed to break down social barriers between guests—had captured the spirit of the times. In the 1970s and 1980s, as standards of living and status-seeking behavior continued to grow, leisure became a much more important part of people's lives. Club Med opened villages around the world and epitomized the ultimate leisure experience: a relatively expensive holiday, either at the beach or at winter ski villages in the mountains.

Yet 10 years later, problems began to emerge. The group's financial situation weakened and there was widespread criticism that the "Club concept" had become outdated. Critics claimed that younger people were now more individualistic and no longer valued the kinds of group activities for which Club Med was renowned. Finding new young customers was becoming harder and harder. Meantime, the Club's most loyal customers had grown older and had different interests and needs. Rather than seeking ways to

have fun as "swinging singles," these guests were concerned about what to do with their children on vacation. They were also interested in achieving a healthy lifestyle, including nutritious food, low-impact exercises, and other ways to restore physical and emotional well-being. By 1990, the conspicuous consumption of the 1980s was also giving way to more emphasis on value for money. The emergence of low-price, all-inclusive holiday package tours was eroding Club Med's traditional customer base, yet the Club had not lowered its own prices in response.

After huge losses in 1996, the Trigano family was ousted from the daily running of the company, and Philippe Bourguignon—who had turned Disneyland Paris around—was brought in to revive the Club. In his words, "Club Med has tried to be everything for everyone. But you have to make choices\_\_\_\_" His plan was to enhance value for money, attract a younger clientele, and extend the vacation season by providing services such as entertainment, sports, and cafes throughout the year rather than simply during an annual holiday. His approach was aimed at meeting the needs of two very different kinds of segments—the younger, value-conscious market that Club Med had not yet succeeded in winning over and the mature group of customers who had been the backbone of Club Med's past success but whose loyalty was now at risk.

To meet the needs of younger consumers, Bourguignon immediately closed several unprofitable villages and converted a number of others into lower-priced camps branded as "Club Aquarius." The traditional Club Med concept has been redesigned in order to be more responsive to the "creature comfort" requirements of older, existing customers. Many Club Med resorts now cater to families and have special activities to keep children occupied while parents enjoy a much-needed jog on the beach or a massage in the spa.

on a discount carrier, they would undoubtedly be very dissatisfied with that same level of service on a full-service airline flying from Los Angeles to Sydney, or from Toronto to Paris, even in economy class. Consequently, it's very important for marketers to understand customer expectations of their own firm's service offerings—especially as they relate to specific product elements.

When individual customers or corporate purchasing department employees evaluate the quality of a service, they may be judging it against some internal standard that existed prior to the service experience.<sup>7</sup> Perceived service quality results from customers comparing the service they perceive they have received against what they expected to receive. People's expectations about services tend to be strongly influenced by their own prior experience as customers—with a particular service provider, with competing services in the same industry, or with related services in different industries. If they have no relevant prior experience, customers may base their prepurchase expectations on factors like word-of-mouth comments, news stories, or the firm's marketing efforts.

Over time, certain norms develop for what to expect from service providers within a given industry. As we discussed in Chapter 3, roles and scripts help reinforce these expectations for both customers and service employees. Norms are also affected by customer experiences and supplier-controlled factors like advertising, pricing, and the physical appearance of the service facility and its employees. For example, Americans don't expect to be greeted by a doorman and a valet at a Motel 6, but they certainly do at a Ritz-Carlton hotel, where service levels are known to be much higher.

Customer expectations may also vary from one industry to another, reflecting industry reputations and past experience. In many countries, people have lower expectations of government service providers than they do of private companies. Expectations may even vary within different demographic groups (e.g., between men and women, older and younger consumers, or blue- versus white-collar workers). To make things more complicated, expectations also differ from country to country. For instance, while it may be acceptable and unsurprising for a train to arrive several hours late in some countries, rail schedules are so precise in Switzerland that the margin for error is measured in seconds.

## The Components of Customer Expectations

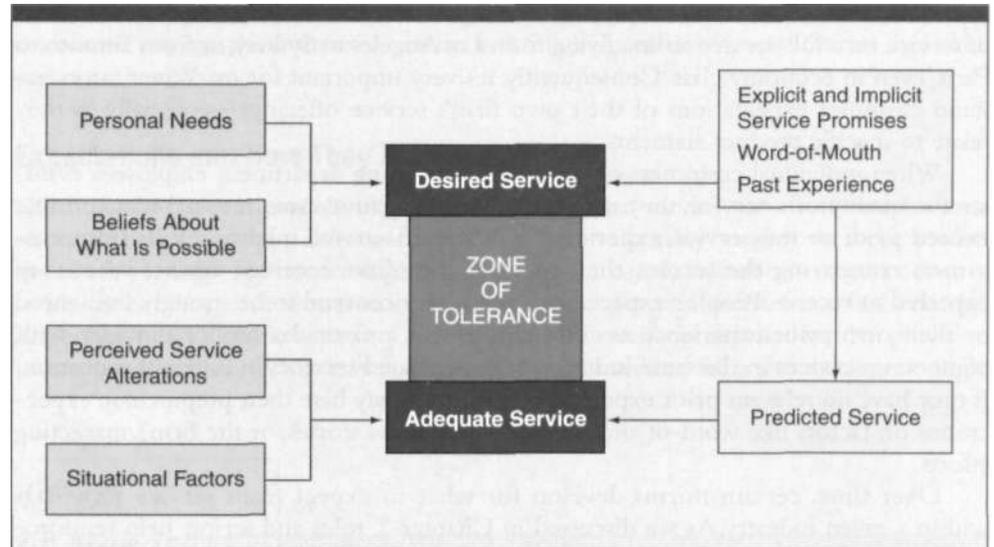
Customer expectations embrace several different elements, including desired service, adequate service, predicted service, and a zone of tolerance that falls between the desired and adequate service levels.<sup>8</sup> The model shown in Figure 4.2 shows how expectations for desired service and adequate service are formed.

**Desired and Adequate Service Levels** The type of service customers hope to receive is termed **desired service**. It is a "wished for" level—a combination of what customers believe can and should be delivered in the context of their personal needs. However, most customers are realistic and understand that companies can't always deliver the level of service they would prefer; hence, they also have a threshold level of expectations, termed **adequate service**, which is defined as the minimum level of service customers will accept without being dissatisfied. Among the factors that set this expectation are situational factors affecting service performance and the level of service that might be anticipated from alternative suppliers. The levels of both desired and adequate service expectations may reflect explicit and implicit promises by the provider, word-of-mouth comments, and the customer's past experience (if any) with this organization.<sup>9</sup>

**desired service:** the "wished for" level of service quality that a customer believes can and should be delivered.

**adequate service:** the minimum level of service that a customer will accept without being dissatisfied.

**FIGURE 4.2**  
Factors That Influence  
Customer Expectations of  
Service



Source: Adapted from Valarie A. Zeithaml, Leonard A. Berry, and A. Parasuraman, "The Nature and Determinants of Customer Expectations of Service," *Journal of the Academy of Marketing Science* 21, no. 1 (1993): 1-12.

**predicted service:** the level of service quality a customer believes a firm will actually deliver.

**Predicted Service Level** The level of service that customers actually anticipate receiving is known as **predicted service**, which directly affects how they define "adequate service" on that occasion. If good service is predicted, the adequate level will be higher than if poorer service is predicted. Customer predictions of service may be situation specific. For example, from past experience, customers visiting a museum on a summer day may expect to see larger crowds if the weather is poor than if the sun is shining. So a 10-minute "wait to buy tickets on a cool, rainy day in summer might not fall below their adequate service level.

**zone of tolerance:** the range within which customers are willing to accept variations in service delivery.

**Zone of Tolerance** The inherent nature of services makes consistent service delivery difficult across employees in the same company and even by the same service employee from one day to another. The extent to which customers are willing to accept this variation is called the **zone of tolerance** (shown in Figure 4.2). A performance that falls below the adequate service level will cause frustration and dissatisfaction, whereas one that exceeds the desired service level will both please and surprise customers, creating the "customer delight" that we discussed earlier in this chapter. Another way of looking at the zone of tolerance is to think of it as the range of service within which customers don't pay explicit attention to service performance. When service falls outside this range, customers will react either positively or negatively.

The zone of tolerance can increase or decrease for individual customers depending on factors like competition, price, or importance of specific service attributes. These factors most often affect adequate service levels (which may move up or down in response to situational factors), while desired service levels tend to move up very slowly in response to accumulated customer experiences. Consider a small-business owner who needs some advice from her accountant. Her ideal level of professional service may be a thoughtful response by the next business day. But if she makes the request at the time of year when all accountants are busy preparing corporate and individual tax returns, she will probably know from experience not to expect a fast response. Although her ideal service level probably won't change, her zone of tolerance for response time may be much broader because she has a lower adequate service threshold.

## HOW CUSTOMERS EVALUATE SERVICE PERFORMANCES

Service performances—especially those that contain few tangible clues—can be difficult for consumers to evaluate. As a result, there is a greater risk of making a purchase that proves to be disappointing. If a customer buys a physical good that proves unsatisfactory, the product can usually be returned or replaced—although this action may require extra effort on the customer's part. These options are not as readily available with services, although some services can be repeated. Consider the four process-based categories of service introduced in Chapter 2. In the case of *possession-processing services*, repeating the performance may be an acceptable option. For example, a cleaning service can reclean an office if a customer complains about the quality of the job. By contrast, *people-processing services* that are performed on people's bodies may be hard to reverse. A bad haircut must be grown out, and the consequences of a faulty surgical operation or a poorly done tattoo may last a lifetime.

*Mental stimulus-processing services* like education, live entertainment, or sporting events can also be difficult to "replace" if quality does not meet customers' expectations. Theatergoers cannot realistically ask for their money back if actors perform their roles poorly or the script is bad. Sports fans can't expect refunds if their favorite team plays badly. (But they do find ways of letting the players know of their dissatisfaction! One university recently prohibited people from booing in the football stadium when the home team was playing poorly.) Similarly, universities don't usually compensate students for poor quality classroom experiences. Even if a college let dissatisfied students repeat classes free of charge with a different instructor, those students would still incur significant extra time and psychological costs.

Finally, *information-based services* present risks for customers when service quality is unsatisfactory. Banking or accounting errors may not be noticed until later, by which time damage may have been done to a customer's reputation (e.g., a check was returned rather than paid, or a faulty tax return was filed). Customers who receive a questionable consulting recommendation or medical opinion have the option of seeking a second opinion, but that will involve extra money, time, and even psychological costs.

### A Continuum of Product Attributes

As we've pointed out, one of the basic differences between goods and services is that services are harder for customers to evaluate. We also briefly mentioned that **product attributes** could be divided into search, experience, and credence properties.<sup>11</sup> We'll expand on the concept of these three categories here, since they provide a useful framework for understanding how consumers evaluate different types of market offerings. All products can be placed on a continuum ranging from "easy to evaluate" to "difficult to evaluate" depending on whether they are high in search attributes, experience attributes, or credence attributes. As shown in Figure 4.3, most physical goods are located toward the left of the spectrum, with services to the middle or right.

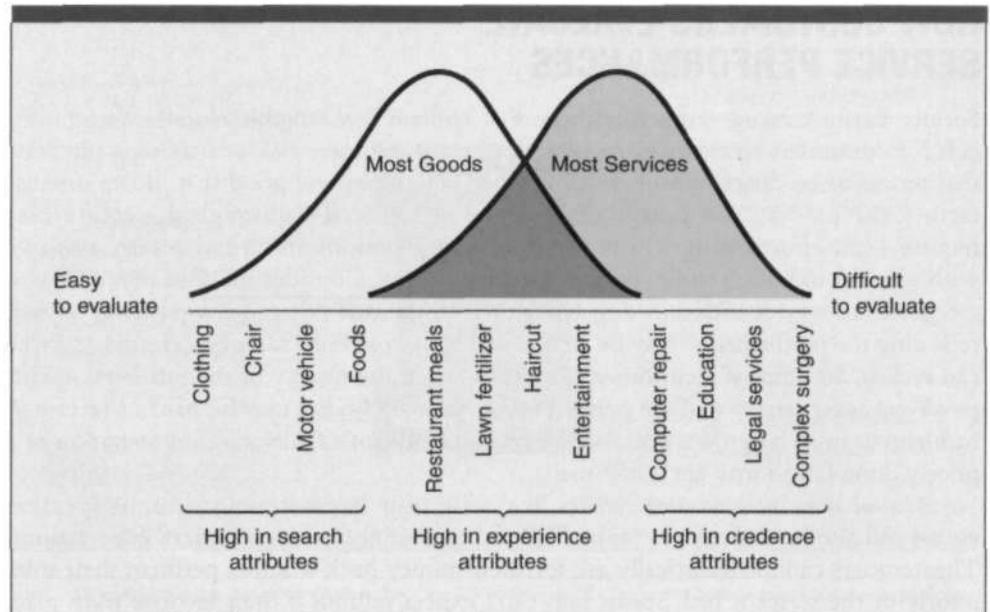
**Search Attributes** Physical goods tend to emphasize those attributes that allow customers to evaluate a product before purchasing it. Features like style, color, texture, taste, and sound allow prospective consumers to try out, taste test, or "test drive" the product prior to purchase. These tangible attributes help customers understand and evaluate what they will get in exchange for their money and reduce the sense of uncertainty or risk associated with the purchase occasion. Goods such as clothing, furniture, cars, electronic equipment, and foods are high in **search attributes**.

**product attributes:** all features (both tangible and intangible) of a good or service that can be evaluated by customers.

**search attributes:** product characteristics that consumers can readily evaluate prior to purchase.

**FIGURE 4.3**

How Product Attributes Affect Ease of Evaluation



Source: Adapted from Valarie A. Zeithaml, "How Consumer Evaluation Processes Differ Between Goods and Services," in J. H. Donnelly and W. R. George, *Marketing of Services* (Chicago: American Marketing Association, 1981).

**experience attributes:**  
product performance features that customers can only evaluate during service delivery.

**Experience Attributes** When attributes can't be evaluated prior to purchase, customers must "experience" the service to know what they are getting. Holidays, live entertainment performances, sporting events, and restaurants fall into the **experience attributes** category. Although people can examine brochures, scroll through Web sites describing the holiday destination, view travel films, or read reviews by travel experts, they can't really evaluate or feel the dramatic beauty associated with hiking in the Canadian Rockies or the magic of scuba diving in the Caribbean until they actually experience these activities. Nor can customers always rely on information from friends, family, or other personal sources when evaluating these and similar services, because different people may interpret or respond to the same stimuli in different ways. Think about your own experiences in following up on recommendations from friends to see a particular film. Although you probably walked into the theater with high expectations, you may have felt disappointed after viewing the film if you didn't like it as much as your friends did.

**credence attributes:**  
product characteristics that customers may not be able to evaluate even after purchase and consumption.

**Credence Attributes** Product characteristics that customers find impossible to evaluate confidently even after purchase and consumption are known as **credence attributes**, because the customer is forced to trust that certain benefits have been delivered, even though it may be hard to document them. For example, relatively few people possess enough knowledge about financial markets to assess whether their stockbroker got the best possible returns on their invested funds. Patients can't usually evaluate how well their dentists have performed complex dental procedures. And most college students must simply have faith that their professors are providing them with a worthwhile educational experience!

### Strategic Responses to Difficulties in Evaluating Services

Most goods fall to the left of the continuum in Figure 4.3, since they are high in search properties. Most services, however, tend to be located from the center to the right of the continuum. The reason for this relates to two of the basic differences between goods and services that we discussed in Chapter 1: intangibility of service performances and vari-

ability of inputs and outputs (which often leads to quality control problems). These characteristics present special challenges for service marketers, requiring them to find ways to reassure customers and reduce the perceived risks associated with buying and using services whose performance and value can't easily be predicted.

**Intangibility of Service Performances** Marketers whose products are high in experience characteristics often try to provide more search attributes for their customers. One approach is to offer a free trial. Some providers of online computer services have adopted this strategy. For example, AOL offers potential users a free software diskette and the chance to try its services without charge for a certain number of hours. This reduces customers' concerns about entering into a paid contract without first being able to test the service. AOL hopes that consumers will be "hooked" on its Web services by the end of the free trial period.

Advertising is another way to help customers visualize service benefits. For instance, the only tangible thing credit card customers get directly from the company is a small plastic card, followed at monthly intervals by an account statement. But that's hardly the essence of the benefits provided by this low-contact service. Think about the credit card advertisements you've seen recently. Did they promote the card itself or did they feature exciting products you could purchase and exotic places to which you could travel by using your card? Such advertisements stimulate consumer interest by showing physical evidence of the benefits of credit card use.

Providers of services that are high in credence characteristics have an even greater challenge. Their benefits may be so intangible that customers can't evaluate the quality of what they've received even after the service has been purchased and consumed. In this case, marketers often try to provide tangible cues to customers about their services. Professionals like doctors, architects, and lawyers often display their degrees and other certifications for the same reason—they want customers to "see" the credentials that qualify them to provide expert service. Many professional firms have developed Web sites to inform prospective clients about their services, highlight their expertise, and even showpiece successful past engagements.

**Variability and Quality Control Problems** The continuum of product attributes in Figure 4.3 also has implications for another distinguishing service characteristic—the degree of customer involvement in the production process. Products that are highest in search attributes are most often physical goods that are manufactured in a factory with no customer involvement, then purchased and consumed. Quality is much easier to control in this situation since the elements of production can be more closely monitored and failures spotted before the product reaches the customer. In fact, some manufacturers like Motorola claim to be able to guarantee product quality at the so-called six-sigma level—that is 99.999 percent! However, quality control for services that fall in the experience and credence ranges is complicated by customer involvement in production.

Evaluations of such services may be affected by customers' interactions with the physical setting of the business, employees, and even other customers. For example, your experience of a haircut may combine your impression of the hair salon, how well you can describe what you want to the stylist, the stylist's ability to understand and do what you've requested, and the appearance of the other customers and employees in the salon. Stylists note that it's difficult for them to do a good job if customers are uncooperative.

Many credence services have few tangible characteristics and rely on the expertise of a professional service provider to provide a quality offering. In this case, providers must be able to interact with customers effectively to produce a satisfactory product. Problems can occur when this interaction doesn't produce an outcome that meets customers' expectations, even though the service provider may not be at fault.

Service providers must also work hard to maintain consistent levels of quality. This is more difficult when production involves direct interaction with service employees, whose performances are likely to vary from one day to another. But customers don't want variations in quality, as Michael Flatley, the Irish founder, director, and lead dancer of *Lord of the Dance* knows. As he said once in a television interview, "The people who drive hundreds of miles to see this show . . . they don't want to know I'm almost 39 . . . they don't want to know my legs are sore . . . they don't want to know I go home and put my feet in ice. They just want to know that what they're seeing is the best show ever—tonight, not tomorrow night!"<sup>12</sup> Flatley's insistence on providing the best performance possible every time has produced results—his company achieves sold-out performances around the world, and audiences often show their appreciation by giving the dancers a standing ovation. He has recently moved from dancing to producing the shows, counting on the younger dancers to provide consistently thrilling performances.

## *Progressive Insurance Delights Its Customers*

Progressive Insurance Corporation is one of the largest writers of private passenger auto insurance in the United States. The firm prides itself on providing extraordinary customer service—and its accomplishments in this area are impressive. Its industry-leading innovations have included Immediate Response, the first 24/7 claims service in the industry, and claims representatives traveling in Immediate Response Vehicles (introduced in 1994) that can come straight to the scene of an accident. Consider the following scenario.

- > The crash site in Tampa, Florida, was chaotic and tense. Two cars were damaged and although the passengers weren't bleeding, they were shaken up and scared. Lance Edgy, a senior claim representative for Progressive, arrived on the scene just minutes after the collision, bearing a clipboard, a camera, and a cassette recorder. He calmed the victims and advised them on medical care, repair shops, police reports, and legal procedures. Edgy then invited William McAllister, Progressive's policyholder, into an air-conditioned van equipped with comfortable chairs, a desk, and two cellular phones. Even before the tow trucks cleared away the wreckage, Edgy had offered his client a settlement for the market value of his totaled 1988 Mercury Topaz. McAllister, who did not appear to have been at fault in this accident, stated in amazement: "This is great—someone coming right out here and taking charge. I didn't expect it at all."

Progressive Insurance continues to find new ways to delight its customers. Its Web site, [progressive.com](http://progressive.com), recently won top hon-

ors for the second year in a row from [G6mez.com](http://G6mez.com) (an Internet quality measurement firm). Progressive was cited for pleasantly surprising its customers with consumer-friendly innovations and extraordinary customer service.

William McAllister, the unfortunate auto accident victim in the scenario described above, experienced something unusual. He was actually delighted at the service provided by his insurance company! But what is delight? Is it more than just a very high level of satisfaction? One view is that achieving delight requires focusing on what is currently unknown or unexpected by the customer. In short, it's more than just avoiding problems—the "zero defects" strategy. Managers of companies like Progressive that are known for their commitment to quality believe that satisfaction is not enough, making comments such as "we must take quality beyond customer satisfaction to customer delight" and "sheer survival means companies have to deliver more than customer satisfaction."

The results of a research project done by Oliver, Rust, and Varki<sup>13</sup> suggest that delight is a function of three components: (1) unexpectedly high levels of performance, (2) arousal (e.g., surprise, excitement), and (3) positive affect (e.g., pleasure, joy, or happiness). Satisfaction is a function of positively disconfirmed expectations (better than expected) and positive affect. These researchers ask "If delight is a function of surprisingly unexpected pleasure, is it possible for delight to be manifest in truly mundane services and products, such as newspaper delivery or trash collecting?"

## How Perceived Quality Relates to Satisfaction

The terms "quality" and "satisfaction" are sometimes used interchangeably. But some researchers believe that perceived **service quality** is just one component of **customer satisfaction**, which also reflects price/quality trade-offs, and personal and situational factors.<sup>14</sup>

Satisfaction can be defined as an attitude-like judgment following a purchase act or a series of consumer product interactions.<sup>5</sup> Most studies are based on the theory that the confirmation/disconfirmation of preconception product standards is the essential determinant of satisfaction.<sup>16</sup> This means that customers have certain service standards in mind prior to consumption (their expectations), observe service performance and compare it to their standards, and then form satisfaction judgments based upon this comparison. The resulting judgment is labeled *negative disconfirmation* if the service is worse than expected, *positive disconfirmation* if better than expected, and simple *confirmation* if as expected. When there is substantial positive disconfirmation, plus pleasure and an element of surprise, then customers are likely to be delighted. Having read the vignette about Progressive Insurance (see box), think about your own insurance provider—if you have one—and the kind of service you receive. Are you delighted with the service—or even satisfied? However, once customers have been delighted, their expectations are raised. They will be dissatisfied if service levels return to previous levels, and it will take more effort to "delight" them in the future.

Why is satisfaction important to service managers? There's evidence of strategic links between the level of customer satisfaction and a firm's overall performance. Researchers from the University of Michigan found that on average, every 1 percent increase in customer satisfaction is associated with a 2.37 percent increase in a firm's Return on Investment (ROI).<sup>19</sup> Fournier and Mick state:

*Customer satisfaction is central to the marketing concept. . . . [I]t is now common to find mission statements designed around the satisfaction notion, marketing plans and incentive programs that target satisfaction as a goal, and consumer communications that trumpet awards for satisfaction achievements in the marketplace.*

Some marketers claim that the phrase "your satisfaction is guaranteed or your money back" has become a standard promise for many businesses. However, customer satisfaction is not an end in itself. Instead, it's the means to achieving key business goals. First, satisfaction is inextricably linked to customer loyalty and relationship commitment. Second, highly satisfied (delighted) customers spread positive word-of-mouth. They become walking, talking advertisements for an organization whose service has pleased them, thus lowering the cost of attracting new customers. First Direct, the all-telephone bank described in the opening story for Chapter 3, has gained huge numbers of new customers from recommendations by its existing account holders. Recommendations are particularly important for providers of services that are high in credence attributes, such as professional service firms. The quality of legal, accounting, consulting, and engineering services, for example, is hard to evaluate in advance of purchase, so positive comments by a satisfied client reduce the risk for a new purchaser.

Third, highly satisfied customers may be more forgiving. Someone who has enjoyed good service delivery many times in the past is more likely to believe that a service failure is a deviation from the norm. It may take more than one unsatisfactory incident for strongly loyal customers to change their perceptions and consider switching to an alternative supplier. In this respect, high levels of customer satisfaction act like an insurance policy against the impact of a single failure. Finally, delighted customers are less susceptible to competitive offerings than customers who are simply satisfied or are unhappy with their current service provider.

**service quality:** customers' long-term, cognitive evaluations of a firm's service delivery.

**customer satisfaction:** a short-term emotional reaction to a specific service performance.

## THE PURCHASE PROCESS FOR SERVICES

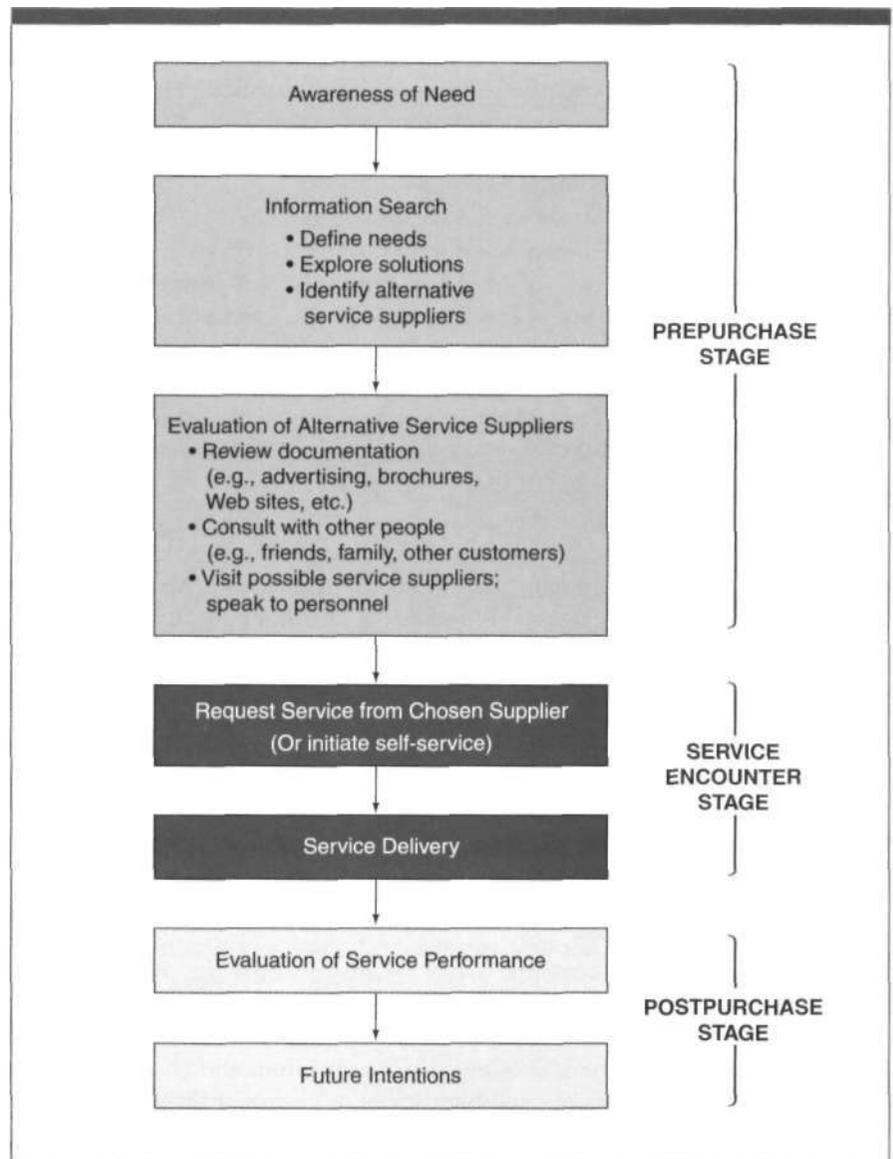
**purchase process:** the stages a customer goes through in choosing, consuming, and evaluating a service.

**prepurchase stage:** the first stage in the service purchase process, where customers identify alternatives, weigh benefits and risks, and make a purchase decision.

When customers decide to buy a service to meet an unfilled need, they go through what is often a complex **purchase process**. This process has three separate stages: the prepurchase stage, the service encounter stage, and the postpurchase stage, each containing two or more steps (see Figure 4.4).

### Prepurchase Stage

The decision to buy and use a service is made in the **prepurchase stage**. Individual needs and expectations are very important here because they influence what alternatives customers will consider. If the purchase is routine and relatively low risk, customers may move quickly to selecting and using a specific service provider. But when more is at stake or a service is about to be used for the first time, they may conduct an



**FIGURE 4.4**  
The Purchase Process:  
Customer Activities in  
Selecting, Using, and  
Evaluating Service

intensive information search (contrast how you approached the process of applying to college versus buying a pizza or a hamburger!). The next step is to identify potential suppliers and then weigh the benefits and risks of each option before making a final decision.

This element of perceived risk is especially relevant for services that are high in experience or credence attributes and thus difficult to evaluate prior to purchase and consumption. First-time users are especially likely to face greater uncertainty. Risk perceptions reflect customers' judgments of the probability of a negative outcome. The worse the possible outcome and the more likely it is to occur, the higher the perception of risk. Different types of perceived risks are outlined in Table 4.1.

When customers feel uncomfortable with risks, they can use a variety of methods to reduce them during the prepurchase stage. In fact, you've probably tried some of the following risk-reduction strategies yourself before deciding to purchase a service:

- >- Seeking information from respected personal sources (family, friends, peers)
- >- Relying on a firm with a good reputation
- >> Looking for guarantees and warranties
- >- Visiting service facilities or trying aspects of the service before purchasing
- >>- Asking knowledgeable employees about competing services
- >- Examining tangible cues or other physical evidence
- >• Using the Web to compare service offerings

Type of Risk	Examples of Customer Concerns
<b>Functional risk</b> (unsatisfactory performance outcomes)	<ul style="list-style-type: none"> <li>• Will this training course give me the skill I need to get a better job?</li> <li>• Will this credit card be accepted wherever and whenever I want to make a purchase?</li> <li>• Will the dry cleaner be able to remove the stains from this jacket?</li> </ul>
<b>Financial risk</b> (monetary loss, unexpected costs)	<ul style="list-style-type: none"> <li>• Will I lose money if I make the investment recommended by my stockbroker?</li> <li>• Will I incur lots of unanticipated expenses if I go on this vacation?</li> <li>• Will repairing my car cost more than the original estimate?</li> </ul>
<b>Temporal risk</b> (wasting time, consequences of delays)	<ul style="list-style-type: none"> <li>• Will I have to wait in line before entering the exhibition?</li> <li>• Will service at this restaurant be so slow that I will be late for my afternoon meeting?</li> <li>• Will the renovations to our bathroom be completed before our friends come to stay with us?</li> </ul>
<b>Physical risk</b> (personal injury or damage to possessions)	<ul style="list-style-type: none"> <li>• Will I get hurt if I go skiing at this resort?</li> <li>• Will the contents of this package get damaged in the mail?</li> <li>• Will I fall sick if I travel abroad on vacation?</li> </ul>
<b>Psychological risk</b> (personal fears and emotions)	<ul style="list-style-type: none"> <li>• How can I be sure this aircraft won't crash?</li> <li>• Will the consultant make me feel stupid?</li> <li>• Will the doctor's diagnosis upset me?</li> </ul>
<b>Social risk</b> (how others think and react)	<ul style="list-style-type: none"> <li>• What will my friends think of me if they learn I stayed at this cheap motel?</li> <li>• Will my relatives approve of the restaurant I have chosen for the family reunion dinner?</li> <li>• Will my business colleagues disapprove of my selection of an unknown law firm?</li> </ul>
<b>Sensory risk</b> (unwanted impacts on any of the five senses)	<ul style="list-style-type: none"> <li>• Will I get a view of the parking lot from my room, rather than the beach?</li> <li>• Will the bed be uncomfortable?</li> <li>• Will I be kept awake by noise from the guests in the room next door?</li> <li>• Will my room smell of stale cigarette smoke?</li> <li>• Will the coffee at breakfast taste disgusting?</li> </ul>

**TABLE 4.1**  
Perceived Risks in Purchasing and Using Services

One strategy to help reduce the risk perceived by customers is to educate them about the features of the service, describe the types of users who can most benefit from it, and offer advice on how to obtain the best results.

### Service Encounter Stage

service **encounter** stage: the second stage in the service purchase process where the service delivery takes place through interactions between customers and the service provider.

After deciding to purchase a specific service, customers experience one or more contacts with their chosen service provider. The **service encounter stage** often begins with submitting an application, requesting a reservation, or placing an order. As we saw in Chapter 3, contacts may take the form of personal exchanges between customers and service employees, or impersonal interactions with machines or computers. In high-contact services, such as restaurants, health care, hotels, and public transportation, customers may become actively involved in one or more service processes. Often, they experience a variety of elements during service delivery, each of which may provide clues to service quality.

**Service environments** include all of the tangible characteristics to which customers are exposed. The appearance of building exteriors and interiors; the nature of furnishings and equipment; the presence or absence of dirt, odor, or noise; and the appearance and behavior of other customers can all serve to shape expectations and perceptions of service quality.

**Service personnel** are the most important factor in most high-contact service encounters, where they have direct, face-to-face interactions with customers. But they can also affect service delivery in low-contact situations like telephone-based service delivery. Knowledgeable customers often expect employees to follow specific scripts during the service encounter; excessive deviations from these scripts can lead to dissatisfaction. Handling service encounters effectively on the part of the employee usually combines learned skills with the right type of personality.

**Support services** are made up of the materials and equipment plus all of the backstage processes that allow front stage employees to do their work properly. This element is critical, because many customer-contact employees can't perform their jobs well without receiving internal services from support personnel. As an old service-firm axiom goes: "If you aren't servicing the customer, you are servicing someone who is."<sup>1</sup>

**Other Customers** When customers use people-processing or mental stimulus-processing services, they often find themselves in close proximity to other customers. Waiting rooms at a medical clinic may be filled with other patients; trains, buses, or aircraft are usually carrying many passengers at once, requiring travelers to sit next to strangers. Similarly, restaurants serve many patrons simultaneously, and a successful play or film will attract a large audience (in fact, the absence of an audience is a bad sign!). Unfortunately, some of these other customers occasionally behave badly, thus detracting from the service experience. Managers need to anticipate such incidents and have contingency plans in place for how to deal with the different types of problems that might occur.

postpurchase stage: the final stage in the service purchase process where customers evaluate service quality and their satisfaction/dissatisfaction with the service outcome.

### Postpurchase Stage

During the **postpurchase stage**, customers continue a process they began in the service encounter stage—evaluating service quality and their satisfaction/dissatisfaction with the service experience. The outcome of this process will affect their future intentions, such as whether or not to remain loyal to the provider that delivered service and whether to pass on positive or negative recommendations to family members and other associates.

Customers evaluate service quality by comparing what they expected with what they perceive they received. If their expectations are met or exceeded, they believe they have received high-quality service. If the price/quality relationship is acceptable and other situational and personal factors are positive, then these customers are likely to be satisfied. As a result, they are more likely to make repeat purchases and become loyal customers. However, if the service experience does not meet customers' expectations, they may complain about poor service quality, suffer in silence, or switch providers in the future.<sup>22</sup>

## MAPPING THE CUSTOMER'S SERVICE EXPERIENCE

In order to design a service that meets or exceeds the expectations of its customers, service providers not only need to know what customers want but also to understand the nature of their actual experiences, especially during the service encounter stage. In the high-contact service environments common to most people-processing services, customers usually arrive at a service site with certain expectations. Their subsequent behavior, however, may be shaped by the nature of the physical environment, the employees they encounter, the sequence in which different activities take place, and by the roles that they are expected to play. Recent research suggests that consumers' expectations are continuously updated during the course of a service encounter, with final evaluations of service quality reflecting these updated expectations, rather than the expectations held before the encounter began.<sup>23</sup>

Managers and service employees are often unaware of the full extent of customers' service experiences. An effective way to gain insights into customer behavior during service delivery is to create a description, in sequence, of the steps that both customers and employees go through in a given service environment. These steps can be shown visually using a tool called a **flowchart**. By identifying each contact between customers and a service provider, flowcharts can highlight problems and opportunities in the service delivery process as they affect customers during front stage activities. They may also suggest a need to examine backstage supporting processes.

**flowchart:** a visual representation of the steps involved in delivering service to customers,

### Developing a Flowchart

Flowcharting can be usefully applied to any type of service and the technique is relevant to both high-contact and low-contact service environments. The objectives of the exercise are threefold:

1. Understand each step in the process that constitutes the customer's overall experience with the service;
2. Identify what encounters customers have with different service personnel, specific physical facilities, and equipment; and
3. Relate the customers' behavior and experience at each step to the backstage activities needed to create quality service in timely fashion front stage.<sup>24</sup>

Developing a flowchart begins by identifying each interaction that a particular type of customer has when using a specific service. Managers need to distinguish between the core product and the supplementary service elements we discussed in Chapter 2; in fact, flowcharting is a very useful way of figuring out what these supplementary elements actually are. Interactions should be depicted in the sequence in which they normally occur. Service delivery is like a river flowing through time: Some activities take place

"upstream," others "downstream." At each step, management needs to ask: What do customers really want (perhaps they would like to speed up this step or even avoid it altogether)? What are their expectations? And where is the potential for failure at this step?

Let's illustrate flowcharting with a simplified model of a service to which most readers can relate fairly easily: a stay at a hotel (Figure 4.5). As with many services, the customer's first encounter with a hotel involves a supplementary service rather than the core product (which is basically rental of a bedroom for a night's sleep). The initial step, for most business travelers, is to make a reservation. This action may be taken some time before the visit actually takes place, typically by telephone or through the Internet.

On arrival, guests traveling by car will need to park the vehicle (perhaps a valet will do it for them). The next step is to check in at reception, after which an employee may offer to carry the bags and escort guests to their rooms. Hence, four service encounters occur before guests even reach their rooms! Before retiring for the night, a guest may choose to use several more services, such as dinner at one of the hotel restaurants or watching a pay-TV movie. After rising, guests may request that room service deliver breakfast. Then guests may make phone calls before checking out and asking a valet to retrieve their cars from the parking garage.

In this flowchart, the customer's experience is depicted, in simplified form, as a series of boxes in linear sequence. Note that the core product—a bed for the night—is surrounded by a variety of supplementary services. Some hotel guests might use more supplementary services than those shown in the flowchart, others fewer. A variety of activities is taking place backstage, too, behind the scenes, but these activities are not shown here. In fact, each step front stage is supported by a series of backstage activities, including assignment of staff, maintenance of facilities and equipment, and capture, storage, and transfer of information. As you review this flowchart, ask yourself: At what points might the poor performance by staff members or misbehavior by other customers spoil a guest's experience? And as the hotel manager, what strategy would you plan for anticipating and handling such problems?

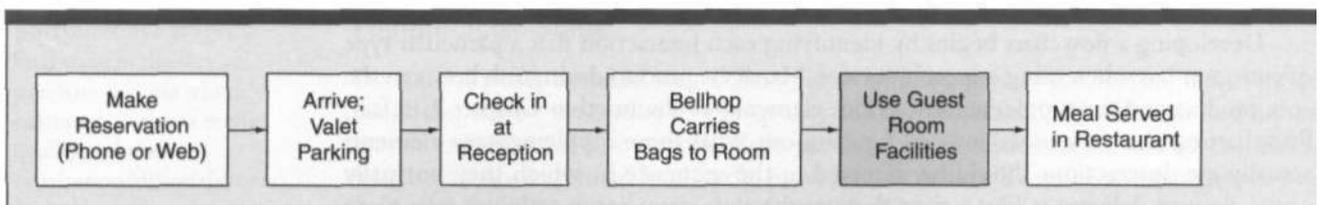
### The Value of Flowcharting

Marketers find flowcharting particularly useful for defining the point(s) in the process at which the customer uses the core service and identifying the different supplementary services that make up the overall service package.

Although some service encounters are very brief and consist of just a few discrete delivery steps—such as a taxi ride or a simple haircut—others may extend over a longer time frame and involve multiple steps. A leisurely restaurant meal might stretch over a couple of hours or more, while a visit to a theme park might last all day. From arrival to departure, the one-night hotel visit described above probably lasts at least 12 to 14 hours; and the first step, the reservation, may take place days or even weeks prior to arrival.

**FIGURE 4.5**

Flowcharting a Customer's  
Visit to a Hotel



As customers interact with representatives of the service firm, impersonal delivery systems such as Web sites, the physical environment of the service encounter, and—in high-contact environments—other customers—they are exposed to information that can influence both their expectations and their evaluations of the service. In Chapter 3, we used the term "moments of truth" to highlight the importance of the impressions created by airline passengers' contacts with staff before, during, and after a flight. A key question for managers is whether customers' expectations change during the course of service delivery in light of the perceived quality of sequential steps in the process. (You might want to reflect on whether your own impressions and expectations change during the course of an extended service performance.) Ideally, service firms should try to provide consistently high performance at each step in service delivery. But in reality, many service performances are inconsistent.

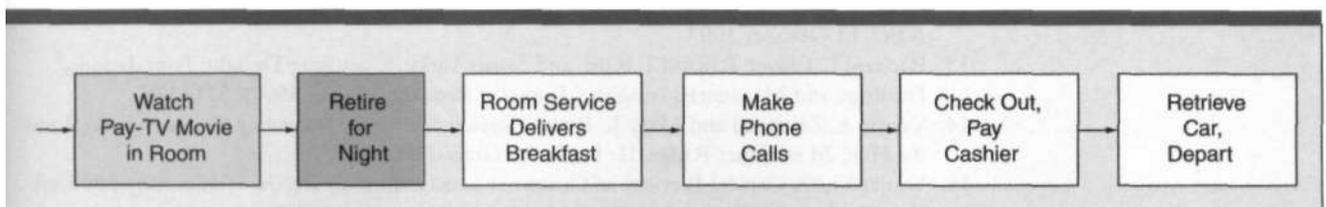
It's difficult to improve service quality and productivity unless you fully understand the customer's involvement in a given service environment. Speeding up processes and weeding out unnecessary steps to avoid wasted time and effort are often important ways to improve the perceived value of a service. When we come to discuss design of new services in Chapter 8, we introduce a more structured version of the flowchart known as a service blueprint that includes what takes place backstage, out of the customer's sight.

## Conclusion

Successful service firms are well informed about their customers and are selective about the prospects that they target. Underlying this focus is the concept of market segmentation, which groups both individual consumers and corporate buyers according to their expressed or implied needs, their observed or reported behavior, readiness to use technology, or other marketing-relevant variables.

Gaining a better understanding of how customers evaluate, select, use, and occasionally abuse services should lie at the heart of strategies for designing and delivering the service product. It also has implications for choice of service processes, presentation of physical evidence, and use of marketing communications—not least for educational purposes. Several of the distinctive characteristics of services (especially intangibility and quality control problems) result in customer evaluation procedures that differ from those involved in evaluating physical goods.

Because the consumer evaluation and purchase processes for many services are complex, service managers need to understand how customers view the service offering and to explore the factors that determine customer expectations and satisfaction. To understand service usage, it's helpful to employ flowcharting, which provides a visual picture of the service delivery process from the customer's perspective.



## Study Questions and Exercises

1. Review Figure 4.1. Which technological category are you in? What factors have influenced your consumption of high-tech goods and services?
2. Is it ethical for companies to target specific customer groups (like the elderly and children)? Explain your response.
3. Describe search, experience, and credence attributes and give examples of each.
4. Explain why services are harder than goods for customers to evaluate.
5. How are customers' expectations formed? Explain the difference between desired service and adequate service with reference to a service experience you've had recently.
6. What role do needs play in consumer purchase behavior?
7. Define the three stages in the purchase process for services.
8. Choose a service that you are familiar with and create a simple flowchart for it. Define the "front stage" and "backstage" activities.

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