

Complaint Handling and Service Recovery

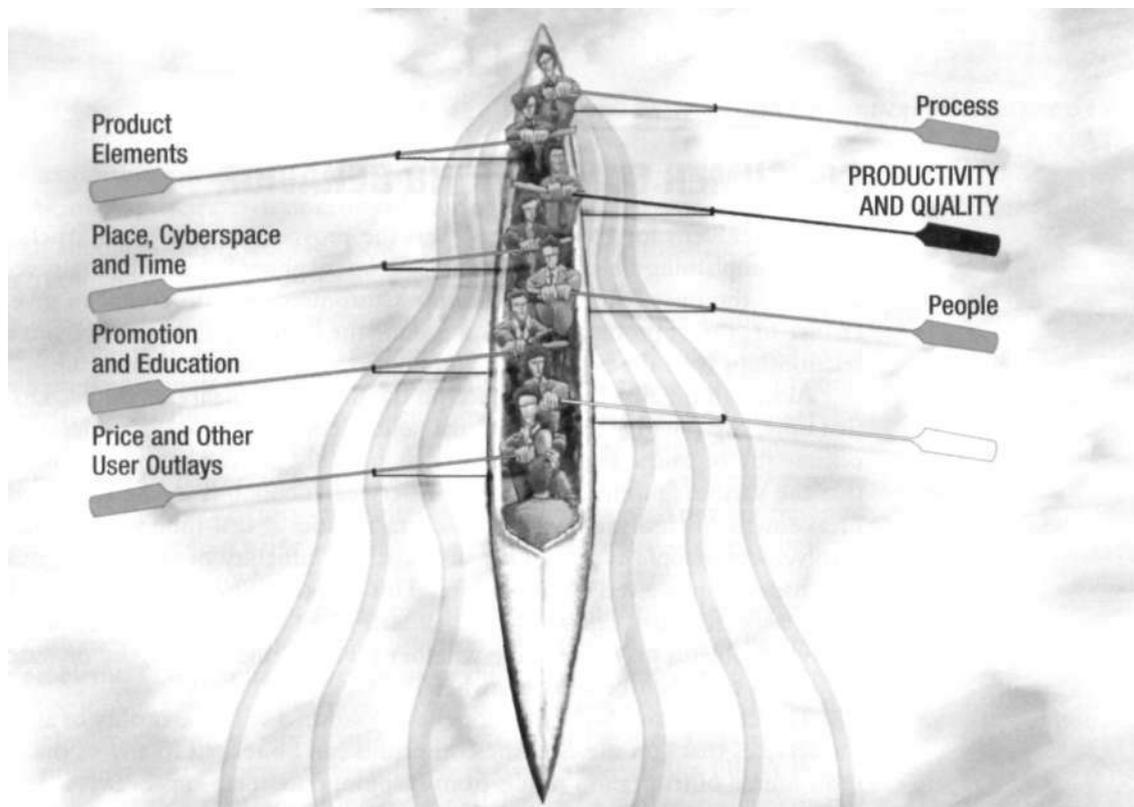
Why Did the Hotel Guests Pass Up a Free Breakfast?

An alert hostess at a Hampton Inn in California noticed that two guests from an Australian tour group were passing up her hotel's complimentary breakfast.¹ On the second morning, she asked if anything was wrong. "To be honest, the food is just not what we're used to at home," they replied, describing a typical Australian breakfast. When they came down the next morning, the hostess greeted them cheerfully. "I think we might be able to give you some breakfast this morning," she smiled, laying out items they had mentioned the previous day. She had made a quick trip to a nearby supermarket and added some items from her own kitchen at home. The guests were thrilled. "So this is what 100 percent satisfaction means?" they asked. "We get to define satisfaction?" They were so impressed that they arranged to have the other members of their tour group, who were staying at another hotel, move to the Hampton Inn. The two weeks of unexpected tour revenue from the group resulted in a more than adequate return on the extra time and money.

The 1,000-plus Hampton Inns offer their guests a valued promise: an *unconditional* guarantee of satisfaction. Guests define satisfaction on their own terms, and the hotel guarantees the customer-defined satisfaction—without negotiation. These two elements make the guarantee extraordinary and give Hampton Inn a competitive advantage in its lodging segment. Since its introduction, only a few competitors have imitated Hampton Inn's "100% Satisfaction

Guarantee." More important, mere imitation has not produced the same results, because the imitators lack the supporting infrastructure, culture, and above all the necessary *attitude* to make the guarantee more than a slogan. Initially, the guarantee was viewed as a proactive approach to what Ray Schultz, later chairman of Hampton Inn's parent company, referred to as "the heartbreak of franchising," the all-too-familiar deterioration of a lodging chain that traditionally plagues the lodging industry. He recognized how easily quality and service standards could slip as properties aged. Investments in properties—either hard dollars for capital improvements or soft dollars for employee training, for example, were often compromised to support short-term earnings.

Furthermore, Schultz recognized the inherent difficulty of maintaining quality standards across a large and diverse multi-site franchise system, in which properties are owned by outside investors. He knew that the challenge would only intensify given the company's aggressive growth strategy. "We cannot compromise the quality of Hampton Inns as we grow, because ultimately that would constrain our growth," he asserted. "Deteriorating quality inevitably will result in declining guest satisfaction, lower guest loyalty, and negative word-of-mouth. That's a recipe for further deterioration in revenue and operating cash flow. It is easy to lower service standards, but once lowered, it is very difficult to raise them."



© Learning Objectives

After reading this chapter, you should be able to

- £> discuss the nature and extent of consumer complaints
- ^> outline the courses of action available to a dissatisfied consumer
- 3=> explain the factors that influence consumer complaining behavior
- ^> identify the principles of an effective service recovery system
- ^> demonstrate the value of an effective service guarantee

CONSUMER COMPLAINING BEHAVIOR

"Thank Heavens for Complainers" was the provocative title of an article about customer complaining behavior. "The ones I worry about," declared one successful manager, "are the ones I never hear from."² Customers who do complain give a firm the chance to correct problems (including some the firm may not even know it has), restore relationships with the complainer, and improve future satisfaction for all.

Although the first law of service productivity and quality might be "Do it right the first time," we can't ignore the fact that failures continue to occur, sometimes for reasons outside the organization's control. You've probably noticed from your own experience that the various "moments of truth" in service encounters are especially vulnerable to breakdowns. Such distinctive service characteristics as real-time performance, customer involvement, people as part of the product, and difficulty of evaluation greatly increase the chance of perceived service failures. This chapter addresses the question: *What should we do when customers' expectations are not met?* How well a firm handles complaints and resolves problems may determine whether it builds customer loyalty or watches former customers take their business elsewhere.

The chances are that you're not entirely satisfied with the quality of at least some of the services that you use. Specific complaints can be related to any of the 8Ps. A common source of frustration results from inappropriate trade-offs between *productivity and quality*, when a firm tries to boost productivity without thinking about its impact on customers. Perhaps some of the *product elements* are poorly executed. Or maybe the *service processes* in which you are involved are badly organized. Shortcomings in delivery—*place, cyberspace, and time*—are common. For example, a service may be unavailable where and when you want it; or a Web site may not be functioning satisfactorily. Failings in physical evidence include ugly or poorly maintained facilities and dirty or poorly fitting staff uniforms.

Price and other user outlays are a major source of complaints. You can probably recall occasions when you felt you were overcharged, were kept waiting too long, or endured unnecessary hassles. Your disappointment with a service may also have resulted from *promotion and education* strategies that promised too much (thus raising your expectations too high), or failed to instruct you properly in how to use the service. And perhaps you were inconvenienced or annoyed at some point by the behavior of the *people* in a service environment—either customer-contact personnel or other customers.

How do you respond when you have been disappointed? Do you complain informally to an employee, ask to speak to the manager, file a complaint with the head office of the firm that let you down, write to some regulatory authority, or telephone a consumer advocacy group? Or do you just grumble to your friends and family, mutter darkly to yourself, and take your business elsewhere next time you need that type of service?

If you don't normally tell a company (or outside agency) of your displeasure with unsatisfactory service or faulty goods, then you're not alone. Research around the world has exposed the sad fact that most people do not complain, especially if they don't think it will do any good. And even when they do communicate their dissatisfaction, managers may not hear about complaints made to customer-contact personnel.³

Customer Response to Service Failures

What options are open to customers when they experience a service failure? Figure 6.1 depicts the courses of action available.

This model suggests at least four major courses of action:

- >- Do nothing
- »- Complain to the service firm

complaint: a formal expression of dissatisfaction with any aspect of a service experience.

service failure: a perception by customers that one or more specific aspects of service delivery have not met their expectations.

- »- Take action through a third party (consumer advocacy group, consumer affairs or regulatory agencies, civil or criminal courts)
- >- Switch suppliers and discourage other people from using the original service firm (through negative word-of-mouth)

It's possible to imagine a variety of outcomes to the actions listed in Figure 6.1 that might cause customers to feel a range of emotions from fury to delight. The risk of defection is high if customers are dissatisfied, especially when there is a variety of competing alternatives available. One study of customer switching behavior in service industries found that close to 60 percent of all respondents who reported changing suppliers did so because of a perceived failure: 25 percent cited failures in the core service, 19 percent reported an unsatisfactory encounter with an employee, 10 percent reported an unsatisfactory response to a prior service failure, and 4 percent described unethical behavior on the part of the provider.⁴

Managers need to be aware that the impact of a defection can go far beyond the loss of that customer's future business. Angry customers often tell many other people about their problems. The Web has made life more difficult for companies that provide poor service, because unhappy customers can now reach thousands of people by posting complaints on bulletin boards or setting up Web sites to publicize their bad experiences with specific organizations.⁵ There are even Internet-based services like Ellen's Poison Pen (www.ellenspoisonpen.com) that, for a fee, will deluge CEOs of offending companies with letters, e-mails, and faxes until the disgruntled customer is compensated—or at least acknowledged. Companies who have been on the receiving end of correspondence from these new online consumer complaint services have charged that cyberspace is fast becoming "Whine Country."⁶

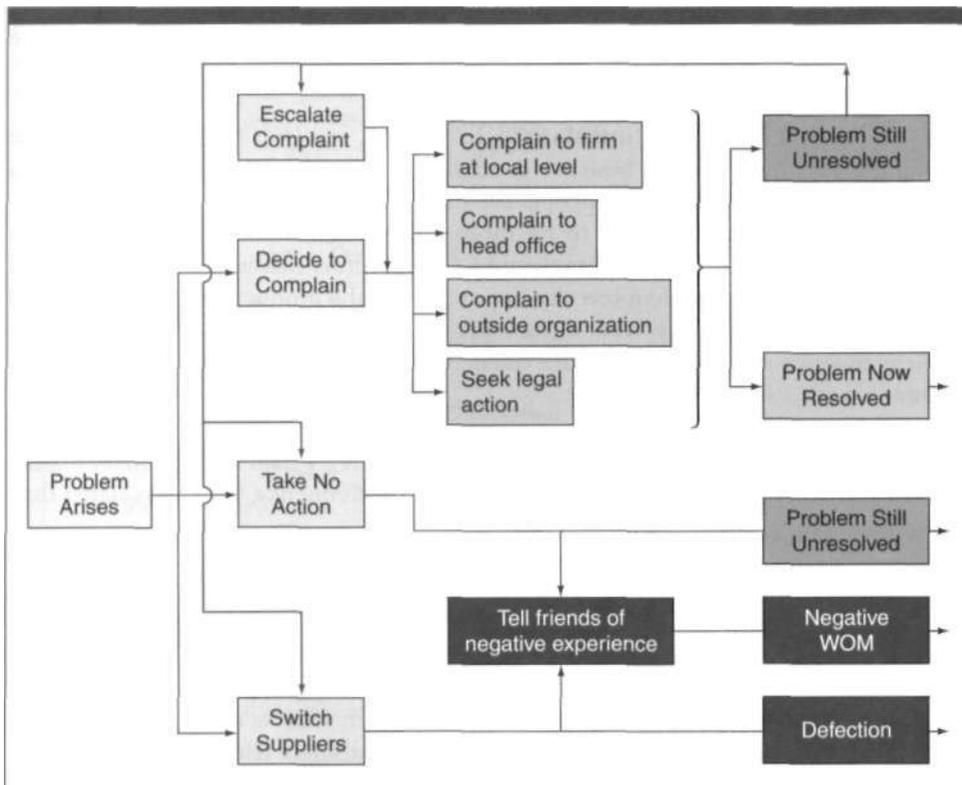


FIGURE 6.1

Courses of Action Open to a Dissatisfied Customer

The TARP Study of Consumer Complaint Handling

TARP, a leading customer satisfaction and loyalty measurement firm (now known as e-Satisfy), has studied consumer complaint handling in many countries. It published a landmark research study based on its own research and a detailed review of other studies from around the world.⁷ The findings, which were widely publicized, prompted many managers to consider the impact of dissatisfied customers—especially those who never complained but simply defected to a competitor. Let's take a closer look at some specific findings, recognizing that some of the percentages reported may change for better or worse over time.

What Percentage of Problems Are Reported? From its own research and detailed literature studies, TARP found that when U.S. customers experienced problems concerning manufactured consumer products, only 25 percent to 30 percent of them actually complained. For grocery products or their packaging, the market research firm of A.C. Nielsen found a complaint rate of 30 percent. Even for problems with large-ticket durables, TARP determined that the complaint rate among dissatisfied customers was only 40 percent. Similar findings come from other countries. A Norwegian study found that the percentage of dissatisfied consumers who complained ranged from 9 percent for coffee to 68 percent for cars. A German study showed that only a small fraction of customers expressed dissatisfaction, but among this group the complaint rates ranged from 29 percent to 81 percent. And finally, a Japanese study found complaint rates of 17 percent among those experiencing a problem with services and 36 percent for those experiencing a problem with goods.

Where Do People Complain? Studies show that the majority of complaints are made at the place where the product was bought or the service received. Very few dissatisfied consumers complain directly to the manufacturers or to the head office. In fact, industry-specific studies conducted by TARP suggest that fewer than 5 percent of complaints about large-ticket durable goods or services ever reach corporate headquarters, presumably because retail intermediaries fail to pass them on.

Who Is Most Likely to Complain? In general, research findings suggest that consumers from high-income households are more likely to complain than those from lower income ones, and younger people are more likely to complain than older ones. People who complain also tend to be more knowledgeable about the products in question and the procedures for complaining. Other factors that increase the likelihood of a complaint include problem severity, importance of the product to the customer, and whether financial loss is involved. Customers are also more likely to complain if the problem involves a technology failure during a self-service interaction instead of an encounter with a service employee.⁸

Why Don't Unhappy Customers Complain? TARP found three primary reasons why dissatisfied customers don't complain. In order of frequency, customers stated that:

- >- they didn't think it was worth the time or effort,
- >- they decided no one would be concerned about their problem or resolving it, and
- >• they did not know where to go or what to do.

Unfortunately, this pessimism seems justified since a large percentage of people (40 percent to 60 percent in two studies) reported dissatisfaction with the outcome of their complaints. Another reason why people don't complain reflects culture or context. A study in Japan found that 21 percent of dissatisfied customers felt awkward or embarrassed about complaining. In some European countries, there is a strong guest-host rela-

tionship between service providers and customers (especially in the restaurant industry) and it's considered bad manners to tell customer-contact personnel that you are dissatisfied in any way with the service or the meal. Think about an occasion when you were dissatisfied but did not complain. What were the reasons?

Impact on Repurchase Intentions When complaints are satisfactorily resolved, there's a much better chance that the customers involved will remain brand loyal and continue to repurchase the items in question. TARP found that intentions to repurchase different types of products ranged from 69 percent to 80 percent among those complainers who were completely satisfied with the outcome of the complaint. This figure dropped to 17 percent to 32 percent (depending on the type of product) for complainers who felt that their complaint had not been settled to their satisfaction.

Variations in Dissatisfaction by Industry

Although significant improvements in complaint handling practices occurred during the 1980s and early 1990s in some industries, many customers remain dissatisfied with the way in which their problems are resolved.

There are discouraging signs that the situation is deteriorating again. Data from Better Business Bureaus showed that consumer complaints more than doubled between 1995 and 1999. One reason may be that customer expectations are rising at the same time that companies are focusing their attention on their most loyal and profitable customers and paying less attention to the rest.⁹ Firms have also been trying to save money by automating their complaint handling procedures, making it increasingly difficult for customers to speak with a real person.

A valuable measure of how well different industries in the United States are performing relative to the needs and expectations of the marketplace is provided by the American Customer Satisfaction Index (ACSI), which measures customers' evaluations of the total purchase and consumption experience, both actual and anticipated, on an annual basis.¹⁰ ACSI results show that most manufactured products score higher than most services. Figure 6.2 shows the trend in annual satisfaction scores for several major service industries between 1995 and 2000. Most show a decline, with the airline indus-

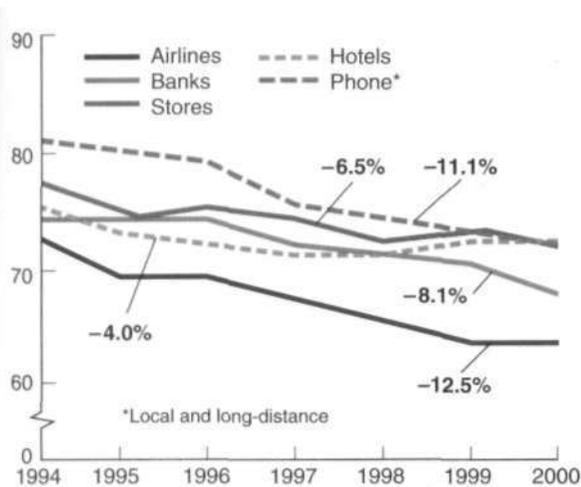


FIGURE 6.2
Declining Satisfaction Hits Major Service Industries in the USA, 1995-2000

Based on annual poll of more than 50,000 customers, measuring overall satisfaction with products and services. Scale: 1-10

Source: American Customer Service Index, University of Michigan Business School.

try showing the sharpest deterioration in customer satisfaction. As these data suggest, many service industries are still a long way from meeting their customers' expectations on service. But some companies do better than others. Within each industry, there are often considerable variations in performance between different firms.

Findings from a large-scale study of consumer complaining behavior in Australia showed that, among the industries studied, a majority of customers who had a serious problem did make the effort to complain.¹⁴ The results showed considerable disparity from one service industry to another in both the incidence of unsatisfactory service as well as in customers' likeliness to complain. For instance, more Australians were willing to complain about telephone service and other utilities than about restaurants and health services.

Other key findings from this study were the following:

- >- 57 percent of respondents had experienced at least one problem with products or services within the past 12 months.
- >- On average, 73 percent of those respondents who had a serious problem took some action to have it corrected.
- >> Only 34 percent who took action were satisfied with the way the problem was resolved.
- >>> Among those who were not happy with their complaint outcome, 89 percent reported they would not deal with the same firm again.
- >>> Complaining households made an average of 3.4 contacts each in an effort to have their most serious problems resolved.
- >- The further up the management hierarchy customers had to go to get the problem resolved, the more their satisfaction declined.
- >- On average, a dissatisfied customer told nine other people while a satisfied customer told only half as many.

What do people actually complain about? Inevitably, there are variations from one industry to another when it comes to problems with the core product, but certain aspects of customer service are common to numerous service industries. Figure 6.3 highlights the extent of different types of complaints about telephone service in the United States, as reported to the Federal Communications Commission. It's striking to note that 41 percent of all complaints concern inaccurate information. A substantial proportion of the

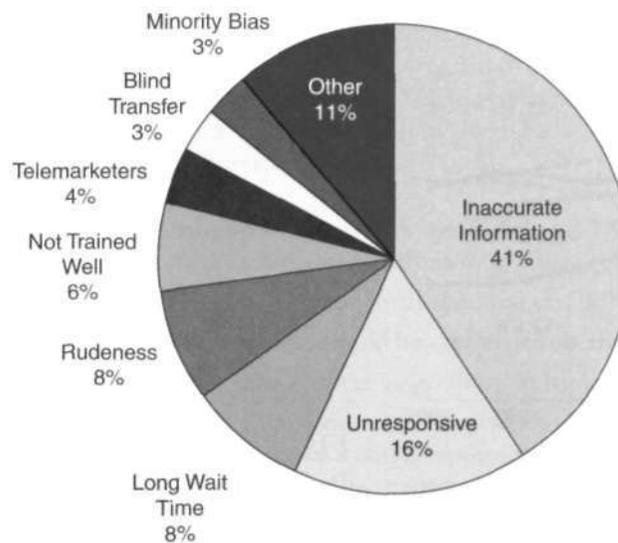


FIGURE 6.3

How U.S. Complaints About Phone Service Break Down

Data: Federal Communications Commission.

remaining complaints revolve around failings on the part of service personnel, including unresponsiveness, rudeness, poor training, and a bias against minorities.

Factors Influencing Complaining Behavior

When consumers have an unsatisfactory service encounter, their initial (often unconscious) reaction is to assess what is at stake. In general, studies of consumer complaining behavior have identified two main purposes for complaining. First, consumers will complain to recover some economic loss, seeking either to get a refund or to have the service performed again (e.g., car repairs, dry-cleaning services). They may take legal action if the problem remains unresolved. A second reason for complaining is to rebuild self-esteem. When service employees are rude, aggressive, deliberately intimidating, or apparently uncaring (such as when a sales assistant is discussing his weekend social activities with colleagues and pointedly ignores waiting customers), the customers' self-esteem, self-worth, or sense of fairness may be negatively affected. They may feel that they should be treated with more respect and become angry or emotional.

There are *costs* associated with complaining. These may include the monetary cost of a stamp or phone call, time and effort in writing a detailed letter or making a verbal complaint, and the psychological burden of risking an unpleasant personal confrontation with a service provider—especially if this involves someone whom the customer knows and may have to deal with again). Such costs may well deter a dissatisfied customer from complaining. Often, it is simply less stressful to defect to a different service supplier—especially when the switching costs are low or nonexistent. If you are unhappy with the service you receive from your travel agent, for example, you may easily switch to a different agent next time. However, if you decide to switch doctors or dentists, you may have to ask to have all of your medical records transferred. This requires more effort and might make you feel uncomfortable.

Complaining represents a form of social interaction and therefore is likely to be influenced by role perceptions and social norms. One study found that for services where customers have "low power" (defined as the perceived ability to influence or control the transaction), they are less likely to voice complaints. Professional service providers such as doctors, dentists, lawyers, professors, and architects are a good example. Social norms tend to discourage criticism by clients of such individuals, who are seen as "experts" about the service being offered. A clear implication is that professionals need to develop comfortable ways for their clients to express legitimate complaints.

What do customers expect after investing time and effort in making a complaint? In a very real sense, they are looking for justice and fairness. Based on a study of consumers' experiences with complaint resolution, Tax and Brown identified three types of fairness.¹³ The first, *outcome fairness*, relates to customer expectations of outcomes or compensation that matches the level of dissatisfaction. Second, customers expect *procedural fairness*, in terms of clear, timely, and hassle-free procedures for handling complaints and resolving problems. Third, customers look for *interaction fairness*, which involves being treated politely, with care and honesty.

Complaints as Market Research Data

Responsive service organizations look at complaints as a stream of information that can be used to help monitor productivity and quality and highlight changes needed to improve service design and execution. Complaints about slow service or bureaucratic procedures, for instance, may provide useful documentation of inefficient and unproductive processes. Personal or telephone interviews offer much better opportunities than mail or in-store surveys to dig deeper and probe for what lies behind certain responses. A skilled interviewer can solicit valuable information by asking customers questions such as: "Can you tell me why you feel this way? Who (or what) caused this

situation? How did customer-contact employees respond? What action would you like to see the firm take to prevent a recurrence of such a situation?"

For complaints to be useful as research input, they should be funneled into a central collection point, recorded, categorized, and analyzed. Compiling this documentation requires a system for capturing complaints wherever they are made—without hindering timely resolution of each specific problem—and transmitting them to a central location where they can be recorded in a company-wide **complaint log**. The most useful roles for centralized complaint logs are: (1) to provide a basis for following up on and tracking all complaints to see that they have in fact been resolved; (2) to serve as an early warning indicator of perceived deterioration in one or more aspects of service; and (3) to indicate topics and issues that may require more detailed research. However, creating and maintaining a company-wide log is not a simple matter because there are many different entry points for complaints, including the following:

complaint log: a detailed record of all customer complaints received by a service provider.

- >- the firm's own employees at the front line, who may be in contact with customers face-to-face or by telecommunications;
- ^intermediary organizations acting on behalf of the original supplier;
- >- managers who normally work backstage but who are contacted by a customer seeking higher authority;
- »- suggestion or complaint cards mailed or placed in a special box; and
- >• complaints to third parties—consumer advocate groups, legislative agencies, trade organizations, and other customers.

Making It Easier for Customers to Complain

How can managers make it easier for unhappy customers to complain about service failures? Many companies have improved their complaint collection procedures by adding special toll-free phone lines, prominently displayed customer comment cards, Web sites and e-mail addresses, and video or computer terminals for recording complaints. Some go even further, encouraging their staff to ask customers if everything is satisfactory and to intervene if a customer is obviously unhappy.¹⁴ The hostess at Hampton Inn was clearly very observant. She noticed that the two Australian guests



When unhappy customers complain, it makes life stressful for service personnel like this pharmacist—especially if it's not the latter's fault.

passed up the opportunity for breakfast two mornings in a row and sensed—or perhaps overheard them express—their disappointment.

Of course, just collecting complaints doesn't necessarily help to resolve them. In fact, accepting complaints and then ignoring them may make matters worse! Although friendly sympathy from an employee is much better than an irritable shrug, companies need to have a well-designed service recovery strategy that empowers employees to resolve problems quickly and satisfactorily. For example, the Hampton Inn hostess asked the two guests what they would normally eat for breakfast at home and then took the initiative during her free time to obtain the preferred items and bring them to the hotel. Ritz-Carlton employees are empowered to spend up to \$2,000 to find a solution for a customer complaint. They also have permission to break from their routine jobs for as long as necessary to make a guest happy.¹⁵

IMPACT OF SERVICE RECOVERY EFFORTS ON CUSTOMER LOYALTY

Complaint handling should be seen as a profit center, not a cost center. TARP has even created a formula to help companies relate the value of retaining a profitable customer to the overall costs of running an effective complaint handling unit. Plugging industry data into this formula yielded some impressive returns on investment: from 50 percent to 170 percent for banking, 20 percent to 150 percent for gas utilities, over 100 percent for automotive service, and from 35 percent to an astonishing 400 percent for retailing.¹⁶

Underlying these statistics is a simple fact. When a dissatisfied customer defects, the firm loses more than just the value of the next transaction. It may also lose a long-term stream of profits from that customer and from anyone else who switches suppliers because of negative comments from an unhappy friend. So it pays to invest in **service recovery** efforts designed to protect those long-term profits. Efforts to design service recovery procedures must take into account a firm's specific environment and the types of problems that customers are likely to encounter. Figure 6.4 displays the components of an effective service recovery system.

service recovery: systematic efforts by a firm after a service failure to correct a problem and retain a customer's goodwill.

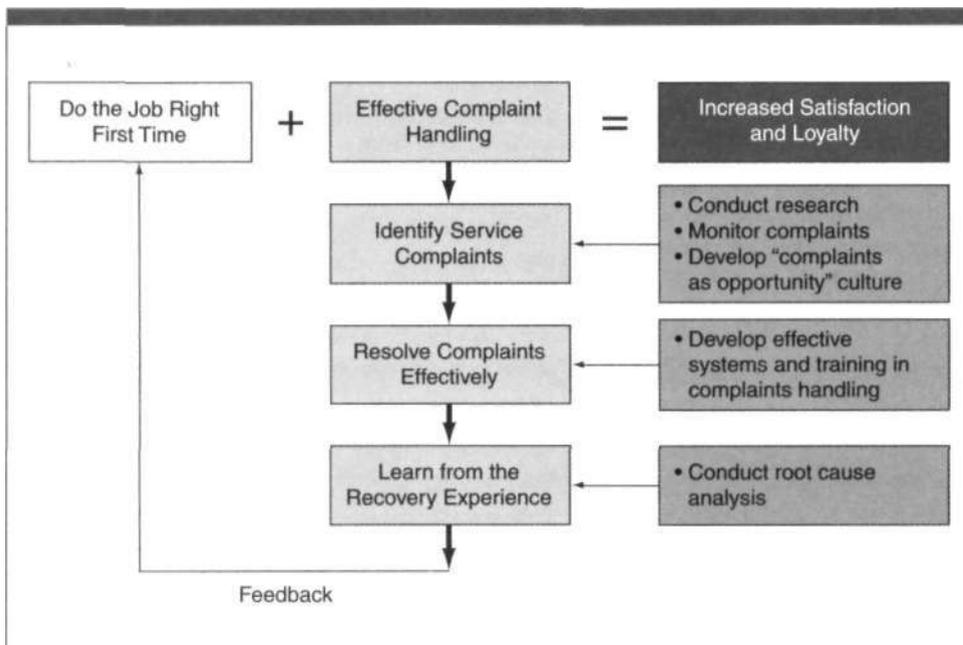


FIGURE 6.4
Components of an Effective Service Recovery System

Service Recovery Following Customer Complaints

Service recovery plays a crucial role in restoring customer satisfaction following a service failure and retaining a customer's goodwill. The true test of a firm's commitment to satisfaction and service quality isn't in the advertising promises or the decor and ambience of its offices, but in the way it responds when things go wrong for the customer. Recent research suggests that customers' satisfaction with the way in which complaints are handled has a direct impact on the trust they place in that supplier and on their future commitment to the firm.¹⁷ Unfortunately, firms don't always react in ways that match their advertised promises. Effective service recovery requires thoughtful procedures for resolving problems and handling disgruntled customers, because even a single service problem can destroy a customer's confidence in a firm if the following conditions exist:¹⁸

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

Principles of Effective Problem Resolution

Recovering from service failures takes more than just pious expressions of determination to resolve any problems that may occur. It requires commitment, planning, and clear guidelines. Both managers and front-line employees must be prepared to deal with angry customers who are confrontational and sometimes behave in insulting ways toward service personnel who aren't at fault in any way. Service recovery efforts should be flexible, with employees being trained to handle complaints and empowered to develop solutions that will satisfy complaining customers.¹⁹

Guidelines for Effective Problem Resolution

1. **Act fast.** If the complaint is made during service delivery, then time is of the essence to achieve a full recovery. When complaints are made after the fact, many companies have established policies of responding within 24 hours, or sooner. Even when full resolution is likely to take longer, fast acknowledgment remains very important.
2. **Admit mistakes but don't be defensive.** Acting defensively may suggest that the organization has something to hide or is reluctant to fully explore the situation.
3. **Show that you understand the problem from each customer's point of view.** Seeing situations through the customers' eyes is the only way to understand what they think has gone wrong and why they are upset. Service personnel should avoid jumping to conclusions with their own interpretations.
4. **Don't argue with customers.** The goal should be to gather facts to reach a mutually acceptable solution, not to win a debate or prove that the customer is an idiot. Arguing gets in the way of listening and seldom diffuses anger.
5. **Acknowledge the customer's feelings,** either tacitly or explicitly (e.g., "I can understand why you're upset"). This action helps to build rapport, the first step in rebuilding a bruised relationship.
6. **Give customers the benefit of the doubt.** Not all customers are truthful and not all complaints justified. But customers should be treated as though they have a valid complaint until clear evidence to the contrary emerges. If a lot of money is at stake (as in insurance claims or potential lawsuits), careful investigation is warranted; if the amount involved is small, it may not be worth haggling over a

The material in the box on guidelines for effective problem resolution is based on discussions with executives in many different industries. Well-managed companies seek to act quickly and perform well on each of the 10 guidelines. Research suggests that the slower the resolution of a service problem, the greater the compensation (or "atone-ment") needed to make customers satisfied with the outcome of the service recovery process.²⁰ Treating complaints with suspicion is likely to alienate customers. The president of TARP (the company that undertook the studies of complaining behavior described earlier) notes:

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

Taking care of customers requires that the firm also take care of its employees. Managers need to recognize that handling complaints about service failures and attempting service recovery can be stressful for employees, especially when they are treated abusively for problems over which they have no control. Compounding the stress are policies that impose inflexible, bureaucratic procedures rather than empowering customer-contact personnel to handle recovery situations as they see fit. Bowen and Johnston argue that service firms need to develop "internal service recovery strategies" designed to help employees recover from the negative feelings that they may incur from being the target of customer anger and dissatisfaction.²²

Similarly, management must ensure that the firm employs a sufficient number of well-trained and motivated employees to be able to provide good service in the first place. Downsizing (a deliberate policy of reducing the number of employees to reduce costs) often involves a calculated gamble that replacing people by automated phone messages and Web sites will enable the firm to continue to respond satisfactorily to customers' problems. The telecommunications industry provides a cautionary tale of the risks of cutting back people-based service in favor of automated solutions, especially

refund or other compensation. But it's still a good idea to check records to see if there is a past history of dubious complaints by the same customer.

7. **Clarify the steps needed to solve the problem.** When instant solutions aren't possible, telling customers how the organization plans to proceed shows that corrective action is being taken. It also sets expectations about the time involved (so firms should be careful not to overpromise!).
8. **Keep customers informed of progress.** Nobody likes being left in the dark. Uncertainty breeds anxiety and stress. People tend to be more accepting of disruptions if they know what is going on and receive periodic progress reports.
9. **Consider compensation.** When customers don't receive the service outcomes promised or suffer serious inconvenience and/or loss of time and money because of service failures, either a monetary payment or an offer of equivalent service in kind is appropriate. This type of recovery strategy may also reduce the risk of legal action by an angry customer. Service guarantees often lay out in advance what such compensation will be, and the firm should ensure that all guarantees are met.
10. **Persevering to regain customer goodwill.** When customers have been disappointed, one of the biggest challenges is to restore their confidence and preserve the relationship for the future. Perseverance may be required to defuse customers' anger and to convince them that actions are being taken to avoid a recurrence of the problem. Truly exceptional recovery efforts can be extremely effective in building loyalty and referrals.

service guarantee: a promise that if service delivery fails to meet predefined standards, the customer is entitled to one or more forms of compensation.

during a period of continuing mergers, acquisitions, and divestitures. Corporate customers, ranging from international airlines to the Chicago Board of Trade, are among those whose telephone or Internet operations have been paralyzed by service failures; these situations worsened dissatisfaction when customers "were unable to find anyone who could promptly resolve their problems.

SERVICE GUARANTEES

A small but growing number of companies offer customers an unconditional guarantee of satisfaction. These guarantees promise that if service delivery fails to meet predefined standards, the customer is entitled to one or more forms of compensation—such as an easy-to-claim replacement, refund, or credit. Christopher Hart argues that **service guarantee** is a powerful tool for promoting and achieving service quality, citing the following reasons:

1. Guarantees force firms to focus on what their customers want and expect in each element of the service.
2. Guarantees set clear standards, telling customers and employees alike what the company stands for. Compensating customers for poor service causes managers

Four Service Guarantees

1. Excerpt from the "Quality Standard Guarantees" of an office services company

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

Source: Reproduced in Eileen C. Shapiro, *Fad Surfing in the Boardroom* (Reading, MA: Addison-Wesley, 1995), 180.

2. U.S. Postal Service Express Mail Guarantee

Excludes all international shipments. Military shipments delayed due to Customs' inspections are also excluded. If this shipment is mailed at a designated USPS Express Mail facility on or before the specified time for overnight delivery to the addressee, it will be delivered to the addressee or agent before the guaranteed time the next delivery day. Signature of the addressee, addressee's agent, or delivery employee is required upon delivery. If it is not delivered by

the guaranteed time and the mailer makes a claim for a refund, the USPS will refund the postage unless: (1) delivery was attempted but could not be made, (2) this shipment was delayed by strike or work stoppage, or (3) detention was made for a law enforcement purpose.

Source: Printed on back of Express Mail receipt

3. L.L. Bean's Guarantee

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

Source: Printed in all L.L. Bean catalogs and on the company's Web site, www.llbean.com/customerservice/, January 2000.

4. Blockbuster Video's Guarantee

Get a Movie Rental FREE if you don't love *Keeping the Faith*. FREE movie rental given only on visit with return of paid rental of *Keeping the Faith*. Recipient responsible for applicable taxes and extended viewing fees. If recipient rents more than one movie, credit will be applied to lowest rental price. Offer valid at participating stores. Limit one (1) satisfaction guarantee coupon per featured title.

Source: Blockbuster Video monthly mailing to Rewards program members, October 2000.

to take guarantees seriously, because they highlight the financial costs of quality failures.

3. Guarantees require the development of systems for generating meaningful customer feedback and acting on it.
4. Guarantees force service organizations to understand why they fail and encourage them to identify and overcome potential fail points.
5. Guarantees build "marketing muscle" by reducing the risk of the purchase decision and building long-term loyalty.

Many firms have enthusiastically leapt on the service guarantees bandwagon without carefully thinking through what is implied in making and keeping the promises of an unconditional service guarantee. Compare the four examples of service guarantees in the box on page 130 and ask yourself how much is covered by each guarantee, how much each contributes to reducing risk for the customer, and how much pressure each puts on its respective organization to maintain service standards.

Building Strategy Around a Hotel Service Guarantee

Hampton Inn's 100 percent Satisfaction Guarantee (see Figure 6.5) has proved to be a very successful business-building program. The strategy of offering to refund the cost of the room for the day on which a guest expresses dissatisfaction has attracted new customers and also served as a powerful guest-retention device. People choose to stay at a Hampton Inn because they are confident they will be satisfied. At least as important, the guarantee has become a vital tool to help managers to identify new opportunities for quality improvement and to make those improvements happen. In this regard, the 100% Satisfaction Guarantee "turned up the pressure in the hose," as one manager put it, showing where "leaks" existed, and providing the incentive to plug



FIGURE 6.5
The Hampton Inn 100% Satisfaction Guarantee

them. As a result, the guarantee has had an important impact on product consistency and service delivery across the Hampton Inn chain, dramatically improving on financial performance.

However, fully implementing a 100 percent Satisfaction Guarantee is no easy task, as some competitors who have tried to imitate it can attest. Successful implementation of a 100 percent Satisfaction Guarantee requires that its underlying philosophy of guest satisfaction be embraced by every employee, from senior management to hourly workers. This has proved challenging even for Hampton Inn, where the guarantee has faced both resistance and skepticism from hotel managers in spite of its proven benefits. The box "How Unconditional Is Your Guarantee?" illustrates just how challenging it is for other hotels to imitate the concept of a truly unconditional guarantee.

Designing the Guarantee The first step in designing the guarantee at Hampton Inn was to answer a key question: "What would guests want in a guarantee?" Research revealed that they were most interested in the quality and cleanliness of their accommodations, friendly and efficient service, and a moderate price. They also wanted

How Unconditional Is Your Guarantee?'

Christopher Hart tells this story of an incident at a hotel in a well-known chain. He and his two cousins, Jeff and Roxy Hart, were nearing the end of an extended holiday weekend and needed to find an inexpensive place to stay. It was late in the day and their flight left early the following morning. Jeff called Hampton Inn and found nothing available in the area. So he called (name deleted) Inn, which had rooms available and booked one for \$62.

We found the hotel [said Chris], noticing a huge banner draped from the bottom of the sign, advertising, "Rooms for \$55.95, including breakfast." We went inside. After giving the front-desk clerk the basic information, Jeff was told that his room would be \$69. "But the reservation agent I just booked the room with quoted me \$62. What's the story? And, by the way, what about the \$55.95 price advertised on your sign? Can I get a room for that price?"

"Oh," replied the front-desk clerk. "That was a special promotion for the spring. It's over now." (It was late June.)

Jeff replied, "But you're still advertising the price. It's illegal to advertise one price and charge another one."

"Let me get my manager," came the nervous response. Out came the manager. In the middle of the conversation, in which Jeff was arguing the same points that he made with the front-desk clerk, Chris interjected, "By the way, I understand you offer a satisfaction guarantee. Right?"

"Not on the \$55.95 rooms," came the reply from the manager.

"Well, what rooms is it on?"

"Only the good rooms."

"You mean you have bad rooms?"

"Well, we have some rooms that have not been renovated. Those are the ones we sell for \$55.95. But we're sold out of them tonight."

Chris said, "Well, Jeff, you'd better get one of the more expensive rooms, because I'm not sure how satisfied you're going to be tomorrow."

The manager quickly added, "Did I mention that the guarantee doesn't apply on weekends?"

"No," barked Jeff, who had worked for 15 years conducting cost-benefit and compliance studies for the U.S. government, "and that's illegal too!"

"Wait just a minute," said the manager, getting a puzzled look as though something had just popped into his head. "Let me see something." He then buried his head into the computer, clicking away madly at the keyboard, creating the impression that he was working on our behalf. After an appropriate time, up popped his head, now with a big smile.

"One of the guests who originally reserved a \$55.95 room, called and upgraded—but the upgrade wasn't recorded in the computer. I could let you have that room—but I can't guarantee your satisfaction."

"We'll take it," said an exhausted Roxy.

a guarantee that was simple and easy to invoke if necessary. In-depth guest interviews yielded 53 "moments of truth" critical to guests' satisfaction with their Hampton Inn stays. These moments of truth translated into concrete and controllable aspects of Hampton Inn's product and service delivery. Throughout the guarantee design process, an important new mindset was reinforced: Listen to the guests, who knew best what satisfied them.

According to the vice president of marketing for Hampton Inn, "Designing the guarantee made us understand what made guests satisfied, rather than what *we thought* made them satisfied." It became imperative that everyone, from front-line employees to general managers and personnel at corporate headquarters, should listen carefully to guests, anticipate their needs to the greatest extent possible, and remedy problems quickly so that guests were satisfied with the solution. Viewing a hotel's function in this customer-centric way had a profound impact on the way the parent company conducted business.

Even among those who fully supported the guarantee concept in principle, pressing concerns remained:

- »- "Will guests try to cheat and rip us off?"
- >• "Will our employees give the store away?"
- >- "What will be the return on our efforts to increase customer satisfaction?"

The Pilot Test To prepare for the launch of the guarantee, a pilot test was conducted in 30 hotels that already had high customer satisfaction. Training was seen as critical. First, general managers were trained in the fundamentals of the guarantee—what it was and how it worked. Then the general managers trained their employees. Managers were taught to take a leadership role by actively demonstrating their support for the guarantee and helping their employees gain the confidence to handle guest concerns and problems. Finally, the guarantee was explained and promoted to guests.

After learning basic guarantee concepts and reviewing the Hampton Inn 100 percent Satisfaction Guarantee, general managers were asked to form groups of 10 to 12. Their charge was to list the positive and negative aspects of the guarantee on a flipchart. Few groups could come up with more than one or two pages of positives, but they had little difficulty creating lists of negatives; one such list was 26 pages long! Senior corporate managers went through each negative issue, addressing managers' concerns one by one. The concerns remained relatively consistent and centered on management control. There were also worries about guests abusing the guarantee and cheating (those nasty "jaycustomers" that were described in Chapter 5). For a discussion of how the company identifies such guests, see the box "Tracking Down Guests Who Cheat."

The pilot test produced some interesting results. Even at hotels that already had a high-satisfaction culture, corporate management found that front-line employees weren't always fully *empowered* to do whatever was needed to make a guest 100 percent satisfied. Further, employees did not always feel they had explicit responsibility for guest satisfaction. So they had to be taught that their job responsibilities now extended beyond the functional roles for which they were initially hired (i.e., property maintenance, breakfast staff, front desk).

Managers and employees discovered that the guarantee was not about giving money away—it was about making guests satisfied. They learned that satisfying guests by correcting problems had to be a priority. Employees were encouraged to creatively fix problems "on the spot," and rely on the guarantee as a "safety net" to catch guests who were still dissatisfied.

Ongoing Experience Now that the 100 percent Satisfaction Guarantee has become standard practice at Hampton Inn, the company provides reports every quarter that show the top five reasons for guarantee payouts. Managers are encouraged to develop clear action plans for eliminating the sources of guarantee payouts at their hotels. Once the sources of problems are systematically eliminated, payouts become less frequent. Guest satisfaction has increased substantially at those hotels where the guarantee has been most strongly embraced. Hampton Inn has also implemented an employee-awards program for employees who have undertaken exceptional acts of customer service. When this "cycle of success" occurs at a specific hotel, its employees become "guarantee advocates" who spread word of their success throughout the chain.

Over time, hotel managers have recognized two things. First, the number of people invoking the guarantee represents only a small percentage of all guests. Second, the percentage of cheaters in this group amounts to a ridiculously small number. As one manager admitted, "It occurred to me that I was managing my entire operation to accommodate the half of one percent of guests who actually invoke the guarantee. And out of that number, maybe only 5 percent were cheating. Viewed this way, I was focused on managing my business to only 0.025 percent of total revenues."

Experience has shown that guests are not typically looking for a refund—they just want to be satisfied with what they pay for. And because the 100 percent Satisfaction Guarantee promises just that, it's a powerful vehicle for attracting and retaining guests. The guarantee was subsequently extended to several of Hampton Inn's sister brands, Hampton Inn and Suites, Embassy Suites, and Homewood Suites. A subsequent survey found that:

- >- Fifty-four percent of guests interviewed said they were more likely to consider Hampton Inn (or one of its sister brand hotels) because of the guarantee.
- >- Seventy-seven percent of guests interviewed said they would stay again at the same **hotel**.
- »- Ninety-three percent of guests interviewed said they would stay at another hotel in the same chain.
- >- Fifty-nine percent of guests interviewed have already returned.

Tracking Down Guests Who Cheat

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

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

Among the reasons for the success of the Hampton Inn service guarantee are careful planning, listening to employee and manager concerns, an emphasis on training, and a willingness to delegate more authority to employees. The company has evaluated the possibility that customers would abuse its service guarantee—namely, making fraudulent claims to obtain a free night in a hotel—and has determined that the incidence of such fraud is confined to a tiny fraction of its customers. So customers are trusted when they register a complaint and a refund is cheerfully given on the spot. However, the firm's management is not naive: There is careful tracking *after the fact* of all claims against the guarantee and any suspicious-looking pattern of repeated claims is followed up.

Developing Viable Guarantees

Guarantees need to be clear, so that customers and employees can understand them easily. Sometimes, this means relating the terms of the guarantee to satisfaction with a specific activity rather than overall performance. For instance, the Irish Electricity Supply Board (ESB) offers 12 clearly stated service guarantees in its "Customer Charter," relating to such elements as network repair, the main fuse, meter connection and accuracy, and scheduled appointments (when an employee visits the customer's premises). In each instance, the ESB has established a service standard, such as a promised speed of response, stating the payment that will be made to the customer if the company fails to meet the promised standard. The charter is written in simple language and tells customers what to do if they encounter a problem with any of the problems covered by the 12 guarantees. Compensation payments range from IR£20—100 (\$23—115) depending on the nature of the problem and whether the customer is a household or a business.

Is it always a good idea for a service firm to offer a guarantee? The answer, according to Ostrom and Hart, is that managers should first think carefully about their firms' strengths and weaknesses in the context of the markets in which they compete.²⁶ Companies that already have a strong reputation for high-quality service may not need a guarantee; in fact, it might even be incongruent with their image to offer one. Firms whose service is currently poor must first work to improve quality to a level above that at which the guarantee might be invoked on a regular basis by most of their customers! Service organizations that suffer from high turnover, poor employee attitudes, and inability to recruit strong managers are also in no position to start offering guarantees. Similarly, firms whose service quality is truly uncontrollable (due to outside forces) would be foolish to consider guaranteeing any aspect of their service that was not amenable to improvement through internal strategies.

Service managers should ask themselves: Do the benefits outweigh the costs? Potential costs include compensating customers for failures covered by the guarantee and the cost of investments to improve operational effectiveness and staff performance. In evaluating benefits, managers need to look at the value of the extra business gained, the long-term potential for greater operational productivity, increased staff pride and motivation, and the firm's ability to recruit and retain the best employees.

In a market where customers see little financial, personal, or psychological risk associated with purchasing and using the service, it's questionable whether much value would be added by instituting a guarantee. However, where perceived risks do exist but there is little identifiable difference in service quality among competing offerings, the first company to institute a guarantee may be able to obtain a first-mover advantage and differentiate its services. But what should managers do if one or more competitors already have a guarantee in place? Doing nothing is a risk in that it may be seen as a de facto admission of inconsistent quality. There is also the possibility that the availability of a guarantee may eventually become a requirement in customers' purchase decision cri-

teria. So the best response may be to attract customers' attention by launching a highly distinctive guarantee like Hampton Inn's that goes beyond what the competition offers and will also be difficult for them to match or exceed in the short run.

Conclusion

Collecting customer feedback via complaints, suggestions, and compliments provides a means of increasing customer satisfaction. It's a terrific opportunity to get into the hearts and minds of customers. In all but the worst instances, complaining customers are indicating that they want to continue their relationship with the service firm. But they are also signaling that all is not well, and that they expect the company to make things right.

Service firms need to develop effective strategies for recovering from service failures so that they can maintain customer goodwill. This is vital for the long-term success of the company. However, service personnel must also learn from their mistakes and try to ensure that problems are eliminated. After all, even the best recovery strategy isn't as good in the customer's eyes as being treated right the first time. Well-designed unconditional service guarantees have proved to be a powerful vehicle for identifying and justifying needed improvements, as well for creating a culture in which staff members take proactive steps to ensure that guests will be satisfied.

Study Questions and Exercises

1. Explain the courses of action available to a dissatisfied consumer.
2. Describe the factors that may prevent a dissatisfied consumer from complaining. How can service providers encourage dissatisfied customers to complain?
3. When was the last time you were truly satisfied with an organization's response to your complaint? Describe in detail what happened and what made you satisfied.
4. Think about the last time you experienced a less than satisfactory service experience. Did you complain? Why? If you did not complain, explain why not.
5. Apply the service recovery concepts presented in this chapter to a service organization with which you are familiar. Describe how this organization follows/does not follow these guidelines. What impact do you think this has on the firm's customers in terms of loyalty?
6. Evaluate the 100 percent Service Guarantee introduced by Hampton Inn. What are its main advantages and disadvantages?

Endnotes

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