Chapter 2: Customer Behavior in Service Encounters
A Framework for Developing Effective Service Marketing Strategies

Understanding Customer Needs, Decision Making, and Behavior in Service Encounters

Chapter 2

Building the Service Model

Part II: Chapters 3-7

Managing the Customer Interface

Part III: Chapters 8-11

Implementing Profitable Service Strategies

Part IV: Chapters 12-15
Two Key Themes in Part I of the Services Marketing Strategy Framework:

*Differences among Services Affect Customer Behavior*

*Three-Stage Model of Service Consumption*

**Prepurchase Stage:**
Search, evaluation of alternatives, decision

**Service Encounter Stage:**
Role in high-contact vs. low-contact delivery

**Post-Encounter Stage:**
Evaluation against expectations, future intentions
Differences among Services Affect Customer Behavior

- Consumers are rarely involved in the manufacture of goods but often participate in service creation and delivery.

- Challenge for service marketers is to understand how customers interact with service operations.

- Based on differences in nature of service act (tangible/intangible) and who or what is direct recipient of service (people/possessions), there are four categories of services:
  - People processing
  - Possession processing
  - Mental stimulus processing
  - Information processing
Four Categories of Services (Fig 2.1)

<table>
<thead>
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<th>Nature of the Service Act</th>
<th>Who or What Is the Direct Recipient of the Service?</th>
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### Four Categories Of Services

#### People Processing

- **Customers must:**
  - Physically enter the service factory
  - Co-operate actively with the service operation

- **Managers should think about process and output from customer’s perspective**
  - To identify benefits created and non-financial costs:
    - Time, mental, physical effort

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### Possession Processing

- Customers are less physically involved compared to people processing services
- Involvement is limited
- Production and consumption are separable

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Mental Stimulus Processing

- Ethical standards required when customers who depend on such services can potentially be manipulated by suppliers
- Physical presence of recipients not required
- Core content of services is information-based
  - Can be “inventoried”

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Information Processing

- Information is the most intangible form of service output
- But may be transformed into enduring forms of service output
- Line between information processing and mental stimulus processing may be blurred.
The Purchase Process for Services

Prepurchase Stage

Service Encounter Stage

Post-Encounter Stage
Prepurchase Stage: Overview

- Customers seek solutions to aroused needs
- Evaluating a service may be difficult
- Uncertainty about outcomes increases perceived risk
- What risk reduction strategies can service suppliers develop?
- Understanding customers’ service expectations
- Components of customer expectations
- Making a service purchase decision
Customers Seek Solutions to Aroused Needs

- People buy goods and services to meet specific needs/wants
- External sources may stimulate the awareness of a need
- Companies may seek opportunities by monitoring consumer attitudes and behavior

Figure 2.4

Prudential Financial’s advertising stimulates thinking about retirement needs

Prudential Financial
Will I really be ready for retirement?

It's the question a lot of people are asking themselves, especially when you look at life expectancies and the chance for a 30-year retirement. You wonder about issues like making your assets last and how you'd pay for long-term care.

The good news is, you don't have to go it alone. At Prudential, we're focused on meeting today's retirement challenges with smart, innovative solutions to help grow wealth for retirement, and keep it protected.

Talk with a Prudential professional for some sound advice about what you can do to get ready for retirement.

CALL 1-800-THE-ROCK, ext. 4250
to find a Prudential professional in your area.

GO ONLINE
to www.prudential.com for retirement reports, interactive learning guides and retirement planning resources.

Growing and Protecting Your Wealth

 Courtesy of Masterfile Corporation
Evaluating a Service May Be Difficult

- **Search attributes** help customers evaluate a product before purchase
  - Style, color, texture, taste, sound

- **Experience attributes** cannot be evaluated before purchase—must “experience” product to know it
  - Vacations, sporting events, medical procedures

- **Credence attributes** are product characteristics that customers find impossible to evaluate confidently even after purchase and consumption
  - Quality of repair and maintenance work
How Product Attributes Affect Ease of Evaluation

Most Goods

High in search attributes
Clothing
Chair
Motor vehicle
Foods

High in experience attributes
Restaurant meals
Lawn fertilizer
Haircut
Entertainment

Most Services

High in credence attributes
Computer repair
Education
Legal services
Complex surgery

*NOTE: Difficulty of evaluation tends to decrease with broad exposure to a service category and frequency of use of a specific supplier

Source: Adapted from Zeithaml
Perceived Risks in Purchasing and Using Services

- **Functional**—unsatisfactory performance outcomes
- **Financial**—monetary loss, unexpected extra costs
- **Temporal**—wasted time, delays leading to problems
- **Physical**—personal injury, damage to possessions
- **Psychological**—fears and negative emotions
- **Social**—how others may think and react
- **Sensory**—unwanted impact on any of five senses
How Might Consumers Handle Perceived Risk?

- Seeking information from respected personal sources
- Relying on a firm that has a good reputation
- Looking for guarantees and warranties
- Visiting service facilities or trying aspects of service before purchasing
- Asking knowledgeable employees about competing services
- Examining tangible cues or other physical evidence
- Using the Internet to compare service offerings and search for independent reviews and ratings
Strategic Responses to Managing Customer Perceptions of Risk

- Offer performance warranties, guarantees to protect against fears of monetary loss

- For products where customers worry about performance, sensory risks:
  - Offer previews, free trials (provides experience)
  - Advertising (helps to visualize)

- For products where customers perceive physical or psychological risks:
  - Institute visible safety procedures
  - Deliver automated messages about anticipated problems
  - Websites offering FAQs and more detailed background
  - Train staff members to be respectful and empathetic
AOL Offers Free Trial Software to Attract Prospective Customers (Fig 2.6)
Understanding Customers’ Service Expectations

- Customers evaluate service quality by comparing what they expect against what they perceive
  - Situational and personal factors also considered

- Expectations of good service vary from one business to another, and among differently positioned service providers in the same industry

- Expectations change over time

- Example: Service Perspectives 2.1
  - Parents wish to participate in decisions relating to their children’s medical treatment for heart problems
  - Media coverage, education, the Internet has made this possible
Factors Influencing Customer Expectations of Service (Fig 2.8)

Personal Needs
Beliefs about What Is Possible
Perceived Service Alterations
Situational Factors

Desired Service
ZONE OF TOLERANCE
Adequate Service

Explicit & Implicit Service Promises
Word-of-Mouth Past Experience
Predicted Service

Components of Customer Expectations

- **Desired Service Level:**
  - Wished-for level of service quality that customer believes can and should be delivered

- **Adequate Service Level:**
  - Minimum acceptable level of service

- **Predicted Service Level:**
  - Service level that customer believes firm will actually deliver

- **Zone of Tolerance:**
  - Range within which customers are willing to accept variations in service delivery
Service Encounter Stage: Overview

- Service encounters range from high-to low-contact
- Understanding the servuction system
- Service marketing systems: high-contact and low-contact
- Role and script theories
- Theater as a metaphor for service delivery: An integrative perspective
- Implications for customer participation in service creation and delivery
Service Encounters Range from High-Contact to Low-Contact (Fig 2.9)

Figure 2.9
Levels of Customer Contact with Service Organizations
Distinctions between High-Contact and Low-Contact Services

- **High-Contact Services**
  - Customers visit service facility and remain throughout service delivery
  - Active contact between customers and service personnel
  - Includes most people-processing services

- **Low-Contact Services**
  - Little or no physical contact with service personnel
  - Contact usually at arm’s length through electronic or physical distribution channels
  - New technologies (e.g. the Web) help reduce contact levels

- **Medium-Contact Services Lie in between These Two**
**The Servuction System: Service Production and Delivery**

- **Service Operations (front stage and backstage)**
  - Where inputs are processed and service elements created
  - Includes facilities, equipment, and personnel

- **Service Delivery (front stage)**
  - Where “final assembly” of service elements takes place and service is delivered to customers
  - Includes customer interactions with operations and other customers

- **Service Marketing (front stage)**
  - Includes service delivery (as above) and all other contacts between service firm and customers
Service Marketing System for a High-Contact Service (Fig 2.10)

SERVICE MARKETING SYSTEM

Service Delivery System

Other Contact Points

Service Operations System

Technical Core

Interior & Exterior Facilities

Equipment

Service People

Other Customers

The Customer

Backstage (invisible)

Front Stage (visible)

Other Customers

Advertising

Sales Calls

Market Research Surveys

Billing/Statements

Misc. Mail, Phone Calls, E-mails, Faxes, etc.

Website

Random Exposure to Facilities/Vehicles

Chance Encounters with Service Personnel

Word of Mouth

Other Customers

Website
Service Marketing System for a Low-Contact Service (Fig 2.11)

Service Operations System

Service Delivery System

Other Contact Points

Technical Core

The Customer

Mail

Self Service Equipment

Phone, Fax, Website, etc.

Advertising

Market Research Surveys

Billing/Statements

Random Exposure to Facilities/Vehicles

Word of Mouth

Backstage (invisible)

Front Stage (visible)
Theater as a Metaphor for Service Delivery

“All the world’s a stage and all the men and women merely players. They have their exits and their entrances and each man in his time plays many parts”

William Shakespeare

As You Like It
Theatrical Metaphor: An Integrative Perspective

- Service dramas unfold on a “stage”—settings may change as performance unfolds.
- Many service dramas are tightly scripted, others improvised.
- Front-stage personnel are like members of a cast.
- Like actors, employees have roles, may wear special costumes, speak required lines, behave in specific ways.
- Support comes from a backstage production team.
- Customers are the audience—depending on type of performance, may be passive or active participants.
Implications of Customer Participation in Service Delivery

- Greater need for information/training to help customers to perform well, get desired results
- Customers should be given a realistic service preview in advance of service delivery, so they have a clear picture of their expected role

Figure 2.13: Tourists Appreciate Easy-to-Understand Instructions When Traveling
Post-Encounter Stage: Overview

- Evaluation of service performance
- Future intentions
Customer Satisfaction Is Central to the Marketing Concept

- Satisfaction defined as attitude-like judgment following a service purchase or series of service interactions

- Customers have expectations prior to consumption, observe service performance, compare it to expectations

- Satisfaction judgments are based on this comparison
  - Positive disconfirmation if better than expected
  - Confirmation if same as expected
  - Negative disconfirmation if worse than expected

- Satisfaction reflects perceived service quality, price/quality tradeoffs, personal and situational factors

- Research shows links between customer satisfaction and a firm’s financial performance
Customer Delight: Going Beyond Satisfaction

- Research shows that delight is a function of three components:
  - Unexpectedly high levels of performance
  - Arousal (e.g., surprise, excitement)
  - Positive affect (e.g., pleasure, joy, or happiness)

- Is it possible for customers to be delighted by very mundane services?

- Strategic links exist between customer satisfaction and corporate performance.

- Getting feedback during service delivery help to boost customer loyalty

- Progressive Insurance seeks to delight customers through exceptional customer service (Best Practice in Action 2.1)