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INTRODUCTION

REVIEW OF LITERATURE

NEED/IMPORTANCE OF THE STUDY

STATEMENT OF THE PROBLEM

OBJECTIVES

HYPOTHESES

RESEARCH METHODOLOGY

RESULTS & DISCUSSION

FINDINGS

RECOMMENDATIONS/SUGGESTIONS

CONCLUSIONS

SCOPE FOR FURTHER RESEARCH

ACKNOWLEDGMENTS

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APPENDIX/ANNEXURE

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CUSTOMER RETENTION THROUGH SERVICE RECOVERY

PIYALI PAL
M.B.A. STUDENT
INTERNATIONAL SCHOOL OF CORPORATE MANAGEMENT
PUNE

ABSTRACT

In today's era of intense competition, it is very important for any service company to understand that merely acquiring customers is not sufficient because there is a direct link between customer retention over time, profitability & growth. In this respect, this research attempts to highlight the different service recoveries which a company must understand in order to succeed in retaining the profitable customers. Recovering from failures not only corrects the situation, in fact efficient service recovery strategies can lead customers to have more positive feelings and attitudes towards the organization than if the service had been performed accurately in the first place. Research reveals that, the best service recovery process can be computed through various methods. TQM practices are inherently used by manufacturing firms and hence need to be tailored sufficiently when used by service organizations due to the proven differences between services and manufactured goods. Complaints should not only be encouraged, they should also be anticipated and tracked. Also, it is necessary for the service firm to treat each customer fairly and equally. Another component of effective service recovery strategy is to learn from customers who decided to leave and conduct their business elsewhere. The first rule of service quality is to do it right first time. By following this method, service recovery can be deemed unnecessary. As today's customers are becoming harder to please, the challenge is not to produce satisfied customers as several competitors can do this, in fact, the challenge is to produce delighted and loyal customers.

KEYWORDS

Complaints, Customer retention, Service failure, Service recovery.

INTRODUCTION

In today's era of intense competition, it is very important for any service company to understand that merely acquiring customers is not sufficient because there is a direct link between customer retention over time, profitability & growth. Customer retention to a great extent depends on service quality and customer satisfaction. It also depends on the ability of the organization to encourage customers to complain and then recover when things go wrong. Complaints are a natural part of any service activity as mistakes are an unavoidable feature of all human endeavor and thus also of service recovery. Service recovery is the process of putting things right after something goes wrong in the service delivery. The service delivery company ideally takes action to ensure that the customer gets desired outcome anyway, and later rectifies its own process so that the failure doesn't reoccur. When a service failure occurs, a customer has to be compensated for the inconvenience in the form of any combination of refunds, credits, discounts or apologies. Research shows that it is considerably more profitable for a company to keep customers who have experienced failures than to try to find new customers. This research attempts to highlight the different service recoveries which a company must understand in order to succeed in retaining the profitable customers.

LITERATURE REVIEW

A customer becomes more profitable for service firms over a period of time. There are a number of reasons for this. To begin with, to acquire a customer a company incurs promotional costs like advertising, sales promotion etc. It is said that it costs five times more to attract a new customer than retaining one (Rackham 1988). The operating cost decreases when a customer stays. Services being rich in experience and credence qualities, customers take time to adapt to it and once they are accustomed to the service and satisfied with the service provider, they tend to purchase more over a period of time.

If customers are satisfied with the service provider they are likely to spread a positive word of mouth, which is very effective in case of services for attracting new customers. Longer the customer stays with an organization, more the organization knows about him, which enables it to offer customized services which make it difficult for the customer to defect. This may even provide opportunities to the organization to charge price premium by offering individualized services which may be difficult for the competitors to offer (Zeithaml and Bitner 2003).

Considering the importance of retaining customers in service business, Reichheld and Sasser coined a term 'Zero Defection'. They highlighted that companies can boost profits by almost 100% by retaining just 5% more of their customers. Further, it is also very important to understand the life time value of a customer. For example, if an average customer of BSNL pays Rs. 500 per month and stays with the company for 20 years., his average lifetime value will be Rs. 500x 12x 20=Rs. 1,20,000. Further, if by a positive word of mouth, he brings just one more customer to the organization, his value to the organization doubles. Therefore, it is important for all the employees in the organization to understand the life time value of their customers. Once they understand it, they will treat the customer accordingly and will focus on building relationship with the people who keep them in business (Chaturvedi 1999). When firms fail to deliver a service as promised, customers will generally be dissatisfied. Such customers will not likely do business with the company in the future. This is where the service recovery comes into place. "Service recovery can turn angry customers into loyal ones. Companies should take steps not only to provide good service every time but also to recover from mistakes when they occur" (Kotler 255).

Recently Toyota announced two safety recalls that cover some of its models. Both recall campaigns address conditions related to the accelerator pedal. Now Toyota is taking actions to recover and reassure its customers in company's future service quality. Though Toyota is a car manufacture, not technically "service" company, it is reasonable to assume that it not only makes car, but also provides services that result in safe driving experience. Toyota reassures customers that their safety is still a top priority, it admits the mistakes, and promises to learn from them (Palmeri 2008).

Recovery management is considered to have a significant impact on customer evaluations, because customers are usually more emotionally involved in and observant of recovery service than in routine or first-time service and are often more dissatisfied by an organization's failure to recover than by the service failure itself (Berry and Parasuraman 1991; Bitner, Booms, and Tetreault 1990). Keaveney (1995) finds that service failures and failed recoveries are a leading cause of customer switching behavior in service organizations. Therefore, well-executed service recoveries are important for enhancing customer satisfaction, building customer relationships, and preventing customer defections (Fornell and Wernerfelt 1987).

Every employee and every business in the world occasionally makes a mistake. What separates service leaders from the rest of the pack is how they handle those mistakes -- how they meet the challenge of turning a disgruntled customer into one who sings their praises and becomes a customer for life. This is called service recovery. It is apologizing, taking responsibility and giving customers something of value as a way of appeasing them and earning both their trust and their loyalty (Chase & Stewart 1994).

Failures occur in many service organizations, most customers having encountered service failure at some point. Therefore it is important for a firm to consider how service recovery can be provided to disappointed customers (Johnston and Fern, 1999).

Previous research on service recovery has focused on developing classification schemes (Bitner, Booms, and Tetreault 1990; Hoffman, Kelley, and Rotalsky 1995; Kelley, Hoffman, and Davis 1993) and providing correlational or anecdotal support for the effect of service recovery on customer satisfaction (Kelly and Davis 1994; Spreng, Harrell, and Mackoy 1995). Recently, Tax, Brown, and Chandrashekaran (1998) examined the influence of customers' justice evaluations on satisfaction, trust, and commitment after a service complaint experience.

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Bell and Zemke (1987) present five strategies for effective recovery, which involves, Apology, Urgent reinstatement, Empathy, Symbolic atonement, Follow –up. Kelley, Hoffamn and Davis (1993) identify seven strategies they believe embody efficient service recovery, Discount, Correction, Management/employee intervention, Correction plus, Replacement, Apology and Refund. Zeithaml and Bitner's (2003) have given a diagrammatic version of service recovery strategy. These authors combine the various combinations, proposed by other authors as well as the rule "do it right first time". This strategy implies the extremely interesting notion, if the service is performed correctly the first time round, there will be no need for recovery.

According to resource exchange theory, people prefer exchanges of resources that are "in kind." Satisfaction is greater when resources from the same or similar categories are exchanged than when resources from different categories are exchanged (Brinberg and Castell 1982; Brinberg and Wood 1983; Foa and Foa 1976, 1980; Foa and Foa 1974; Foa et al. 1993). According to mental accounting principles, people use various implicit methods to assign resources to different mental accounts (Benartzi and Thaler 1995; Thaler 1985). We believe that people assign economic and social resources to different mental accounts. Prospect theory suggests that, in individual decision making, resources are weighed differentially according to their utility (Kahneman and Tversky 1979). This theory asserts that people are more attuned to differences (relative to a reference point) than absolute amounts and that they are more sensitive to losses than gains (Kahneman and Tversky 1979; Tversky and Kahneman 1992).

All these theories predict that customers will place greater value on exchanges involving proximal (similar) resources than on those involving distal (dissimilar) resources. Therefore, it is expected that in service failure/recovery encounters, customers will prefer to receive, in exchange for the loss suffered, resources that match the type of loss (failure) they experienced. Thus, if a service failure leads to loss of an economic resource, customers will prefer to receive an economic resource as part of the recovery effort. If a service failure leads to loss of a social resource, they will prefer to receive a social resource as part of the recovery effort.

According to social exchange and equity theories, exchange relationships should be balanced; that is, resources should be exchanged in equivalent amounts (Adams 1965; Deutsch 1975; Walster, Berscheid, and Walster 1973; Walster, Walster, and Berscheid 1978). When a service failure occurs, the exchange relationship is thrown out of balance. The amount of the customer's perceived loss depends on the magnitude of the failure. To restore balance, the service provider must offer the customer a gain of an amount sufficient to cover the loss. Customer satisfaction will depend on the magnitude of the perceived loss and the amount of resources offered in the recovery effort. Therefore, the customers will seek balance and, in failure/recovery encounters, will prefer to receive, in exchange for the loss suffered, resources in amounts commensurate with the magnitude of the loss (failure) they experienced.

According to Zeithaml and Bitner (2003), the first rule of service quality is to do it right first time. By following this method, service recovery can be deemed unnecessary. Customers get what they expect, they are completely satisfied and the costs of performing the service a second time or of compensation are avoided (Zeithaml and Bither, 2003).

In order for consumers to be satisfied after each service encounter, firms need to employ strategies to ensure reliability. Total Quality Management has become accepted and often expected in service practice in order to achieve this reliability of performance. The most useful application of TQM is the fail-safing approach. This author states that, "the idea of fail-safing is to prevent the inevitable mistake form turning into a defect".   Fail-safing or poka–yokes are particularly applicable to services although initially devised for manufacturing firms. In reality numerous poka-yokes, essentially quality control mechanisms, are already in place in service organizations (Chase and Stewart, 1994).

More importantly than fail-safing a service, is performing it right first time. If a culture of zero defects is utilized by a firm, each employee will fully understand the value of the customer and will aim to provide "quality service every time to every customer" (Zeithaml and Bitner, 2003, p. 199).

Though a lot of work has been done in this context the answers vary from researcher to researcher. Hence, I have taken up this topic so that I can delve into the real explanation on service recovery methods and objectives for which are included in the research methodology.

RESEARCH METHODOLOGY

Keeping in mind the various research studies done on service recovery methods, it can be assumed that the following objectives can be considered as important components for the study. In the research paper I have dealt with the following objectives:

- To carry out an extensive research to discuss the various service methods.
- To analyze and find out the best service recovery method out of the same.
- To associate a relation between the service recovery method and customer retention.

The research is mainly based on the secondary data. Secondary data was mainly collected from e-journals like Harvard Business Review, The Free Press, Review of Business, Journal of Marketing Research, Journal of Marketing, Journal of Retailing, The Service Industries Journal and Journal of Service Marketing.

DISCUSSION

Review of research done so far in this field of study has lead to the following discussion.

Recovering from failures not only corrects the situation, it has been cited that efficient service recovery strategies can lead customers to have more positive feelings and attitudes towards the organisation than if the service had been performed accurately in the first place. Service recovery effectiveness depends significantly on the level and type of failure. Therefore service recovery strategies play a crucial role in achieving customer satisfaction.

Although service recovery is recognized by researchers and managers as a critical element of customer service strategy, there are few theoretical or empirical studies of service failure and recovery issues. Studying service recovery is challenging because recovery is triggered by a service failure, making systematic empirical research difficult to conduct in either a laboratory or a field environment.

After going through the literature review the best service recovery process can be computed through the following methods:

FOLLOWING OF THE TQM

In order for consumers to be satisfied after each service encounter, firms need to employ strategies to ensure reliability. Total Quality Management has become accepted and often expected in service practice in order to achieve this reliability of performance. However TQM practices are inherently used by manufacturing firms and hence need to be tailored sufficiently when used by service organizations due to the proven differences between services and manufactured goods. Firms that fail to recognize the need to adapt this tool for use in service organizations often fail in their efforts. The most useful application of TQM is the fail-safing approach which is to prevent the inevitable mistake form turning into a defect.

WELCOME AND ENCOURAGE COMPLAINTS

The second component of a successful service recovery strategy as highlighted by Zeithaml and Bitner (2003) is to welcome and encourage customer complaints. Despite the fact firms may aim to have standards that warrant zero defects, failures do occur. In this instance an organisation must greet and encourage complaints. Complaints should not only be encouraged, they should also be anticipated and tracked.

Encouraging and tracking complaints can be done in numerous ways. Customer research can be conducted through the use of customer satisfaction surveys, critical incidents studies and lost customer research. Less formally, front line employees can be used to the firms advantage, as it is they who have customer contact and understand their needs, levels of dissatisfaction and service failures as they occur.

An element of encouraging complaints is to make it as easy as possible for customers to do so, as it is the customers who have the firsthand knowledge of failures in the service system. A method of ensuring this is through the use of technology. Technology has made is easier for customers to access sales and service employees. Technology can also be used to anticipate problems before they happen, therefore anticipating complaints and avoiding service failures before the customer recognizes they exist.

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ACT QUICKLY

According to Groonros (1978), dissatisfied customers tell twelve others about their negative experience whereas a satisfied customer tells much fewer. Therefore if and when customers complain, they want and expect a rapid response. If the company encourages complaints, they must be prepared to act on them as quickly as possible to avoid further customer dissatisfaction. In order to operationalise this, systems and procedures must be set in place as well as empowering employees.

Employees must be both trained and empowered to deal with service failures before they occur. Training gives the employees a better understanding of the situation and the role they play in service recovery. In many cases an employee can anticipate a problem before it happens and therefore surprise the customer with a solution. For service employee's specific training is necessary, so that employees have the skills, authority and incentives to involve themselves in immediate and effective service recovery.

A further opportunity for service firms to 'act quickly' is to allow customers to solve their own problems. This can typically be done through the use of technology and effectively customers can perform their own service recovery.

TREAT CUSTOMER FAIRLY

In addition to acting quickly, it is necessary for the service firm to treat each customer fairly and equally. Fair treatment is an extremely important aspect of effective service recovery. Customers expect to be treated fairly, and for the outcomes and compensation to be equal if not exceed their levels of dissatisfaction. Compensation many involve monetary payments for the inconvenience experienced and or free tickets, meal or drinks etc. It is also necessary for the firm to treat the customer fairly in terms of policies, rules and timeliness of complaints and the complaint process utilized.

LEARNING FROM RECOVERY EXPERIENCES

Service failures and service recovery experiences are important lessons and opportunities for the firm to learn from. According to Groonros, (1976 &1978) service firms must have systems in place from which they can learn from their service recovery attempts in a productive manner.

Problem resolution situations are sources of information for improving the service provided to customers. By tracking and following up on service failure point, management can learn for the mistakes and identify the problems in the delivery system that need fixing.

LEARNING FROM LOST CUSTOMERS

Another component of effective service recovery strategy is to learn from customers who decided to leave and conduct their business elsewhere. Research in this area can help identify the reasons why customers have left and allow the firm the chance to modify their systems to prevent failure in the future. This type of lost customer research typically involves in depth probing of customers to determine the true reasons behind their leaving. For this to be successful, it best carried out by skilled interviewers who understand both the business and the customers, such as top-level management. Although research of this kind has unearthed various reasons for customer deflection, a number of common themes have been observed in categories such as pricing, inconvenience, core service failure, service encounter failures, response to service failure, competition, ethical problems and involuntary switching.

DOING RIGHT THE FIRST TIME

Given the circular representation of the set of strategies outlined above, it leads directly back to the beginning again, "fail-safe your service and do it right the first time". According to Zeithaml and Bitner (2003), the first rule of service quality is to do it right first time. By following this method, service recovery can be deemed unnecessary. Customers get what they expect, they are completely satisfied and the costs of performing the service a second time and/or of compensation are avoided. This will in fact solve all the problems.

CONCLUSION

Today's customers are becoming harder to please. They are smarter, more price conscious, more demanding, less forgiving and they are approached by many more competitors with equal or better offers. The challenge is not to produce satisfied customers as several competitors can do this; in fact, the challenge is to produce delighted and loyal customers. If these customers are retained with the organization, they become really profitable by way of increase in purchasing, reduced operating costs, price premiums and through referrals. Too many companies suffer from customer churn i.e. high customer defection. It is like adding water to a leaking bucket. Various strategies such as measuring customer life time value, efficient complaint management system and service recovery strategies can be really helpful in retaining customers. The literature revealed significant relationships between: customer retention and quality of service as perceived by customers; the use of interactive communication skills by customer contact personnel and the perception of service quality by customers; and skills identified with success in sales and service tasks related to the customer retention function.

SUGGESIONS

The goal of service recovery is to identify customers with issues and then to address those issues to the customers' satisfaction to promote customer retention. However, service recovery doesn't just happen. It is a systematic business process that must be designed properly and implemented in an organization. Perhaps more importantly, the organizational culture must be supportive of idea that customers are important and their voice has value.

Research has shown that customers who have had a service failure resolved quickly and properly are more loyal to a company than are customers who have never had a service failure -- significantly more loyal. Service Recovery practices are a critical element in a Customer Loyalty Program. So one should find out the various and new ways of the changing the service recovery method. As all customers do not merit the same recovery efforts, managers should first understand how customers respond to service recovery quality and then, they should evaluate customer expectations and profitability to know which customers they want to keep.

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