



BUAD 467/667
Service Management
Spring 2008

Professor Patrick T. Harker

Class 8a
Service Quality I

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Outline for the Class

- Service quality: measuring the impossible?
- The SERVQUAL model
- Example: teaching at UD
- Service quality: measurement is crucial

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What's Service Quality?

- can service quality be measured?
- how do you correct for expectations?
- why bother measuring?
- is quality the same as satisfaction?
- profitability? Or was Linder right!?!??

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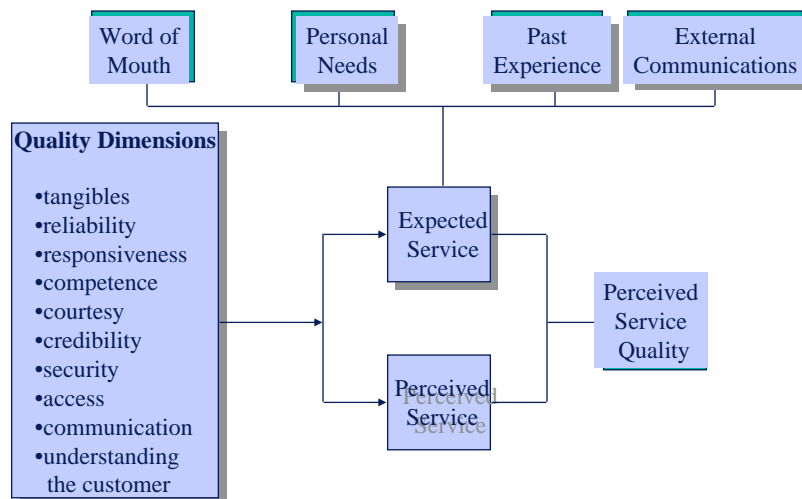
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The SERVQUAL Model

Quality is based on:

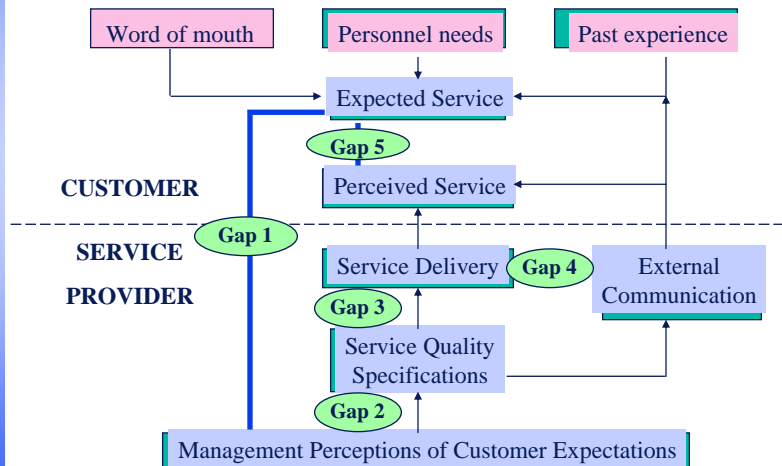
- tangibles: *is the person clean???*
- reliability: *do they call back???*
- responsiveness: *is it done right the first time???*
- assurance: *competence, courtesy, credibility, security*
- empathy: *access, communication, understanding*

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The GAP Model



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Key Contributing Factors in Gap 1

Customer Expectations



- lack of marketing research orientation
- inadequate upward communication
- too many levels of management



Management Perceptions of Customer Expectations

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Key Contributing Factors in Gap 2

Management
Perceptions of
Customer
Expectations

- inadequate management commitment to quality
- perception of infeasibility
- inadequate task standardization
- absence of goal setting

Service Quality
Specifications

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Key Contributing Factors in Gap 3

Service Quality
Specifications

- role ambiguity and/or conflict
- poor employee-job fit
- poor technology-job fit
- inappropriate control systems
- lack of team work

Service Delivery

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Key Contributing Factors in Gap 4

Service Delivery



- inadequate horizontal communication
- lack of product design and development discipline
- propensity to overpromise



External
Communications
to Customer

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Example:

Teaching Quality at UD

- what do current teaching evaluations measure?
- what should a teaching evaluation measure?
- what are the key gaps in quality?
- pros and cons of SERVQUAL in this context

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Quality: Measurement is Crucial

- a dynamic process of expectations and perceptions
- manage expectations as well as perceptions
- don't forget to survey front-line employees!

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*Class 8b
Service Quality II*

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Outline for the Class

- Economic Value of Service Quality
- Implementing Quality Improvements: an ROQ Approach
- The Guarantee Idea
- Next Class

Economic Value of Service Quality

“Service quality as an issue is seriously overrated; service certainly is not as important as the mythic proportions it has taken on in industry trade publications and conferences” (Council on Financial Competition 1989)

- what’s the hard evidence?
- WSJ: “Fire your customers”!

Objectives for quality improvement

- reduce purchase risk/ information asymmetry (the case of the branch versus the phone)
- reduce purchasing costs
- reduce the cost of use (remember Linder)
- increase customization

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Nayyar's Study

Is there a link between improvements and performance?

CAR = cumulative abnormal return

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Customer service		
Action	Increases	Decreases
<i>Risk of purchase</i>		
■ appearance	0.22	
■ guarantees	0.93	-0.43
<i>Purchasing cost</i>		
■ outlets	0.61	-0.18
■ credit terms	0.41	
■ computer links	0.55	
■ hours	0.66	-0.27
<i>Ease of Use</i>		
■ service dept.	0.44	
■ technical assist.	0.37	
■ toll free nos.		-0.25
■ disc. comfort	0.42	
<i>Personalization</i>		
■ computer	0.39	
■ capacity	0.22	
All Actions	0.46	-0.22

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Customer service		
Action	Increases	Decreases
A <i>Risk of purchase</i>	0.62	-0.43
B <i>Purchasing cost</i>	0.58	-0.20
C <i>Ease of Use</i>	0.30	-0.23
D <i>Personalization</i>	0.28	-0.09
All Actions	0.46	-0.22
 Significant differences?		
A > B	no	yes
A > C	yes	yes
A > D	yes	yes
B > C	yes	no
B > D	yes	no
C > D	no	no

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Conclusions from Nayyar:

“actions that increase customer service *before* purchase, such as reductions in the risk of purchase, especially by offering guarantees, and purchasing cost, are more valuable than actions that increase customer service *after* purchase, such as ease, convenience, and cost of use.”

Critique?

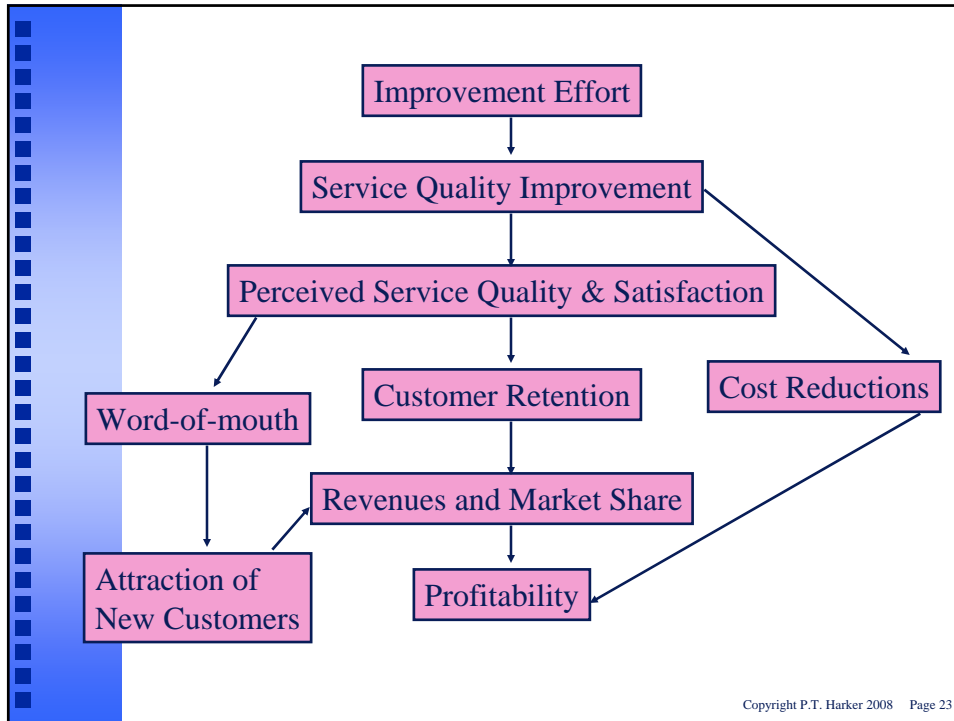
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Return on Quality

- quality is an investment
- quality efforts must be financially accountable
- It is possible to spend too much on quality
- not all quality expenditures are equally valid

The Rust *et al.* approach to quality improvement justification

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ROQ Analytics

$X = 1$ if improvement is made, 0 otherwise

$AQ = f_1(X) + \text{error} = \text{actual quality}$

$E = \text{expectations}$

$S = f_2(AQ, E) + \text{error} = \text{attitudes, emotions, etc.}$

$CR = f_3(AQ) + \text{error} = \text{cost reductions}$

$R = f_4(S) + \text{error} = \text{retention}$

$MV = \text{company-specific data}$

$MS = f_5(R, MV) + \text{error} = \text{market share}$

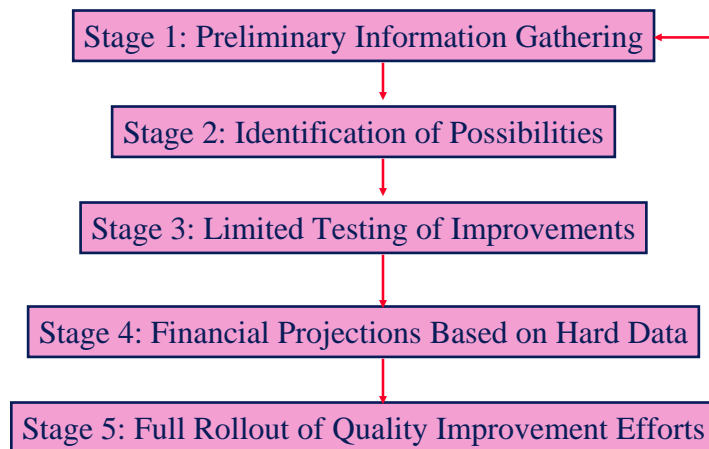
$PROFIT = f_6(MS, CR) + \text{error}$

NPV = discounted profit flows over a finite time horizon

NPVAS = present value of additional spending

$$\text{ROQ} = (\text{NPV} - \text{NPV}_0) / \text{NPVAS}$$

ROQ Quality Improvement Process



Managerial Inputs for ROQ

- identification of key processes and attributes
- measurement of satisfaction and retention
- market size, growth, and share measured
- current churn, retention, and attraction rates measured
- contribution margin and cost of capital
- quality improvement efforts and costs defined
- estimation of satisfaction shift
- use of market test data

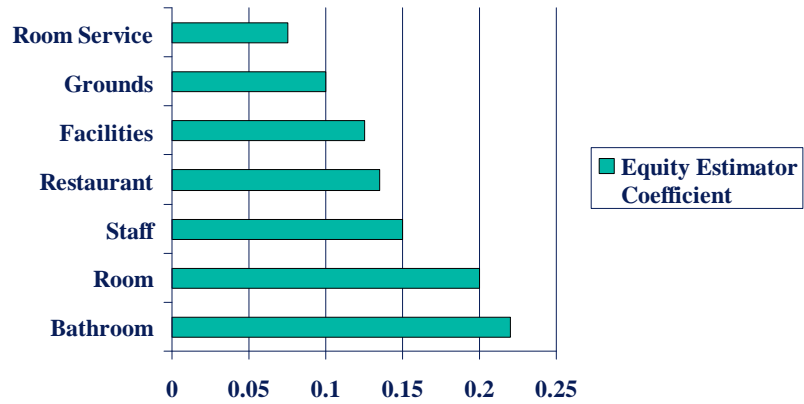
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Example of ROQ Analysis

- national hotel chain
- historical satisfaction data (7882 responses)
- dissatisfied = 45% return rate
Satisfied = 95%
- 9% are dissatisfied
- where's the "bottleneck"?

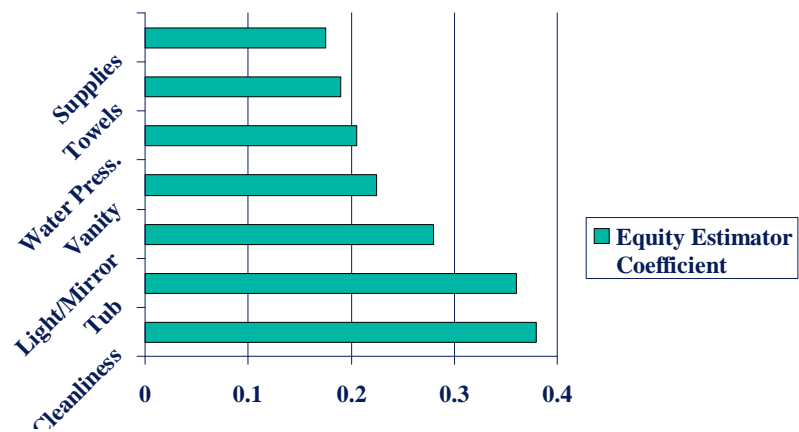
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Process Impacts on Satisfaction



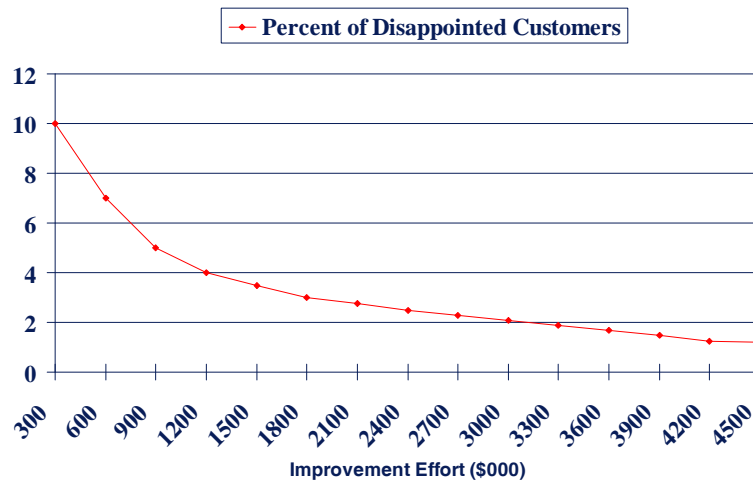
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Attribute Impacts on Satisfaction



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Expenditure Impacts on Satisfaction



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ROQ Calculations

Currently spending \$1m on cleanliness

\$2.4m project best return since little return on market share beyond this point (2.45% increase in share)

Three years, 15% discount rate, NPV of additional profits is \$1.641m

Discounted additional expenditure = \$3.676m

ROQ = $\$1.641 / \$3.646 = 44.6\%$

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Zero Defects in Services: *Customer Retention*

- are defects lost customers?
- how are they measured?
- why are customers more profitable over time?
- what's the cost of a lost customer?
- 5% decrease in defections can boost profits 25-85%
- however, are all defections bad?
- what's the competitive limit of this thinking? The phone company hustle??!!

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Guarantees in Services: *The Theory*

- what's a service?
- what can be guaranteed?
- what are examples of guarantees?
- what industries or services are amenable to guarantees?

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Desirable Properties of Service Guarantees

- unconditional
- easy to understand and communicate
- meaningful
- easy to invoke
- easy to collect

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Guarantees in Services: *The Results*

- forces you to focus on the customers
- sets clear standards
- generates meaningful feedback
- forces you to understand why you fail
- builds marketing muscle

Beware of cheating and over promising

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Guarantees in Services: *What About Co-Production*

- **double moral hazard**
- example: management consulting & the noose
- theory: efficient contracts only exist when the uncertainty on the final outcome is moderate (it can't be zero!)
- implicit vs. explicit guarantees: the role of reputation
- with co-production, when does a service guarantee make sense?

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Guarantees in Services: *The Real-World*

- minimum price guarantees
- guaranteeing a state??!
- others?

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Everyone deserves
a healthy smile



- what are the success factors of GSOE?
- is this sustainable?
- what are the next steps?

Financial Benefits of GSOE

Marketing: 80,000 new subscribers *
\$350/customer/year = \$28 million

Operations: Reduction of admin. costs by 3% =
\$130 million * 3% = \$3.9 million

Retention: 2% retention increase * 360,000
customers * \$350 per customer/year = \$2.52
million

TOTAL: \$34.42 million per year

How Far Do You Go?

Federal Express Customer Service

Missort 3 hours from Amelia Island

It's our policy to get you a missort ASAP and we won't charge you for it!

I need it NOW!!!

Silence at the end of the line...

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Guarantees in Services:

The Future?

- professional services
- “tangiblizing” the intangible
- is it worth it?
- Don't forget internal services - the Citibank story

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Next Class

- Steve Lawless from Nemours on quality and productivity in health care
- Fairfield Inn case