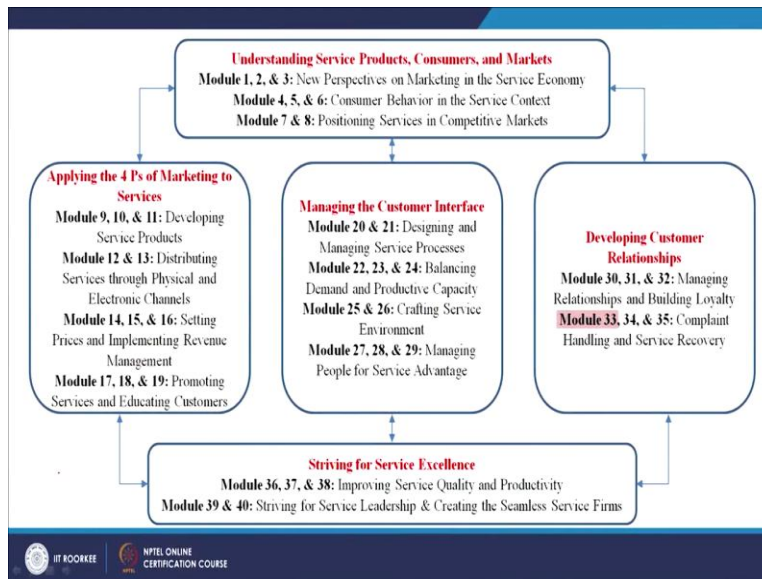


**Services Marketing: Integrating People, Technology, Strategy**  
**Professor Zillur Rahman**  
**Department of Management Studies**  
**Indian Institute of Technology Roorkee**  
**Lecture 33**  
**Complaint Handling and Service Recovery - Part I**

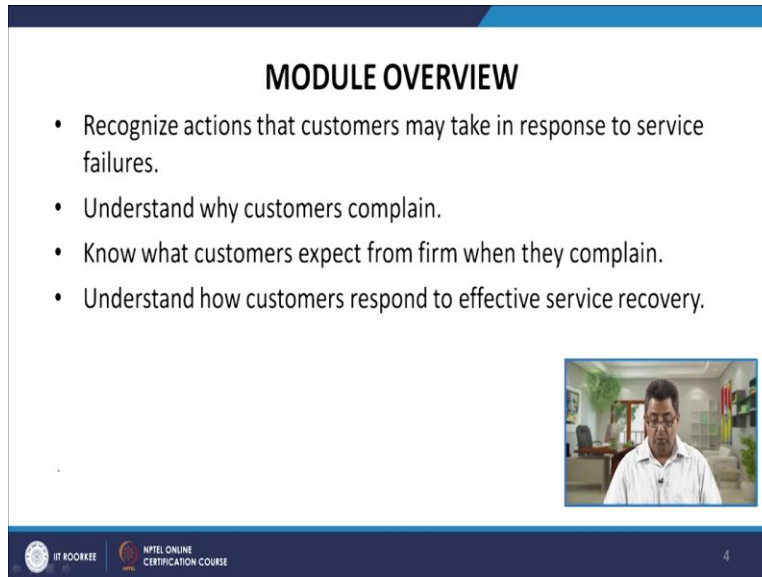
Welcome to Services Marketing. Now we will talk about Module 33.

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These three modules 33, 34 and 35, they will cover Complaint Handling and Service Recovery.

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**MODULE OVERVIEW**

- Recognize actions that customers may take in response to service failures.
- Understand why customers complain.
- Know what customers expect from firm when they complain.
- Understand how customers respond to effective service recovery.



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So, and these are the things that we will cover in this Module. First, we will try to recognize actions that customers may take in response to service failures. Then, we will understand why customers complain and know what customer expects from firm when they complain. And in the end we will understand how customer respond to effective service recovery.

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**A complaint is a gift.**

**Claus Møller,**  
Management consultant and author

**Customers don't expect you to be perfect. They do expect you to fix things when they go wrong.**

**Donald Porter,**  
V .P. British Airways

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Now, these are some of the quotes. A complaint is a gift. That is by a Management consultant and author. And another one. Customers do not expect you to be perfect. They do expect you to fix things when they go wrong. So, he is V.P. of British Airways.

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**CUSTOMER COMPLAINING BEHAVIOR**

- Many “moments of truth” in service encounters are vulnerable to breakdowns.
- Distinctive service characteristics such as real-time performance, customer involvement, and people as part of the product can greatly increase the chance of service failures occurring.
- How well a firm handles complaints and resolves problems determines whether it builds customer loyalty or not.



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Now, why do customers complain? So, we are talking about customer complaining behavior. So, many moment of truth in service encounters are vulnerable to breakdowns. So, this moment of truths, where customers and employees, they meet. So, several times they, that encounter may or moment of truth may go bad.

Distinctive service characteristics such as real-time performance, customer involvement, and people as part of the product can greatly increase the chance of service failure occurring. How well a firm, how well a firm handles complaints and resolve problems determine whether it builds customer loyalty or not?

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### CUSTOMER RESPONSE OPTIONS TO SERVICE FAILURE

- How do you respond to your dissatisfaction with services?
- Do you complain informally to an employee, ask to speak to the manager, or file a formal complaint?
- Or perhaps you just mutter darkly to yourself, grumble to your friends and family, and choose an alternative supplier the next time you need a similar type of service?
- If you are among those who do not complain to the firm about poor service, you are not alone.




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What do customers do in case of service failures? So, now we will talk about customer response options to service failures. How do you respond to your dissatisfaction with services? Do you complain informally to an employee, ask to speak to the manager, or file a formal complaint? Or perhaps you just mutter darkly to yourself, grumble to your friends and family, and choose an alternative supplier the next time you need a similar type of service. If you are among those who do not complain to the firm about the poor service, you are not alone.

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### CUSTOMER RESPONSE OPTIONS TO SERVICE FAILURE

- Figure 1, depicts the courses of action a customer may take in response to a service failure.
  - 1 – Take some form of public action (including complaining to the firm or to a third party, such as a customer advocacy group, a consumer affairs or regulatory agency, or even take the matter to the civil or criminal courts).
  - 2 – Take some form of private action (including abandoning the supplier).
  - 3 – Take no action.
- It's important to remember that a customer can take any one or a combination of actions.

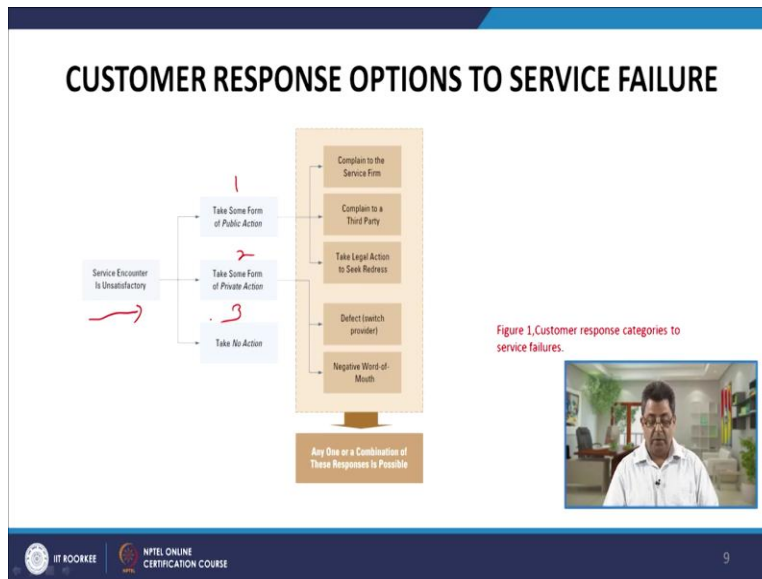


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Figure 1, that will come up in the, in the next slide, depicts the course of action a customer may take in response to a service failure. Take some form of public action including complaining to the firm or to a third party, such as a customer advocacy group, a consumer affairs or regulatory agencies, or even take the matter to civil or criminal court.

Take some form of private action including abandoning the supplier or you may take no action. So, these are the three actions that a customer can take. It is important to remember that a customer can take any one or a combination of these actions.

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So, these are, this is Figure 1 that shows customer response categories to service failure. So we start from the left. So when this service encounter is unsatisfactory. Unsatisfactory means when the perceptions do not meet expectations. So the customer can take three, three actions. Take some form of public action. That is the first thing. The second is, take some form of private action. And the third is that they do not do anything and they take no action.

Now, when they take some form of public action, so what they can do? They can complain to the service firm, they can complain to the third party or take legal action to seek redress. When they take some form of private action, so that can come in two forms. One is that they defect that is switch the provider. And the second is negative word-of-mouth. Any one or a combination of these responses is possible.

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## CUSTOMER RESPONSE OPTIONS TO SERVICE FAILURE

- Managers need to be aware that the impact of a defection can go far beyond the loss of that customer's future revenue stream.
- Angry customers often tell other people about their problems, Internet allows for unhappy customers to reach thousands of people by posting complaints on bulletin boards and blogs etc.



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Managers need to be aware that the impact of a defection can go far beyond the loss of that customer's future revenue stream. So, it is not only about the loss of that particular customer. Angry customers often tell other people about their problems, Internet allows for unhappy customers to reach thousands of people by posting complaints on bulletin boards and blogs.

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## UNDERSTANDING CUSTOMER COMPLAINING BEHAVIOR

**Why Do Customers Complain?-** In general, studies of consumer complaining behavior have identified four main purposes for complaining-

- 1. • **Obtain restitution or compensation-**
  - Consumers often complain to recover some economic loss by seeking a refund, compensation, and/or have the service performed again.
- 2. • **Vent their anger-**
  - Some customers complain to rebuild self-esteem and/or to release their anger and frustration.

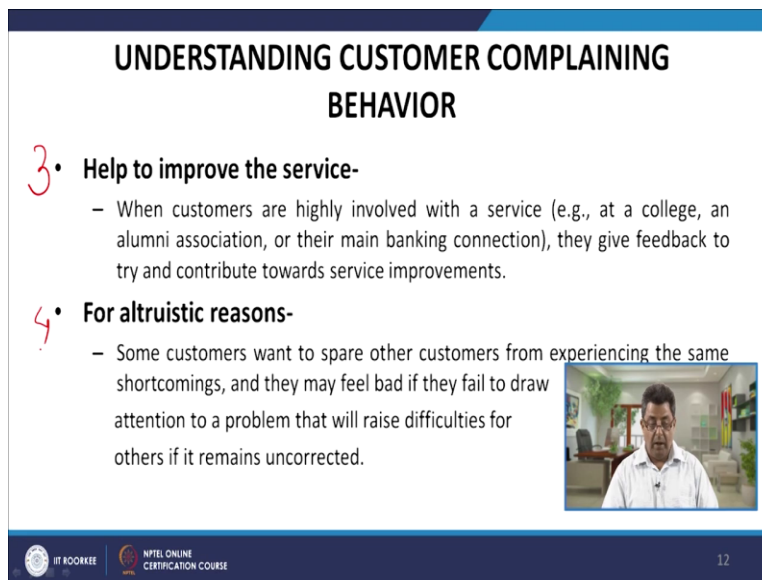


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Now, let us understand customer complaining behavior. Why do customers complain? In general, studies of consumer complaining behavior have identified four main purpose of complaining. So, there are four reasons why customers complain. The first is to get, obtain restitution or compensation.

So the first is that they want some kind of compensation. Consumers often complain to recover some economic loss by seeking a refund, compensation, and/or have the service performed again. Second reason of their complaining is to vent their anger. Some customers complain to rebuild self-esteem and/or to release their anger and frustration.

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**UNDERSTANDING CUSTOMER COMPLAINING BEHAVIOR**

- 3 • **Help to improve the service-**
  - When customers are highly involved with a service (e.g., at a college, an alumni association, or their main banking connection), they give feedback to try and contribute towards service improvements.
- 4 • **For altruistic reasons-**
  - Some customers want to spare other customers from experiencing the same shortcomings, and they may feel bad if they fail to draw attention to a problem that will raise difficulties for others if it remains uncorrected.

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The third reason for complaining is to help the company to improve the service. When customers are highly involved with the service, for example, at a college, an alumni association, or their main banking connection, they give feedback to try and contributes toward service improvements. And the fourth reason, for altruistic reasons. Some customers want to spares other customers from experiencing the same shortcomings, and they may feel bad if they fail to draw attention to a problem that will raise difficulties for others if it remains uncorrected.




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## UNDERSTANDING CUSTOMER COMPLAINING BEHAVIOR

### What Proportion of Unhappy Customers Complain?

- Research shows that on average, only 5–10% of customers who have been unhappy with a service actually complain.
- Sometimes the percentage is far lower.
- Although only a minority of dissatisfied customers complain, there's evidence that consumers across the world are becoming better informed, more self-confident, and more assertive about seeking satisfactory outcomes for their complaints.



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Now, what proportion of unhappy customers complain? So, how many percentage of people who are unhappy they complain? Research show that on average, only 5 to 10 percent of customers who have been unhappy with a service actually complain. Sometimes the percentage is far lower. Although only a minority of dissatisfied customers complain, there is evidence that consumer across the world are becoming better informed, more self-confident, and more assertive about seeking satisfactory outcome for their complaints.

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## UNDERSTANDING CUSTOMER COMPLAINING BEHAVIOR

### Why Don't Unhappy Customers Complain?

- 1 • Customers may not want to take the time to write a letter, send an email, fill in a form, or make a phone call, particularly if they don't see the service as being important enough to be worth the effort.
- 2 • Many customers see the payoff as uncertain and believe that no one would be concerned about their problem.
- 3 • In some situations, people simply don't know where to go or what to do.



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Why do not unhappy customers complain? Here, we have looked at what are the proportion of unhappy customers who complain. Now the, now let us look at why do not unhappy customers they complain. The first is that the customers may not want to take the time to write a letter, send an email, fill a form, or make a phone call, particularly if they do not see the service as being important enough to be worth the effort. So, that is one reason customer do not complain.


The second reason is that many customers sees the payoff as uncertain and believe that no one could be concerned about their problem. And the third reason is that in some situations, people simply do not know where to go or what to do.

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## UNDERSTANDING CUSTOMER COMPLAINING BEHAVIOR

### Who Is Most Likely to Complain?

- Research findings consistently show that people in higher socioeconomic levels are more likely to complain than those in the lower levels.
- They are better educated, have higher income, and are more socially involved, and this gives them the confidence, knowledge, and motivation to speak up when they encounter problems.



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Now, we will look at who is most likely to complain. Research findings consistently show that people in higher socioeconomic levels are more likely to complain than those in the lower levels. They are better educated, have higher income, and are more socially involved and this gives them the confidence, knowledge, and motivation to speak up when they encounter problem. So, these are the people, these are the kind of people who in higher socioeconomic levels, who are more likely to complain.

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## UNDERSTANDING CUSTOMER COMPLAINING BEHAVIOR

### Where Do Customers Complain?

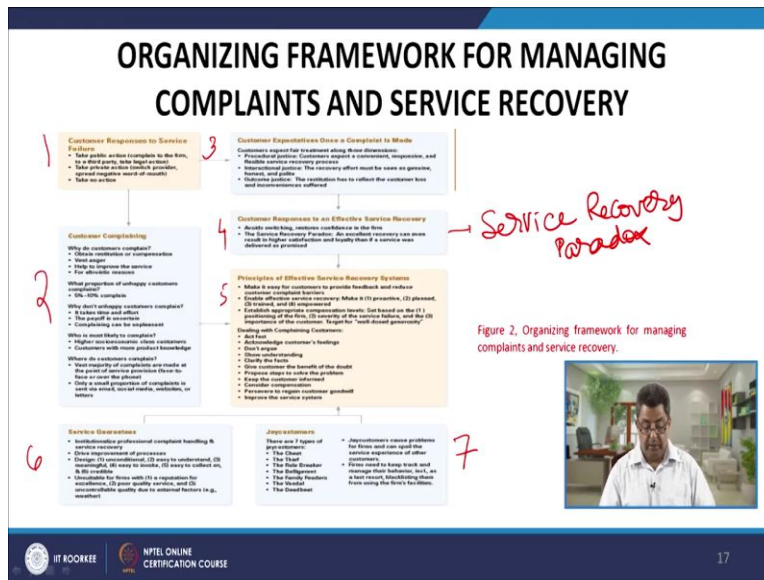
- Studies show that the majority of complaints are made at the place where the service was received.
- Studies show less than 1% of all complaints were submitted via firms' websites, social media pages, email, letters, or feedback cards.



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Where do customers complain? So, where do they go to complain? Study shows that the majority of complaints are made at the place where the service was received. Studies show, less than 1 percent of all complaints were submitted via firms' website, social media pages, emails, letters, or feedback cards.

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This is an organizing framework for managing complaints and service recovery. Now, let us look at this 1, customer responses to service failure. So, these, these, there are three responses that we have talked about earlier. The first one is to take public action, complain to the firm, to the third party or, or take a legal action. The second is, take private action that is to switch providers, spread negative word-of-mouth. And the third is that they take no action.

Now, we move downwards and we move towards this 2, customer complaining. So, why do customers complain? The first reason was, obtain compensation or to vent their anger, help to improve the service and for altruistic reasons. What proportion of unhappy customers complain? That we have seen, they are about 5 to 10 percent.

Why do not unhappy customers complain? It takes time and efforts, the payoff is uncertain and complaining can be unpleasant. Who is most likely to complain? Higher socioeconomic class customers, customers with more product knowledge. Where do

customer complaints? Vast majority of complaints are made at the point of service provisions, face-to-face or over the phone. Only a small proportion complain is sent via email, social media, websites or letters.

Now, let us move, at this, to the third one. What do customer expects once a complaint is made? Procedural justice, that is customers expect a convenient, responsive and flexible service recovery process. Interactional justice, the recovery efforts must be seen as genuine, honest and polite. The third is outcome justice that is the restitution has to reflect the customer loss and inconveniences suffered.

And we move, move downwards towards this fourth, that is customer responses to an effective service recovery. That leads to avoid switching, restore confidence in the firm. The Service Recovery Paradox. An excellent service can even result in higher satisfaction and loyalty than if a service was delivered as promised. So, this is what is called as Service Recovery Paradox.

And now we move on to fifth. So instead of moving to fifth from, from second, we have moved to fifth from the fourth one. Principles of effective service recovery systems. Make it easy for customers to provide feedback and reduce customer complain barriers. Then, enable effective service recovery. Make it proactive, planned, trained and empowered. Establish appropriate compensation levels, thus, set based on, first is positioning of the firm, second is severity of the service failure, the third is importance of the customer. Target for well-dosed generosity.

Dealing with complaint customers requires acting fast, acknowledging customer's feeling. Do not argue with the customer. Show understanding, clarify the facts, give customers the benefit of doubt. Propose steps to solve the problems, keep the customer informed, consider compensation. Preserve to regain customer goodwill and improve the service system.

Now, at the bottom is service guarantee. What does service guarantee means? So, institutionalize professional complaint handling and service recovery. Design improvement of processes. Design, first, unconditional, easy to understand and


meaningful and easy to invoke, easy to collect and credible service guarantee. Which is unsuitable for firms with a reputation for excellence or poor quality of service or uncontrollable quality due to external factors, for example weather.

And then, we move on to this, this 7. Jaycustomers, there are seven types of Jaycustomers, the cheat, the thieves, the rule breakers, the belligerent, the family feuders, the vandals and the deadbeats. Jaycustomers cause problems for firms and can spoil the service experience of other customers. Firms need to keep track and manage their behavior, including, as a last resort, blacklisting them from using the firm's facilities.

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**WHAT DO CUSTOMERS EXPECT ONCE THEY HAVE MADE A COMPLAINT?**

- Whenever a service failure occurs, people expect to be treated fairly.
- However, research has shown that many customers feel that they have not been treated fairly nor received adequate compensation.
- When this happens, their reactions tend to be immediate, emotional, and enduring.
- In contrast, outcomes that are perceived as fair have a positive impact on customer satisfaction.



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What do customer expects once they have made a complaint? So, whenever a service failures occur, people expect to be treated fairly. However, researches have shown that many customers feel that they have not been treated fairly or not received adequate compensation. When this happens, their reaction tends to be immediate, emotional, and enduring. In contrast, outcomes that are perceived as fair have a positive impact on customer satisfaction.

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## WHAT DO CUSTOMERS EXPECT ONCE THEY HAVE MADE A COMPLAINT?

- Stephen Tax and Stephen Brown found that as much as 85% of the variation in the satisfaction with a service recovery was determined by three dimensions of fairness.
- **Procedural justice** -
  - Refers to the policies and rules that any customer has to go through to seek fairness.
  - Customers expect the firm to take responsibility, which is the key to the start of a fair procedure, followed by a convenient and responsive recovery process.




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Stephen Tax and Stephen Brown found that as much as 85 percent of the variation in the satisfaction with a service recovery was determined by three dimensions of fairness. So, now we will talk about these three dimensions of fairness. The first dimension is procedural justice. It refers to policies and rules that any customer has to go through to seek fairness. Customer expects the firm to take responsibility, which is the key to the start of a fair procedure, followed by a convenient and responsive recovery process.

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## WHAT DO CUSTOMERS EXPECT ONCE THEY HAVE MADE A COMPLAINT?

- 2 • **Interactional justice**-
  - Involves the employees of the firm who provide the service recovery and their behavior toward the customer.
  - It is important to give an explanation for the failure and to make an effort to resolve the problem.
- 3 • **Outcome justice**-
  - Concerns the restitution or compensation that a customer receives as a result of the losses and inconveniences caused by the service failure.



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The second dimension of this fairness is interactional justice. Involves the employees of the firm who provide the service recovery and their behavior towards the firm. It is important to give an explanation for the failure and to make an effort to resolve this problem. The third dimension is outcome justice. It concerns the restitution or compensation that a customer receives as a result of the losses and inconveniences caused by the service failure.

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**WHAT DO CUSTOMERS EXPECT ONCE THEY HAVE MADE A COMPLAINT?**

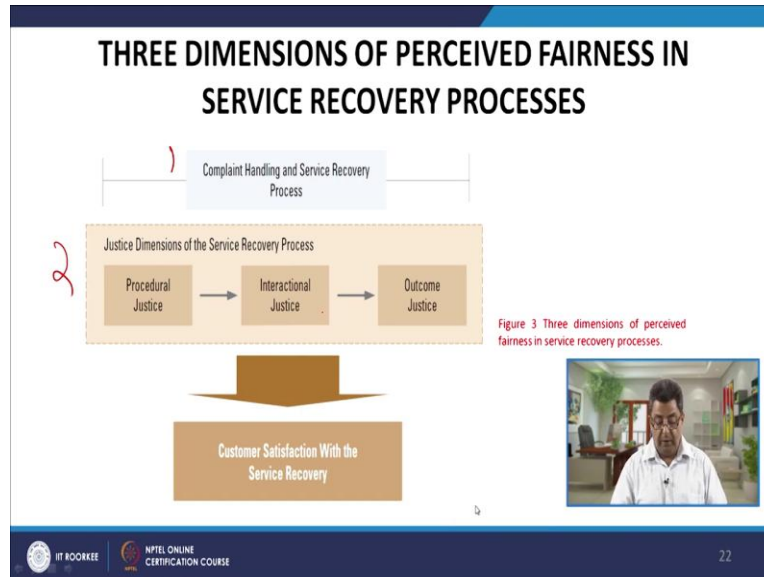
- This includes compensation for not only the failure, but also for the time, effort, and energy spent during the process of service recovery.

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So, what do customer expects once they have made a complaint? That includes compensation for not only the failure, but also for the time, effort, and energy spent during the process of service recovery. So, it is not only about what they have paid for the service but then, when this service recovery is happening, so their time, effort and energy is going. So they want compensation for that too.



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So, these are the three dimensions of perceived fairness in service, service recovery process. So, that is complaint handling and service recovery process. Now, so that is what we are talking about, justice dimensions of service recovery process. The first, this procedural justice leads to interactional justice which leads to outcome justice and that leads to customer satisfaction with the service recovery.

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### CUSTOMER RESPONSES TO EFFECTIVE SERVICE RECOVERY

- Service recovery is a term for the systematic efforts by a firm to correct a problem following a service failure and to retain a customer's goodwill.
- Service recovery efforts play an important role in achieving (or restoring) customer satisfaction and loyalty.
- Effective service recovery requires thoughtful procedures for resolving problems and handling disgruntled customers.


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Service recovery is a term for the systematic efforts by a firm to correct a problem following a service failure. So, what do companies do after service failure and to retain a customer's goodwill? Service recovery efforts play an important role in achieving or restoring customer satisfaction and loyalty. Effective service recovery requires thoughtful procedures for resolving problems and handling disgruntled customers.

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**CUSTOMER RESPONSES TO EFFECTIVE SERVICE RECOVERY**

- The true test of a firm's commitment to customer satisfaction and service quality isn't in the advertising promises, but in the way it responds when things go wrong for the customer.
- The risk of defection is high, especially when there are a variety of competing alternatives available.
- One study of customer switching behavior in service industries found that close to 60% of all respondents who reported changing suppliers did so because of a service failure.



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The true test of a firm's commitment to customer satisfaction and service quality is not in the advertising promises, but in the way it responds when things go wrong for the customers. The risk of defection is high, especially when there are a variety of competing alternatives available. One such 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 service failure.

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### CUSTOMER RESPONSES TO EFFECTIVE SERVICE RECOVERY

- 25% cited failures in the core service, 19% reported an unsatisfactory encounter with an employee.
- 10% reported an unsatisfactory response to a prior service failure, and 4% described unethical behavior on the part of the provider.



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25 percent cited failure 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 part of the provider.

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### IMPACT OF EFFECTIVE SERVICE RECOVERY ON CUSTOMER LOYALTY

- When complaints are resolved satisfactorily, there is a much higher chance that the customers involved will remain loyal.
- In fact, research has shown that complainants who are satisfied with the service recovery experienced are 15 times more likely to recommend a company than dissatisfied complainants.
- If the complaint could be resolved to the satisfaction of the customer, the retention rate jumped to 54%.



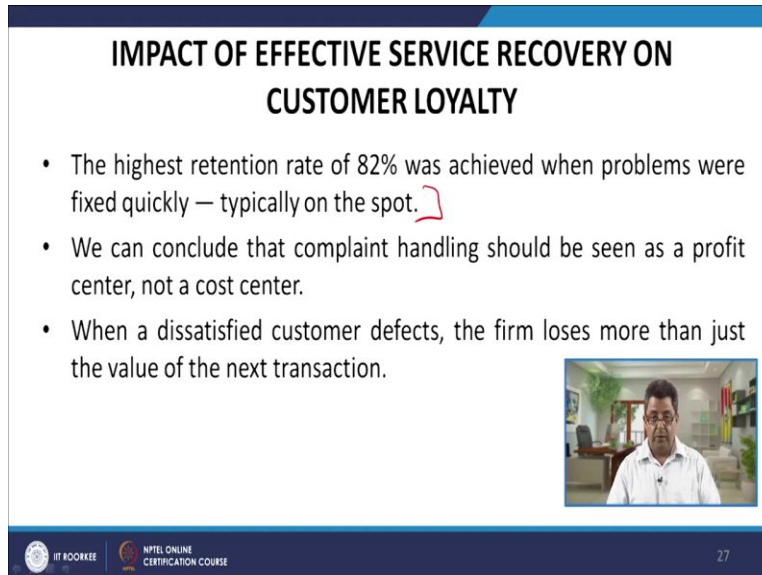
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Now, what is the impact of effective service recovery on customer loyalty? When complaints are resolved satisfactorily, there is much higher chance that customer involved will remain loyal with this firm. In fact, research have shown that complainants


who are satisfied with the service recovery experienced, are 15 times more likely to recommend a firm than a dissatisfied complainant. If the complaint could be resolved to the satisfaction of the customer, the retention rate jumped to 54 percent.



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**IMPACT OF EFFECTIVE SERVICE RECOVERY ON CUSTOMER LOYALTY**

- The highest retention rate of 82% was achieved when problems were fixed quickly — typically on the spot.
- We can conclude that complaint handling should be seen as a profit center, not a cost center.
- When a dissatisfied customer defects, the firm loses more than just the value of the next transaction.




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The highest retention rate of 82 percent was achieved when problems were fixed quickly, typically on the spot. So, this is, you can now understand how important it is to fix the problem on the spot. We can conclude that complaint handling could be seen as a profit center, and not as a cost center. When a dissatisfied customer defects, the firm loses more than just the value of the next transaction, but the company also lose lots of positive word-of-mouth and new customers by that way.

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### IMPACT OF EFFECTIVE SERVICE RECOVERY ON CUSTOMER LOYALTY

- It may also lose a long-term stream of profits from that customer and from anyone else who is deterred from patronizing that firm as a result of negative comments from an unhappy friend.
- However, many organizations have yet to buy into the concept that it pays to invest in service recovery designed to protect those long-term profits.




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It may also lose a long-term stream of profits from that customers and from anyone else who is deterred from patronizing that firm as a result of negative comments from an unhappy friend. However, many organizations have yet to buy into the concept that it pays to invest in service recovery designed to protect those long-term profits.

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### CONCLUSION

- In this module we recognized actions that customers may take in response to service failures.
- Understood why customers complain.
- Learnt what customers expect from firm when they complain.
- Understood how customers respond to effective service recovery.

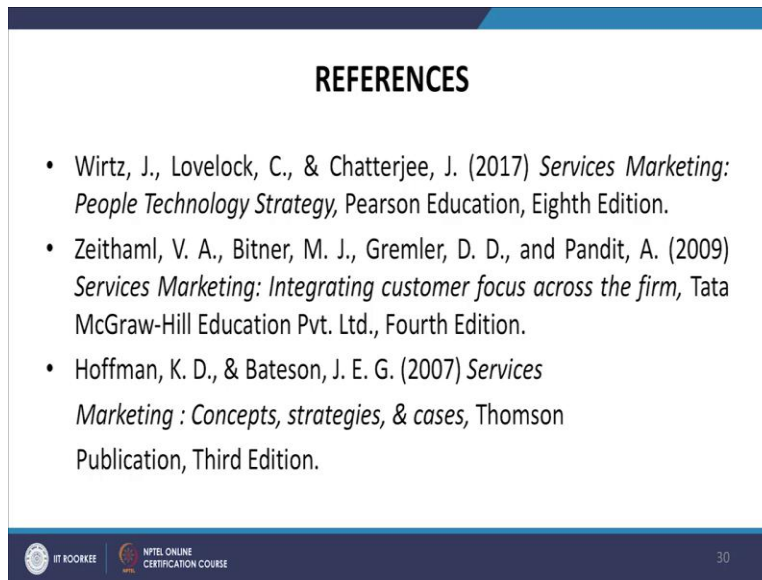


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To conclude, in this module we recognized actions that customer may take in response to the service failure. Then, we went on and, and understood why customers complain.

Then, we learnt about what customer expects from firm when they complain. And, how customer respond to effective service recovery.

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The slide is titled "REFERENCES" and lists three books. The first book is by Wirtz, J., Lovelock, C., & Chatterjee, J. (2017) titled "Services Marketing: People Technology Strategy", published by Pearson Education, Eighth Edition. The second book is by Zeithaml, V. A., Bitner, M. J., Gremler, D. D., and Pandit, A. (2009) titled "Services Marketing: Integrating customer focus across the firm", published by Tata McGraw-Hill Education Pvt. Ltd., Fourth Edition. The third book is by Hoffman, K. D., & Bateson, J. E. G. (2007) titled "Services Marketing : Concepts, strategies, & cases", published by Thomson Publication, Third Edition. The slide also features logos for IIT BOOBYEE and NPTEL ONLINE CERTIFICATION COURSE at the bottom, along with the page number 30.

### REFERENCES

- Wirtz, J., Lovelock, C., & Chatterjee, J. (2017) *Services Marketing: People Technology Strategy*, Pearson Education, Eighth Edition.
- Zeithaml, V. A., Bitner, M. J., Gremler, D. D., and Pandit, A. (2009) *Services Marketing: Integrating customer focus across the firm*, Tata McGraw-Hill Education Pvt. Ltd., Fourth Edition.
- Hoffman, K. D., & Bateson, J. E. G. (2007) *Services Marketing : Concepts, strategies, & cases*, Thomson Publication, Third Edition.

These are the three books from which the material for this module was taken. Thank you.