

## **Strategic Services Marketing**

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### **Service Recovery Strategies and Complaint Handling**

Hello everyone. In this session, let's explore different service recovery strategies and complaint handling processes in services. But before going further, there is a good chance that you may not always find satisfaction with certain services you receive. When faced with dissatisfaction, how do you typically react? Do you opt for informal complaints to an employee? Request to speak with a manager or lodge a formal complaint? Or alternatively, do you tend to keep your grievance to yourself, went to your friends and family and seek out a different provider the next time you require a similar service? Let's discuss one of these incidents, a famous case study in services failure and recovery. Here is how customers response to service failures. Let's take in this example, the United Breaks Guitars is an incident is a famous case study in customer complaint and service recovery that gained widespread attention in 2009.

It involved Canadian musician Dave Carroll, who witnessed United Airlines mishandling of his guitar during a flight transfer, resulting in a significant damage to the instrument. Despite Carroll's efforts to seek compensation and repair costs from United Airlines, he encountered resistance and lack of acknowledgement of responsibility from United Airlines. Frustrated by the airline's dismissive response, Carroll decided to channel his grievances into a creative outlet by writing and recording a protest song titled United Breaks Guitars. The catchy and humorous music video depicted Carroll's experience and dissatisfaction with the United Airlines customer service and it quickly went viral after its release on YouTube.

Have a look at this particular song, which is titled as United Breaks Guitars. I flew United Airlines on my way to Nebraska The plane departed Halifax, connecting in Chicago's old hair While on the ground a passenger said from the seat behind me, my God, they're

throwing guitars out there. The band and I exchanged a look best described as terror. At the action on the tarmac and knowing whose projectiles these would be. So before I left Chicago, I alerted three employees. Who showed complete indifference towards me. United, United You broke my Taylor guitar. United, United Some big help you are. You broke it, you should fix it. You're liable, just admit it. I should have flown with someone else. Or gone by car. Cause United Breaks Guitars. When we landed in Nebraska, I confirmed what I'd suspected. My Taylor been the victim of a vicious act of malice at old Peter. So began a year-long saga. Up past the buck, don't ask me. And I'm sorry, sir, your claim can go nowhere. So do all the airlines people. From New York to New Delhi. Including kind Miss Earle Whig. Who says the final word from them is no. I've heard all your excuses. And I've chased your wild geese. And this attitude of yours I say must go. United, United You broke my Taylor guitar. United, United Some big help you are. You broke it, you should fix it. You're liable, just admit it. I should have flown with someone else. Or gone by car. Cause United Breaks Guitars. Well I won't say that I'll never fly with you again. Cause maybe to save the world I probably would. But that won't likely happen. And if it did I wouldn't bring my luggage. Cause you'd just go and break it into a thousand pieces. Just like you broke my heart. When United Breaks Guitars. United, United You broke my Taylor guitar. United, United Some big help you are. You broke it, you should fix it. You're liable, just admit it. I should have flown with someone else. Or gone by car. Cause United Breaks Guitars. Yeah, United Breaks Guitars. Yeah, United Breaks Guitars. Yeah, United Breaks Guitars. Yeah, United Breaks Guitars. So the song's widespread popularity and media coverage brought immense negative publicity to United Airlines, highlighting the power of social media in amplifying customer complaints and influencing public perception. The incident underscored the importance of effective handling of customer complaints and service recovery in the digital age, where disgruntled customers can easily share their experiences with a global audience. Ultimately, United Airlines' reputation suffered as a result of the incident, and the airline faced significant public relations challenges in rebuilding trust and restoring customer confidence. The United Breaks Guitars case serves as a cautionary tale for businesses or service providers about the importance of prioritizing customer satisfaction, addressing complaints promptly and empathetically, and implementing robust service recovery strategies to mitigate the impact of negative experience on brand reputation.

So with this example, let's move on to the next point. So customers usually take one of the three actions when they encounter a service failure, as shown in this particular chart given by Witz and Lovelock. So through this chart, Witz and Lovelock suggest that there are three major courses of action a customer may take in response to a service failure. First, take some form of public action like complaining to the firm or to a third party such as a customer advocacy group or consumer affairs or regulatory agency or even civil or

criminal court. Second route of action is taking some form of private action, for example abandoning that particular supplier or service provider, and third action is to take no action.

So as shown in this particular diagram, one question arise, why do customer complaint even at the first place? As shown in this particular diagram, there are four major reasons that shows why do customers complain. The first one here is to obtain a restitution or compensation. Consumers frequently voice their grievances in hopes of recovering economic losses through refunds or compensation, as well as to request a redo of the service as well. Second reason is to vent their anger. Certain customers express dissatisfaction to restore their self-esteem or to elevate feelings of anger and frustration.

When service procedures are overly bureaucratic or unreasonable, or when employees exhibit rudeness, intentional intimidation, or apparent indifference, it can adversely impact customer self-esteem, self-worth, and perception of fairness. Consequently, they may experience heightened emotions such as anger and distress and then they complain. Third reason is to help to improve the services. When customers or customers are deeply engaged with the service, such as within a college, alumni association, or their primary banking institution, they provide feedback in an effort to contribute to the enhancement of services. And the fourth and obvious reason for why some customers complain is for altruistic reasons.

Here, certain customers are driven by altruistic motives, that is helping others. Their aim is to prevent other customers from encountering similar shortcomings and they may feel a sense of guilt if they neglect to bring attention to such an issue that could potentially damage or create difficulties for others. Then comes another question, then why don't unhappy customers complain sometimes? They are unhappy but they stay away from complaining. So there are four possible reasons again, time, uncertainty, right place to complain they don't know, and finally, perceptions and social norms. Customers might hesitate to provide feedback through traditional channels like writing a letter, sending an email, filling out a form, or making a phone call, especially if they perceive the service issue as insignificant and not worth of their effort.

Secondly, they may view the potential outcomes as uncertain and doubt whether anyone would be interested in addressing their problems. Third, individuals may be unsure of where to direct their feedback or how to proceed for lodging a complaint. They don't know the place where to go and furthermore, many people or customers find that the act of complaining is uncomfortable and they fear confrontation, particularly if it involves someone they know and may interact with again in the future. So the next question comes

is who is most likely to complain? Research consistently indicates that individuals from higher socio-economic backgrounds are more inclined to voice complaints as compared to those from lower socio-economic levels because their advanced education, increased income, and greater participation in social activities equip them with the confidence, knowledge, and drive to articulate their concerns when facing issues. Moreover, those who engage in complaining tend to possess a deeper understanding of the product or service in question.

So knowledge of product or service is also a crucial factor. Now next question comes where do customers complain? Moreover, although customers tend to use interactive channels such as face-to-face encounters or the telephone when they want to problem to be fixed, they use non-interactive channels to complain, for example email or website, but that is only 1%. 99% of the time the complaints or the feedback even is given on face-to-face the particular service provider. Stephen Tax and Stephen Brown found that as much as 85% of the variation in satisfaction with a service recovery was determined by three dimensions of fairness which we are going to discuss in this particular next figure. This figure represents three dimensions of perceived fairness in service recovery process.

So, the three dimensions are procedural justice, interactional justice, and outcome justice. Procedural justice means policies and rules that any customer has to go through to seek fairness. A customer or client expect that the same policies are applicable to all the customers who are receiving that particular Second dimension is interactional justice that means which involves the employees of the firm who provide the service recovery and their behavior toward the customer. So, it is expected that the interaction between customer and a service provider should be transparent and informative. Lastly, the third dimension is outcome justice that means the restitution or compensation that customer receives as a result of the losses or inconveniences caused by the service failure should be fair and justifiable.

So, if these three dimensions that is procedural justice, interactional justice, and outcome justice are at place then one can say that the particular service recovery system is efficient, but that connects us to the next point that is what is Service recovery. Service recovery is a term used to describe the systematic efforts made by a service firm to correct a problem following a service failure and retain a customer's goodwill. So, how to design an effective service recovery system? So, Wits and Lovelock provides this chart that explains the components of effective service recovery system. At the top, the researcher says that it is expected that service provider do their job very right at the first time itself, plus there has to be some effective complaint handling procedures. Results of this will lead to increase satisfaction and loyalty.

However, let's say there are some complaints. So, the job is identifies effective services complaints through conducting research, monitoring existing complaints, or developing complaints as opportunity culture. So, looking every complaint as another opportunity to improve the services. Then comes resolving complaints effectively, which involves developing system and training the employees in terms of complaint handling. And finally, learn from the recovery experience.

One can conduct root cause analysis to understand the basic or root causes of any particular service failures. And based on this particular stages, there is a feedback that again goes to the system, so that the next time firm can do everything right at the first time again when involving another customer. So, what are the principles of effective service recovery? There are three principles. First, make it easy for customers to give feedback. Second, enable effective service recovery.

And third, establish appropriate compensation levels. Let's discuss these in detail. First point here is make it easy for customers to give feedback or complaints. As shown in this chart, the first column denotes complaint barriers for dissatisfied customers. The things that stop customers to go for complaining.

The first reason here is inconvenience. For example, difficult to find the right complaint procedure or the effort involved in terms of, let's say, writing and mailing a letter. So, how one can address this particular barrier? A service provider can have easy and convenient feedback systems. For example, put customer service hotline numbers, email addresses, the website and postal addresses on all customer communication materials. Second barrier here is doubtful payoff, uncertainty.

Uncertain whether any or what action will be taken by the firm to address particular issue where customer is unhappy. To address this kind of barrier, firms need to reassure customers that their feedback will be taken seriously and will pay off. For example, have service recovery procedures in place and communicate this to customers, feature service improvements that resulted from customer feedback and so on. Third barrier for customers or dissatisfied customers to complain is unpleasantness, maybe because of fear of being treated rudely or fear of being hassled or even feelings of embarrassment. To address this challenge or barrier, firms need to make providing feedback a positive experience for their customers, thank customers for their feedback or train service employees not to hassle and to make customers feel comfortable or even going for allowing an anonymous feedback on the services.

So, these are the some strategies to reduce those complaint barriers. Now, the next element is enabling effective service recovery, another principle of creating excellent service recovery processes. Here, there are four things to be followed. First, with respect to employees, they need to be proactive. So, service personnel should be sensitive to signs of dissatisfaction.

So, they should proactively identify the triggers and signs of dissatisfaction. Secondly, planning or have some contingency plans. Contingency plans have to be developed for service failures, especially for those that occur regularly and cannot be designed out of the system. Third, train manpower or personnel. Build confidence and competence among frontline staff, enabling them to turn distress into delight.

And finally, empowering your employees or frontline staff. Employees need to be able to make decisions and spend money in order to resolve service problems promptly and recover customers goodwill as well. The third principle of designing effective service recovery system deals with establishing appropriate compensation levels. Here, it is important to understand how much compensation should a firm offer when there has been a service failure. To address this question, firm needs to answer three questions.

What is the positioning of your firm? How severe was the service failure and who is the affected customer? What is your company's positioning? This question deals with, for example, if a company is renowned for its excellence in service and commands a premium price for quality, customers will anticipate rare instances of service failures. Consequently, the company should actively strive to rectify any occasional failures and be prepared to offer significant value as compensation. However, in a mass-market business scenario, customers are more likely to accept a sincere apology and a reworking of the service. Coming to the second question, that is how serious was the service failure? The general principle is to match the severity of the failure with the appropriate response. Customers typically expect minimal compensation for minor inconveniences where a heartfelt apology surfaces.

However, if the failure results in substantial damage in terms of time, effort, frustration, or stress, a much more substantial compensation is warranted. Coming to the third question, who is the affected customer? Established customers with a long-term relationship and significant spending at a service provider naturally expect a higher level of compensation and it is beneficial to make efforts to retain their businesses. On the other hand, one time customers tend to have lower demands and economic significance to the company. Therefore, while compensation for them can be less, it should still be equitable. There is

always the potential that a first-time customer could become a loyal repeat customer if they are treated well.

Let's listen to Ron Kaufman, a leading author on service recovery, about his views on what are the three steps for a successful service recovery. Have a look at this particular video. When there's a service recovery situation, it's because some standards or expectations were not met. And by the way, sometimes those standards and expectations may not have even been clearly articulated and agreed upon between the customer and the service provider in the first place. They can literally emerge during the delivery of service itself.

However it arises, if there's a service recovery situation, the customer's experience or the internal colleague's experience is one of dramatic drop. This is not a good situation. There's a negative assessment in the space. So, then there's three components to a successful recovery and service. At least two of them involve that individual component.

The first though is fix the problem. Address the issue. Solve what's incorrect, especially if it's in any way life-threatening or urgent or seriously consequential in that manner. Just do the repair. And some people say, well, I fixed it, so that's the end of the recovery.

That's nowhere near enough. Because the human being who experienced the negative impact is a human being. It's not just the problem that emerged that then got solved. And so the second stage is express genuine concern. And that's the authentic human.

It's the tone of voice. It's the empathy. It's the committed caring. It's letting them know I'm a human being over here knowing that you, a human being over there, experienced some negative consequence. I am genuinely sorry about that that happened or that you had that experience. And I'm here to help address this.

Hence, we've taken care of the problem. Now you know that I'm genuinely concerned. But the third, of course, is the opportunity that a service recovery situation presents, which is when someone's expectations drop like that and you recover by solving the problem and say that you really care, you might just get back to where you were. But that doesn't erase the that happened, the drop, that rocky moment when you're down on the mat, right? And that's the moment to do something unexpected, something extra, something a little more, something surprising. And that doesn't mean giving a bigger discount. It could be

something just like you call them the following day and say, hey, I'm just touching base and following up.

Did everything work out okay? Great. I'm really glad to hear that. By the way, you know you can reach out anytime you need. Well, what's that got to do with solving the problem? Nothing. The problem is already solved. But what does it got to do with that bit of extra effort towards the person who experienced the drop? All right.

Of course, in luxury dining, which you're familiar with, oops, something went wrong. The dessert is on us. Or, you know, I know you bought this bottle of wine, but I thought I'd bring you a taste of that and one that's quite a bit more expensive. But, you know, we'd love to offer you that bottle on the house tonight.

Oh, I mean, all that kind of stuff. You don't build it into the process. You just say, well, there is that third component, which is something extra. And that's where you want the individual to have been sensitive to the customer to design. What is the right something extra that's going to work for that customer? Now let's discuss some successful service recovery examples. And the first here is, of course, from Ritz Carlton, the best service recovery story ever.

Have a look at this particular video. When service failure happens and it does happen, you need not resign yourself to turning that customer into a detractor. Because if you overcorrect on the recovery, you know what you're essentially doing? You're creating another peak. And if it's a really tall peak, it far eclipses the negativity of the failure itself. And it becomes something positive that people remember.

I want to tell you a story that illustrates this concept. It is the best service recovery story you will ever hear. Do I have your attention? And I know it's a true story because it happened to me. It is a personal story. So here's the scoop.

My wife and I were staying at a Ritz Carlton in Florida. We were there because at the time I was working for a large financial services company and they had their big annual shindig for their top salespeople. You know, when you know these things, these are big to-dos. They bring in the CEO, they bring in the board of directors. I mean, you got all the bigwigs there.



It's a big deal for these folks. And part of the event, on one night, they have a formal black tie dinner. Now, for guys, it's easy. You know you just rent the tux, or if you own one, you just take it out of your closet. But for women, it's a bit more difficult because they need to find the right dress, the right formal evening gown. So for several weeks before we left, before the trip, my wife searched high and low for the perfect evening gown.

She finally found it. She found something she was happy with. She got all the accessories. She got shoes. She got some jewellery to go with it.

She was all set. She was happy. She was going to look great at that black tie event. So we pack up our bags and we go down to Florida. We arrive at our hotel at the Ritz Carlton. We unpack the bags. My wife takes her dress out and discovers that in transit, it got all wrinkled.

So she sends it off to the Ritz Carlton dry cleaning service to be pressed. Well, the next day, the dress comes back, and I kid you not, it's the size of a Barbie doll. They shrunk that baby down somehow. I mean, there's no way that my wife is going to be able to wear that. Now, I am not a woman, but to hear my wife tell it, this is the doomsday scenario.

I mean, it does not get worse than this. This is even worse than showing up at the black tie event and finding somebody wearing the exact same dress. I mean, this is the nightmare scenario because for weeks she searched for the perfect dress and now the event just days away, she has nothing. Well, so I call down to the front desk and I tell them what happened. And a few minutes later, I get a call from the Ritz Carlton Hotel manager and we talk about what happened.

And you know what he says to me? He says, Mr. Pico, I am going to take care of this for you. Now let's just stop there for a moment. How often is it in this world that you hear people take ownership and accountability like that? Utter those words, I will take care of this for you. Not only utter the words, but mean them, not only mean them, but then deliver on them.

And boy, did they deliver. Because what they did is they whisked my wife off in a limousine and they took her to the nearest Nordstrom where they had arranged for a personal shopper to spend the entire day with her. Picking out a new evening gown, getting it tailored, buying all of the accessories, the shoes, the jewelry, what not. And my wife

spent the whole day there and she was happy with what she found. She was really happy, felt good about it.

The Ritz Carlton paid for the entire thing. The limo, the new dress, the jewelry, the shoes, the accessories, all of it. They paid for the entire thing. Pretty cool, huh? Wait, it gets better. So we go home and the next day comes and it's the day of the event.

The event starts at six o'clock. It's five o'clock. We start getting dressed. My wife puts on the dress and I hear an audible gasp. So I go over to her and I say, Rebecca, what's the matter? And she points down to the bottom of the dress and says, John, Nordstrom forgot to take off the anti-shoplifting ink cartridge. So quick thinking husband that I am, I say to her, well, you know, Rebecca, don't worry about it. If anybody notices it, just say it's like the latest fashion accessory from the runways of Milan.

She didn't buy that though. She didn't buy that. So what do I do? I call the hotel manager. I tell him what happened and what does he say? Mr. Pico, I'm going to take care of this for you. 20 minutes later that Ritz Carlton hotel manager is up at my front door.

He knocks on the door and I see beside him. He has a Nordstrom employee who he summoned to the hotel with the ink cartridge removal device. The Nordstrom employee kneels down, clips off the ink cartridge from my wife's dress. It's perfect.

We've got 20 minutes to spare. Pretty cool, huh? Wait, it gets better. So we go down to the event and we find what table we're sitting at and we go and we sit down at our table. And I have my head down because I'm looking at the menu trying to see what I'm going to order and I hear clapping. And so I look up and there at the end of the table I see the Ritz Carlton hotel manager and members of his staff clapping, applauding my wife in admiration of how beautiful she looks. I mean it was like Pretty Woman come to life. Do you remember that scene where Hector Elizondo, he sends Julia Roberts out and to get these new clothes and she comes back to the hotel lobby and he's there applauding standing ovation with his staff? That really happened to me and my wife.

That's the end of the story. It doesn't get better than that. But here's what I want you to take away from that story, okay? The Ritz Carlton, they knew the lifetime value of their customer. They knew the lifetime value of me as an executive that would come and stay at another Ritz Carlton. They knew the lifetime value of the account, the company I worked with that could have sent many other conferences to that or other Ritz Carlton's. They

knew that lifetime value and as a result this was an easy decision for them. Spending two or three thousand dollars outfitting my wife, drop in the bucket compared to the lifetime value of that account.

And it was the right business decision because you know what they did? They guaranteed that now wherever I go in the world to give speeches I am not telling a story about how Ritz Carlton turned my wife's formal evening gown into the size of a Barbie doll. Instead I am telling a story about how Ritz Carlton engineered the greatest service recovery in the history of the planet. And I just add to the aura and the legend around Ritz Carlton. But one last thing on this because I don't want you to just walk away like this is an entertaining story.

I want you to think about that Ritz Carlton, the hotel manager. Think about what was going through his head. At some point process that hotel manager ceased to just think about how do I make Mrs. Pico whole? How do I fix her dress or get her a new one? At some point in the process he started thinking in light of the circumstances how do I make Mr. and Mrs. Pico feel special? And that's when he must have come up with this idea to go down to the event with his staff and give my wife a standing ovation.

And my counsel to you is there is nothing that is stopping any of you from going back to your jobs tomorrow and embracing that line of thinking and encouraging your staff to do the same. Not to just focus on the mechanics of the experience but to also focus on how do I make my customer feel good. So this is an example of successful service recovery in the service industry in the form of Ritz Carlton Hotels Company's renewed gold standards and commitment to exceptional customer service. So in this video we tried to explore different service recovery strategies and we also looked at complaint handling process in terms of services. Thank you.