

International Journal of Applied Marketing

Volume 1 Issue 3

**Cost-Effective Service Recovery:
Knowing Which Customers to Keep**

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ISSN 1742-2612

Abstract

Service failures are inevitable. However, research shows that in many cases it is considerably more profitable for a company to keep customers who have experienced failures than to try to find new customers. This article explores important decisions companies must make when designing their service recovery systems. After discussing the benefits of service recovery, the paper reviews the findings of recent research about the elements of high-quality service recovery. Next, we show how a customer's expectations and profitability must be considered when designing the recovery system. Based upon a classification system that integrates customer profitability and expectations, this article presents a theory that challenges the notion that all customers should be recovered. The paper presents practical advice for managers who seek to enhance service effectiveness through cost-effective service recovery.

Keywords

Service recovery, customer expectations, service failure

Research suggests that retaining current customers is cheaper than attracting new customers.¹ Companies that increase customer retention by 5 percent can see their profits jump 100 percent.² By cutting customer defections in half, they can double their growth rate.³ To achieve these results, companies must implement service recovery systems designed to retain customers. Not all service recovery efforts are cost-effective, however. Executives must design high-quality service recovery systems that will successfully retain profitable customers and enhance service effectiveness.

Regardless of a company's experience and effort, some service failures are inevitable. Once a service failure has occurred, service recovery consists of anything a company does to restore customer satisfaction and loyalty to the pre-failure level. When customers experience a service failure, the key to customer retention lies in the service recovery effort companies make.

In this article, we review the benefits of effective recovery and present findings of recent research that uncovers the components of recovery quality. Next, we discuss the importance of considering customer expectations and profitability when making service recovery decisions. Then, we present a model of service recovery that assists executives in designing and implementing cost-effective service recovery systems that lead to long-term profitability.

Benefits of Service Recovery

High-quality service delivery, and recovery when needed, strengthens customer satisfaction and loyalty and thereby increases profits.⁴ Competitive pricing alone does not create customer loyalty. The attachment of a customer to a company occurs through nurturing customer relationships and mending broken ones.⁵ When customers perceive high-quality service recovery, customer satisfaction is increased.⁶ Increased customer satisfaction significantly impacts profits; when the management of a credit card company decided to focus on increasing customer satisfaction, profits increased sixteen-fold over a period of eight years.⁷ In addition to directly contributing to profits, a high level of customer satisfaction generally promotes customer loyalty.⁸ This also increases business profits; a mere 5% increase in customer retention has nearly doubled the profits of some companies.⁹

High-quality service recovery raises levels of customer satisfaction, improves customer loyalty, and usually leads to increased profits through both cost savings and revenue improvement.¹⁰

Cost Savings

Effective service recovery allows companies to avoid many of the costs associated with service failures.¹¹ One of the biggest costs associated with service failure is customer defection. Finding a new customer is much more expensive than retaining one.¹² For example, one study found that it costs nine times more to attract a new symphony subscriber than to sell a third-year extension to a current subscriber.¹³ A service recovery system allows companies to reduce customer turnover by satisfying their current customers.

Negative word-of-mouth is another large cost of service failures. Studies have shown that dissatisfied customers are likely to share their negative experience with eight to ten people; 13% relate the incident to at least twenty people.¹⁴ Other research indicates that a dissatisfied customer tells eleven people, who then tell five people each; thus, 66 people hear about the bad experience. Appropriate service recovery systems can eliminate these devastating effects on a business.¹⁵

Revenue Improvement

In addition to saving on costs, companies with effective service recovery systems can improve revenues. The future revenues gained by recovering dissatisfied customers can be enormous. Successfully recovered customers have strong loyalty; they make repeated and increasingly larger purchases.¹⁶ Also, recovered customers have been doing business with the company longer than any potential new customer. Research shows that these returning customers, called mature customers, contribute more to company success than new customers.¹⁷ In short, companies that take the time to develop a service recovery system can enhance relational benefits and improve revenues at a reasonable cost.¹⁸

Components of High-Quality Service Recovery

The benefits of service recovery are appealing; however, not just any recovery effort will suffice. Businesses seeking to enhance service effectiveness must develop a *high-quality* recovery system.¹⁹

Prior research has found various types of service recovery activities that contribute to the quality of a recovery system. In 1993, Scweikhart, Strasser, and Kennedy discovered two methods to alter customer perceptions through cognitive and/or affective processes: psychological and tangible recovery efforts.²⁰ Psychological efforts, intended to appease the customer, include apology and explaining why the failure occurred. Tangible efforts focus on compensating the customer for perceived damages. Later, Miller, Craighead, and Karwan used the same terms to describe types of recovery activities.²¹ Other researchers also report that psychological and/or tangible recovery efforts increase customer perceptions of service recovery quality.²²

Our research analyzed 9,373 surveys of customers who had recently phoned the call center of a large financial services firm.²³ We distributed a three-part survey to customers. The first part examined the components of service recovery quality.²⁴ The second part examined how quickly the inquiry was resolved, how the customer rated the service from the most recent call, and how likely the customer is to use that

company's credit card in the coming year (customer loyalty). The third part of the survey requested open-ended responses from the participants. We used the surveys of only those customers who made two or more calls to the center before their problem was resolved, thus limiting the analysis to 1,449 recovery events. In the following two sections we will refer to analysis of the responses to the first and second part of the survey. Throughout the paper we use examples gathered in our analysis of this data.

The results of our survey are consistent with prior research that has identified tangible and psychological efforts as two main components of service recovery quality.²⁵

Tangible Components

The tangible components involve diagnosing and correcting the service failure.²⁶ Miller et al. expanded tangible efforts to include compensation for real and perceived damages, with several intents: First, to provide fair restitution for costs and inconveniences, and second, to provide value-added atonement by giving a customer more than the fair remedy.²⁷ Our study included three variables related to tangible components: if the customer's problem was quickly understood, whether the employee volunteered additional information, and whether the employee provided clear instructions.

Other research shows that an important tangible component is assistance—restoring customers to their pre-failure state.²⁸ For example, if a laundry service ruins an article of clothing, assistance demands that the company either replace the garment or reimburse the customer for its monetary value. Customers expect companies to act reasonably in fulfilling explicit or implied contracts.²⁹

Psychological Components

The psychological components of service recovery quality consist of how an employee interacts with the customer following a service failure.³⁰ The interpersonal treatment a customer experiences throughout the recovery process is considered part of the psychological aspect of service recovery, whether the communication is verbal, non-verbal, oral, or written.³¹ Miller et al. recommended empathizing and apologizing in all service recovery efforts.³² In our study, psychological components included descriptors of the employee such as: patient, polite, knowledgeable, friendly, and positive. Other items summarized the customer's perception of how they were treated. These items included: interested in my problem, kept my best interest in mind, provided individualized attention, and didn't put me on hold.

Our earlier research also showed that psychological components impact customer satisfaction and dissatisfaction. Our survey showed that communication behaviors become increasingly vital when customers expect personalized service.³³ Another of our studies shows that communication problems (such as an employee's lack of courtesy or a lack of personal attention to the customer) are one of three major issues that cause customers to stop doing business with a company.³⁴

Other researchers have found that sixty-eight percent of all customers who leave a company do so because they perceive an attitude of indifference toward their problem.³⁵ Thus, it is important for companies to not only resolve the initial complaint, but to also display an attitude of caring for the customer throughout the recovery effort.³⁶

Our research shows that both psychological and tangible components have a significant impact on customer loyalty, satisfaction, and perceptions of quality.³⁷ The quality of recovery efforts must be high in both the psychological and tangible aspects in order to enhance service effectiveness. To design a system that includes both components of service recovery quality, executives must consider both customer profitability and expectations.

Customer Profitability

All customers do not contribute equally to company profitability. Research shows that for most types of businesses, one-third of customers account for two-thirds of company volume.³⁸ The high-profit segment of customers produces six to ten times as much profit as the low-profit segment;³⁹ the bottom ten percent of customers contribute only one half of one percent to a firm's revenue.⁴⁰ The high-profit customers often buy in volume, pay a fair to premium price, influence other consumers, and bring new customers to the company.⁴¹ Thus, companies must work hard to recover these critical customers.

Many companies have implemented systems to classify their customers into tiers based on profitability.⁴² For example, Federal Express Corporation categorizes customers as good, bad, or ugly; it emphasizes service to the good, attempts to convert the bad into good, and shuns the ugly.⁴³ First Union Bank gives special privileges to its profitable "green" customers, while the unprofitable "red" customers do not receive any extra customer service support.⁴⁴

Firms must distinguish customer profitability from recovery costs. Customer expectations, which will be further discussed in the following section, determine recovery costs. Customer profitability, however, does not include recovery costs, but is based on a customer's history with the company. Because profitable customers who are successfully recovered will provide the firm with future revenues, firms seeking to maximize long-term profits should recover profitable customers even if recovery costs are high (i.e., if the customer has high expectations).⁴⁵ However, the costs required to recover the loyalty of non-profitable customers who have high expectations may not be cost justified.⁴⁶

Customer Expectations

This section examines customer expectations of primary service quality and service recovery quality. Then, factors that impact customer expectations are discussed.

Customer Expectations of Service Quality

In any service, customer satisfaction is a function of customers' perceptions of service quality compared to their expectations of service quality.⁴⁷ Figure 1 introduces three customer responses to quality (dissatisfaction, satisfaction, or delight) based on the comparison of perceived quality versus expected quality. As quality improves, customer response moves upward on Figure 1.



Our research confirms the findings of prior research that customers feel satisfied when service quality matches their expectations, but they feel dissatisfied when their expectations are not met.⁴⁸ Customer delight results when perceived service quality exceeds the customer's a priori expectations.⁴⁹ Customer satisfaction is depicted in Figure 1 as the "satisfaction zone," where service quality matches expectations. The area below the satisfaction zone represents customer dissatisfaction, and the area above the satisfaction zone represents customer delight. In general, satisfaction or delight is necessary to retain customer loyalty.⁵⁰ The satisfaction zone is different for each customer. The zone can be high or low and narrow or wide.

Customer Expectations of Service Recovery Quality

As companies make recovery efforts, customers will compare the perceived quality of tangible and psychological components to their expectations of service recovery quality and respond with feelings of dissatisfaction, satisfaction, or delight.⁵¹ Satisfying customers is more difficult following a service failure because recovery candidates are already dissatisfied with the primary service.⁵² Furthermore, customers' expectations of service recovery will likely be higher than their expectations of the primary service.⁵³ In most cases, the primary service expectation is that companies politely fulfill the contract. Following a service failure, meeting this expectation does not always result in satisfaction or delight. Hence, the challenge of service recovery is to raise customers from a level of dissatisfaction to either satisfaction or delight. Figure 2 shows the elevated expectations that must be met to satisfy or delight a customer who has experienced a service failure.

Figure 2: Customer Responses to Primary Service and Recovery Quality

Primary Service Response	Service Recovery Response
Delight	Delight
Satisfaction	Satisfaction
Dissatisfaction	Dissatisfaction

Customer expectations of service recovery quality are influenced by a variety of factors that are determined prior to any recovery attempts.⁵⁴ These factors include:

Cost of Service to Customer—If customers spend a large percentage of their income on a primary service, recovery expectations will be higher than if the primary service costs less.⁵⁵ Additional costs to the customer are incurred following a service failure. Those costs include the extra time, effort, and money a customer sacrifices in order to receive service recovery. Substantial failures and large recovery costs incurred by the customer will increase customer expectations of service recovery.⁵⁶

Criticality—Customers perceive some services to be more essential than others. The perceived criticality of a primary service will affect recovery expectations.⁵⁷ A service failure in one industry will impact a customer more than a service failure in another industry. For example, consider two failure events: a restaurant that accidentally serves cold soup and a bank that mistakenly transfers funds. The criticality of the bank’s service is much higher than the criticality of the restaurant’s service. In general, the more critical the service, the more a customer will expect following a service failure.⁵⁸

Culture—Across cultures, customer expectations of service recovery vary greatly.⁵⁹ Legal precedent, national or ethnic culture, and historical experience can lead customers to expect anything ranging from no service recovery to extensive recovery efforts.

Degree of Failure—The extent of the particular failure impacts customers’ expectations regarding appropriate recovery measures. Regardless of service criticality, varying levels of failure will require varying levels of recovery. A customer may expect mild recovery efforts from a fast-food restaurant after being served cold French fries. The same customer would have higher recovery expectations if he or she contracted hepatitis. A higher degree of failure will cause higher recovery expectations.⁶⁰

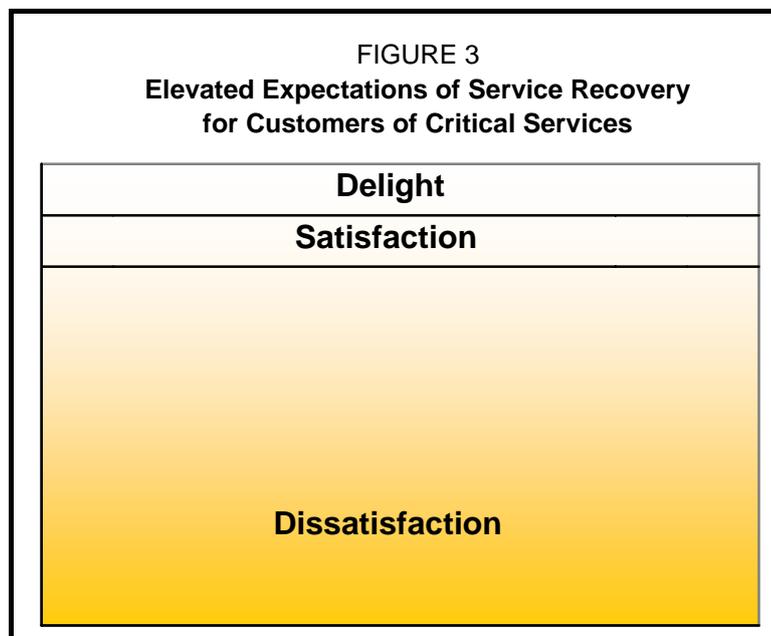
Industry—Customers expect certain types of businesses to practice high-quality service recovery, whereas they don’t expect recovery quality to be as high in other businesses.⁶¹ For example, our research shows that customers expect employees in full-service retail companies to be more helpful than employees in self-service retail.⁶²

Marketing Campaigns— Both implicit and explicit service promises elevate customer expectations of service.⁶³ If a firm has made promises regarding the action it will take if a service failure occurs (i.e. guarantees, warranties, etc.), customers will expect the recovery system to fulfill those commitments.⁶⁴ Customers of companies with strong positive brand recognition will likely have greater expectations of service recovery.

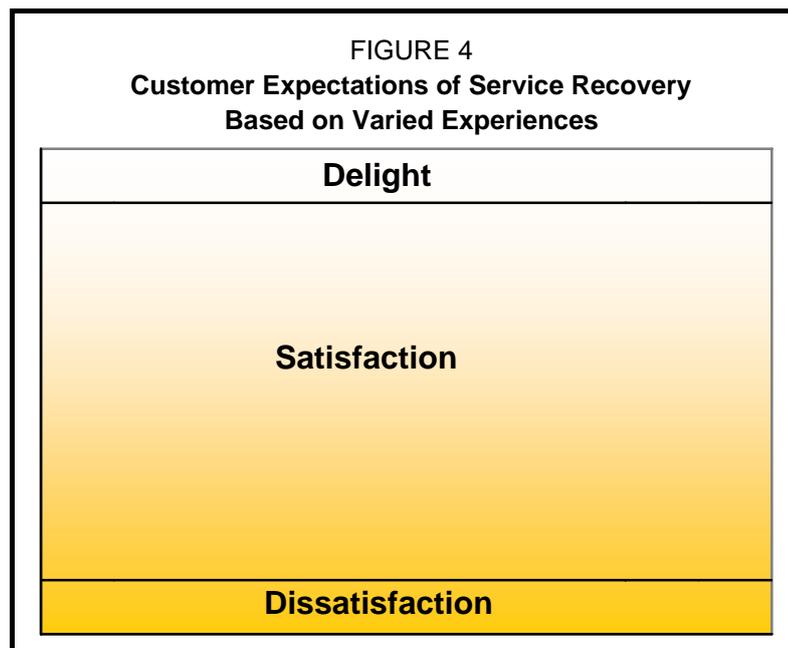
Prior Experience—Customers' expectations are influenced by their past experiences with a company and with businesses they perceive as being similar.⁶⁵ When customers have previously been recovered from service failures, those prior recovery efforts shape expectations of future recovery efforts. Customers who have experienced high-quality service recovery in the past will likely have high expectations of future recovery.⁶⁶

Reputation—Often, customers have heard stories from their peers about the quality of the primary service at a particular company. Perhaps the customer was even referred to the firm because of its reputation of outstanding service quality. Research suggests that positive word-of-mouth communication elevates customer expectations.⁶⁷ Therefore, the better a company's reputation, the more customers will expect after a service failure.⁶⁸

Understanding customer satisfaction requires knowledge of the aforementioned factors that impact customer expectations. For instance, customers of highly critical services will not be satisfied with the same recovery efforts that would satisfy them in the case of a less critical service failure. Customers of businesses that deal with health care, safety, and other highly critical services will typically have higher expectations of service recovery. Figure 3 shows that the satisfaction zone is higher for customers of highly critical services. Therefore, companies dealing in highly critical services will need to exert more effort to recover the loyalty of customers they have failed.



Customers who have experienced great variability in previous recovery situations will typically have wider zones of satisfaction, as Figure 4 illustrates. The expectations of these customers are such that they may be satisfied with relatively little effort, but to delight them may require extensive measures.



In this section we have discussed customer expectations of service and service recovery quality and the impact expectations have on customer satisfaction. Furthermore, we have shown how variations in expectations can affect the satisfaction zone of service recovery recipients. The following section introduces a model that will help executives make decisions based on this understanding of customer expectations.

A Model of Cost-Effective Service Recovery

This section contains an adaptation of Noriaki Kano's (1984) model of quality.⁶⁹ We have revised the model and applied it to service recovery quality. Our model provides a framework for making cost-effective service recovery design decisions.

Research suggests one set of requirements for returning the customer to an initial level of satisfaction, and another set for delighting the customer.⁷⁰ The following paragraphs will show that simply satisfying a customer can be accomplished through the presence of *essential quality elements*, but that *attractive quality elements* must be present to delight the customer.⁷¹

Essential Quality Element

Kano attaches the label *must-be* to describe quality elements that will not necessarily be noticed if they are present, but will result in dissatisfaction if they are missing. In our adapted model, we call them *essential quality elements*. Following a service failure, basic psychological and tangible components of service recovery, such as offering an apology and resolving the problem, are essential quality elements. An appropriate level of essential quality elements fosters customer satisfaction; an inadequate level generally causes dissatisfaction.

Attractive Quality Element

Attractive quality elements are defined by Kano as quality elements that do not produce dissatisfaction if absent, but delight the customer if present. Attractive

quality elements of service recovery are efforts that include unanticipated value-added atonement.⁷² Value-added atonement describes recovery efforts that provide more to the customer than what fair restitution demands, restoring customers beyond their pre-failure state in an attempt to delight them.⁷³ Value-added atonement has been shown to retain customers better than simply correcting the service failure.⁷⁴

Attractive quality elements, like essential quality elements, can include tangible components, psychological components, or preferably both. For example, if a newspaper were not delivered, the company should apologize (psychological component of essential quality element) and deliver the newspaper according to contract (tangible component of essential quality element). The company could also call several days later to ensure that the paper has been delivered regularly since the failure event (psychological component of attractive quality element) or give the customer free papers for a week (tangible component of the attractive quality element). The quality elements of essential and attractive service recovery are outlined in Table 1.

Table 1 Components of Essential and Attractive Service Recovery Quality Elements

	Tangible Components	Psychological Components
Essential Quality Elements	<ul style="list-style-type: none"> • Understand and correctly diagnose the problem • Fulfill original commitment to reach primary service satisfaction level 	<ul style="list-style-type: none"> • Apologize for inconvenience • Address concern respectfully and empathetically
Attractive Quality Elements	<ul style="list-style-type: none"> • Reach service recovery delight level by compensating for costs or inconvenience <ul style="list-style-type: none"> - Rebate the current service - Provide free additional current service - Discount future services⁷⁵ 	<ul style="list-style-type: none"> • Follow-up to ensure successful recovery effort • Express personal concern for customer • Communicate that company values customer as an individual

Customer Responses to Quality Elements

Differing levels of quality elements produce various levels of customer satisfaction. Customer dissatisfaction results from a shortage of essential quality elements. However, essential quality elements alone can never delight the customer; at best they can satisfy. Although essential quality elements may be abundant, if attractive quality elements are insufficient, the customer will feel only satisfied. Customer delight results from ample attractive quality elements.

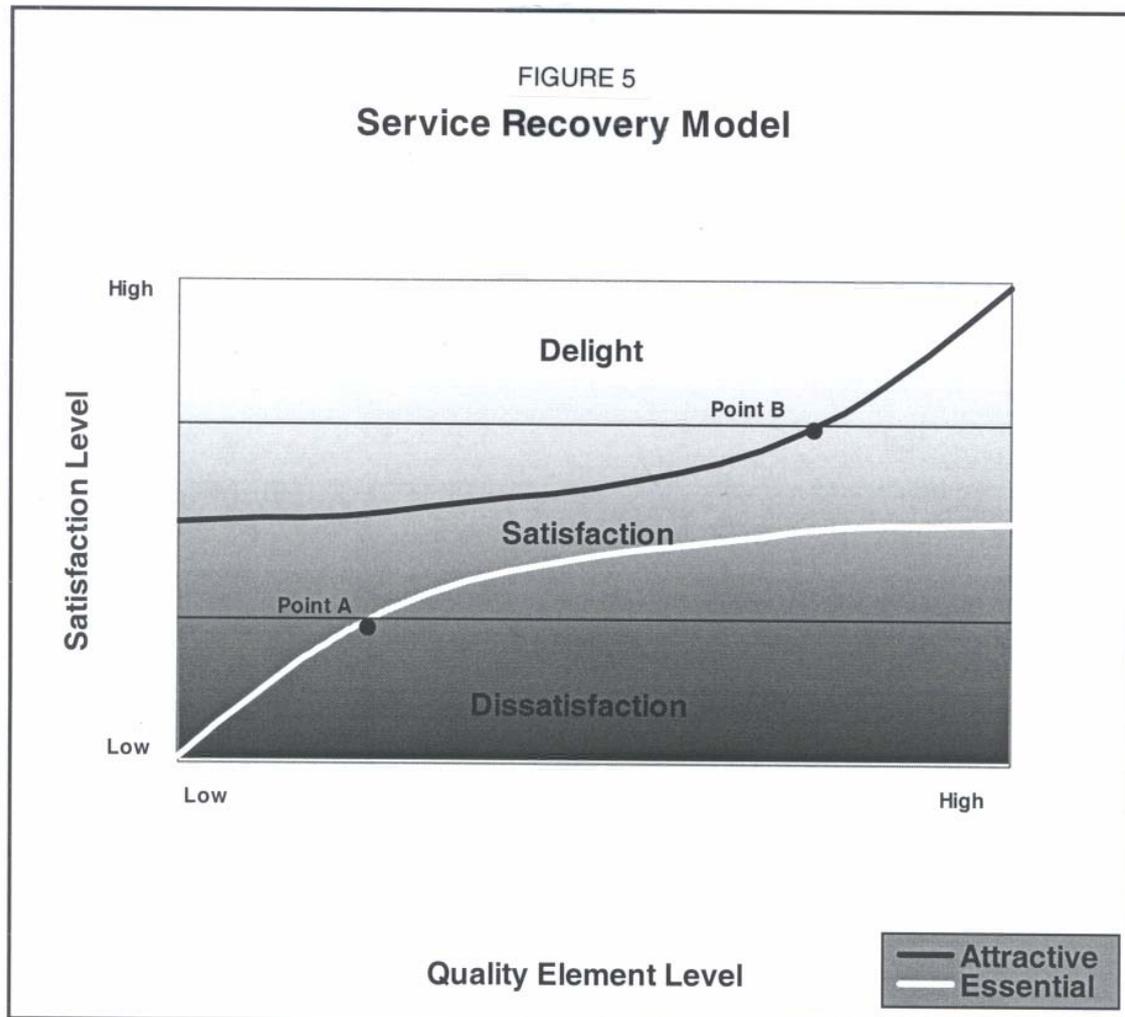
Table 2 uses qualitative data from our study to demonstrate that customers respond to the lack of essential quality elements through dissatisfaction and defection. When customers stop complaining and stop defecting, the level of essential quality elements has met their expectations. The comments in Table 2 from delighted customers illustrate the effects of attractive quality elements. Only when customers begin to respond with delight has the level of attractive quality elements exceeded their expectations.

Table 2 Examples of Customer Responses to Quality Element Levels

	Tangible Components	Psychological Components
Responses to inadequate levels of Essential Quality Elements	<p><i>"Rather bothered that I couldn't get a new card issued after canceling a joint card. Don't really know if I will reapply."</i></p> <p><i>"I had to make two separate calls to enable your service rep to understand the problem."</i></p> <p><i>"She didn't have enough information to give me a yes or no answer...She also couldn't get me the answer from anyone else."</i></p>	<p><i>"Given the customer service representative's attitude and disregard for the specific problem at hand, I have cancelled my account."</i></p> <p><i>"I do not find it necessary to call my creditors often. When I do, I expect courtesy. I cancelled [another] card because courtesy was not a high priority of the company."</i></p>
Responses to ample levels of Attractive Quality Elements	<p><i>"She understood my problem and I had my new card the second day after the phone call. She gave me super service and I love my ___ card."</i></p> <p><i>"I...didn't get my bill in as promptly as I should have. ___ credited my payment and wiped off the finance charge. ___ is now my #1 card and I use it everywhere it is accepted."</i></p>	<p><i>"Dealing with your representatives is like a breath of fresh air. We will continue to use you and we recommend you to any of our friends."</i></p> <p><i>"I not only received verbal confirmation to my request, but also a follow-up call and letter. Very impressive. Thank you. I always use my ___ card when it is accepted..."</i></p>

Executives should consider the levels of both the essential and attractive quality elements when designing a recovery system intended to satisfy or delight consumers. Figure 5 illustrates the relationship between the quality element level and customer response. The white line on the figure shows that customer response changes from dissatisfaction to satisfaction as the level of an essential quality element increases. When the level of an essential quality element is to the left of Point A, a customer's expectations are not met and the customer feels dissatisfied. However, when the level of an essential quality element is higher than Point A, customers feel satisfied with the recovery effort.

The black line on Figure 5 illustrates the transformation of a customer's reaction from satisfaction to delight as the level of an attractive quality element rises. The customer feels satisfied if the level of the attractive quality element is to the left of Point B; but when the level of the attractive quality element exceeds that illustrated at Point B, the customer is delighted. An individual's expectations determine the level of quality elements that must be attained before the customer feels satisfied or delighted.



Cost-Effective Service Recovery Design

Recovering the satisfaction of all customers, especially those who have high expectations of recovery quality, can be extremely costly. Executives must decide whether to invest in the additional cost of delighting some customers. While improved quality has been shown to decrease overall costs in some circumstances,⁷⁶ executives have learned that excessive costs to achieve minor quality improvements are not always warranted.⁷⁷ Service recovery costs include the investment of extensive employee training, the cost of correcting the service failure, and the expense of providing more than the primary service value to atone for the failure. Yet the value of high-quality service recovery efforts often exceeds the expense.⁷⁸

Recovery decisions will be different for each firm and must be made on an individual basis. Some industries require full recovery of a large percentage of customers after every service failure, while others allow more selection in which customers to recover. For example, companies with the following characteristics need to perform service recovery for a large majority of their customers:

- Services that are **highly differentiated**, especially those differentiating on personalized customer service (i.e., Nordstrom)

- Services with a **contractual warranty**, such as a 100% service guarantee (i.e., a service warranty purchased on a washing machine)
- Services wherein a **legal liability** exists (i.e., a faulty auto repair that results in injury)

Although some companies may possess these characteristics, most companies do not need to completely recover every customer. In fact, sometimes companies should avoid recovering customers with unrealistically high expectations.

Executives must determine the level of service recovery quality at which appropriate profits can be realized. This involves evaluating the cost of service recovery efforts and choosing which customers to recover. The height and width of the satisfaction zone determine the extent of effort needed to recover the customer. When the satisfaction zone is high (see Figure 3), the cost of recovering customers can be excessive. However, when the satisfaction zone is low, recovering customers is more likely to be worth the cost. When the satisfaction zone is wide, as in Figure 4, recovery efforts to satisfy customers are justified, but to delight customers might be too costly. When the satisfaction zone is narrow, though, a small additional cost may be all that is required to delight customers.

Service Recovery Candidate Groups

Grouping customers serves to target the customers who deserve the greatest recovery efforts. Hence, it becomes part of a customer retention approach that increases long-term profits. Our recovery candidate classification approach is based on two levels of expectations--high and low--and two levels of profitability--high and low. We have labeled the four customer groups Angels, Royalty, Paupers, and Prima Donnas. These four groups are presented in Table 3 and discussed individually following the table.

Table 3 Classifying Service Recovery Candidates

	Low Expectations	High Expectations
High Profitability	ANGEL	ROYALTY
Low Profitability	PAUPER	PRIMA DONNA

Angel—Angels are profitable customers with low service recovery expectations. These customers are prime candidates for recovery efforts as they contribute significantly to firm profits while requiring limited, reasonable recovery efforts to retain loyalty.⁷⁹

Royalty—This group has high expectations, but also contributes to the firm's bottom line. Because recovery costs for this group will be offset by future revenue, retaining Royalty is good for business.⁸⁰

Pauper—Although expectations—and thus recovery costs—of this group are low, Paupers contribute little to firm profitability. However, the low level of expectations qualifies many customers in this group for recovery efforts.

Prima Donna—These customers are a manager's worst nightmare. Satisfying the demands of this group can be extremely expensive, yet the costs are not recovered through increased revenue. Prima Donnas can also have a negative impact on employee morale as their excessive demands can frustrate and anger employees.⁸¹

Each group--Angels, Royalty, Paupers, and Prima Donnas--should be treated differently. This will be discussed further in the following section.

Implementation

Service recovery efforts should be designed to delight or at least to satisfy profitable customers. However, managers should seek to only satisfy or fulfill the contract of non-profitable customers. Companies are required to do what they have promised for all customers. If, while meeting those obligations, companies can satisfy or delight customers for a justified additional cost, appropriate recovery efforts should be made. This section will show how executives can collect and use customer data to determine and implement appropriate recovery procedures.

Collect and Analyze Data

An effective service recovery system should classify customers in such a way that firms can recover the customers who merit greater recovery efforts. Executives must collect and analyze data on customer profitability, customer expectations, and quality element levels.

Profitability--Developing the skill to tier customers is crucial for companies that provide high-quality service recovery to their top customers.⁸² Many companies track purchases using customer credit card numbers, checking account numbers, or other means, and then record customer profitability data in a database. For example, The Gap, REI, Durango Grill, Ultimate Electronics, Ralph's, and Albertson's use cards or customer numbers that track individual customer purchases and profitability information.

Answering the following questions can also be helpful in determining customer profitability:

- How long has the customer been doing business with the company?
- How frequently does the customer purchase the service?
- Are the profit margins high for the services the customer uses?
- To what extent can the customer influence other current and potential customers?

To determine customer profitability, companies should analyze the data to understand customer segments based on profitability. A fairly simple Decision Support System (DSS) can use this database to assist in cost-effective analysis and classification. Comparing each customer's individual profitability to average customer profitability allows for classification of individual customers into groups based on profitability.

Expectations—To determine which customers merit greater recovery efforts, executives must analyze customer expectations of service quality. These expectations are based on the level of performance customers desire, the level they are willing to accept, or the level they believe is likely to occur.⁸³ Expectations vary from customer to customer.⁸⁴ Moreover, the expectations of an individual customer

can vary in different situations. Due to the diverse and subjective nature of expectations, they are difficult to measure--especially when dealing with individual customer expectations as opposed to aggregate customer expectations.

However, companies can and do gather individual customer expectation data. In small shops, individual employees often remember the indications given by customers. Some large organizations keep individual customer expectation data stored in company databases. For example, Ritz Carlton maintains an extensive database on customer expectations for the primary service quality in order to better satisfy customers.⁸⁵ Following are additional ways to collect and record information about individual customer expectations:⁸⁶

- On-line data collection, especially in conjunction with on-line reservations or purchases.
- Customer contact point at the place of business. For example, Fairfield Inn has a touch screen computer at the front desk that asks 4-5 questions.⁸⁷ This type of system could easily be used to record expectations. Simplicity is the key to a large response by customers using this method.
- Trained employees can record expectations expressed by customers during customer contact.

In addition to collecting information on customer expectations of primary service quality, companies can collect *recovery* expectation data. Some companies keep databases of individual recovery expectations. Infinity, for example, maintains a client incident file that records customers' expectations for recovery quality.

In recovery situations, storing individual customer expectation information is not always practical, since companies do not normally fail the same customer repeatedly. When companies cannot store individual recovery expectation data, they should understand that customers with high primary service expectations will generally have high recovery expectations, and customers with low primary service expectations will generally have low recovery expectations.⁸⁸ Furthermore, all customers usually have higher expectations of recovery quality than they do of primary service quality.

Companies can analyze the factors that influence expectations (cost of service to customer, criticality, culture, degree of failure, industry, marketing campaigns, prior experience, and reputation) to determine how much higher individual recovery expectations are than primary service expectations. At a minimum, companies should understand the expectations of major customer segments. This can be researched using customer surveys (in person or in writing), focus groups, employee feedback (individually or in focus groups), and explorer groups (sending employees out to determine the expectations your competitors are setting).

Quality Element Levels--Together with evaluations of customer satisfaction, measuring quality element levels allows executives to extrapolate customer expectations of service recovery quality. To measure quality element levels, executives should understand what individual customers and customer groups perceive as attractive and essential quality elements. Marketing research efforts should include data collection distinguishing essential and attractive service quality elements. Quality Function Deployment (QFD) is a commonly used tool in the Total Quality Management arsenal that presents relationships between the customers' beliefs regarding the importance of specific quality elements with the customers' perceptions about the levels of those elements.⁸⁹ Adaptation of QFD data collection efforts to enable identification and measurement of essential and attractive quality elements requires only minimal data collection alterations.

Companies differ in their methods of measuring quality element levels. Airlines actually test customer expectations of the attractive element of value-added atonement when a flight is overbooked. They offer increasing levels of compensation until enough customers agree to wait until the next flight. Customers willingly choose to experience a service failure in order to receive service recovery. Thus, the airline knows that the attractive quality element level that elicits customer delight has been reached.

The customer response is a function of customer expectations and the perceived level of quality elements of a service recovery effort (customer satisfaction equals the level of quality elements divided by the level of customer expectations). Many companies already measure customer satisfaction regularly. Once a firm has data on the quality element level and the customer satisfaction level (response), individual customers' recovery expectations can be extrapolated. Understanding recovery expectations helps executives determine appropriate recovery efforts for each customer group.

Determine and Perform Appropriate Recovery Efforts

Recovery efforts for each customer group (Angels, Royalty, Paupers, and Prima Donnas) should include the appropriate combination of service recovery quality elements to generate the desired recovery response from each group. The desired response and recommended recovery level for each customer group is described below and illustrated in Figure 6.

FIGURE 6 Minimum Recommended Recovery Level for Each Customer Group

a. Angels

Primary Service Response	Recovery Level	Service Recovery Response
		Delight
Delight		Satisfaction
Satisfaction		Dissatisfaction
Dissatisfaction		

b. Royalty

Primary Service Response	Recovery Level	Service Recovery Response
		Delight
Delight		Satisfaction
Satisfaction		Dissatisfaction
Dissatisfaction		

c. Paupers

Primary Service Response	Recovery Level	Service Recovery Response
		Delight
Delight		Satisfaction
Satisfaction		Dissatisfaction
Dissatisfaction		Dissatisfaction

d. Prima Donnas

Primary Service Response	Recovery Level	Service Recovery Response
		Delight
Delight		Satisfaction
Satisfaction		Dissatisfaction
Dissatisfaction		Dissatisfaction

Angel—Angels have relatively low expectations for primary service quality and recovery quality. This level of expectations is illustrated in Figure 6a. Because of the high profitability of this customer segment, accompanied by low costs required to exceed the customers' expectations, we recommend that recovery efforts for Angels reach a level that will certainly delight the customer. This recovery level is shown in gray in Figure 6a. Appropriate levels of all the essential quality elements to reach satisfaction, together with as many attractive quality elements as are necessary to delight the Angel, should be included in the recovery effort.

Royalty—The high expectations of this group, illustrated in Figure 6b, significantly increase recovery costs for this set of customers. However, they are usually high-end purchasers whose expectations tend to be justified. Since they are profitable and influential customers, recovering their loyalty is a priority. Where delight can be reached through reasonable cost (i.e., the satisfaction zone is narrow and low), recovery efforts to delight the customer are recommended. In cases where excessive efforts are required to delight the customer (i.e., the satisfaction zone is wide or high), bringing the customer to the level of satisfaction is generally more appropriate. These scenarios are depicted in Figure 6b by two levels of recovery efforts. The darker gray represents the recommended recovery level when the satisfaction zone is wide or high. The recommended recovery level for Royalty with narrow and low satisfaction zones is shown in lighter gray.

Pauper—Like Angels, the expectation levels of Paupers, presented in Figure 6c, are within reach. However, the profitability of this customer group does not justify excessive recovery efforts. We recommend, therefore, that an ideal target for Paupers is a level of service recovery quality that simply satisfies them (shown in darker gray in Figure 6c). Only essential quality elements should be included in recovery efforts extended to this group. However, when Paupers can be delighted at little additional cost, companies may want to slightly increase the recovery level (shown in lighter gray in Figure 6c).

Prima Donna—Prima Donnas represent little future profit, but expect high-cost recovery efforts. Figure 6d contains the graphical representation of this group's expectations. Since reasonable recovery efforts will not be effective with this group,

and the effects of losing these customers are minimal, efforts to reach even the recovery satisfaction level may not be practical. Every service provider has the responsibility to complete the initial service contract, even following a service failure. We recommend, therefore, that service recovery efforts for this customer segment attempt to reach the level that would have originally satisfied the customer prior to the failure. This level is shown in darker gray in Figure 6d. The lighter gray shows the recovery level that is recommended in cases where the recovery expectations are not excessive.

The four groups we have used (Angels, Royalty, Paupers, and Prima Donnas) are generic and do not perfectly reflect the total continuum of customer expectations and profitability. Based on data about their specific customers, executives may want to classify their customers into additional groups, such as high/medium/low profitability and/or high/medium/low expectations.

When designing groups of recovery candidates, companies should consider the percentage of profits that come from a given percentage of customers. While research shows that 80% of profits typically come from 20% of customers,⁹⁰ these percentages are not the same for each firm. Individual company demographics dictate the size of each customer group. For example, a business where 90% of profits come from 10% of customers would place those 10% of customers into high-priority recovery groups (Angels and Royalty); but the other groups (Paupers and Prima Donnas) may not merit much recovery effort. On the other hand, a company where 70% of profits come from 60% of customers may place a larger percentage of customers into high-priority recovery groups.

A final factor to consider while classifying customers is that the classification system must remain adaptable.⁹¹ Over time, customers may become more profitable and their expectations may change.⁹² Maintaining up-to-date information is important.

Executives should script a recovery procedure for each group of recovery candidates. Employees must be trained to use each script effectively. In this way, executives can appropriately integrate employee empowerment. Some experts call for employee empowerment; others demand its restriction.⁹³ The use of scripts tailored to each customer group allows companies to empower their employees to extend appropriate recovery efforts to the right customers. However, for customers who do not merit excessive recovery efforts, employees will not overcompensate.

In addition to training employees to use scripts, managers should teach employees to recognize service failures and to collect data about customer expectations. When service failures occur, employees should be able to:

- **Use the database to retrieve customer classification information.** Employees must have quick, convenient access to data and be able to correctly classify each customer.
- **Make appropriate recovery efforts for each customer.** Once employees have determined a customer's classification, they should be trained to accurately implement the appropriate recovery script. Employees must be empowered to take specific recovery actions for each group of customers.
- **Listen to the customer.** Employees should evaluate the customer's response to the failure and to the recovery effort. If expectations have been misdiagnosed, trained employees should be able to modify the script or use a different script.

After a recovery effort has been made, follow-up (a psychological component of the attractive quality element) is important for customers in high-priority recovery groups. Follow-up is also a valuable data collection tool that can enable executives to evaluate recovery system effectiveness and make improvements and changes as needed. Companies can use phone calls, surveys, e-mails, letters, or a combination of these methods to follow up and confirm repurchase intent. If customers in high-priority recovery groups are still dissatisfied or have questions, companies should respond to their concerns.

In conclusion, knowing which customers to keep is fundamental to cost-effective service recovery. Research shows that the average company loses 20-66% of its customers every year.⁹⁴ However, companies should not seek to recover all their customers. By following the recommendations in this paper, companies can successfully recover the loyalty of key customers.

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