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BBA | Semester II | UK2MDCMGT102

Services Marketing

Course Code: UK2MDCMGT102 • Module 3 Notes

Module 3: Customer Behavior, Expectations, and Service Quality

Course: Services Marketing (UK2MDCMGT102) • Semester II • BBA FYUGP Kerala University

1. Customer Behavior in Service Encounters: The Three-Stage Consumption Model

Understanding how human consumers make decisions, experience service delivery, and evaluate post-purchase satisfaction is the foundational prerequisite for designing effective services marketing strategies. In consumer psychology, the service consumption experience unfolds across three sequential chronological stages, formulated by Christopher Lovelock and Jochen Wirtz as the **Three-Stage Model of Service Consumption**:

Stage 1: The Pre-Purchase Stage

The pre-purchase stage encompasses all cognitive and emotional processes that occur before a customer commits to purchasing a service:

- **Need Awareness:** Triggered when a consumer experiences a gap between their current actual state and a desired target state. This need can be physiological (acute dental toothache), operational (broken industrial machinery requiring repair), or psychological (desire for status or relaxation).
- **Information Search:** Because services are high in experience and credence attributes, consumers engage in extensive risk-reduction information gathering: consulting personal peer networks, reading independent consumer reviews on TripAdvisor, Yelp, or Google Reviews, and examining institutional accreditations.
- **Evaluating Service Alternatives (The Evoked Set):** Consumers evaluate competing service brands across multi-attribute utility models. Because services cannot be physically demonstrated beforehand, consumers look for surrogate quality indicators: pricing tiers, prestigious physical addresses, and reputable brand associations.
- **Perceived Risk Management:** Customers face substantial perceived risk in services across multiple dimensions:
    1. *Financial Risk:* Fear of wasted capital or unexpected hidden charges.
    2. *Functional / Performance Risk:* Anxiety that the service will fail to solve the core problem (e.g., an ineffective medical treatment or botched home renovation).
    3. *Temporal Risk:* Fear of wasting irreplaceable hours enduring service delays and bottlenecks.
    4. *Physical Risk:* Fear of bodily harm (e.g., amusement park ride accidents or surgical complications).
    5. *Psychological Risk:* Anxiety, embarrassment, or damage to self-esteem (e.g., fear of being talked down to by condescending legal counsel).

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Stage 2: The Service Encounter Stage

The service encounter stage represents the real-time operational interaction where the customer enters the service environment (the servicescape) and consumes the service. In academic marketing, this phase is conceptualized through two influential theoretical frameworks:

1. The Dramaturgical Framework (Services as Theater)

Formulated by Stephen Grove, Raymond Fisk, and Joby John (1992) based on Erving Goffman's sociological theories, the **Dramaturgical Perspective** conceptualizes service encounters as theatrical stage performances:

- **The Actors:** The frontline service personnel performing designated roles (e.g., cabin crew, waiters, surgeons).
- **The Audience:** The customers who observe and participate in the performance.
- **The Stage / Setting:** The physical servicescape (restaurant dining room, airplane cabin, hotel lobby) engineered with lighting, props, and backdrops.
- **The Script:** The standardized behavioral sequences, verbal dialogues, and operational protocols that actors must execute with professional poise.
- **Frontstage versus Backstage:** The vital demarcation between visible public performances and hidden behind-the-scenes operational preparation (e.g., the calm, elegant restaurant dining room versus the high-stress, shouting kitchen).

2. "The Moment of Truth" and High-Contact versus Low-Contact Encounters

Coined by Richard Normann and popularized by Jan Carlzon of Scandinavian Airlines, a **Moment of Truth** occurs whenever a customer interacts with any touchpoint of the service organization. During these critical seconds, the entire reputation of the enterprise hangs in the balance.

Service encounters are structurally categorized along an operational spectrum of physical interaction:

- **High-Contact Services:** Encounters requiring extensive, prolonged physical co-presence between customer and service staff (e.g., luxury hotels, full-service hospitals, hair salons). The customer experiences the entire physical facility, ambient conditions, and employee interpersonal warmth.
- **Low-Contact Services:** Encounters involving minimal or zero physical contact, delivered through automated digital platforms, mobile apps, or phone networks (e.g., retail internet banking, digital insurance claims, streaming entertainment). The customer evaluates speed, server reliability, and digital user-interface design.

Stage 3: The Post-Encounter Stage

During the post-encounter stage, the consumer evaluates the service performance against their prior expectations, resulting in cognitive satisfaction, customer delight, or bitter dissatisfaction. This cognitive evaluation is governed by **Richard Oliver's Expectancy-Disconfirmation Model**:

- **Positive Disconfirmation (Service Delight):** Actual perceived service performance vastly exceeds prior expectations (Performance > Expectations). The customer experiences emotional

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delight, intense brand loyalty, and becomes an organic word-of-mouth advocate.

- **Zero Disconfirmation (Confirmation / Mere Satisfaction):** Perceived service performance exactly matches prior expectations (Performance = Expectations). The customer is satisfied but remains psychologically indifferent, remaining vulnerable to defecting if a competitor offers lower prices.
- **Negative Disconfirmation (Service Dissatisfaction):** Perceived service performance falls below prior expectations (Performance < Expectations). The customer experiences acute disappointment, anger, and cognitive regret, frequently culminating in formal complaints, public review boycotts, and brand defection.

2. Customer Expectations of Service and the Zone of Tolerance

In services marketing, customer satisfaction is not determined by absolute service performance alone; rather, it is determined by the **gap** between what the customer expected and what they perceived they received. Therefore, managing customer expectations is the supreme strategic imperative.

The Dual Levels of Service Expectations

Valarie Zeithaml, Leonard Berry, and A. Parasuraman established that customer expectations are not monolithic; rather, customers hold two distinct expectation thresholds:

- **Desired Service:** The "wished-for" level of service performance—the ideal standard of service that the customer hopes to receive. Desired service reflects the consumer's aspirations, personal values, and previous positive experiences.
- **Adequate Service:** The minimum acceptable threshold of service performance—the baseline level that the customer will grudgingly tolerate without experiencing outright dissatisfaction. Adequate service reflects pragmatic realism about operational constraints and pricing tradeoffs.

The Zone of Tolerance

The **Zone of Tolerance** represents the acceptable range of service performance bounded by the Desired Service level at the top and the Adequate Service level at the bottom:

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Zone of Tolerance = Desired Service Level - Adequate Service Level
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Where performance falling within the zone is deemed acceptable; performance above triggers customer delight; performance below triggers severe dissatisfaction.

Dynamics of the Zone of Tolerance:

- **Heterogeneity Across Service Dimensions:** The zone of tolerance is not uniform across all service attributes. For core, mission-critical dimensions—such as *Reliability* (a flight departing safely on time, or a bank transferring funds accurately)—customers maintain an exceptionally narrow zone of tolerance. For peripheral, supplementary dimensions—such as *Tangibles* or minor greeting courtesy—customers exhibit a significantly wider zone of tolerance.

- **Fluctuation of Adequate Service Thresholds:** While the Desired Service level remains relatively stable over time, the Adequate Service threshold fluctuates wildly based on situational factors. For instance, during a severe blizzard or torrential monsoon downpour, an airline passenger's adequate service threshold for flight departures expands dramatically (they tolerate a 2-hour delay). However, on a clear, sunny morning, that exact same passenger's adequate service threshold constricts tightly, and a 20-minute delay triggers intense frustration.
- **Factors Influencing Expectations:**
  1. *Explicit Service Promises:* Direct corporate advertising, price levels, and written warranties. A 5-star luxury hotel charging ₹25,000 per night instantly ratchets desired and adequate expectations to near-perfection.
  2. *Implicit Service Promises:* Tangible cues in the servicescape, prestigious interior architecture, and employee trade dress.
  3. *Word-of-Mouth Communications:* Peer endorsements, personal recommendations, and online review ratings.
  4. *Past Personal Experience:* Previous service encounters with the firm or direct industry competitors.
  5. *Personal Needs and Enduring Service Intensifiers:* Individual physical or psychological traits that heighten service sensitivity (e.g., an executive preparing for a high-stakes merger negotiation demands absolute quiet and reliability from their hotel).

3. The Gaps Model of Service Quality (PZB Model)

Formulated by **A. Parasuraman, Valarie Zeithaml, and Leonard L. Berry (PZB)** in their seminal 1985 and 1988 research, the **Gaps Model of Service Quality** is the most widely cited conceptual framework in services management. The model demonstrates that poor customer service quality (Gap 5) is the direct mathematical result of four upstream internal organizational deficiencies (Gaps 1 through 4) occurring within the service firm.

The Four Internal Organizational Gaps

Gap 1: The Management Perception Gap (Not Knowing What Customers Expect)

The discrepancy between **Customer Expectations** and **Management's Understanding of Customer Expectations**.

- *Root Causes:* Inadequate or superficial marketing research; lack of direct upward communication from frontline workers to C-suite executives; insufficient customer relationship focus; failure to listen to customer complaints.
- *Remediation Strategies:* Conducting comprehensive market research; deploying continuous customer feedback systems; implementing executive "back-to-the-floor" days where senior directors work frontline service shifts; establishing customer advisory panels.

Gap 2: The Service Standards Gap (Not Selecting the Right Service Designs)

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The discrepancy between **Management's Understanding of Customer Expectations** and the **Actual Service Specifications and Standards Designed**.

- *Root Causes:* Even when management understands customer expectations, they may fail to translate that understanding into explicit, measurable performance standards due to poor service design, lack of executive commitment to service quality, absence of formal goal-setting, or inadequate physical servicescape design.
- *Remediation Strategies:* Developing explicit, customer-defined service standards (e.g., "Answer all customer phone calls within three rings" rather than vague goals like "provide prompt service"); utilizing comprehensive Service Blueprinting; formalizing total quality management (TQM) protocols.

Gap 3: The Service Delivery Gap (Not Delivering to Service Standards)

The discrepancy between **Established Service Standards** and the **Actual Service Delivered by Frontline Personnel**.

- *Root Causes:* Known as the human execution gap. Frontline employees may lack the skills, motivation, or tools to meet written standards due to poor employee recruitment, role ambiguity, role conflict, inappropriate supervisory reward systems, emotional burnout, or lack of employee empowerment.
- *Remediation Strategies:* Recruiting for customer orientation; investing in continuous technical and interpersonal training; empowering frontline workers to break rigid rules to resolve customer problems; deploying service poka-yokes; aligning performance appraisals with customer satisfaction metrics rather than pure transaction speed.

Gap 4: The Communication Gap (Not Matching Performance to Promises)

The discrepancy between **Actual Service Delivery** and **External Communications Made to Customers**.

- *Root Causes:* Over-promising in corporate advertising and social media hype; failure to communicate operational constraints to the advertising agency; inadequate horizontal communication between marketing departments and operational frontline staff; failure to educate customers on their co-production responsibilities.
- *Remediation Strategies:* Ensuring that advertising portrays realistic, achievable service experiences; mandating that marketing directors review actual operational capabilities before launching national ad campaigns; managing customer expectations proactively during operational disruptions.

Gap 5: The Expected Service versus Perceived Service Gap

Gap 5 represents the ultimate, cumulative **Service Quality Gap** experienced by the customer: the difference between **Expected Service** and **Perceived Service**. The central thesis of the PZB model is that Gap 5 is a direct dependent function of the four internal organizational gaps:

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Gap 5 = f(Gap 1, Gap 2, Gap 3, Gap 4)
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To close Gap 5 and achieve customer delight, management must systematically diagnose, address, and eliminate the four upstream internal gaps within the enterprise.

4. The SERVQUAL Measurement Scale: The Five Core Dimensions

In 1988, Parasuraman, Zeithaml, and Berry engineered the **SERVQUAL Scale**—a standardized, multi-item psychometric measurement instrument designed to quantify service quality across any service sector. Through extensive empirical factor analysis across multiple industries, PZB condensed dozens of service attributes into **Five Core Dimensions of Service Quality** (remembered by the acronym **RATER**):

Dimension	Conceptual Definition	Concrete Industry Examples
Reliability	The ability to perform the promised service dependably and accurately. Consistently proven to be the single most critical dimension across all global service industries.	Airlines departing and arriving exactly on schedule; banks executing wire transfers without ledger errors; billing statements 100% accurate.
Responsiveness	The willingness of service employees to help customers and provide prompt, enthusiastic service.	Emergency customer service lines answered within 30 seconds; restaurant servers promptly attending to requests; quick resolution of technical bugs.
Assurance	The knowledge, professional competence, and courtesy of employees, and their ability to inspire customer trust and confidence.	Surgeons clearly explaining clinical procedures; wealth managers demonstrating deep financial mastery; commercial pilots inspiring safety.
Empathy	The caring, individualized, individualized attention provided to customers. Treating customers as distinct human beings rather than anonymous numbers.	Hotel staff greeting returning guests by name; pediatricians comforting anxious parents; understanding special customer disabilities.
Tangibles	The physical facilities, equipment, grooming of personnel, and communication materials.	State-of-the-art diagnostic imaging machines; plush executive airline lounges; spotless hospital rooms; modern digital mobile app UI.

Administering the SERVQUAL Instrument and Gap Score Computation

The SERVQUAL instrument consists of a matched set of **22 paired Likert-scale statements** (ranging from 1 = Strongly Disagree to 7 = Strongly Agree) administered across the five dimensions:

- **Expectation Battery (E):** 22 statements measuring the customer's general expectations of what an excellent firm in that specific industry *should* deliver.
- **Perception Battery (P):** 22 matched statements measuring the customer's specific evaluation of what the target firm *actually delivered*.

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The mathematical Service Quality Gap Score (Q) for each item and dimension is calculated as:

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Service Quality Score (Q) = Perception Score (P) - Expectation Score (E)
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Where Q > 0 indicates service excellence (exceeding expectations); Q = 0 indicates satisfactory parity; Q < 0 indicates an unfulfilled service gap.

Worked Numerical Example: Administering the SERVQUAL Scale

A regional healthcare clinic in Thiruvananthapuram administers a condensed SERVQUAL survey to 500 outpatients to measure perceived clinical service quality. Patients rate expectations (E) and actual clinic performance (P) on a 7-point Likert scale across the five core dimensions:

Quality Dimension	Average Expectation Score (E)	Average Perception Score (P)	Dimension Gap Score (P - E)	Importance Weight (W)	Weighted Gap Score
Reliability	6.80	5.90	-0.90	0.35 (35%)	-0.315
Responsiveness	6.50	5.20	-1.30	0.25 (25%)	-0.325
Assurance	6.60	6.30	-0.30	0.20 (20%)	-0.060
Empathy	6.10	5.40	-0.70	0.10 (10%)	-0.070
Tangibles	5.80	6.20	+0.40	0.10 (10%)	+0.040
Overall Composite	-	-	**-0.56** (Unweighted)	**1.00 (100%)**	**-0.730 (Weighted)**

Step-by-Step Analytical Interpretation:

1. *Dimension Deficit Diagnosis:* The clinic exhibits its most severe service quality deficit in **Responsiveness (-1.30)**, indicating excessive patient wait times and perceived indifference among triage staff. The second critical deficit is in **Reliability (-0.90)**, indicating recurring appointment scheduling errors and delayed laboratory test results.
2. *Tangibles Outperformance (+0.40):* Tangibles is the only dimension with a positive gap score (+0.40), indicating that the clinic's physical building, marble lobby, and air-conditioning exceed patient expectations. However, because Tangibles carries only a 10% importance weight, beautiful physical infrastructure cannot compensate for delayed care and unreliable test results.
3. *Weighted Gap Score (-0.730):* Factoring in customer importance weights, Responsiveness and Reliability contribute over 87% of the total weighted dissatisfaction. Clinic management must immediately focus operational capital on shortening patient waiting queues and automating diagnostic test notifications rather than spending capital on decorative building renovations.

5. Service Recovery Architecture and the Service Recovery Paradox

Despite rigorous quality control and flawless service blueprints, the inherent heterogeneity and real-time human delivery of services make zero defects impossible. Service failures will inevitably occur: a delayed passenger flight, a lost hotel reservation, or a cold restaurant entree. What separates world-class service brands from mediocre competitors is not the complete absence of errors, but the sophistication of their **Service Recovery Architecture**.

Customer Complaining Behavior: Jagdip Singh's Taxonomy

When customers experience a service failure, their behavioral responses vary dramatically. Jagdip Singh (1988) classified complaining customers into four distinct behavioral profiles:

- **Passives:** Customers who take no overt action. They do not complain to the firm, do not vent to third parties, and do not switch brands immediately. However, their internal dissatisfaction festers, and they quietly defect to competitors at the next opportunity. They represent the most dangerous customer segment because the firm receives zero feedback to correct operational defects.
- **Voicers:** The service firm's most valuable asset. Voicers complain directly and constructively to frontline staff or management, providing the organization with an immediate opportunity to rectify the failure and retain the customer. They rarely engage in negative word-of-mouth or third-party legal escalation.
- **Irates:** Customers who become visibly angry and express intense dissatisfaction. They are unlikely to give the firm a second chance; instead, they engage in aggressive negative word-of-mouth, spreading toxic reviews across social media platforms, family circles, and online forums, causing severe brand equity damage.
- **Activists:** Customers who possess a strong sense of personal consumer rights and social mission. They complain aggressively to the firm, mobilize boycott campaigns on social media, file formal complaints with statutory consumer protection tribunals, and seek regulatory legal sanctions.

The Service Recovery Paradox

The **Service Recovery Paradox (SRP)** is a remarkable empirical phenomenon in consumer psychology where a customer who has experienced a service failure—but received an immediate, empathetic, and extraordinary service recovery—exhibits a higher level of post-recovery brand loyalty and satisfaction than a customer who never experienced any service failure at all!

Underlying Psychological Mechanics:

- When routine service proceeds flawlessly, the customer takes the performance for granted, viewing it as baseline contractual compliance.
- However, when a failure occurs, the customer experiences acute vulnerability and stress. If the firm steps in with extraordinary empathy, executive empowerment, and lavish compensation (e.g., immediately upgrading a delayed airline passenger to first class and providing dinner vouchers), the customer experiences profound emotional relief and gratitude. The firm dramatically demonstrates its institutional integrity, personal caring, and customer obsession under pressure.

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- *Boundaries of the Paradox:* Marketers must never intentionally engineer service failures to trigger the paradox. The paradox fails if: (a) the failure is severe or catastrophic (e.g., medical malpractice); (b) the customer perceives the failure as intentional or chronic; or (c) the customer has experienced prior failures with the same firm.

The 6-Step Systematic Service Recovery Protocol

To institutionalize service recovery, world-class organizations train frontline employees to execute the **HEAR Protocol** across six chronological steps:

1. **Act with Blazing Speed:** The velocity of recovery is paramount. Resolving a grievance within minutes on the spot preserves customer loyalty; delaying resolution by days or routing the customer through bureaucratic telephone menus escalates frustration into fury.
2. **Acknowledge the Problem and Apologize Sincerely:** Frontline staff must take immediate personal ownership of the situation, offering an unvarnished, sincere apology without being defensive or blaming other internal departments.
3. **Demonstrate Empathetic Listening:** Giving the aggrieved customer their full, uninterrupted voice. Often, angry customers need to vent their emotional frustration before they can cognitively engage in rational problem-solving.
4. **Offer Fair, Tangible Compensation:** Providing compensation that matches the severity of the failure: a replacement meal, a full refund, discount vouchers for future visits, or loyalty reward points.
5. **Resolve the Immediate Problem and Fix Underlying Systemic Causes:** Solving the individual customer's acute issue, followed by logging the error in the central CRM database to ensure engineering and operational teams eliminate the root-cause failure point from the service blueprint.
6. **Follow Up to Confirm Delight:** Contacting the customer within 24 to 48 hours via telephone or personalized email to verify that the resolution was satisfactory, cementing enduring emotional loyalty.

6. Customer Relationship Management and Customer Lifetime Value (CLV)

In modern relationship marketing, moving beyond transactional customer acquisition to long-term **Customer Retention** is the paramount driver of sustained enterprise profitability. Research by Bain & Company demonstrates that increasing customer retention rates by just 5% increases enterprise profits by 25% to 95%, because retained customers buy more frequently, cost less to serve, and generate valuable organic word-of-mouth referrals.

The Customer Pyramid and Tiering Architecture

Valarie Zeithaml, Roland Rust, and Katherine Lemon (2001) established that not all customers are equally profitable. Firms should segment customer bases into four profitability tiers, known as the **Customer Pyramid**:

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- **Platinum Tier (Heavy Users / Most Profitable):** The company's most valuable customers. They are price-inelastic, willing to pay for premium bespoke services, highly committed to the brand, and act as vocal brand champions. Management provides them with dedicated account managers, priority access, and lavish perks.
- **Gold Tier (High Value / Margin Conscious):** Substantial users who generate solid profitability. However, they are more price-sensitive and discount-conscious than Platinum customers, frequently shopping around for competing promotions. The strategic objective is to cross-sell and elevate them into the Platinum tier.
- **Iron Tier (Modest Volume / Essential Scale):** The vast majority of the customer base. They provide the essential operational volume required to cover fixed infrastructure costs and achieve economies of scale, but their individual profitability margins are modest. They receive standardized, automated service delivery.
- **Lead Tier (Cost Sinks / Value Destroyers):** Customers who consume disproportionate customer service time and administrative expense while generating minimal revenue. They complain constantly, demand unrealistic discounts, return products frequently, and poison company review boards. Management must either re-price services to make them profitable or actively "fire" these customers.

Customer Lifetime Value (CLV) Mathematical Architecture

Customer Lifetime Value (CLV) is the net present value (NPV) of the aggregate stream of future economic cash flows generated by a customer relationship over their entire tenure with the enterprise:

$$CLV = \text{Margin per Period} \times \left[\frac{\text{Retention Rate}}{(1 + \text{Discount Rate} - \text{Retention Rate})} \right] - \text{Acquisition Cost}$$

Where Margin represents annual gross contribution; Retention Rate (r) is the probability of customer repeat; and Discount Rate (i) is the firm's cost of capital.

Worked Numerical Example: Customer Lifetime Value (CLV) Computation

A regional telecommunications broadband and streaming service provider in Kerala evaluates the economic value of retaining an urban retail broadband subscriber:

- Annual Gross Profit Margin per Subscriber (M) = ₹12,000.
- Annual Customer Retention Rate (r) = 0.80 (80% retention; 20% annual churn).
- Annual Cost of Capital / Discount Rate (i) = 0.10 (10%).
- Initial Customer Acquisition Cost (CAC) = ₹3,000 (marketing, modem hardware, and technician installation).

Step-by-Step Mathematical Resolution:

- Applying the Infinite-Horizon CLV Formula:

$$CLV = M \times \left[\frac{r}{(1 + i - r)} \right] - CAC$$

- Denominator Calculation:

$$1 + i - r = 1 + 0.10 - 0.80 = 0.30$$

- Multiplier Ratio:

$$r / (1 + i - r) = 0.80 / 0.30 = 2.6667$$

- Gross Present Value of Cash Flows:

$$\text{Gross CLV} = ₹12,000 \times 2.6667 = ₹32,000$$

- Net Customer Lifetime Value:

$$\text{Net CLV} = ₹32,000 - ₹3,000 = ₹29,000$$

Strategic Marketing Takeaway: The net economic lifetime value of this subscriber is **₹29,000**. If the subscriber threatens to defect to a rival provider due to a minor billing glitch of ₹1,000, frontline customer support should immediately waive the fee and grant a promotional discount, recognizing that preserving a ₹29,000 lifetime asset vastly outweighs a temporary ₹1,000 operational sacrifice.

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