

The customer interaction process: Managing customer integration, the service encounter and service recovery

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Abstract

Service interactions are – next to customer relationships – one of the primary value processes of a service provider. Due to the fact that in service situations value is created via the throughput of the customer through the service production process, and this throughput is realized in service interactions, these interactions are one of the major value drivers of a service firm's value. As one of a service provider's primary value processes, the interaction process aims at managing the service interactions by integrating the customer, providing the service in the service encounter and a recovery service in case of service failures. These three main value-enhancing sub-processes contribute differently to a service firm's value by influencing both revenues and cost. Revenues are created first by the customer's throughput through the service process, and secondly by preventing customer defections as a consequence of service failures.

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The interaction process can be divided into three sub-processes: customer integration, service production and service recovery. First, since a service can only be produced when the service provider and the customer meet, the interaction process needs to be initiated, the customer must bring the car to the garage, the mechanic has to put the car into the right position in order to start the inspection, or, the bank customer needs to come to the bank branch, to the ATM or visit the internet banking website of the bank. because of the simultaneity of service production and consumption during a service encounter, there is a high potential for failure. In contrast to goods manufacturing where a failure is clearly defined by not meeting very specific and concrete product specifications, the specifications and requirements for a service encounter are very subjective and can change between customers or between provider and customer. For example, a customer might find the behavior of a contact employee friendly or not. Because services are ambiguous, customers' perceptions of service mistakes are less obvious than failures of tangible goods. Furthermore, in comparison to goods manufacturing, service failures are directly perceived by the customer in many cases, while failures in the production process of goods are often detected before the product is sold to the customer and before failure is perceived. Therefore, service failures can influence a customer's behaviour more directly. When a customer perceives poor quality because of mistakes and does not repurchase the services of the focal provider, the firm's value will be

affected by the service failures. Thus, when accepting that – to a certain extent – failures are inevitable for services, e.g. because of the human element in service production, then the reactions of a service provider to the failures are of major importance. These reactions are summarized under the concept of service recovery. Because of the relevance of failures in service production, service recovery is defined as a separate process of the Service Value Chain.

Value creation by service interactions

The three processes - customer integration, service production and service recovery *create value within a service process*:

- The production of a service is represented by a customer's throughput through the production process. Without the customer's throughput, and therefore without *integrating the external factor* first, a service cannot be delivered and thus, value cannot be created.
- In contrast to goods manufacturing, customers perceive many parts of the *service production process*. At the hairdresser, the customer can watch the stylist cutting their hair, at a restaurant the customer directly perceives the processes of order taking, serving and billing. And during a flight, customers experience good or bad service, but also 'production outcomes' such as turbulence. Since customers' perceptions influence their behaviour and consequently the value to the firm, a firm's value is affected by these perceptions.
- The *value consequences regarding failures* are twofold. First, failures themselves destroy value, because of lost revenues when customers defect because of the failures. Secondly, service recovery creates value by reacting to the failure, by compensation or – more indirectly – by using the information generated by the failure analysis to improve future interactions and thus improve value. While these impacts concern the revenue side of value, the *cost side* is also affected by service interactions. Due to the customers' participation in service production, their behaviour strongly influences the cost of the interactions. Customers who are experienced with a certain provider and its services, who tend to solve problems by themselves without asking too many questions or who are not that critical, are less cost-intensive than customers who use a service for the first time, who prefer to ask a lot of questions or who find fault everywhere. The first group of customers demands less attention from the service provider than the second. The latter demands more of the service employees' time for answering the customer's questions and redoing faulty activities. Since the working time of service employees is the most important cost component in many service industries, these examples illustrate that service interactions can vary significantly according to the customer's behavior which eventually influences the interaction cost.

Customer integration

From a process-oriented view, customer integration is the process of *integrating the external factor into the service process* – a process that takes place prior to the actual service production. The service production process can only be conducted when the external factor has been integrated into the process. The integration process therefore encompasses all activities that provide the basis for the actual service production. In the case of ensuring that a language course student arrives at the language school, activities such as opening the school's facilities, giving directions, letting the customer park their car; or a locksmith travelling to the home of a customer who has locked himself out. The prerequisites regarding the integration of the external factor necessary for service production vary depending on the following two dimensions.

The first dimension concerns the service location, i.e. the place where the service is produced and the customer is integrated. One can differentiate whether the service is produced at the customer's place or the provider's place. In the examples above, the language school's services are provided at the provider's place, while the locksmith's service is produced at the customer's place. The second dimension varies according to the type of external factor. The integration process differs significantly depending on whether the external factor is a human being or an object. According to these two dimensions, implications for services marketing can be drawn.

The service location defined as the place where the service is produced, has an impact on the requirements regarding the *characteristics of the provider's place*. In cases where the service is produced at the provider's premises the design of the provider's premises determines how the external factor can

be integrated into the service process. By providing elevators in a department store with several floors the service provider ensures that disabled customers or clients with buggies can use all the services of the store. When the service encounter takes place at the customer's place, such as repair services for washing machines, the distance of the provider's place to the customer's place determines the external factor's integration by the time needed until a service can be produced and therefore the respective cost as well as the quality of the service delivered, especially in the case of an emergency.

Producing a service in the service encounter

The service encounter is the heart of the service process. A service is produced during the service encounter where service resources and customers meet. The characteristics of a service encounter also affect the way these encounters are perceived by customers. As an encounter is a process, customers perceive it as a row of incidents and notice especially the significantly positive or negative critical incidents. A service encounter is defined as the situation where customer and service provider or specific resources of the service provider meet. In these situations, the actual service is produced. Service encounters can differ significantly and these differences determine the implications for services marketing. Service encounters differ according to two dimensions, the type of service resource and the type of external factor that meet in the service encounter.

The first dimension, the *type of service resource*, indicates what kind of service resources are primarily utilised for service production. We differentiate between the two extreme forms: human resources, bank staff versus automated resources, the ATM at a bank. The type of resources influences the management requirements of the service provider. Automated resources are more standardized than human resources, and the challenges of ensuring a high service quality are more difficult to resolve by service companies for human resources. Note that human resources and automated resources are extreme forms and that there are many variations/combinations possible within these two extremes. Often, service encounters are divided into face-to-face, voice-to-voice and bit-to-bit encounters with voice-to-voice as a combined type with human parts (e.g. the telephonist) and automated parts (e.g. the telephone system).

As with customer integration, the *type of external factor* is a valuable differentiator of service encounters. Human beings as external factors are often more heterogeneous and more active within the service process. They often influence the service process in a stronger way than does an object as external factor. Therefore, when a human being is the external factor, the service process is much more dependent upon the external factor than in the case of objects as external factors. In addition, when human beings are integrated into the service process, the customer perceives the service process which results in there being more service dimensions that the service provider must address. This perception of the customer is also an important facet when understanding service encounters as a series of (critical) incidents.

The external factor's integration into the service process as a central service characteristic and the important role of the customer in the service production have already been stressed, although so far they have only been considered as a general notion. However, this 'important role' of the customer can have very different facets, and very different '*customer roles*' in the service process can be distinguished. In order to consume the services of a cinema or theatre the customer has to go to the cinema complex or theatre. To have a car repaired, the customer has to take the car to the garage; at a hair salon, the customer attempts to articulate the desired hairstyle before and during the service process; and when parking a car in a car park, the customer 'produces' the service. The roles imply necessary activities of the service provider. Thus, the knowledge of the possible roles is important for services marketing.

Service recovery and attribution

The strength of the impact on satisfaction differs strongly according to various criteria. One important factor is the *attribution* of the failure by the customer. There are three dimensions used in order to describe the attribution:

- **Locus:** The question is who is made responsible by the customer for the service failure. There are at least three important alternatives: either the customer blames themselves or the service provider as an entity or employees of the service provider.

- **Stability:** Next to the locus the customer questions whether the failure will occur repeatedly. In case of affirmation, the attribution towards the responsible company will be stronger. Although service customers might tend to attribute service failures to the provider, it is also possible that the customer attributes a failure to themselves. For example, when a student in a language school is unhappy with personal learning success, they may blame themselves more than the lecturer, especially if they acknowledge the fact that they have not participated fully due to disinterest or laziness.
- **Controllability:** In this case, when failures occur that could have been prevented by the responsible party, then they are blamed even more; for example when there are two cashier checkout points and one of the checkout points is closed for cleaning or the cashier has gone for a lunch break. Customers in the queue will blame the cashier who is not at the checkout point, as the closure of the checkout point has resulted in unanticipated delays for the shoppers. A study including 354 customers of hair stylists, discount department stores, legal consultants and film processing companies revealed that customers who blamed the service provider for a mistake evaluated the service worse than customers who blamed themselves.

Conclusion

Cost effects of service interactions are caused by the different degrees of customers' participation in the service process. While some customers are cost intensive due to their behaviour during interactions, others are not. Customer participation is inherent in the service production to a greater or lesser degree of intensity. Accordingly, integrating the customer into the service process is a major task for services marketing.

In order to manage these incidents and thus service interactions, service providers must first know what influences service interactions. These are, on the one hand, service resources, employees, technology and other facilities, and on the other hand – and most important for service production – the customer's behaviour. Generally, a customer can assume different roles in service encounters, namely specifying the service, transferring the external factor, co-producing the service, dispensing with time and for many services co-using the service with other customers. The nature of services implies that failures happen in service encounters. Because of the simultaneous production and consumption of services as well as the customer's participation it is almost impossible to realize 'zero defects' in services delivery. Therefore, service recovery is the third primary value process within the service interaction process value chain. Interestingly, according to the recovery paradox, customers are often more satisfied after a successful recovery than they are without experiencing any failures (unless they are very satisfied). In order to manage service recovery, service providers therefore aim at identifying service failures in order to react to the service failures by correcting the failure or compensating the customer.

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