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Just tryin' to keep the customer satisfied? Delivering service through direct and indirect channels

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Abstract

As differentiation at the product level becomes increasingly challenging, the aim of delivering added value through customer service has grown in importance for a range of organisations. The strategic decision about the level of service provided must reflect the nature of the overall product and the way the organisation is positioned. The operational management of service provision is then driven by the need to balance the expectations of customers with the complexities and costs of delivery. With increasing pressures to lower costs and increase quality simultaneously, developments in IT systems, most notably call centres, have been seen as having the potential to support the realisation of both cost and quality targets. This paper reviews existing perspectives on the delivery of customer service across a range of channels, and highlights the conflicts between cost and quality from both customer and organisational perspectives. The contribution of IT systems for service provision is examined and key managerial challenges for the future are identified.

Introduction

Recent years have witnessed some quite extensive stretching of marketing's disciplinary product line. Academics and practitioners may choose to engage in services marketing or relationship marketing or interactive marketing or direct marketing or one of any number of different forms of marketing. Despite the apparent differentiation, these different forms of marketing have much in common, including the growing recognition of the importance of service provision in a world where products themselves are increasingly commodified. As with so many tasks, the management of service provision requires a careful balancing of the needs and expectations of customers with the complexities and costs of delivery. Central to this balancing exercise have always been pressures towards both low costs and high quality. Developments in IT and systems for their implementation, most notably call centres, have been seen as having the potential to realise both cost and quality targets. The extent to which this potential has been realised is more open to debate. Despite claims to the contrary, recent developments in remote delivery seem to be more heavily focused on cost imperatives than quality aspirations.

This paper reviews current thinking in relation to customer expectations and the provision of service across different channels and explores the implications for customer satisfaction. Although the specific focus is on business-to-consumer marketing, many of the arguments presented will also be of relevance in a business-to-business context. The paper begins with a brief overview of the significance of service and service provision in a business context, and highlights its potential contribution to organisational profitability by drawing on evidence from a range of academic studies. Thereafter, the challenges of service provision are reviewed from both the organisational and the customer perspective, and based on this review the paper then examines issues and challenges in relation to service delivery.

The significance of service

Narrow focus

The term 'customer service' traditionally had a rather narrow focus, being concerned with problem solving and the provision of support post-purchase. Key elements of service would have included providing information pre- and post-purchase, maintaining customer records, dealing with returns/replacements and providing information regarding use. A predominantly tactical, reactive, problem-solving perspective led to service provision being seen as essentially an addition to costs, although one which could potentially increase satisfaction through being responsive to customer needs and concerns. Nowadays, increasingly, the meaning of customer services is being broadened to encompass a more proactive range of activities that will facilitate and support the consumption process and underpin the relationship beyond the organisation and its customers. In this perspective, customer service would include a much broader range of activities, such as the identification and management of customer expectations, decisions regarding 'fit' between alternative offerings and customers' needs, responsiveness to information requests, establishing interpersonal relationships and anticipating future needs. This more strategic perspective aims to integrate the management of customer expectations as part of the delivery process, with a view to matching the kind of service provided with the type of service that customers need and expect. Although still requiring significant expenditure, this view of service would emphasise the idea of investment with a payback in terms of satisfaction (as opposed just to additional cost). Indeed, some aspects of this approach to service might be expected to reduce rather than increase costs through the better matching of customers and service needs. This broadened and more integrated approach to customer service has been seen by some as a process whereby customer service colonises other management functions such as human resource management (especially training) and operations.¹

Broadened and more integrated approach

In parallel, and perhaps as part of this broadening process, it has been suggested that the notion of services marketing should be replaced with the concept of service marketing to reflect the generic importance of service irrespective of the nature of the core product.² Indeed, it has become increasingly common to argue that core products are little more

than commodities, and that meaningful differentiation only takes place in the way in which those products are provided to the customer. For some, this requires a focus on the brand and brand marketing for differentiation, for others it is customer service — and in many cases, of course, a combination of the two. Certainly, customer service and service quality have long been cited as a significant differentiating factor across a range of service sectors (see for example Zeithaml *et al.*³) and as a base for building a sustainable competitive advantage. Equally, the value of strong brands in delivering superior business performance has also been widely noted (see for example Doyle⁴). To complement the findings of academic research, there is a range of anecdotal evidence to support these propositions. Of particular relevance might be the case of an organisation such as Amazon, which has gained a significant business edge as a consequence of excellence in customer service supported by a strong brand.

The economics of customer retention

Alongside the arguments that competitive advantage may be best realised through the activities which support purchase and consumption, it has also been suggested that any such advantage is best sustained by focusing on building customer loyalty and customer retention.⁵ The relationships which underpin retention are themselves the products of individual service encounters, and as such are driven, at least in part, by the quality of service experienced by customers. Central to the focus on service and customer relationships are the economics of customer retention. The argument is a seductive one. The basic premise is that organisations benefit as a consequence of higher levels of customer retention. The benefits of retaining customers arise from positive word of mouth, increased quantities purchased, reduced price sensitivity and lower service costs. Such benefits have been widely discussed and there are a number of well-known examples of how those benefits may be quantified. For example it has been argued that it is six years before a bank customer becomes profitable,⁶ that it costs five times as much to recruit a customer as to retain one and that a 5 per cent increase in retention can lead to an increase in net profit of between 25 per cent and 85 per cent.⁷

Service profit chain

The process of delivering service, generating customer loyalty and improving profitability is most famously conceptualised in the service profit chain.⁸ This model links internal service quality to employee satisfaction and retention. In turn, retained and satisfied employees deliver improved service, and this in turn leads to increased levels of customer satisfaction and retention. Ultimately, improved revenues and profit are consequences of these improvements in retention. The concept of the service profit chain is one that has been widely adopted by practitioners and consultants; it has been used to guide a range of managerial interventions and its usefulness has been demonstrated in a variety of settings (see for example Rucci *et al.*⁹ for a discussion in relation to Sears). Academic research utilising the service profit chain is less common, not least because of the difficulties associated with gaining access to appropriate data. A study of retail banking using branch-level data was generally supportive of the various links in the chain,¹⁰ but more

Quality, satisfaction, loyalty and word of mouth

recently Silvestro and Cross¹¹ suggest that store profitability tends to be negatively rather than positively correlated with employee satisfaction, although they did find evidence to support the customer dimension of the service profit chain.

The evidence to support individual links within the service profit chain is more compelling. During the late 1980s and the 1990s a range of studies across a variety of contexts provided evidence for the links between quality, satisfaction, loyalty and word of mouth. Cronin and Taylor¹² provided some of the earliest evidence concerning the relationship between quality and satisfaction; other studies have demonstrated that the link between customer satisfaction and customer loyalty is positive,^{13,14} as is the link between service quality and customer loyalty.^{15,16} As an alternative to studies based on attitudinal loyalty, some researchers have focused instead on behavioural measures, and again provide evidence of a positive relationship between quality/satisfaction and retention.^{17,18}

Links between loyalty and profitability have been much more difficult to demonstrate because of the difficulties associated with relating constructs measured at the individual level (satisfaction/loyalty) with constructs measured at the organisational level (profit). During the course of the past decade, however, the development of customer satisfaction indices such as the American Consumer Satisfaction Index (ACSI) and the Swedish Customer Satisfaction Barometer (SCSB) has resulted in a number of empirical studies which have been able to demonstrate that there is a link between an aggregate measure of satisfaction and organisational profitability.¹⁹

Notwithstanding the impressive array of evidence to support the service profit chain and the relationships it encompasses, there are dissenting voices. The possibility that retention may be behavioural rather than attitudinal and thus a reflection of inertia rather than positive attachment has been recognised for some time and noted in a range of studies (see for example Colgate and Lang²⁰). It has also been argued that satisfaction alone is not sufficient, and that what really creates loyalty is customer 'delight'.²¹ More recently the financial value of loyalty in a service profit chain context has been questioned,²² and it has been argued that many loyal customers may not be profitable and many profitable customers may not be loyal. While such findings may appear to be somewhat at variance with the prevailing orthodoxy, the differences between the two views are actually relatively superficial. Perhaps what is most important about studies such as these is that they remind us that simple goals or targets such as increasing customer retention will be misleading if there is no attempt to focus on the value of the customers who are retained.

Value of the customers who are retained

This brief review of research relating to the overall importance of delivering quality service to customers suggests that such a strategy offers real benefits to organisations provided that the most appropriate customer groups are targeted and the organisation is able to deliver to its promises. This naturally leads to a consideration of the organisational perspective on delivering service and the customer perspective on the sort of service that is desired and expected.

Service: The organisational perspective

Few organisations would question the need to provide some level of customer service. The strategic issue is how much to provide (ie levels) and in what form (which channels). The overall issue of level of service is effectively a reflection of the nature of the service (customised or standardised, simple or complex) and market positioning (contrast, for example, the minimal level of service provided by Ikea on the back of a cost-based strategy with the level of service provided by the Ritz-Carlton chain). The two issues do overlap in the sense that more complex, customised service offers are likely to have a more differentiation-based positioning supported by high levels of service, whereas highly standardised, simpler services will often be positioned on price, supported by much lower levels of customer service. In terms of the form in which service is delivered, broadly speaking there are two options, either face to face or remote. Although linked, the form decision is distinct from the decision regarding level, but it is worth noting that differentiation, complexity and customisation will often be more strongly associated with face-to-face service delivery, while simplicity, standardisation and cost will more often be associated with remote delivery.

Historically, customer service was predominantly delivered on a face-to-face basis, with remote delivery, via mail or telephone, being much less widespread. Developments in telephony in the 1960s and 1970s paved the way for a dramatic growth in a voice-to-voice remote delivery, which reached its zenith with the widespread adoption of call centres during the 1990s. Subsequently, developments in IT (most noticeably the web) created the opportunity for the delivery of service electronically. Currently the dominant form of service provision via the internet is asynchronous, involving either e-mail or frequently asked questions (FAQ) websites. The synchronous provision of service through the internet is still in the early stages of development, but techniques such as webcasting and chatrooms do offer the opportunity for service providers to interact directly with customers during service provision.²³ Other methods of service provision which can offer either greater flexibility or greater customer value are in various stages of development, including the voice-over-internet protocol (VOIP), value-based caller routing and voice recognition systems.²⁴

The development of a range of new media for service delivery has led to significant growth in the adoption of multichannel approaches. These offer enhanced levels of convenience to customers but present a different set of organisational challenges, not least of which is the need to ensure that customer information is fully integrated and available across the range of channels. Customer relationship management systems are commonly seen as the ideal mechanism for such integration, offering (in principle) high levels of data availability, consistency, timeliness and compliance with legal requirements. In practice the implementation of CRM systems has proved problematic, and while precise figures may be debatable, failure rates have proved to be high.²⁵

Clearly the attraction of remote delivery is that it offers much greater levels of cost efficiency. From an organisational perspective, remote delivery allows greater automation, reduced customer processing time

**Face to face or
remote**

**Adoption of
multichannel
approaches**

Remote delivery

and a better use of available capacity because a customer can be easily directed to the person who is most able to meet his or her needs. Indeed, some studies have argued that remote delivery can enhance rather than reduce service quality because of the higher levels of service availability.²⁶ There are clearly cases of organisations that have been able to provide superior levels of service quality using remote delivery, with First Direct being perhaps one of the best-known examples in the UK. The potential for genuine quality improvement is probably far greater with simpler services than with the more complex and with standardised rather than customised services. But the strength of systematic evidence for improved quality remains debatable.²⁷ Whereas the cost advantages of remote delivery are well recognised, evidence for quality gains is less extensive and largely relates to the more standardised, simple services. Where quality improvements have materialised, the benefits are usually associated with access to the service (speed, convenience, availability) rather than the service itself. Certainly discussions relating to the development and management of remote service delivery have tended to focus far more attention on its potential to provide lower costs and high levels of cost control²⁸ rather than on its potential to provide significant quality enhancements.

Face-to-face delivery

In contrast, face-to-face delivery is often seen to be more effective in terms of meeting customer needs, and attractive because it offers customers the opportunity to interact face to face with real people. Of course, the extent to which face-to-face delivery does provide better quality will depend upon the preferences of the target market and the type of service; for highly simple, standardised services and/or infrequent interactions, there may be little difference between face-to-face and remote delivery (consider, for example, requests for prices for a simple return flight or a quote for car insurance). In contrast, with more complex, customised services, the interpersonal and interactive nature of face-to-face provision creates the potential for the delivery of superior service, as might be the case with tax advice or medical consultations.

Notwithstanding the importance attached to convenience in relation to remote delivery, a number of studies have noted the value of interpersonal interaction in service provision. In a banking context, Avkiran²⁹ suggests that high customer-staff contact is essential to high levels of perceived service quality. Bennington and colleagues³⁰ also note the higher levels of satisfaction for face-to-face interaction when compared with call centres in relation to public services. Product-channel interactions are identified by Winklhofer *et al.*,³¹ who note that remote channels are more acceptable for simple services while complex services appear to benefit from face-to-face delivery. Results should be interpreted with caution, however, as it is likely that the strength of these relationships will vary across segments.³²

In essence, then, from the organisational perspective the strategy for delivering service requires the selection of a level of service that is consistent with both overall market position and the nature of the product/service. This must be supported by a strategic decision regarding the mix of the delivery channels to be used. Fundamental to any decisions relating

to the mix of channels is the trade-off between cost efficiency and effectiveness in delivering customer satisfaction. Getting this balance right requires careful consideration of both the nature of the service itself (since the nature of this trade-off is likely to differ across service types) and the customer expectations, plus a willingness not to be bound by the dominant cost-focused perspective on new delivery channels.

Service: The consumer perspective

To understand the consumer perspective and consumer service expectations, one needs to begin by considering the nature of customer service needs. At the simplest level, customers need and expect to be able to interact with organisations for four main reasons:

- to gather information and make a purchase
- to provide or change information held by the organisation
- to obtain technical support in order to use a product of service
- to provide feedback to the organisation regarding products or services purchased.

Multiple access points

Clearly there are a range of different channels that can fulfil these needs with varying degrees of effectiveness (according to the type of product/service), and the use of multiple channels is increasing as organisations recognise that customers want and expect multiple access points. Many customers welcome the new channels but do not wish to lose the opportunity to use the old ones.³³ Preferences for particular channels for service delivery vary according to the type of consumer, the type of product and the purpose of use. Preference and use of particular channels will vary across segments: while some customers readily switch to internet or telephone banking, others continue to rely heavily on face-to-face outlets. Such preferences will then have significant implications for satisfaction with service provided. A customer with a preference for using the internet is more likely to feel satisfied with internet-based service than is a customer who prefers to use the telephone. As well as variations across segments, there is also considerable variety in the use of channels for specific purposes; with respect to the internet, for example, it is well established that levels of use for information gathering are far greater than levels of use for purchase. Finally, channel preference may vary according to the type of product under consideration — customers dealing with complex, relatively high-risk, high-involvement services are more likely to seek a face-to-face channel as opposed to a remote one. Conversely, for simple, low-involvement products and services, remote delivery is far more likely to be acceptable and may result in a superior service because of the convenience it offers.

Convenience

There is a growing body of research which seeks to provide a more detailed understanding of the reasons why customers choose to use particular channels. In general terms it is clear that convenience plays a major role in relation to both time and effort. Technology-based channels such as telephone and internet offer higher levels of service availability and are often considered much more convenient to access.³⁴ Social

Cost and value

factors cannot be ignored, and the opportunity that face-to-face delivery provides for a social interaction has been found to be of particular relevance in relation to banking.³⁵ Equally important are considerations of cost and value. Again, technology-based channels are often thought to offer lower customer costs, but with lower levels of effectiveness and arguably greater difficulty in terms of communication and problem resolution. In effect, as with organisations, one can see customers making choices based around trade-offs between those channels which are most effective and those which are low cost.

Clearly the nature of these trade-offs will vary across segments and product/service types, and so any discussion of the characteristics of individual channels is by nature very general. Face-to-face delivery of service is thought to offer higher levels of customer satisfaction but at a relatively high cost, being perceived as rather less convenient and more time-consuming. Research in a variety of sectors, including financial services and the public sector, has demonstrated the existence of higher levels of customer satisfaction for face-to-face service delivery,³⁶ and the favourable impact on quality that results from good face-to-face interactions with front-line staff has been well documented.³⁷

In contrast, remote delivery is considered to be much more convenient and, for many, more straightforward, but somewhat less effective as a service becomes more complex. Research has highlighted a number of customer concerns in relation to remote service delivery. In comparison with face-to-face delivery, levels of satisfaction are thought to be lower, in part because of the different nature of interaction and in part because of frustrations with technology (see for example Prendergast and Marr³⁸). The observation that it is more difficult to disguise negative emotions in the voice suggests that the quality of service delivery via a call centre may be subject to higher levels of person-based variability in quality. It has also been suggested that customers have much higher expectations in relation to speed of service from remote delivery, and that they may be much more sensitive to delays. This problem is perhaps most significant in call centres, but may also be present in relation to e-mail enquiries. The problem of waiting times is compounded by the nature of queuing in remote delivery, where the absence of visual cues means that consumers do not know where they are in the queue.³⁹

Face-to-face delivery is still attractive

Although there is probably a need for much more research in understanding customer responses to different modes of service delivery, the consensus thus far would suggest that face-to-face delivery is still attractive to customers and more likely to generate higher levels of customer satisfaction. Nevertheless, remote channels (most dominantly call centres) are heavily used, perhaps because of convenience or perhaps because of the lack of real alternatives, but those organisations that have been able to deliver high levels of quality and satisfaction through such channels are small in number. One explanation for this may be that organisations have focused on the measurable performance dimensions in managing remote delivery and have ignored the interpersonal dimensions. Drawing on the distinctions made by Gilmore and Moreland,⁴⁰ the 'hard' measures of service delivery performance (eg call duration, call

completion etc) are rather more easy to measure and manage than the softer, people-based dimensions (eg responsiveness, empathy). An illustration of the potential significance of this distinction is provided by de Ruyter and Wetzels,⁴¹ who demonstrated the importance of listening skills (attentiveness, perception and responsiveness) as determinants of intention to call again. In contrast, recent research in call centres in the USA has suggested that the hard measures of service delivery (its operational characteristics such as call completion rates, call abandonment etc) generally do not predict customer satisfaction.⁴²

Efficiency vs effectiveness

Thus customers, like organisations, face a trade-off when choosing to use particular service delivery channels — that trade-off is again one of efficiency versus effectiveness, as remote delivery is highly efficient but face to face seems to generate greater satisfaction. Of course, the nature of the trade-off will vary across service types, and where the service is relatively simple the emphasis is likely to be on efficiency as remote delivery may not result in a significant loss in effectiveness. For more complex services the trade-off will differ, as remote delivery may have significant adverse effects on effectiveness in many segments of the market. Against such a background, the key to effective service delivery is identifying the strategic configuration of channels which offers the combination of efficiency and effectiveness that most closely matches consumer preferences. The challenges associated with managing service delivery for efficiency and effectiveness are discussed in more detail in the final section of this paper.

Delivering efficient and effective customer service

The need for multiple channels

Managing the delivery of customer service to ensure both efficiency and effectiveness is fraught with difficulties. Customers expect a high level of interactivity and multiple access points available promptly and at any time — day or night. Aside from cost issues, the need for multiple channels means that integrated information systems are a major (and often unresolved) challenge, while the use of multiple channels makes the monitoring and measuring of channel performance an increasingly complex activity.

Cost-based arguments

While recognising these complexities, analyses of the current provision of service remotely tend to suggest that the primary focus of organisational attention in managing service delivery has been the cost base.⁴³ Notwithstanding the cost-based arguments for investing in quality, there appears to be a continuing conflict between managing for quality and managing for costs; in the traditions of mass production, high levels of mechanisation and standardisation, and the adoption of a production-line approach to service, keep costs low but deliver only a basic level of service to customers. Whatever claims that may be made of call centres or internet-based service provision, the management approaches most commonly associated with these channels are ones that emphasise cost control and volume processing⁴⁴ and in the case of call centres the result has been their characterisation as ‘dark satanic mills’ and ‘21st-century sweatshops’. The focus on costs has led to very significant changes in the economics of service delivery — the scale of the potential cost savings

Efficiency dominates the trade-off

being best illustrated by estimates for banking which suggest that the cost of telephone transactions is probably about 10 per cent of the cost of traditional face-to-face encounters.

But research on service highlights the key role played by front-line staff and the importance of attributes such as empowerment, listening, responsiveness and empathy⁴⁵ in delivering quality. If cost efficiency comes from technology then effectiveness comes from people. Because call centres were opportunities to integrate people and technology, they were widely seen as a means of resolving the efficiency-effectiveness trade-off in service delivery. As yet, it seems that this form of remote delivery has still to realise its potential. The predominant emphasis on cost control suggests that efficiency dominates the trade-off, and attempts to encourage something closer to genuine interactivity have resulted in significant problems in relation to stress, emotional exhaustion and employee burn-out⁴⁶ which arise because of the conflicting demands of 'hard' measurement and performance standards with the time, effort and emotional labour needed to engage with customers. Wallace and colleagues⁴⁷ have gone as far as to suggest that perhaps the only way to reconcile the conflicting demands of efficiency and effectiveness is through a 'sacrificial' human resource strategy which may deliver higher levels of employee interaction, empathy and responsiveness but at the cost of high levels of burn-out and staff turnover.

Positive indicators for the future

Perhaps to counterbalance this rather bleak assessment of the potential to realise reduced costs and improved quality, there are some more positive indicators for the future which suggest that there may be opportunities to reconcile these apparently conflicting objectives without a significantly negative impact on staff. Enhanced training is seen as one route to improving quality alongside greater empowerment and incentivisation. Research in call centres in the USA has shown that where there is an emphasis on skills, employee involvement and decision making and where there are significant incentives in terms of pay and job security, there are material benefits to the organisation in terms of improved sales growth and reduced quit rates.⁴⁸ Similarly, in the UK, Peccei and Rosenthal⁴⁹ have demonstrated the positive impact of empowerment of staff on service provision. Different management practices may provide the opportunity to resolve some of the cost-quality conflict in remote service delivery. Newer technologies may also have a role to play — VOIP will provide the opportunity for much greater interactivity, integrating voice and web-based interactions, voice recognition will create the opportunity for greater automation, and value-based caller routing will facilitate the provision of different levels of service to different types of customers.

Conclusions

Service delivery has grown in significance as a source of differentiation in an environment in which core products have become increasingly commodified. Rising customer expectations in relation to service provision, and in particular the demand for multiple access points available round the clock, have created significant challenges for those

Highly cost-efficient

involved in service delivery. Developments in technology have created the opportunity for organisations to deliver these high levels of access, however, most commonly via call centres, but increasingly via the internet. Although highly cost efficient, these systems of remote service delivery lack the face-to-face interactivity which is widely seen as being a key driver of customer satisfaction. The extent to which better customer understanding can help to resolve the problems associated with interactivity through remote channels is open to debate, although it is clear that in many instances customer preferences are to deal with a 'real' person, as much as anything because of apparent reduction in risk and improvement in confidence.

The focus has been on costs

The process of service delivery and service consumption is effectively a trade-off between efficiency and effectiveness for both parties. The high quality associated with face-to-face delivery could only be achieved at a cost; however, if costs were to be controlled then quality would be likely to suffer. Of all the new systems for service delivery, call centres have been seen as one way of 'squaring the circle' — delivering high quality at a low cost. Thus far, the number of organisations able to achieve such an outcome has been limited. In most cases, evidence suggests that the focus has been on costs and that attempts to enhance quality have had a significantly negative impact on employees.

Problems thus far should not necessarily be seen as failures of the system but perhaps problems in implementation. Perhaps the most productive way forward in search of the elusive goal of service excellence at low cost is likely to be one which involves the use of technology to standardise and automate the simpler processes and improved human resource management practices to deliver support and empowerment which will allow employees to deliver genuine interactivity to customers.

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