

## CHAPTER 2

# CUSTOMER BEHAVIOUR, CULTURE AND SERVICE ENCOUNTERS

### Learning objectives

- 2.1 Explain the three-stage model of service consumption
- 2.2 Describe the impact of culture upon consumer behaviour in service settings
- 2.3 Explain the relevance of perceived risk and information search at the pre-purchase stage of the buying process
- 2.4 Describe why role and script theory and control theory are central to understanding customer behaviour in service settings
- 2.5 Explain why it is necessary to understand customers' psychological needs and values
- 2.6 Describe the basic mechanism that underpins the formation of postpurchase satisfaction evaluations

### *Mini-Case: Personal trainers – a growth opportunity*

This mini-case focuses on the cultural differences in decision making in a services setting.

1. **What might be important behavioural considerations for John to take into account in thinking about this opportunity?**

John should compare the characteristics of the gym members and his potential customers to see if there are any differences that would warrant him altering the production, marketing or delivery of his personal training service. The point should be made, however, that not all people in a given society or culture possess the same values.

- **Collectivism/Individualism** – John would be targeting customers who are more individual as personal clients. Gym members may be more collectivist than private customers, and so may place more value on

individual training. Balancing this, collectivists often rely on word of mouth, which may be a strong source for John with potential clients.

- **Uncertainty Avoidance** – John may need to give guarantees as a way of reducing perceived risk. Again John's strong reputation at the gym may be important.
- **Power Distance** – John may have to develop a different relationship with his new private customers. He may have to be more like a friend with his clients to motivate them and for them to also respect him for what he can do for them.

**2. If John goes ahead, what might be typical risk factors of concern for his clients, and what would you recommend by way of dealing with them effectively?**

- **Functional Risk** – John's customers may be concerned that his personal training services may not achieve the desired result, or that he is not qualified to perform them. This may be alleviated by providing client testimonials from satisfied customers and by John showing his credentials for new customers.
- **Financial Risk** – Can be lightened by John providing his customers with a fixed fee for a few sessions, or an hourly fee.
- **Temporal Risk** – with John travelling to people's homes, most temporal risk has already been controlled. John may want to let customers know that if he is running late, he will call them as soon as he can.
- **Psychological Risk** – There may be a risk of customers feeling uneasy about John entering their homes. John may want to have an alternative venue until customers feel comfortable about this situation, or alternately, John can advise his clients that other family members or friends are welcome to join in if he is charging a fee that is flexible for the number of clients.
- **Social Risk** – Customers may believe that others will not approve of getting a massage in their homes. John may promote the health and functional benefits of massage, rather than the hedonic benefits.
- **Sensory Risk** – Again, since John is predominantly working from customer's homes, he is taking most of the sensory risk. He should be very aware, however, of sensory risk factors under his control such as bad breath, body odour and professional appearance.

**3. What other behavioural considerations are likely to be important in providing this service, and why?**

John needs to evaluate the mood of his customers. Customers in a positive mood are likely to be less argumentative and easier to serve. Moods are also known to enhance experiences, making them more positive or negative than they might otherwise be perceived. John also needs to be aware that his own mood can affect the level of service he provides.

***Review Questions and Answers***

**1. Explain the three-stage model of service consumption.**

The three-stage model includes the pre-purchase, service encounter and post-purchase stages. Each of these stages consists of multiple steps. For example, the *pre-purchase stage* includes those activities associated with making a purchase decision such as: need arousal, information search, perceived risk, evaluation of alternatives and the evoked set. The *service encounter* includes those activities associated with delivery and consumption while the *post-purchase stage* consists of a range of activities associated with forming satisfaction and future behavioural intentions such as intention to revisit, become loyal, and make recommendations. Figure 2.1 provides a useful overview of the stages and steps.

It is essential that students understand which concepts apply at different stages of the model. For instance, perceived risk is an issue in the pre-purchase stage, but once consumers have committed to a brand choice, perceived risk is not an issue. Similarly, perceived control is an issue during the service encounter but is not an issue during pre-purchase. The concepts relevant at each of the stages are often confused, so tutors may wish to take time to explore the differences fully.

**2. Explain Hofstede's four key cultural dimensions and show how they might explain differences between Eastern and Western societies. Then explain how these dimensions may impact on service firms dealing with a range of consumers from a variety of cultures, or exporting to South-East Asia.**

Obviously a wide variety of answers are acceptable for a question like this. This is an opportunity for overseas students from a variety of SE Asian countries to add to the discussion. But to illustrate: Power distance means that in many Asian economies it is readily accepted as a normal part of daily life that people are born unequal. Hence everyone in Thailand for example knows where they rank in society. It is a far less egalitarian culture than say USA, New Zealand or Australia. Hence when it comes to relationship marketing, people of unequal social strata are unlikely to engage in long term commitments. Social bonds simply won't be formed. Regarding risk avoidance, Asian consumers are more risk averse and thus likely to stay loyal to brands they are happy with, than risk changing. Regarding collectivism/individualism much has been written on this subject as to how it impacts marketing communication, relationships, word of mouth communications and complaining behaviour.

**3. Describe search, experience and credence attributes and give examples of each.**

The degree of difficulty evaluating quality provides a basis for classifying goods and services and results in three broad groups; search, experience and credence goods.

**Search goods** are said to be high in so-called *search attributes* which means that they possess features that allow customers to evaluate quality *prior to purchase and consumption*. Examples: Most tangible goods fall into this category including clothing, cars, household appliances, communications devices, groceries, etc.

**Experience goods** are said to be high in experience attributes which means that properties that can only be evaluated *during or after consumption*. Many consumer services fall into this group. Examples include: travel services, holiday destinations, hospitality and restaurant services, many personal services such a manicure, pedicure, beauty and cosmetic treatments etc.

**Credence goods** are said to be high in credence properties which means that they possess characteristics that consumers may find difficult to evaluate

even after consumption has occurred. At issue is that consumers often lack the skills and expertise to evaluate complex or technical services. Many professional and business services fall into this group including: accounting, financial advice, legal services, medical services, management consultancy and others.

**4. How are customer expectations formed? Explain the difference between desired and adequate expectations with reference to a service you have recently experienced.**

Customer expectations are formed in the pre-purchase stage. As consumers search for information about a service or brand, they acquire a variety of facts and opinions from different sources. The main sources of information are: past experience with the brand, experience with the category (i.e. competing brands), word of mouth referrals and recommendations, service firm promises including implied promises such as those made in advertising and promotional messages.

Several types of expectations have been identified in the marketing literature. Two types of expectations discussed in the chapter are *desired and adequate expectations*. The type of service customers hope to receive is called desired service, while the minimum acceptable level of service expected is known as adequate expectations. The gap between desired and adequate expectations is known as the *zone of tolerance* which refers to the range of acceptable service performance levels without inducing customer dissatisfaction.

When designing service systems, marketers must have a clear idea of customers' zone of tolerance and strive to ensure that service performance never falls below the level of adequate expectations. Although it may seem that exceeding desired expectations may be a useful strategy for pursuing customer delight, it is worth considering that any such program may be costly for the service firm.

**5. Explain why services tend to be harder for consumers to evaluate than goods.**

Goods tend to be high in search attributes meaning that consumers can evaluate the goods before purchase e.g. compare the colours or styles of different pairs of shoes. Services tend to be low in search attributes and quite high in experience and credence attributes making them, much more difficult to evaluate. With experience attributes, consumers can evaluate services while they are being delivered (service consumed) e.g. whether the hair stylist is doing a good job washing your hair. Many services, especially those provided by professionals, tend to be relatively high in credence attributes which consumers often find extremely difficult to evaluate e.g. has the lawyer done a good job of researching and arguing your case in court.

**6. Why does consumer perception of risk constitute an important aspect in selecting, purchasing and using services? How can firms reduce consumer risk perceptions?**

Consumers' perceptions of the *different types of risk* (functional, financial, temporal, psychological, social and sensory) will determine whether or not they purchase the service. Consumers will tend to purchase services where they judge the risk to be at acceptable levels. If risk (either individual or collective) is too high, the risk of a negative outcome will delay or prevent purchasing decisions from proceeding.

In order to reduce perceived risk, marketers should first understand consumer risk reduction strategies. It is generally preferable to devise interventions that play to the consumer's natural dispositions rather than to ask consumers to develop entirely new behaviours.

In order to reduce perceived risk, consumers engage in a variety of practices including: extensive information search activities (e.g. comparing price and value offers while searching online for a holiday or a hotel); buying a known or trusted brand (e.g., Virgin has used its trusted brand name in many brand extensions such as Virgin Airlines, Virgin Mobile, Virgin Money and now Virgin Galactic); using price as a guide to quality; looking for guarantees or

warranties (e.g. money back guarantees); using limited scale trials; reliance on endorsements or word of mouth recommendations.

Clearly the way that a firm attempts to reduce risk depends on the type of service. For example, it may be more difficult for an airline or hotel to offer limited scale trial, but these types of organisations can offer guarantees, access to high quality information. A popular technique for many service firms is to encourage existing customers to refer friends and relatives. Students could explore some of the incentives and tactics used to encourage current customers to act as referrals for a commercial service provider. Service firms need to use caution when adjusting price as part of a risk since consumers of services may equate low prices with inferior quality.

## **7. Describe three types of customer psychological needs.**

Psychological needs thought to have high relevance in service settings include:

- **Security:** the need to feel secure and unthreatened by physical, psychological or even economic circumstances.
- **Respect:** the need to be made to feel important and that one's custom is valued.
- **Esteem** (or ego involvement): the need to have one's self-esteem and ego maintained or enhanced.
- **Fairness or equity:** the need to be fairly and justly treated.

Esteem captures Abraham Maslow's three higher-order needs—belongingness, esteem and self-actualisation—while security is intended to capture Maslow's two lower-order needs—safety and physiological needs.

## **8. Describe what is meant by a 'critical incident', and explain its significance in determining customer satisfaction and loyalty.**

A critical incident is an event or a performance within a service encounter that has the potential to contribute to or detract from the customer's experience in a significant way. (Table 2.4 displays the types of critical incidents). Negative critical incidents that are resolved satisfactorily have the

potential to enhance brand loyalty and may contribute to customer retention. However negative critical incidents that are left unresolved can lead to customer defections.

**9. 'The art of being a tourist is to go some place where you don't know the script'. Discuss this statement and describe the characteristics of the market segment involved.**

Here students should be encouraged to recognise that the desire to explore and discover what is new or unfamiliar provides a powerful motivation for travel. In tourism marketing, the segment that seeks out new travel experiences is often known as the '*experience seekers*' segment. Experience seekers are looking for authentic, involving and personal experiences. They tend to be well informed and curious about potential holiday travel destinations. They are well-educated and have higher than average incomes. They place a higher value on authentic experiences than on the acquisition of material possessions. The text also notes that this segment shuns organised tours and prefers to do their own thing. The Australian Tourist Commission estimates that about 30-50 percent of all long haul travellers are experience seekers, with the implication that this is a very large and important segment of the tourist market.

Despite their knowledgeable status, experience seekers will encounter unfamiliar behaviour patterns (i.e. the script) which will cause some psychological discomfort or even embarrassment. Tourists need to be prepared to learn new scripts in unfamiliar destinations.

To facilitate the tourist's transition into unfamiliar territory, most travel operators provide basic information about the culture, customs, manners, dress, food and drink, local laws, etc prior to departure. For example, tourists visiting an Islamic country, such as Morocco or Turkey, may need to be reminded of the need to dress modestly even though dress standards have been relaxed and wearing a veil is no longer expected in these countries. Given experience seekers' natural curiosity they would have a high propensity to read this type of travel information.



**Variation/ Suggested Activity:** As a class based activity, tutors may wish to have students find profiles of the experience seeker market segment by visiting the website of the Australia Tourist Commission or similar tourist marketing authority. There are many profiles of the experience seeker segment on the internet and these could then be used to explore the segment's information needs.

**10. Describe the difference between high-contact and low-contact services and explain how the nature of the customer's experience may differ between the two.**

High-contact services are those where the customer visits the service facility and is actively involved with service personnel during service delivery e.g. hairdressing. With low-contact services, there is little, if any contact between customers and service providers e.g. self-service banking. With high-contact services, the customer's experience is directly influenced by service personnel and facilities with processes becoming very important. With low-contact services, the focus is more on the technical means of delivering the service with customers focusing on the results.

***Additional Review Questions and Answers (Not contained in Text)***

**1. In what ways do Role and Script Theory serve to inform the management and marketing of services?**

Role Theory explains how both service personnel and customers behave in service encounters. In many contexts, both parties carry out roles that are well defined and culturally understood. For instance, in a hotel context, the customer is treated as a "guest" – for a temporary period of time, both customers and employees act as if the transaction is not a commercial one. In reality everyone understands that this is a role and that at the conclusion of the encounter, the "guest" will have to pay for services rendered.

Customer satisfaction is often contingent on how well both parties carry out their roles and the level of congruence between role expectations and actual behaviour.

Service managers must learn to understand customer expectations of roles for employees. Similarly, employees must learn to understand the roles

played by customers. The notion of roles extends to mannerisms, what is said and how, tone of voice, body language, dress and personal grooming. Furthermore, service providers must develop the sensitivity to “read” customers’ attitudes and moods and then tailor their behaviour accordingly.

Scripts are cognitive structures that guide human interactions. Understanding scripts affects both the efficiency and role performance of the service encounter. Marketers can develop scripts for many aspects of the service encounter. For example, waiters, hotel clerks, flight attendants etc often work with tightly developed scripts – that can guide behaviour efficiently contributing to a seamless transaction. For instance, when the waiter arrives at the table with a notebook and pen in hand, most customers “read” this as ‘time to place their order’. Words are often unnecessary since the pattern of behaviour (i.e. the script) cues the customer for a well understood, socially constructed response. Given that scripts can elicit well defined responses, they can be used to guide and control the service process,

With respect to scripting, the key challenges for management are (1) to design roles for the service encounter that meet the expectations of both customer and employee; and (2) to communicate the script effectively to both parties to ensure that they have a realistic view of their role, as well as that of the other party.

### ***Application Questions and Answers***

- 1. Select three services, one high in search attributes, one high in experience attributes and one high in credence attributes. Specify what product characteristics make them easy or difficult for consumers to evaluate and suggest specific strategies that marketers can adopt in each case to facilitate evaluation and reduce perceived risk.**

Students will likely choose a diverse range of services. It is important that students demonstrate their understanding of the difference between search,

experience and credence attributes and the impact each has on consumer evaluations and perceived risk. For example, it is difficult for consumers to evaluate many personal services (i.e. those high in *experience attributes* before purchase). This means that perceived risk e.g. functional risk is higher. Companies might try to reduce risk by providing testimonials from satisfied customers, providing incentives to satisfied customers to spread the word, using money back guarantees etc. For many professional services (i.e. those high in *credence qualities*), it is difficult, or impossible for consumers to evaluate quality even after consumption. How, for example, would a customer evaluate financial advice, legal advice, and a medical diagnosis? Most students would likely admit that they lack the knowledge to make an informed evaluation. Marketers of credence goods often invest heavily in building a trusted brand-name (e.g. Price-Waterhouse), recruiting and hiring personnel with high levels of expertise and displaying their credentials in all marketing and corporate communications.

- 2. Visit the facilities of two competing service firms in the same industry (e.g. retail banks, restaurants or hotels) that you think have different approaches to customer service. Compare and contrast their approaches using relevant frameworks from this chapter.**

This exercise requires students to visit two service organisations of their choice so that they can observe and analyse the manner and extent to which Role, Script and Control theories are manifestly in evidence there and to what extent they differ between the two. They should be able to identify the extent to which roles and scripts are being suitably and satisfactorily performed at both firms, and to comment on whether or not the performance of employees could be improved at either or both. Discussion should focus on deepening students' understanding of the respective theories and how they serve to inform and benefit service delivery.

- 3. Give a practical example of how role and script theory differs between two cultures with which you are familiar.**

Student answers will vary depending on the two cultures and example they select. It may be interesting to use as an example the expected behaviour of students in your lectures or tutorials. The role they play as a student in their

home country may be vastly different to that in the country in which they are studying. As an example you can highlight their willingness to ask questions in a large class setting. You can also remind them how embarrassed or awkward they may have felt as a new student until they learned their student script (where to eat lunch, how to study for exams, who to make friends with etc).

**4. What are the implications of script theory and perceived control theory for the design and introduction of a new self-service technology such as a supermarket checkout?**

New technologies require people to learn new routines or new scripts. As the text points out, learning new scripts does not come without a cost, because sometimes unfamiliar situations may disrupt the flow of behaviour and make people feel nervous, uncomfortable or even embarrassed. Until such time as customers become familiar with the script, it may be prudent to offer personalized assistance with a customer-friendly staff representative who can guide the customer through the process. Marketing communications can also be used to highlight the ease of operation. For instance, when public transport authorities introduce new ticketing systems, it is typically accompanied by simple messages such as Melbourne's *Top-Up, Touch-On and Touch-Off* campaign used to introduce Myki.

Script theory also has implications for software design. The software must be 'user-friendly', with appropriate screen prompts. In other words, the service must be easy to access and follow, must contain all the information likely to be required by customers, should have the capacity to deal with particular questions and inquiries (e.g. prices for particular products), and must offer a simple and straightforward check-out system. Perceived Control theory highlights the need to give the customer the sense of personal customisation and control over their planning and decision-making. They must also feel confident that they will be able to handle it on their own, that nothing will go wrong, that they won't inadvertently commit themselves to unnecessary expenditure or be held to account for honest mistakes or oversights. At the same time, however, adequate safeguards have to be built into the system in order to protect the service provider and their suppliers, yet in such a way that does not inhibit the user.

- 5. Draw upon your own experience to explain the dissatisfaction when one (or more) of the three basic human needs described in this chapter is threatened or violated. Describe what happened.**

Students should have little difficulty in providing anecdotal evidence required by the first part of the question. It is the second part of this question, however, that is particularly important. That is, students should be encouraged to put themselves in the position of the service provider and think through how the situation they described could have been better handled.

- 6. Select a South-East Asian country and, using Hofstede's four cultural dimensions, explain how consumer behaviour for services in the selected country might differ from that in Australia, New Zealand or the USA.**

This will depend on the type of service and country selected, and can be found in Tables 2.1 and 2.2. Again, it is a good opportunity to get overseas students involved in explaining how they see some of the differences.

- 7. Develop two different customer scripts, one for a highly standardised service and one for a highly customised service. Map all key customer steps of this script across the three stages of service consumption. What are the key differences between the standardised and customised service?**

Student answers will vary on this depending on which services they select. Figure 2.4 provides a useful example of a script that students can use for guidance. Student should note that it is much easier to develop the script for a highly standardised service (e.g. internet banking). Alternatively students might script a very familiar service routine such as the safety drill provided by flight attendants on all passenger services. In terms of the differences between standardised and customised scripts, alert students will note that standardisation often involves adding more steps to the process, while customisation involves fewer steps but with high levels of employee latitude to vary each step according to customer needs and expectations. This trade-off between the number of steps (adding complexity to the process) and

latitude (ability to vary the service offering) is a topic that we will consider in greater detail in a later chapter.

***Additional Application Questions and Answers*** (Not contained in Text)

- 1. Describe two or three instances of a service experience with which you were dissatisfied. Interpret your dissatisfaction using Role Theory or Perceived-Control Theory.**

Again here the purpose of this exercise is to develop students' understanding of the nature and contribution of these respective theories by employing each as a means of analysing some part of their own recent service experience. While students often enjoy relating their experiences, ensure that their anecdotes are not overly descriptive. Students are expected to demonstrate a sound understanding of each theory, and what each contributes to customer (dis)satisfaction, and to discuss managerial implications arising from this analysis.

- 2. Thinking about a recent experience where you experienced dissatisfaction with a service encounter, use the critical incidents technique (CIT), to analyse what went wrong. Suggest how management could use this method to help prevent similar service failures from recurring.**

The purpose of this question is to encourage students to apply in a practical, systematic and meaningful way the CIT method. There are a wide variety of possible answers. However it is important that students adopt a systematic approach by first considering the steps in the process, then determining which steps are critical incidents (potential problems) and then identifying the likely cause of the problem. Students may find it helpful to refer to Table 2.4 when considering causes of the problem.