Customer Service

MAR 3231
Fall 2008

Services Offered by Retailers

<table>
<thead>
<tr>
<th>Services Offered by Retailers</th>
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<tbody>
<tr>
<td>Acceptance of credit cards</td>
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<tr>
<td>Alterations of merchandise</td>
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<td>Assembly of merchandise</td>
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<tr>
<td>ATM terminals</td>
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<tr>
<td>Bingo</td>
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<tr>
<td>Bridal registry</td>
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<tr>
<td>Check cashing</td>
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<td>Child-care facilities</td>
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<tr>
<td>Credit</td>
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<tr>
<td>Customer reviews</td>
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<tr>
<td>Deep selection</td>
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<tr>
<td>Delivery to home or work</td>
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<tr>
<td>Demonstrations of merchandise</td>
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<tr>
<td>Duplication of merchandise</td>
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<tr>
<td>Dressing rooms</td>
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<tr>
<td>Extended store hours</td>
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<tr>
<td>Fees returns to brick-and-mortar location or online</td>
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<tr>
<td>Food items for shopping with special needs (multiply handout)</td>
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Strategic Advantage
Through Customer Service

85 percent of consumers in a survey say they spend more at retailers that provide good service, and 82 percent say they are likely to recommend those retailers to their friends and families.

- Good service keeps customers returning to a retailer and generates positive word-of-mouth communication, which attracts new customers.
- The challenge of providing consistent high-quality service offers an opportunity for a retailer to develop a sustainable competitive advantage.
Customer Service Strategies

Personalized Approach
- Greater benefits to customers
- Greater inconsistency
- Higher cost

Standardized Approach
- Lower cost
- High consistency
- Meets but does not exceed expectations

Personalized Approach

Personalized Approach encourages service provider to tailor the service to meet each customer’s personal needs.

- Store – sales associates offer individual customer service
- Electronic Channel – instant messaging

Drawback: Service might be inconsistent
  Customized service is costly

Standardization

Standardization Approach is based on establishing a set of rules and procedures and being sure that they are implemented consistently.

Retailers that use this approach:
- McDonald’s
- Wal-Mart
- IKEA
- Dollar General
- Save-A-Lot
### Cost of Customer Service

High levels of customer service can be costly, but good customer service is worth an investment.

It costs more to acquire customers than to generate repeat business.

Starbucks’ decision on spending $40 million by adding work hours would reduce net profit by seven cents a share vs.

Highly satisfied customers spent 9% more than those who are simply satisfied.

### Role of Expectations

Expectations are based on knowledge and experiences and vary with types of retailers (discount vs. department store).

### Perceived Service

Perceived Service—evaluations are based on perception:
- Reliability
- Cues used to assess service
- Tangibility
- Assurance
- Empathy
- Responsiveness
Support for Service Providers

Instrumental Support – associates need to have the appropriate systems and the right equipment to deliver the services

Emotional Support – associates need emotional support from their coworkers or a concern for the well-being of others

Empowerment

Means allowing employees at the firm’s lowest levels to make important decisions regarding how service is provided to customers

Pick Place’s FISH Principles:
Choose your attitude
Be there
Make their day
Play

The Target of Empowerment: Excellent Customer Service

Benefits to Employee:
Stimulates initiative
Promotes learning
Teaches responsibility

Manager’s Approach:
Provide guidance to employees
Train employees to the challenge

Steve Cole/Getty Images
Empowerment is Not for Everyone

- Some employees will not take the responsibility
- It is expensive for some standardized retailers
- Empowerment idea is not embraced by all cultures
  - Latin America:
    - The role of employees is not to make business decisions; their job is to carry out the decisions of managers

Using Technology

Retailers are using technology to assist sales associates in providing customer service

Kiosks:
- Kiosks can offer opportunity to order merchandise not in store
- Kiosks can free employees to deal with other customer requests
- Customers can use kiosk to learn more about merchandise
- Kiosks can provide customer solutions

More Technology

- Hand Held Scanners – help to provide customer service by allowing customers to scan large merchandise instead of struggling with the product to checkout
- Intelligent Shopping Assistants – a device connected to a shopping cart with customer database to provide personalized information to shoppers
Service Recovery

Service problems and complaints
- Are an excellent source of information about the retailer's offering
- Enable the retailer to demonstrate its commitment to providing high-quality customer service

Effective service recovery efforts increase customer satisfaction, purchase intentions, and positive word of mouth, but less than the level prior to the service failure
- Listen to the customer
- Provide a fair solution
  - Distributive fairness
  - Procedural fairness
- Resolve problem quickly
  - Reduce number of contacts
  - Give clear instructions
  - Avoid jargon

What's Fair?

- Distributive fairness – customers want to get what they paid for
- Procedural fairness – perceived fairness of the process used to resolve complaints
  - Did the employee collect information about the situation?
  - Was this information used to resolve the complaint?
  - Did the customer have some influence over the outcome?

Review for Exam 3

- Chapter 15-19
- Discussion in class - speakers
Factors considered in setting prices

- Customer price sensitivity-elasticity
- Competition
- Cost
- Legal constraints

Setting Retail Prices Based – Markup

- Difference between initial markup and maintained markup
  - Determine initial price – based on cost and markup goal
  - Determine initial markup based on initial price and cost
  - Determine initial price given maintained markup, cost, and reductions
  - Determine maintained markup based on cost reductions, and initial markup
  - Breakeven price

Variable Pricing – Price Discrimination

- Business rationale for variable pricing
- Types of variable pricing
  - First degree – set individually
  - Second degree – menu of prices – self-selection
  - Third degree – targeting segments
- Bundling
Pricing Strategies

- Advantages and disadvantages of Hi-Lo versus EDLP pricing
- Pricing of services – matching supply and demand

Techniques for Increasing Revenues

- Leader Pricing
- Price Line – good, better, best
- Off Pricing
- Why these techniques are used?

Chapter 16 - Retail Communication Programs

- Long-term versus short term-objectives
- Difference communication tools
- Use of tools – advantages and disadvantages
- Brand/Image building – Long-Term
  - What is a brand image
  - How retailers build brand image
  - Integrated communications program
- Brand extension
Setting Communication Budget

- Marginal analysis – Maximize profits
- Objective and Task – Achieve communication goals
- Rules of thumb
  - Affordable
  - Percent of sales
  - Match competition
- Allocation of budget – space, manpower, inventory
  - Marginal analysis vs % of sales
  - High assay principle
- Appendix

Marginal Analysis for Setting Communication Budget

<table>
<thead>
<tr>
<th>Level</th>
<th>Communication ($)</th>
<th>Sales ($)</th>
<th>Sales growth (%)</th>
<th>Percent of expenses ($)</th>
<th>Variable costs ($)</th>
<th>Net profit</th>
<th>Net profit margin (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>50,000</td>
<td>100,000</td>
<td>50,000</td>
<td>10,000</td>
<td>5,000</td>
<td>20,000</td>
<td>20%</td>
</tr>
<tr>
<td>2</td>
<td>100,000</td>
<td>200,000</td>
<td>100,000</td>
<td>15,000</td>
<td>10,000</td>
<td>30,000</td>
<td>15%</td>
</tr>
<tr>
<td>3</td>
<td>200,000</td>
<td>400,000</td>
<td>200,000</td>
<td>20,000</td>
<td>20,000</td>
<td>20,000</td>
<td>5%</td>
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Chapter 17 – Sales Management

- Selecting, motivating, evaluating, compensating sales associates
- Advantages and disadvantages of different compensation schemes
- Increasing the effectiveness of sales associates
- Loss prevention
  - Sources
  - Methods for reducing shrinkage
Chapter 18 - Store Design and Visual Merchandising

- Factors considered in store design
  - Stimulating purchases and repeat visits
  - Cost
  - Flexibility
  - Legal constraints
- Trade off between convenience and stimulating unplanned purchases

Store Design

- Different types
  - Advantages and disadvantages
- Location of merchandise in store
- Atmospherics – Sensory experience