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Six strategies for competing through service: An agenda for future research

Ruth N. Bolton[a,1], Dhruv Grewal[b,*], Michael Levy[b,2]

[a] W. P. Carey School of Business, Arizona State University, PO Box 874106, Tempe, AZ 85287-4106, United States
[b] Babson College, Wellesley, MA, United States

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Marketing scientists and practitioners devote considerable attention to services marketing strategies and tactics, but their focus recently has intensified with the dual realization that all businesses are service businesses and that "competing through service" provides new perspectives and options for organizations that are striving to create value for customers and capture value for shareholders. This special issue of the *Journal of Retailing* examines the many challenges of "Competing Through Service."

Its publication is particularly timely because firms—especially retailers—currently face significant competitive challenges. In the modern economic environment, markets are characterized by "fuzzy" boundaries that allow competitors to penetrate from adjacent market spaces. For example, advances in technology have led to a proliferation of new communication media and retail channels. Many firms have reacted by focusing on increased productivity and lower costs (e.g., efficient consumer response) rather than innovations that create value for customers. However, advances in technology also offer new opportunities for firms to create such value for customers that would give them a differential advantage that is difficult for competitors to imitate. Shifting market demographics and consumer tastes, both locally and globally, serve to magnify these opportunities.

This special issue is entitled "Competing Through Service" because firms that leverage service can build strong relationships with customers that will generate barriers to competition, increase customer loyalty and switching costs, and make market activities more efficient. However, markets change, so firms must be attentive and innovative in creating and delivering value. In this introduction to the special issue, we consider six strategies for competing through service: Leveraging fundamental sources of value that influence shareholder wealth, managing customers' perceptions of the service value proposition, customizing pricing for profitability, ensuring service excellence in implementation, planning for service recovery, and managing the holistic service experience (including the servicescape).

Co-create value linked to shareholder wealth

Over time, our understanding of the nature of services has shifted to encompass virtually all exchanges. Services traditionally were defined as deeds, performances, or actions (Berry-Leonard, 1980), but the lead article, "Competing Through Service: Insights from Service-Dominant Logic," articulates a new and broader definition of service as "applied knowledge for another party's benefit" (Lusch et al. 2007). This article emphasizes that firms co-create value with customers and promotes a "market with" philosophy. The only true source of sustainable competitive advantage is knowledge—that is, the operant resources that make the service possible. Superior collaborative competency leads to market success because it leverages a firm's ability to absorb information and knowledge from the environment, customers, and its value networks, so firms can adapt to dynamic and complex environments.

According to Lusch et al. (2007) service-dominant logic, retailers should concentrate simultaneously on the service and merchandise aspects of their business. Berry et al.

* Corresponding author. Tel.: +1 781 239 3902; fax: +1 781 239 5020.
E-mail addresses: ruth.bolton@asu.edu (R. Bolton), dgrewal@babson.edu (D. Grewal), mlevy@babson.edu (M. Levy).
[1] Tel.: +1 480 965 2322.
[2] Tel.: +1 781 239 5629.

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(2002) stress the importance of providing customers with convenience during the various stages of the purchase process: decision, access, transaction, benefits, and post-benefits. Therefore, effective service strategies enable retailers to enhance convenience and customer value at each stage. Furthermore, as a result of the increased cost of employees, self-service technologies (SST) likely will play prominent roles in such strategies. Additional research is needed to provide concrete directions regarding how retailers can enhance the value of both the shopping experience and the merchandise provided by using SSTs.

From this perspective, firms co-create value with customers by rendering service. However, firms also derive value from customers because they provide the stream of profits that flows to the firm over time (Srivastava et al. 1998). In turn, firms cannot focus only on the creation of value for customers; they must also leverage their service to capture value that increases shareholder wealth. This challenge is tackled in the second article, "The Effect of Customer Service on Retailers' Shareholder Wealth: The Role of Availability and Reputation Cues." Wiles (2007) examines 48 retailer customer service strategies announced by advertising campaigns that emphasize customer service. Using an event study, he finds significant abnormal returns of 1.09%, on average, to the announcement of a retailer's customer service strategy. This value is sufficiently high (compared with other strategies) to suggest that service is one of the more valuable strategic marketing actions available to the firm. Wiles (2007) also finds that when retailer promises of customer service are vivid and easy to imagine (e.g., friendly service, convenient shopping experience), they create shareholder value. In contrast, promises involving difficult-to-imagine customer services (e.g., passionate service) are less credible and limit the creation of shareholder value. Additional research therefore is needed to explore optimum strategies for promising and delivering difficult-to-imagine services. The effectiveness of these strategies could be enhanced, for example, by the firm's reputation and use of guarantees (e.g., price matching, service).

In the Dutch automobile market (a very different context), Verhoef et al. (2007) find that automobile dealers selling volume brands can improve brand retention rates, but dealers of prestige and economy brands cannot. This finding in "Understanding Brand and Dealer Retention in the New Car Market: The Moderating Role of Brand Tier" suggests that promises of service excellence are context specific, which makes implementation strategies (discussed subsequently) very critical. The results emphasize the importance of the fit between the brand's price image and the service environment.

Manage customer perceptions of the service value proposition

It is easy to say that firms must create and capture value through service provision; it is much harder to develop a value proposition that succeeds in the marketplace. This issue is particularly problematic in markets with diverse customer needs. Kleijnen et al. (2007) examine opportunities for creating value for a service innovation and specifically for mobile brokerage services. Their article, entitled "An Assessment of Value Creation in Mobile Service Delivery and the Moderating Role of Time Consciousness," demonstrates that in transactional services, a mobile channel can add significant value. Furthermore, consumers recognize three sources of value—time convenience, user control, and service compatibility—as well as two costs—risk perceptions and cognitive effort. Mobile services provide added value for customers who perceive that service is time critical, such as when they must react to real-time developments. These authors therefore recommend that firms develop promotional initiatives to create awareness about the relatively unfamiliar possibilities of mobile service delivery, especially specific event messages that require client decisions. In addition, they should both increase user control and reduce the risk associated with making such transactions.

Another article also deals with managing customer perceptions of the service value proposition and reinforces the finding that customers are heterogeneous, so service value propositions must fit their needs, including their self-image. "Multiple Reference Effects in Service Evaluations: Roles of Alternative Attractiveness and Self-Image Congruity," by Yim et al. (2007), indicates that when customers' self-image congruity with the focal service is high, their attention to retail alternatives and/or changes in service performance diminishes. Therefore, it may be very effective for firms to create advertising and promotional messages that connect customers with the service experience by signaling that other store patrons "are like you" or "are who you would like to be."

Both these articles highlight the need for further research into the drivers of customer perceptions of the firm's value proposition. Because consumers likely make cost–benefit trade-offs as they choose among new service delivery channels, such as mobile channels, retailers must understand the drivers of both the benefits associated with the additional service features and the cost factors. For example, the fit of the technology with the image of the firm's customers may increase the benefit side of the value proposition, whereas communication about the use of encryption technology and seals of approval from reputable third parties likely reduce the risk side.

Customized pricing for profitability

Customers' willingness to pay for service is inextricably linked with their perceptions of service quality and value, which is part of what makes pricing especially complex. Tukman et al. (2007) study how to design an effective win-back offer that offers service to reacquire lost customers. Their article, "The WOW Factor: Creating Value through

Win-Back Offers," provides guidelines for describing price and service benefits that remind customers of special treatment they received in the past, so that the win-back offer becomes customized for maximal effect. Tracking customer's transactions, identifying them as lost customers, and identifying the cause of their defection represent the key elements of a win-back effort. With this information, firms can develop customized win-back offers that address customers' specific needs. The key is that firms must track the importance of their different services to customers so they can promote them accordingly. The authors argue that firms that utilize customer relationship management systems to win back defected customers—and make doing so a firm-wide priority—likely will experience a significant increase in customer retention and overall profitability.

Additional research is needed to understand the return on investment of such win-back or retention offers. In some industries, such as long-distance telephone services, retention strategies may create adverse expectations among customers who constantly receive deal offers to switch service providers. Understanding how to wean these customers away from such deals or choosing not to re-recruit them actively with extensive promotions could provide invaluable benefits to firms.

Service excellence in implementation: people and processes

Two contributions to this issue examine the nuts and bolts of customer service, namely, service provided in support of an organization's core products (e.g., billing, repair, handling complaints). This topic is important to every firm that wrestles with implementing support services for its products, whether goods or services. Both articles suggest that firms must be cautious about giving service representatives latitude in how they perform routine customer service transactions and recommend that some employee behaviors (though not all) should be standardized in the retail service sector. This recommendation creates a dilemma for many firms. As labor costs have risen in developed countries, managers have become especially interested in encouraging co-production or outsourcing of customer support functions to lower their costs of serving customers. In these circumstances, how do firms ensure that customer support functions are sufficiently standardized (i.e., low quality variance) and still exhibit sufficiently high average quality levels?

Each articles focuses on a different aspect of implementation. First, many firms rely on "scripts" to define appropriate sequences of behavior for both employees and customers that provides a structure to ensure service operations run smoothly. "The Impact of Code Switching on Service Encounters" analyzes more than 2000 service encounters to discover what happens when employees depart from these scripts. It turns out that though on-script encounters are better for firms, switching languages (e.g., English to Spanish) can have positive outcomes that demand little cost in terms of firm efficiency. However, Schau et al. (2007) also discover that employees' script departures can have negative consequences; in particular, for firms whose scripts contain idiosyncratic terminology (e.g., Starbuck's tall, grande, and venti cup sizes), deviating from the script extends service times and disrupts business processes. Even if an individual customer enjoys the extended encounter, it interferes with the efficient processing of other customers in the system. This issue likely will become increasingly problematic for small firms that want to compete against the market leaders that have been able to establish the dominant terminology.

Second, Netemeyer and Maxham (2007) distinguish between in-role behaviors, in which employees' behavior is determined by firm guidelines, and extra-role behaviors, for which employees use their discretion. They find that supervisor ratings relate more positively to customer satisfaction and word of mouth than do employee ratings of their own performance, which suggests that employees are less able to judge what satisfies customers. Moreover, their article, "Employee versus Supervisor Ratings of Performance in the Retail Customer Service Sector: Differences in Predictive Validity for Customer Outcomes," reveals increasing returns for customer evaluations of service recovery from employees' extra-role performance but decreasing returns from employees' in-role performance. This finding poses a new question: How should firms align employee rewards and incentives to encourage discretionary behaviors that satisfy customers?

Planning for service recovery

Minimal research has distinguished between service brands and service representatives. However, Hess et al. (2007) do just that in their study of "Interactional Service Failures in a Pseudorelationship: The Role of Organizational Attributions," which occur when a service provider is rude, inattentive, or unfriendly. When a customer interacts repeatedly with the same firm but encounters different employees across service occasions, the customer's responses distinguish between the offending employee and the organization, such that his or her dissatisfaction with the organization critically depends on the customer's perception of how widespread the failure is in the organization. Customers are less likely to attribute the failure to the organization (and hence be dissatisfied with it) when they have had excellent prior experiences with the organization. This observation provides yet another reason to reduce variability in service quality across consumption experiences.

A related area of research that has received some attention pertains to the tactics used to facilitate service recovery, such as customer compensation. However, the role of non-monetary compensation, such as getting customers to participate actively in the recovery effort, has not received much attention. Additional insights into the essential ingredients of effective service recovery strategies that could be

implemented by retailers and service providers would be fruitful avenues of research and might provide better insights into the return on investment of such efforts.

Holistic consumption experiences: the role of servicescape

Many service organizations, such as hotels, retail stores, and airlines, invest substantially in their physical plant to provide a superior service experience. However, little is known about how to design a servicescape to enhance the consumption experience. For example, it may be unsurprising to learn that research has shown that pleasant music, compared with less pleasant music, is associated with longer consumption times, shorter time perceptions, less negative emotional reactions to waiting, more favorable attitudes toward the physical environment, more positive attitudes toward service providers, and more favorable customer assessments, purchase intentions, and behavior. However, what underlying theoretical mechanism explains these effects? In “The Role of Pleasant Music in Servicescapes: A Test of the Dual Model of Environmental Perception,” Morin et al. (2007) show that the presence of music reinforces the holistic quality of the servicescape, makes the provider stand out more (compared with a servicescape without music), and reinforces his or her contribution to service outcomes. They also vary music valence and demonstrate its transfer to servicescape attitude, which then exercises direct and provider-mediated effects on service outcomes.

Conclusion

The articles in this special issue provide additional insights into the six strategies outlined in this introduction and should stimulate further research into these topics. However, many additional topics, beyond those detailed in the articles in this special issue, also are particularly germane to the topic. First, we wonder about the role of technology in terms of both the firm and its customers. Given the growing prevalence of SSTs, it seems important to understand how their deployment influences customer evaluations of retail firms. Second, more research is required on the service quality–value–loyalty–profit chain. Understanding which factors directly affect profits and which potentially moderate the effects of service quality and customer value on behaviors (as opposed to intentions) is crucial. Third, the growing importance of co-production and self-service delivery mechanisms makes additional research on how consumers interact with firms and their employees, as well as with other consumers, very important. For example, how do factors such as technology readiness and experience facilitate or inhibit the use of SSTs? How can firms support and facilitate the “real time” customization of service? Fourth and finally, the role of retail and service branding is critical. How does a firm’s service strategy help build customer relationships, and how does the strategy and relationships affect the firm’s brand equity? These questions and various others offer fruitful avenues to be pursued to advance the field and managerial practice.

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