Service Failure and Recovery in Electronic Retailing: An Investigation of Product-Oriented and Service-Oriented Transactions

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ABSTRACT

Appropriate vendor response to service failures (i.e., service recovery) may provide a means to strengthen their customer relationships. Service recovery is a well-investigated concept in the bricks-and-mortar environment, and there is a growing body of empirical research exploring service failure and recovery in the electronic environment. The present study addresses a gap in the literature by exploring how vendors recover from service failures with product-oriented transactions (e.g., online purchasing of books, apparel) and with service-oriented transactions (e.g., online banking). Failures and recoveries in product-oriented and service-oriented transactions were explored after the content analysis of 513 customer-reported incidents. The findings show that vendors are not effectively recovering from service failures, regardless of the type of transaction. Results and implications of these findings are also discussed. [Article copies are available for purchase from InfoSci-on-Demand.com]

Keywords: B2C E-Commerce; Customer Relationship Management; Customer Satisfaction; Electronic Commerce Marketing; Electronic Retailing; Electronic Transactions

INTRODUCTION

Online sales have increased from $82.3 billion in 2005 to $102.1 billion in 2006 (Burns, 2007) and are expected to reach $144 billion in 2010 (Comiskey, 2006). Of particular interest to this study is the potential for increase in the number of online suppliers, because as the number of online suppliers is likely to increase, buyer power increases, making the cost of switching suppliers quite low for buyers (Porter, 1979). This highlights the importance of establishing and maintaining relationships with customers in electronic retailing, especially because a competitor is just a click away. Part of managing customer relationships involves addressing and resolving problems customers encounter during their transactions (Achrol, 1991; Morgan...
& Hunt, 1994). Research shows that failures have a stronger effect on customer dissatisfaction than vendor successes have on customer satisfaction (Bolton & Lemon, 1999; V. Mittal, Ross, & Baldasare, 1998).

Failures (e.g., hotel room not clean, unavailable help when calling a help desk) are bound to occur in transactions between customers and even exceptional vendors. Appropriate vendor response can help prevent customer dissatisfaction with these failures (Bitner, Booms, & Tetreault, 1990; Heckman & Guskey, 1998). Given the high cost of recruiting new customers (Spreng, Harrel, & Mackoy, 1995), response to failures is critical for retaining existing customers. Vendor response to a failure can either reinforce customer relationship or exacerbate the failure (Smith, Bolton, & Wagner, 1998). A “recovery paradox” may occur where customers rate a firm higher after it effectively recovers from a failure than they rate the firm prior to the failure (Maxham, 2001; Tax & Brown, 1998).

Although there are inherent differences between products and services (Lovelock, 1983; Peterson, Balasubramanian, & Bronnenberg, 1997), the research on failure and recovery in the online context has not compared product-oriented transactions (e.g., book purchasing) with service-oriented transactions (e.g., online banking). This study therefore examines failures and recoveries for a wide variety of online transactions and was guided by the following research questions:

- Are online vendors effectively recovering from service failures in product-oriented and service-oriented transactions?
- What are the differences, if any, between service failures in product-oriented and service-oriented transactions in electronic retailing?
- What strategies do vendors use to recover from failures in product-oriented and service-oriented transactions in electronic retailing?

**BACKGROUND**

**Product-Oriented Transactions vs. Service-Oriented Transactions**

Transactions generally contain a service component and a product component (Chatterjee & Narasimhan, 1994; B. Mittal & Lassar, 1996). For this study, the term *product-oriented transaction* suggests that the transaction contained a greater degree of product (i.e., tangible) than of service (i.e., intangible), whereas the term *service-oriented transaction* suggests the opposite. The researchers acknowledge the difficulty in distinguishing between product-oriented and service-oriented transactions. Purchasing a book online (i.e., product) involves payment processing and delivery (i.e., services). When making an airline reservation online (i.e., service), a customer may request a paper ticket (i.e., product). For the study, to determine whether a transaction was product-oriented or service-oriented, the researchers focused on the core business of the online vendor. If the core business is a product (e.g., book sellers), the transaction was deemed as product-oriented, even if there are services that support the transaction. If the core business is a service (e.g., bank), the transaction was deemed as service-oriented, even if there is a product involved in the transaction.

The service-classification literature served as a theoretical framework to determine how product-oriented differ from service-oriented transactions. Several taxonomies were reviewed within the bricks-and-mortar context (Lovelock, 1983; Schmenner, 1986) and the electronic context (Peterson et al., 1997; Klein, 1998). Although product-oriented and service-oriented transactions have several dimensions in common (e.g., relationship with customer, nature of customer transaction), they differ in other dimensions (e.g., degree of tangibility, method of delivery). Given the differences between product-oriented and service-oriented transactions, the researchers decided to investigate whether differences also occur in failures and recoveries.
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