

Strategic Services Marketing
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Lecture - 33

Service Guarantees and Service-level Agreements

Hello everyone. In this session, let's try to comprehend and explore the importance of service guarantees and service level agreements. Let's start with a video that showcase one of the customer asking for some returns or kind of refunds and how the employee gets into this particular scenario. Have a look at this video. May I help you? Yes, this is not the best breakfast I ever ate and I like my money back. Okay, I believe you have to fill out a form for that.

No, I like my money back now. I'm sorry it doesn't work that way. You see, I have to fill out a form and well you ate most of it already so. See that sign? It says 100% guaranteed.

You know what the meaning of guarantee is? Did they teach you that here? Sir, if you just wait a minute. Look, just put your little hand back in the cash register and give me my \$2.75 back please. Sir, if you just give me a minute. I'll find the forms.

I'll take care of everything. I don't have a minute. You've made me late enough. I am so tired of dealing with incompetence. It says 100% guaranteed, you moron.

Mr. If you don't shut up, I'm gonna kick 100% of your ass! Is there a problem here? Can I help you, sir? You bet you have a problem. Your employee here used profanity and threatened me with violence. I'm surprised. I eat here all the time and usually have good service until today. All I wanted was my money back on this breakfast.

It was a little undercooked. And he threatens me with violence. Now, I'm going to call your supervisor.

.. Ah, I can take care of it. Mr. Hamilton, did you threaten this customer or use profanity in any way? Uh.

.. Well, he insulted me first. He called me a moron, Dennis. Answer me. Did you threaten this customer or use profanity in any way? Yes. You're fired.

I'm very sorry, sir. I'll refund your money right now. Hope you won't hold this against us. You know how these young kids are these days.

Here we are. Perhaps another breakfast. I hope you had a hell of a piss, Arnold. So, have you ever encountered such a situation? Let's hope not, right? So, going further, let's define the two concepts that we are going to learn in this session. First is service guarantee and then service level agreement. Let's define these two constructs first.

Service guarantees are promises made by service providers to customers regarding the level of service they can expect to receive. These guarantees often include assurances of quality, reliability and satisfaction. Whereas, service level agreements are nothing but formal contracts between service providers and customers that outline the specific services to be provided along with agreed upon performance metrics and standards. So, first one here is promise and the second one here is formal contracts. Let's start with service guarantee first.

So, what all promises a particular service provider makes? First promise here is promise of performance. Service guarantees are promises made by service providers to customers regarding the level of service they can expect to receive. They are often communicated as a part of marketing messages or customer service policies. Second is customer assurance. Service guarantees provide customers with assurance that they will receive a certain level of quality, reliability or satisfaction from the service provider.

Third, compensation for failure. Service guarantees may include provisions for compensation or remedies. If the service provider fails to meet the promised level of service, this compensation could be in the form of refunds, credits, discount or even additional services to be offered. Services guarantee has customer centric focus. Service guarantees are designed to enhance customer satisfaction, trust and loyalty by demonstrating the service provider's commitment to meeting customer needs and expectations.

And finally, service guarantees are to be optional. Service guarantees are often optional and may vary from one service provider to another. They are not necessarily formal contracts like SLAs, but are still binding promises made by the service provider to its customers. Let's discuss the power of service guarantees. First of all, service guarantees force firms to focus on what their customers want and expect in each element of the service.

Secondly, guarantees set clear standards, telling customers and employees alike what the company stands for. Next, guarantees require the development of systems for generating

meaningful customer feedback and acting on it. Further, service guarantees force service organizations to understand why they fail and encourage them to identify and overcome potential fail points. And finally, guarantees build marketing muscles into the service provider by reducing the risk of the purchase decision and building long-term loyalty. So what are the characteristics of ideal service guarantees or how to design service guarantees for that matter? Service guarantees should be unconditional, easy to understand and communicate, meaningful to the customer, easy to invoke, easy to collect on and it must be credible.

With respect to unconditional, it means whatever is promised in the guarantee must be totally unconditional and there should not be any element of surprise for the customer. Let's take an example of Zappos, an online retailer. Zappos offers a 365 days return policy with free shipping both ways. Customers can return their purchases for any reason with no questions asked and no restocking fees. Next, services guarantees should be easy to understand and communicate. That means the customer must be clearly aware of the benefits that can be gained from that particular guarantee. For example, FedEx money back guarantee. FedEx guarantees on-time delivery of packages with their money back guarantee policy. If a shipment is late, customers are eligible for a refund of shipping fees. Next, service guarantees need to be meaningful to the customers.

That means the guarantee must be on something that is important to the customer and the compensation should be more than adequate to cover the service failure. For example, another retailer Nordstrom. Nordstrom has a legendary return policy that allows customers to return items at any time with or without a receipt. The compensation provided such as full refund or exchange is more than adequate to cover any service failure. Next, service guarantees should be easy to invoke.

That means it should be easy for the customer to invoke the guarantee. For example, Hilton Hotels. Hilton offers stay guarantee where guests can report any issues during their stay and the hotel promises to make it right or they don't pay. This guarantee can be easily invoked by speaking with the hotel staff or contacting customer service. Next, service guarantee should be easy to collect on.

If a service failure occurs, the customer should be able to easily collect on the guarantee without any problems. For example, this ride sharing application or company that is named as Enterprise. Enterprise offers we will pick you up guarantee. Ensuring that customers will be picked up from their locations within 15 minutes of their scheduled reservation time. If they fail to deliver on this promise, customers receive \$50 credit on their rental.

And finally, service guarantees need to be credible. The guarantees should be believable. For example, Costco. At Costco, it provides a satisfaction guarantee on all of its products. If a customer is not satisfied with their purchase, Costco will refund the full purchase price.

This guarantee is credible due to Costco's reputation for excellent customer service and commitment to customer satisfaction. With this, let's move on to the next point that is types of service guarantees. At a broader level, there are three types of service guarantees. Satisfaction guarantee, performance guarantee and on-time guarantee. First of all here is satisfaction guarantee.

It is a promise to refund or compensate customers if they are not satisfied with the service. For example, Amazon's A to Z guarantee promises that customers a full refund if they are got dissatisfied with their particular purchase. With respect to performance guarantee, it's nothing but an assurance of meeting specific performance metrics or standards. For example, FedEx money-back guarantee promises a refund for shipments that do not meet the delivery commitments. Next type of guarantees are promising on-time guarantees.

For example, a commitment to delivering services within specified time frame. For example, Domino's Pizza that delivers 30 minute or free kind of guarantee promise. Where a customer gets a free pizza if delivery is not made within 30 minutes. Time guarantee. So, there are again different types of service guarantees based on number of attributes covered under that guarantee.

For example, as shown in this table, we can see there can be single attribute specific guarantees. Where one key attribute of the service is covered by the guarantee and not everything. For example, any of the three specified popular pizza is guaranteed to be served within 10 minutes of ordering on a working days. So, that's kind of you know covering one attribute of a larger service basket. Second classification is based on multi attribute but specific guarantees.

Here, a few important attribute more than one of the service are covered by the guarantee. For example, Manipulist Marriott guarantee. That is our quality commitment to you is to provide a friendly and efficient check-in, a clean comfortable room where everything works and a friendly efficient check-out. So, two three aspects of services check-in, check-out and the stay.

Then comes full satisfaction guarantee. All aspects of the services are covered by the guarantee and there are no exceptions. For example, Landcent. If you are not completely satisfied with any item you buy from us at any time during your use of it, return it and we will refund you full purchase price. So, covering everything up. And then finally, there can be combination of these which is known as combined guarantees.

Where all aspects of services are covered by the full satisfaction promise of the guarantee and explicit minimum performance standards on important attributes are included in the guarantee to reduce uncertainty. For example, Data Pro information services that guarantees to deliver the report on time to high quality standards and to the contents outlined in this proposal. Should we fail to deliver according to these guarantee or should

you be dissatisfied with any aspect of our work, you can deduct any amount from the final payment which is deemed as fair by the customer, right. So, combined guarantee. Let's have some examples with respect to service guarantees.

Some commercials that promise either performance guarantee or on time guarantee and so on. So, here is a beautiful commercial talking about Mahindra truck and the Buzz Blazo which features a prominent Bollywood celebrity providing assurance in terms of on time service guarantee. Have a look at this particular commercial. Next example is coming from service guarantees.

Another one from different service provider. Have a look at this. At Longbridge Financial, exceptional service isn't just some promise. It's our guarantee. When you partner with Longbridge, you get the total attention of a full service team. Constant communication so you know your loan status from start to finish.

And everything from processing to servicing, giving you more time to focus on your clients. And while all companies talk about great service, only Longbridge backs it up with a commitment focused on building a relationship with you to provide the best possible experience. Service that's faster, smarter and more accurate. That's the Longbridge promise. Again, one more example that shows how service guarantees work.

Have a look at this particular video commercial. So that sums up service guarantees, it's types and it's importance. Now let's move to the next important concept of service level agreements which are nothing but formal contracts between service providers and customers that outline the specific services to be provided along with agreed upon performance metrics and standards. A service level agreement, which is also known as SLA, is a legally binding contract between a service provider and one or more clients, defining the precise terms and conditions that govern the duration of the service engagement. This includes the period during which the client is paying for the services and the provider is obligated to deliver them. Generally, an SLA outlines the scope of services to be provided, the objectives of both the parties, like the provider and the client, any necessary prerequisites and the designated points of contact.

Additionally, it explicitly outlines the procedures to be followed in the event that the goals specified in the SLA are not met. So what are the key characteristics of any service level agreement or SLA? The first characteristic here is formal contract. SLAs are formal agreements between a service provider and a customer that outline specific services to be provided along with agreed upon performance metrics, standards and responsibilities. Secondly, it includes metrics and standards. SLAs define measurable performance indicators, such as response times, uptime percentages, resolution times, and quality benchmarks that the service provider commits to achieving.

Third characteristic of SLA is mutual commitment. Both parties, that is service provider and customer, mutually agreed upon the terms and conditions outlined in the SLA, including the consequences of failing to meet the specified service levels. Next characteristic is operational focus. SLAs are typically focused on operational aspects of service delivery, detailing how services will be provided, monitored, and even managed on an ongoing basis. Finally, SLA includes continuous monitoring and reporting. SLAs often include provisions for continuous monitoring of performance metrics and regular reporting to track adherence to agreed upon service levels.

Microsoft's Azure offers services to its clients. So let's understand SLA with special reference to Microsoft Azure and how it entails all these particular agreement and key features. Have a look at this particular informative video. A Service Level Agreement, or SLA, is a standard industry term. It's the formal agreement between a service provider and customer that guarantees the customer a stated level of service. The service provider may be a commercial company providing the service, like Microsoft, when you use Azure services.

But SLAs are also used inside organizations in an agreement between the IT department and the business users. Let's look at what SLAs mean for Azure. Azure Service Level Agreements are represented as a percentage, related to the service or application's availability. This availability is also known as uptime. If the service was always available to use, you'd say it was 100% available, or it had 100% uptime.

An SLA also commonly includes details like what is defined as downtime when the service is unavailable, and any credit you may be entitled to if the SLA is not met. In reality, 100% uptime is difficult and expensive to achieve, because it allows no time for taking the service down for required maintenance or upgrades. It would also require duplicating every single component in case one component failed, and would require those backup components to pick up the service tasks with zero interruption to the customer.

For these reasons, SLAs of 99%, 99.9%, and 99.95% are more common. 99.99% is also available in some services in Azure. Is there a big difference in a service that's 99% available versus one that's 99.9% available? Yes! A service with a 99% SLA percentage can be unavailable for up to 1.6 hours per week or 7.2 hours per month and still be 99% available. That time is cumulative, which means it can be added up over multiple incidents of the service being unavailable. A service with a 99.9 SLA percentage can be unavailable for only 10 minutes per week or 43.2 minutes per month. That's clearly a big difference! If the service is critical to your business, minutes versus hours of downtime can make a big difference.

But highly available services do come at an extra cost. Each Azure service has its own SLA. Familiarize yourself with them prior to designing any application that runs on Azure

to ensure you're optimizing availability against your business needs. Similar to service guarantees, there are again different classes of service level agreements. For example, Availability SLA, Response Time SLA, or Resolution Time SLA. Under Availability Service Level Agreement, this document specifies the uptime or availability of a service.

For example, in case of Microsoft Azure, offers an SLA guaranteeing 99.9% uptime for its cloud services. Next type of SLA is Response Time SLA. This defines the maximum time within which a service provider must respond to customer inquiries or issues. For example, IT support companies often have SLAs specifying response times for resolving technical issues.

And third type of SLAs are Resolution Time SLAs. It set's the timeframe for resolving service disruptions or incidents. For example, Internet service providers may have SLAs guaranteeing a certain timeframe for resolving network outages. There are five key service level agreement metrics that are used widely in the industry. First metric here is Availability and Uptime.

Availability and Uptime are almost universal metrics for all SLAs. They indicate time for which clients can expect to access and use the service. For example, for a contact center, the uptime could be 12 hours a day for six days a week. For the cloud, uptime is usually between 99% and 99.999%. Next metric is Response Timelines. IT service providers in every category typically mention response timelines as a key SLA metric. This is because clients will want immediate action whenever there is an adverse event. However, the provider can respond only if it has sufficient resources available. Third metric here is Mean Time to Resolution, which is also known as MTTR. Mean Time to Resolution or MTTR refers to the average time an incident is resolved starting from raising a service ticket to the moment when it is closed.

The total journey of that particular complaint. By specifying an MTTR in the service level agreement, a service provider can assure the client that someone will be attending that particular problem and resolving it without undue delay. Another metric is Defect or Error Rate. The concept of defect rate can be traced back to the manufacturing industry, where this metric captures the number of defective items or products as a percentage of the total production volume. Today, defect or error rates can be useful for measuring quality both internally and with clients. In software testing for that matter, you could calculate the defect rate for every 1000 lines of code.

The final metric here is First Time Resolution of Issues. In addition to MTTR, one can also define service efficacy regarding how many interactions it takes to resolve a particular issue. Ideally, non-complex issue should be resolved right at level 1 or L 1 support layer and it shouldn't require more than a single interaction with the service provider or customer care. So, what are the different best practices for a strong service level agreement? As

shown in this diagram, it starts with making sure that the SLA goals are smart, specific, measurable, attainable, reliable, and timely. Next, create internal SLAs that reflect client SLAs.

Third, update the SLA terms and conditions regularly. Fourth, ensure that service level agreements are transferable. Then, test monitoring and systems and dashboards before implementing those SLAs. And finally, incorporate a security clause into SLA document as well, just as a precaution. So, there are some best practices while designing a strong SLA document or contract. Now, going further, let's discuss some challenges that can arise while designing service guarantees or even SLAs.

First challenge here is setting realistic expectations. It's important to ensure that guarantees and SLAs are achievable and sustainable. Second challenge is with respect to measurement and monitoring. This involves establishing reliable metrics and systems for tracking performance. Third challenge is with respect to flexibility and adaptability. This involves allowing for adjustment and modifications to accommodate changing customer needs and market conditions.

Fourth challenge could be resource allocation. This involves allocating sufficient resources and capabilities to meet the commitments outlined in guarantees and SLAs. So, what are the solutions to these challenges then? The first solution here is to go for collaborative design. Involving stakeholders in the design process ensures alignment with customer needs and organizational capabilities. Second solution is with respect to continuous improvement. Implementing feedback mechanisms and performance reviews to identify areas for improvement and refinement.

Third solution can be technology integration, which means leveraging technology solutions for real-time monitoring, reporting, and analytics. And then training and development. Firms need to invest in employee training and development to enhance skills, capabilities, for delivering on-service commitments. So, in this session, we try to understand the importance of service guarantees and service level agreements, the challenges while designing these aspects, and also the solutions for those challenges. Thank you.