

Understanding the Role of Complaint Handling on Consumer Loyalty in Service Relationships

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ABSTRACT. The authors explore the role of 5 drivers of loyalty: customer usage level, service pricing, service quality, membership in the firm's loyalty program, and satisfaction with complaint handling. The effects of these drivers may differ for customers who complain versus those who do not complain, as well as for satisfied complainers versus dissatisfied complainers. Testing the proposed models with customers of a large airline, the authors found that satisfaction with complaint handling was key to consumer recommendation of the service to others. The results

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also underscore the importance of service quality and service pricing as determinants of customer loyalty.

KEYWORDS. Customer loyalty, complaint handling, complaint management, satisfaction with services

Justification for a firm's relationship marketing efforts stems from the argument that it costs a firm more to acquire new customers than to keep existing ones (Grant & Schlesinger, 1995; Reichheld & Teal, 1996). Not only do loyal customers reward the firm with their repeat patronage, but such customers also buy more from the firm, are more likely to pay premium prices for additional services, and lower the firm's costs of attracting new customers through positive word of mouth (Homburg, Koschate, & Hoyer, 2005; Reichheld & Sasser, 1990). The positive impacts of loyalty on the firm's profitability are quite intuitive, even if empirical results have been somewhat mixed (Homburg et al., 2005; Reichheld & Sasser, 1990; Reinartz & Kumar, 2000).

In recent years, several service firms have engaged in extensive and elaborate customer relationship management efforts. The focus on customer retention has led these firms to devise new and innovative ways of keeping customers, ranging from incentive plans and loyalty programs to sophisticated data-driven personalization. However, despite these advances in relationship marketing, an old mainstay for keeping customers remains a sound service recovery strategy.

Service recovery, according to Lovelock and Wirtz (2007, p. 395), "is an umbrella term for systematic efforts by a firm to correct a problem following a service failure and to retain a customer's goodwill." An emphasis on service recovery follows from the growing importance of consumers' post-purchase evaluations and behaviors (Andreassen, 1999; Bolton, Grewal, & Levy, 2007; Grewal & Levy, 2007).

The key objective of a service recovery strategy is to win back customers who might otherwise take their business elsewhere (Griffin & Lowenstein, 2001). At the heart of any such service recovery strategy is a complaint handling system that can not only solve customers' problems but also improve the service in response to complaints (Bell & Luddington, 2006; Grewal, Roggeveen, & Tsiros, in press).

Research has shown that firms generally respond to service failures through apologies, explanations, or compensation (Grewal et al., in press). When the first complaint gets handled well and resolved to the satisfaction

of the customer, this satisfied customer then becomes more likely to make future purchases than one who has never experienced a service failure (Maxham & Netemeyer, 2002; Michel, 2001). It has been argued that a successful complaint management system should solve customers' problems while also ensuring customer satisfaction with the complaint handling process itself, including processing of the complaint, speed of the organization's response, and the competence of the service staff who handle the complaint (Lovelock & Wirtz, 2007). Satisfaction with the complaint handling process is likely to result in positive behavioral intentions. Such behavioral intents include customers' willingness to reuse the service and their willingness to recommend the service to others. Well-handled complaints thus provide a potential antecedent of customer loyalty along with other well-researched sources, such as service quality, pricing, and incentives (Gotlieb, Grewal, & Brown, 1994; Grewal et al., in press).

In line with this discussion, we examine the following three research issues:

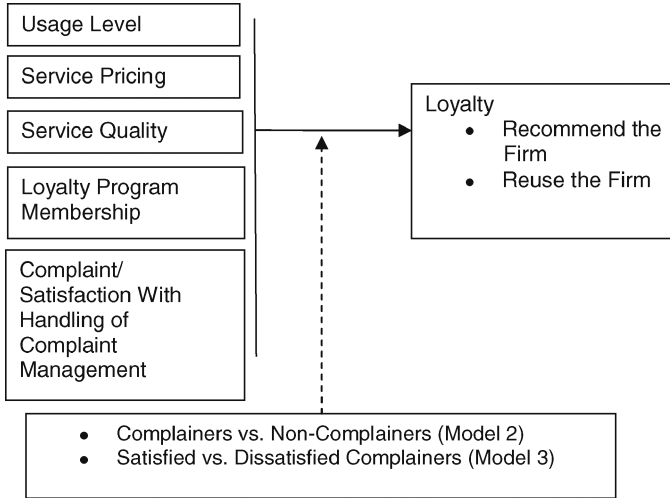
1. We attempt to understand the differential effects of key antecedents on customer loyalty.
2. We analyze whether loyalty drivers differ for customers who complain versus those who do not complain.
3. We consider whether loyalty drivers differ for satisfied complainers versus dissatisfied complainers.

We developed and tested empirical models based on these research issues, using data collected from an airline. First, we examine the role of various antecedents of customer loyalty, including complaint handling (Model 1). Second, we address whether the effects of these antecedents may differ for customers who have complained about a service failure in the past compared with those who never have (Model 2). Third, we examine the effects of the antecedent factors for satisfied and dissatisfied complainers (Model 3). We conclude with a discussion of the implications of our findings for complaint handling and offer some directions for further research.

BACKGROUND AND EMPIRICAL MODELS

Apart from service firms, marketers of goods also differentiate themselves from their competitors through services (Sawhney,

FIGURE 1. Model 1: Drivers of Loyalty



Balasubramanian, & Krishnan, 2004; Vargo & Lusch, 2004). As a consequence, firms are realizing that the service component of their product portfolio is quite important in developing stronger customer ties (Mittal, Huppertz, & Kahre, 2008). Prior research has shown that efforts toward retaining customers through customer relationship management programs have tremendous positive impacts on the firm's profitability (Reichheld & Sasser, 1990). Also, carefully developed customer relationship management programs that focus on service recovery enhance customer satisfaction, loyalty, and retention (Andreassen, 1999; Tax & Brown, 2000; Tax, Brown, & Chandrashekar, 1998).

In Figure 1, we provide a simple framework that outlines the effects of five antecedents of customer loyalty: usage level, service pricing, service quality, membership in loyalty program, and complaint handling. We focus specifically on loyalty and operationalize it, in line with previous research, as the likelihood of recommending and repurchasing from (or reusing the service of) the firm. We also articulate the effects of these drivers for complainers versus non-complainers (Model 2) and for satisfied complainers versus dissatisfied complainers (Model 3).

Customer Loyalty

As noted above, we focus on two commonly used customer loyalty indicators: the likelihood of recommending the firm to others and of reusing the service (Zeithaml, Berry, & Parasuraman, 1996).

Recommendation. Past research has convincingly demonstrated that satisfied customers are likely to recommend the service provider to others (Hartline & Jones, 1996; Zeithaml et al., 1996). Recently, a global survey of Internet users found that 78% of the respondents trusted other people's recommendations more than any other traditional or online advertising media (Nielsen Company, 2007). Thus, word-of-mouth recommendations from others are a key source for generating new customers for service providers. Impacting such positive word-of-mouth recommendations would therefore not only retain current customers but also bring in new customers.

Reuse Intentions. Reuse (or repurchase) intentions are frequently used in the literature as primary indicators of customer loyalty (Cronin & Taylor, 1992; Gotlieb et al., 1994). Reuse or repurchase intentions are influenced by service quality and customer satisfaction, among other antecedents (Gotlieb et al., 1994). A firm's service recovery efforts can directly influence reuse or indirectly affect reuse intentions through customer satisfaction perceptions. Within the domain of the service recovery literature, equity theory would suggest that providing some form of compensation helps restore the inequity experienced from service failure and serves to restore a customer's reuse (and/or repurchase) intentions (Blodgett, Granbois, & Walters, 1993; Grewal et al., in press).

Antecedents of Customer Loyalty

Customer Usage Level. Reichheld and Sasser (1990) argued that consumers become more profitable when they remain with a firm longer. For firms, such customers are also targets for cross-selling of other products and up-selling of products with premium margins, which would increase firms' share of the customers' wallets (Grant & Schlesinger, 1995; Ostenon, 2002). For consumers, aggregating purchases with a single supplier that provides high-quality service may result from convenience and decreased search costs. Therefore, a customer's frequency of use of the services is likely to be a key driver of customer loyalty.

Service Pricing. Price is a concrete cue that is used by consumers to evaluate quality, value, and purchase intentions (Dodds, Monroe, & Grewal, 1991; Grewal, Monroe, & Krishnan, 1998). Favorable price perceptions

(e.g., fair prices, good value) are likely to enhance customer loyalty (i.e., greater likelihood of recommending and reusing the service provider).

Service Quality. Service quality researchers have demonstrated the strong effects of service quality on behavioral intentions (Parasuraman, Zeithaml, & Berry, 1985). Gotlieb et al. (1994) also found strong support for the effects of service quality on behavioral intentions. Therefore, service quality perceptions are also likely to be key drivers of customer loyalty.

Membership in the Firm's Loyalty Program. Service providers such as airlines, hotels, and retailers offer customers the option of joining their loyalty programs. One of the objectives of these loyalty programs is to help service providers retain their best or most frequent customers. Firms also offer different levels of benefits associated with usage levels as incentives to customers to enhance their loyalty and spend more of their wallet with the service provider (Grewal & Levy, 2007). For example, American Airlines has multiple levels in its loyalty program (e.g., regular membership, gold, platinum, and executive platinum). Each level provides increased benefits (e.g., the number of class upgrades in each level) and serves as an incentive for customers either to maintain their current level (i.e., maintain usage levels) or to move to the next level (i.e., increase consumption) to get added benefits.

Complaint Handling. It has been noted that a customer complaint handling process should regard each complaint as an opportunity to retain a customer (Michel, Bowen, & Johnston, 2008). An effective complaint management system, of which the complaint handling process is an essential element, should make it easy for customers to complain and, when they do, deal with each complaint with professionalism and speed. Appropriate handling of these complaints is likely to result in customers positively recommending the service provider and reusing the service provider.

Complainers Versus Non-Complainers

As noted by Kau and Loh (2006), existing service customers can be grouped into two groups: those who have complained in the past (complainers) and those who have never complained (non-complainers). These two groups are likely to have had different experiences. Customers who have complained are more likely to have experienced service problems, dealt with the service recovery personnel, and, possibly, experienced recovery efforts. Thus, one might expect that the aforementioned antecedents (i.e., customer usage level, service pricing, service quality, and membership

in the loyalty program) would have differential effects on the likelihood of recommending and reusing the service provider for customers who have complained versus those who have never complained.

Satisfied Versus Dissatisfied Complainers

Recovery efforts made by the service firm are likely to have a pronounced effect on customer loyalty (Grewal et al., in press; Smith, Bolton, & Wagner, 1999). Good service recovery efforts are likely to result in satisfied customers who are likely to stay with the service provider (Goodwin & Ross, 1992). In contrast, insufficient or lack of service recovery efforts to address the complaints of customers not only irk the complaining customer but could also lead to increased customer turnover and negative word of mouth. In between these two extremes, some complaining customers may remain with the service not because of their satisfaction with the service but because of lack of choice or other reasons. Thus, the effects of the aforementioned antecedents (i.e., customer usage level, service pricing, service quality, and membership in the loyalty program) will have differential effects on the likelihood of recommending and reusing a service provider for satisfied complainers versus dissatisfied complainers.

RESEARCH METHOD

Measures

We generated several items to measure the constructs from prior literature. A questionnaire based on these items was presented to the market research department of the airline used as the context for this study. In response to the department's comments, we added a few items and reworded or deleted items to improve the questionnaire. A pretest of the questionnaire, administered to 10 airline passengers, indicated that some questions were unclear. These were reworded. The items measured in the final questionnaire are reported in Table 1.

Data Collection

The questionnaire was administered to passengers of a major European airline. On randomly selected routes between Germany, Austria,

TABLE 1. Measures and Measurement Properties

Construct	Item	Factor Loading	Cronbach's α
Usage Level	Frequency of travel per year		
Service Pricing ^a	Evaluation of overall prices of Company X		
Service Quality ^a	Punctuality	.720	.808
	Cleanliness	.841	
	Evaluation of ground service	.801	
	Evaluation of flight crew	.835	
	Evaluation of flight schedule	.598	
Loyalty Program	Membership in the loyalty program: member vs. nonmember		
Complaint Dummy	Yes/no variable		
Handling of Complaint ^a	Satisfaction with handling of complaint		
Recommend ^a	Will recommend Company X to others		
Reuse ^a	Will travel again with Company X		

^aLikert-type scales used.

and Switzerland, passengers in randomly selected flights and seat numbers received questionnaires on their seats that they could complete during the flight. Of the 2,600 questionnaires distributed, we received back 1,001, for a response rate of approximately 38.5%. We excluded 13 responses because of missing data, so our total usable sample was 988.

We divided the sample into two groups: respondents who had experienced service failures and complained to the airline ($n = 230$) and those who had never lodged any complaint with the airline ($n = 758$). For the final analysis, we split the sample of complainers ($n = 230$) into satisfied ($n = 191$) and dissatisfied ($n = 39$) complainers.

Respondent Profiles

Most respondents were men who had attained at least tertiary education (see Table 2). In terms of age distribution, almost the half of the respondents were 35 to 49 years of age, and 32.2% were younger than 34 years. Most passengers were members of the airline's frequent traveler program and flew economy class. Seven of ten respondents were on a private trip. When

TABLE 2. Demographic Characteristics of Respondents

Characteristic	<i>n</i>	Total (%)	Complainers (%)	Non-Complainers (%)
Gender				
Male	696	70.4	78.7	67.9
Female	292	29.6	21.3	32.1
Highest Education Level				
Elementary School	20	2.0	0.0	2.6
High School	208	21.1	21.7	20.8
Apprenticeship	54	5.5	4.3	5.8
Polytechnic Diploma	131	13.3	13.9	13.1
Technical College	135	13.7	6.5	15.8
University Degree	440	44.5	53.5	41.8
Age Group				
15–26	101	10.2	5.7	11.6
27–34	219	22.2	23.0	21.9
35–49	440	44.5	47.4	43.7
50–65	197	19.9	20.4	19.8
≥66	31	3.1	3.5	3.0
Member Status				
Basic	207	21.0	19.1	21.5
Frequent Traveler	637	64.5	57.8	66.5
Premium	144	14.6	23.0	12.0
Class Traveled				
Economy	739	74.8	66.5	77.3
Business	249	25.2	33.5	22.7
Reason for Travel				
Private	679	68.7	81.3	64.9
Business	309	31.3	18.7	35.1

we compared complainers versus non-complainers, we found no significant differences for most of the demographic characteristics.

RESULTS

We used multiple regression analysis to establish the relationships between drivers of loyalty—usage level (i.e., frequency of travel), service pricing, service quality, membership in the loyalty program, and complaint handling—and behavioral intentions to recommend and reuse. After splitting the sample into complainers and non-complainers, we examined whether the different drivers were more important to either complainers

or non-complainers. Within the complainer sample, we examined whether the loyalty drivers differed for satisfied versus dissatisfied complainers (two-group analysis).

Model 1

When the dependent variable was recommendation, the R^2 for the first regression model was .25 (see Table 3), and several drivers were significant. The significant standardized coefficients (beta coefficients) were usage level (.14), service pricing (.26), and service quality (.33), which indicates that service quality and pricing were the strongest drivers of recommendation behavior. For reuse intentions, the most significant loyalty drivers were usage level (.24), loyalty member (.11), service pricing (.15), and service quality (.27); that is, passengers who flew frequently and were satisfied with service quality were more willing to reuse the airline in the future.

Model 2

After splitting the sample into complainers ($n = 230$) and non-complainers ($n = 758$), we ran regressions for each group (see Table 4). Among complainers, the most significant loyalty drivers for recommendation were usage level (.12), service pricing (.31), handling of complaint (.12), and service quality (.35). These coefficients show that service quality, followed by pricing, was the most important loyalty driver. For reuse intentions, the significant loyalty drivers were usage level (.16), loyalty member (.26), service pricing (.16), and service quality (.26).

For non-complainers, the most significant loyalty drivers, for both recommendation and reuse intentions, were usage level (.12, .16, respectively), service pricing (.31, .16), and service quality (.35, .26). These results confirm the importance of service pricing, quality, and usage level as drivers of loyalty.

Model 3

For the third model, we split the complainer sample into satisfied and dissatisfied groups (see Table 5). Unfortunately, the small sample size of the dissatisfied complainers ($n = 39$) provided significant results only when recommendation was the dependent variable. Among satisfied complainers, the significant results were similar for both recommendation and reuse:

TABLE 3. Model 1: Antecedents of Customer Loyalty

Dependent Variable	Independent Variable	β (Unstd.)	Beta (Std.)	p	R ²	F	Sig.
Loyalty: Recommendation	Constant	1.72		.00	.25	63.97	0.00
	Usage level	0.12	.14	.00			
	Loyalty member	0.04	.02	.57			
	Service pricing	0.20	.26	.00			
	Service quality	0.41	.33	.00			
Loyalty: Reuse	Complaint dummy	-0.28	-.13	.00	.17	38.85	0.00
	Constant	2.81		.00			
	Usage level	0.18	.24	.00			
	Loyalty member	0.18	.11	.01			
	Service pricing	0.10	.15	.00			
	Service quality	0.27	.27	.00			
	Complaint dummy	-0.12	-.07	.04			

Notes: Significant constructs are in bold. Unstd. = unstandardized; Std. = standardized.

TABLE 4. Model 2: Antecedents of Customer Loyalty (Complainers vs. Non-Complainers)

Dependent Variable	Independent Variable	β (Unstd.)	Beta (Std.)	p	R^2	F	Sig.
Loyalty: Recommendation	Complainers						
	Constant	0.02		.96	.30	19.78	0.00
	Usage level	0.13	.12	.05			
	Loyalty member	0.15	.05	.39			
	Service pricing	0.28	.31	.00			
	Handling of complaint	0.13	.12	.04			
	Service quality	0.53	.35	.00			
Loyalty: Reuse	Constant	1.91		.00	.20	11.77	0.00
	Usage level	0.13	.16	.02			
	Loyalty member	0.52	.26	.00			
	Service pricing	0.10	.16	.02			
	Handling of complaint	0.07	.09	.15			
	Service quality	0.29	.26	.00			
	Loyalty: Recommendation	Non-complainers					
Constant		2.18		.00	.19	43.78	0.00
Usage level		0.12	.15	.00			
Loyalty member		0.05	.00	.93			
Service pricing		0.17	.24	.00			
Service quality		0.36	.32	.00			
Constant		2.92		.00	.16	35.97	0.00
Loyalty: Reuse	Usage level	0.20	.27	.00			
	Loyalty member	0.10	.06	.12			
	Service pricing	0.09	.15	.00			
	Service quality	0.27	.26	.00			

Notes: Significant constructs are in bold. Unstd. = unstandardized; Std. = standardized.

TABLE 5. Model 3: Satisfied vs. Dissatisfied Complainers

Dependent Variable	Independent Variable	β (Unstd.)	Beta (Std.)	p	R^2	F	Sig.
Loyalty: Recommendation	Satisfied complainers						
	Constant	1.18		.05	.15	8.82	0.00
	Usage level	0.04	.05	.45			
	Loyalty member	0.36	.17	.02			
	Service pricing	0.11	.16	.04			
Loyalty: Reuse	Service quality	0.48	.32	.00	.19	11.59	0.00
	Constant	2.02		.00			
	Usage level	0.13	.19	.10			
	Loyalty member	0.47	.26	.00			
	Service pricing	0.07	.11	.13			
Loyalty: Recommendation	Dissatisfied complainers						
	Service quality	0.36	.28	.00			
	Constant	0.95		.48	.39	6.89	0.00
	Usage level	0.32	.25	.09			
	Loyalty member	-0.71	-.21	.15			
Loyalty: Reuse	Service pricing	0.77	.62	.00			
	Service quality	0.23	.15	.25			
	Constant	2.40		.08	-.01	0.94	0.45
	Usage level	-0.01	-.01	.98			
	Loyalty member	0.80	.30	.11			
Loyalty: Reuse	Service pricing	0.19	.20	.27			
	Service quality	0.08	.09	.60			

Notes: Significant constructs are in bold. Unstd. = unstandardized; Std. = standardized.

TABLE 6. Independent *t* Test for Satisfied and Dissatisfied Complainers

Variable	Satisfied (<i>n</i> = 191)		Dissatisfied (<i>n</i> = 39)		<i>t</i>	<i>p</i>
	<i>M</i>	<i>SD</i>	<i>M</i>	<i>SD</i>		
Service Quality	4.87	0.58	3.82	0.96	-9.10	.00
Service Pricing	3.32	1.24	2.18	1.14	-5.20	.00
Recommendation	4.65	0.88	3.13	1.40	-8.82	.00
Reuse	5.17	0.74	4.62	1.09	-3.88	.00

namely, loyalty member (.17, .26, respectively) and service quality (.32, .28).

Finally, we tested differences between satisfied and dissatisfied complainers using *t* tests (see Table 6). Satisfied complainers (*n* = 191) reported significantly higher (*p* < .01) mean values in service quality, service pricing, recommendation behavior, and reuse compared to complainers dissatisfied with complaint handling (*n* = 39).

IMPLICATIONS AND FURTHER RESEARCH

Complaints by consumers are a challenge as well as an opportunity. Consumer complaints expose the various flaws in service design and delivery and challenge the organization to engage in system-wide redesign of operations so that the underlying causes of the complaint do not recur. However, to engage in such responsive restructuring of the service, the firm must treat consumer complaints as opportunities. Service recovery through complaint handling is only the first step in winning back customers, but more efforts are needed to ensure that customers have no further cause for complaint. Thus, service recovery involves a lot more than simply addressing the immediate problems of a single customer; an effective service recovery program must address the underlying causes of the problem and ensure that similar problems and complaints do not occur (Michel et al., 2008). However, very few organizations have effective service recovery systems that go beyond solving the immediate problems (Michel et al., 2008).

Our empirical results show several interesting results. Whereas prior research has shown that only 5% to 10% of consumers complain (Tax & Brown, 1988), we found in our study that the proportion of those who

complained is as high as 23% (230 out of 988). The higher proportion of complainers could be due to the service experience of air travel, for which customer satisfaction typically is not as high as in consumer products industries. Compared with a base model of customer loyalty drivers, complainers are more likely to be frequent travelers. This result suggests that the more experienced the customer, the better he or she can evaluate the quality of the service. Prior research has also shown that complainers are likely to be knowledgeable, confident, and motivated to register a complaint (Stephens, 2000).

More important, we demonstrate the impact of various loyalty drivers on consumer intentions to reuse and recommend the service. Loyalty program membership has no significant bearing on these consumer intentions, though it affects the repeat use intentions of complainers. Although the results of a single study cannot provide a basis for sweeping organizational reform, our findings suggest that firms should reexamine their loyalty programs to evaluate whether the expenses involved in building and maintaining such programs are justified (Dowling & Uncles, 1997; Reinartz & Kumar, 2002).

Another interesting finding indicates that effective handling of complaints affects consumers' recommendation intentions but not their reuse intentions. This apparent discrepancy could occur because, in many cases, consumers have few alternatives for their service providers. In the service context of air travel in particular, consumers who frequently travel specific routes may have few other options.

Across the models examined (see Tables 3–5), service quality and service pricing emerged as the two most important drivers of customer loyalty. These results emphasize that service firms should incorporate appropriate value-based strategies to balance service quality with service pricing when they hope to acquire and retain customers and thereby generate appropriate profits.

Our small sample of dissatisfied complainers did not enable us to generalize the results we obtained for this subsample. Additional studies will need to draw a larger sample so as to generate a greater proportion of dissatisfied complainers. However, a more effective strategy may be to design the sampling methodology to ensure the adequate representation of both satisfied and dissatisfied complainers.

Further research also should examine the impact of various loyalty drivers on complainers and non-complainers. Consumer demographics such as income also affect complaining behavior (Stephens, 2000), and further links may exist among various consumer characteristics,

complaining behavior, and service contexts in which complaining behaviors are more or less common. Finally, the role of consumer involvement in complaining requires further clarification.

Further research on complaining would enable organizations to understand the contexts and characteristics of complaining behaviors as well as to gauge the effectiveness of their complaint management systems. Such research could focus on the links among complaint management, service design, and service delivery. Insights from such research would help firms use appropriate feedback from complaint management systems in their service redesign efforts. Service recovery leading to a redesign would reduce the incidence of complaints—not because consumers no longer care, but because they would have no cause to complain.

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