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service guarantee – A set of two promises offered to customers to pre-define the service standard and the compensation provided if the standard is not met.

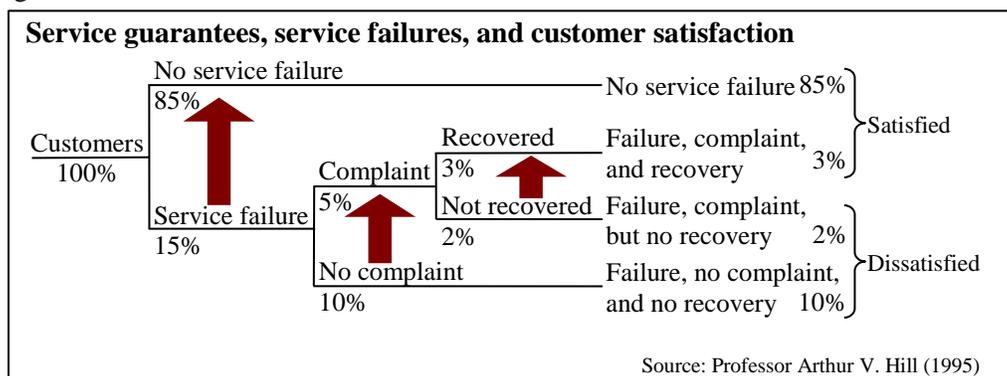
Overview – The first promise is the level of service provided and the second promise is what the provider will do if the first promise is not kept. Hays and Hill (2001) found empirically that a service guarantee often has more value for operations improvement than for advertising. A service guarantee is usually applied to organizations serving external customers, but it can also be applied to internal customers.

Benefits of a service guarantee – A carefully defined service guarantee can have many benefits:

- Defines the *value proposition* for both customers and employees.
- Supports marketing communications in attracting new customers, particularly those who are risk-adverse.
- Helps the service firm retain “at-risk” customers.
- Lowers the probability that dissatisfied customers will share negative word-of-mouth reports with others.
- Motivates customers to provide useful process improvement ideas.
- Motivates service firm employees to learn from mistakes and improve the service process over time.
- Clearly predefines the service recovery process for both customers and employees.
- Ensures that the service recovery process does not surprise customers.

Hill’s service guarantee model – Hill (1995) developed the figure below to show the relationship between a service guarantee and *customer satisfaction*.¹ The numbers in the figure are for illustrative purposes only. The three arrows show that a service guarantee can (1) increase the percentage of customers who complain (by rewarding them to complain), (2) increase the percent recovered (by having a predefined service recovery process and payout), and (3) increase the percentage satisfied (by motivating learning from service failures).

Organizations should never try to increase the percentage of dissatisfied customers, but they should always try to increase the percentage of dissatisfied customers who complain (i.e., they want to hear all customer complaints). Service guarantees therefore inflict “pain” on the organization, which motivates the organization to learn faster.



Risk of a service guarantee – Service guarantees are not without risk (Hill 1995). Offering a service guarantee before the organization is ready can lead to serious problems. Announcing the

¹ This diagram was motivated by a private conversation with Ron Zemke around 1989 and by the Bell and Zemke (1987) article.

withdrawal of a service guarantee is tantamount to announcing that the organization is no longer committed to quality.

Service Level Agreement (SLA) and warranties – See the [Service Level Agreement \(SLA\)](#) entry for a comparison of service guarantees, SLAs, and [product warranties](#).

See [brand](#), [buy-back contract](#), [caveat emptor](#), [customer loyalty](#), [downtime](#), [durability](#), [low price guarantee](#), [performance-based contracting](#), [response time](#), [risk sharing contract](#), [service blueprint](#), [service failure](#), [Service Level Agreement \(SLA\)](#), [service management](#), [service quality](#), [service recovery](#), [SERVQUAL](#), [value proposition](#), [warranty](#).