

## Exploring spillover effects of post-sale services in vertical service delivery networks

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# EXPLORING SPILLOVER EFFECTS OF POST-SALE SERVICES IN VERTICAL SERVICE DELIVERY NETWORKS

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## SUMMARY

Providing post-sales service is an important element of a manufacturer's customer relationship strategy as it helps tie customers to the manufacturer and its offerings. In order to provide higher service quality and realize cost savings, manufacturers increasingly outsource the provision of post-sale services to a network of designated channel service partners – independent specialists that provide services to buyers of the firm's products. For instance, in the automobile and other industries, manufacturers assemble a network of dealers who function as the primary point of customer contact when post-sales service is requested.

In such service systems, customers transact business with, form relationships with, and hold attitudes toward both the manufacturer and its channel service partners. Because the customer interacts more frequently and more directly with the downstream service partner than with the manufacturer, a manufacturer that establishes such a network of service partners cedes considerable control over customer relationships to those partners. Consequently, the manufacturer-customer relationship becomes highly dependent on service partners' strategies and tactics, leading to significant interdependence between the manufacturer and service partners.

Although such service partners are extremely important to the firm's ability to serve and satisfy its customers, little is known about how the actions of a downstream service partner can impact the manufacturer-customer relationship. For example, if a customer receives great post-sales service and attributes that service to the manufacturer's policies and influence over the service provider, customer loyalty to the manufacturer will be bolstered. On the other hand, if the customer credits only the service partner for that quality service, customer loyalty to the manufacturer could be severely undermined.

Surprisingly, firms often focus predominantly on their sales relationship with the customer, neglecting or placing less emphasis on managing the customer-service partner relationship. In this paper, we focus on spillover effects – the effects on customer relationships with the

manufacturer that arise from the strategies and tactics of the manufacturer's downstream service partners. The type and magnitude of spillover effects are important, for they significantly affect the success of customer relationship management.

In a natural experiment based on data from tracking study of 40,000 automobile owners spanning a large set of premium and volume automobile brands, we find a positive spillover effect of service initiatives provided by a downstream service partner on relationship quality between a manufacturer and its customers. To control for confounding factors which may arise in natural experiments due to the lack of random assignment, we apply propensity score matching to develop matched sets for comparison across experimental conditions.

In addition to testing the spillover main effect, we also examine moderating factors that could enhance or inhibit the upstream spillover of service partner efforts on manufacturer-customer relationships. We detect a positive interaction between system entitativity and spillover. In other words, if customers perceive that the manufacturer and service partner operate as a cohesive entity, spillover is reinforced. Moreover, we also find a negative interaction between brand equity and upstream spillover. Brand equity significantly inflates customer expectations regarding service performance, so as brand equity increases it becomes progressively more difficult to exceed customer expectations, thereby suppressing the spillover effect. Finally, we examine the impact of service in a product failure situation. Consistent with research demonstrating a service recovery paradox, upstream spillover of post-sales service is greater when service is provided in response to product failure than when service is provided in routine, non-failure situations.

Our study offers important managerial implications, providing guidance as to *whether* and *under what circumstances* channel service partners are perceived as representatives of the manufacturer. Our findings suggest that promoting system entitativity by exclusive dealing, joint manufacturer-service partner promotions or co-branding promotes spillover effects between the manufacturer and the downstream service partner. Moreover, manufacturers of low-equity brands reap the greatest "bang for the

buck” if service partners deliver high-level services. Finally, we offer new insights for resource allocation in service delivery networks, as our results indicate that spillover effects of a partner’s service efforts can be leveraged when they are provided in response to a product

failure situation. Specifically, when high-level service efforts are provided in a recovery episode, their positive spillover effect on the manufacturer is increased by one-fourth over the impact of high-level service provided in a routine service context.

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