Failure demand – how part of the total demand can become a burden

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Abstract

The purpose of this exploratory paper is to increase our understanding about demand. In general terms demand can be divided into two categories - positive demand and negative demand. Positive demand generates business, whereas negative demand can mainly be seen as a cost. In service marketing literature these two categories have been named as value demand and failure demand. The original concept of failure demand is quite company grounded. In this paper we have broadened the concept to cover also customer actions by introducing a supplemented definition. The existing service marketing literature provides limited guidance for coping with failure demand and, therefore, we identify different types of failure demand. Methodologically the topic is approached through an exploratory focus-group interview and three theme-interviews. The empirical results indicate clearly that there is a need for new approaches and that the customer processes and procedures must be constantly assessed and improved. Service capacity problems and communication seem to be the biggest causes for failure demand. Even though customers may carry some responsibility, the general perception among them seems to be that it is purely company´s task to avoid failure demand. Managerially it seems to be beneficial to be aware of one's demand structure and to develop one's customer processes on a constant basis. Additionally, customers must be guided towards the most suitable channels. The study as a whole underline the importance of developing our thinking regarding the demand

Introduction

Existing demand is the foundation of all business as it legitimates the supply. A general misunderstanding, however, is that all demand is positive from a company´s standpoint. The existing service marketing literature already makes a division into positive and negative demand: value demand (see Seddon 2005: 26, Teehan & Tucker 2008: 178) and failure demand (see Seddon 2005: 26, Teehan & Tucker 2008: 178). The value demand generates business, whereas the failure demand can be seen as a cost. Failure demand was mentioned for the first time in the early 1990´ies (Seddon, 1992), but since that there has been surprisingly little academic research about it (Morris & Valley, 2021). That is quite astonishing when one pays attention to the fact, that the general assumptions regarding the extent of failure demand are as high as 40-70 % and in some rare cases up to 90 % of the total demand (Marr & Parry, 2004: Seddon & Brand, 2008: Teehan & Tucker, 2010: Jaaron & Backhouse, 2014).

The generally adopted definition for failure demand is ´demand caused by a failure to do something or do something right for the customer´ (Seddon 2005, 26). The definition is quite company-oriented, and it really does not take the other part, the customer, into consideration as an active party. Failure demand can solely be based on customer actions, which is not covered by the current definition. Therefore, in this paper we have broadened the concept of failure demand to also cover customer activities. We suggest a supplemented definition for failure demand as follows.

> ´Failure demand is demand caused by a failure to do something right for the customer or by a failure in the customer perception or actions regarding the company´s products and services´.

This new definition covers both company activities and customer activities. In practical situations both parties most likely contribute to the development of failure demand. After all, demand can be characterized as a co-product and an outcome of somebody wanting something and somebody being able to supply it.

It´s obvious that all companies should avoid failure demand. Any activity, which does not produce value for the customer or for the organisation should be eliminated. Further, the existence of companies is legitimized by producing value demand (Seddon, 2005: 26). One can also assume that larger share of value demand has a positive impact on the company (Kjoller & Rasmussen, 2017). However, in operative situations it seems to be rare to pay any attention to different kinds of demand and to the business outcomes of them. To strive for an increased share of value demand, one must understand the phenomenon demand and be able to communicate it to right stakeholders (Seddon & Brand, 2008: 8: Porru, 2019: 22). One can also assume that as companies are in a constant struggle to improve customer satisfaction, efficiency and profitability, their own perception about customer demand may not correspond with the reality (Porru, 2019: 24). Understanding failure demand can be a small yet decisive element creating additional competitive advantages for a company.

Failure demand may have become a substantial part of the company´s total demand without anyone paying attention to it. Macomber et al (2018: 2) underline the importance of categorizing demand – and especially failure demand – to find right measures for right problems. Therefore, they recommend that work that results from failure demand needs to be recognized and the sources of failure demand need to be identified. From the customer point of view, it is obvious that all customers expect value. If this is not the case, failure demand starts accumulating from company's own actions as the company fails to do something right for the customer (Sheddon, 2005: 26). One must actively try to understand demand, be aware of both value demand and failure demand and try to develop practices and procedures to minimize failure demand and maximize value demand.

From the business point of view eliminating failure demand is vital. Seddon & Caulkin (2007: 19) state that it is the most substantial device for improving capacity and efficiency. As organizations understand their customers´ wishes and underlying motives, they are more prepared to provide service quality on a higher level. Also, the customers need to be guided and ´trained´ to be able to operate according to the company procedures and processes. It is also healthy to remember that customers are not always right (see Maki & Kokko, 2013: 332).

This paper has two explicit aims: Firstly, to discuss the concept of demand, and, secondly, to investigate the nature of failure demand. At first, we discuss demand in general terms followed by a more detailed discussion about failure demand. After a brief methodological overview, we test our thoughts operatively with the help of exploratory focus-group interviews and theme interviews - and then discuss the findings. Finally, we present some managerial implications and ideas for further research. Our aim is to keep this paper on an exploratory level and, further, to pay special attention to operational guidance for companies to make it possible to decrease the volume of failure demand. In all, this paper aims to provide tools to increase the general business efficiency of any company. Decreasing the volume of failure demand may be a decisive gain in the company profitability.

The contribution of this study is twofold. Firstly, we contribute to the conceptual theory development and, secondly, we contribute to the managerial thinking regarding the concept of demand. This study has also some limitations. The empirical part is limited, and our aim is only to provide some preliminary insights, Further, there may be differences between different lines of business. These are not discussed in this study.

Literature review

Demand

Customer demand can be defined as ´an insistent and peremptory request that is made by one party to another´ (Seddon 2005: 26). In practice demand means that somebody wants or needs something that the supplying party can provide. From a company´s perspective demand either already exists, or it is created by introducing new products or services on the market. In the complex and technologically rapidly developing world the latter category has been accentuated during the recent years as customers do not always know what they want.

The traditional view is that all demand is positive from a company´s standpoint. However, several authors challenge this traditional view and suggest that demand can be divided into positive and negative demand – value demand and failure demand (see Arfmann & Barbe, 2014; Jaaron & Backhouse, 2014; Seddon, 2005; Seddon & O´Donovan, 2010a; Seddon & O´Donovan, 2010b; Teehan & Tucker 2008).

One can also assume that increased digitalization and e-commerce has had an impact on demand patterns and made them more complex. Digitalization has drastically improved the global access to

products and services; hence it offers interesting strategic, and even global opportunities (see Abaidi, & Vernette, 2018; Gronroos, 2016). Paradoxically, digitalization has also increased the mental distance between the company and its customers. In other words, transactions between companies and their customers include less human contact, which puts additional stress on company procedures, practices and service design.

Demand can also be divided into realized demand and latent demand. Realized demand represents what consumers do or consume, whereas latent demand represents potential usage (Long & Axsen, 2022). The same authors (p. 1) define latent demand as ´stated intention among consumers to use or purchase [a technology] in the future´. It is obvious that failure demand can only take place in connection with realized demand as the customer takes actions and there is some kind of transaction between the customer and the company. Whether that transaction leads into business are beyond the scope of this study.

It is of great importance for any company to understand what kind of demand it faces (Seddon & Brand, 2008: 9). Usually, when everything runs smoothly and transactions take place without any friction, the demand can be characterized as value demand. However, immediately when there is friction either from the customer part or from the company part, the probability for failure demand increases.

Failure demand

Failure demand represents the negative demand being the opposite of the positive demand, value demand. The sum of failure demand and value demand represents the total demand and, therefore, is the total workload of a service organisation. Reducing failure demand means shifting the company efforts towards actions that customers really want rather than actions the organisation has inflicted on its customers or users. These are actions, which neither the company nor the customers want (Kjoller & Rasmussen, 2017). In this paper we use a bit broader definition than the original one (Seddon, 2005: 26). Our supplemented definition is ´failure demand is demand caused by a failure to do something right for the customer or by a failure in the customer perception or actions regarding the company´s products and services´. It aims to highlight the two important sources of failure demand – company´s inability to do the right things for the customer and customer-originated problems due to wrong perceptions, misunderstandings and explicit mistakes.

On a general level demand can be divided into four categories as follows.

Customer-originated failure demand	Value demand	Company doing right things for the customer
Limited or non-existing possibilities for the demand to be realised	Company-originated failure demand	Company not doing right things for the customer
Customer having a wrong perception about the company and its offering	Customer having a truthful perception about the company and its offering	

Table 1. A demand-typology

The table illustrates a typology, where demand is divided into four prototypes: Customer-originated failure demand, Company-originated failure demand, Situation with limited or non-existing possibilities for the demand realisation and the ideal situation, Value demand. As this is a purely theoretical classification, it is obvious that most practical situations include elements from several categories, and the boundaries tend to be extremely blurred.

The extent of the failure demand varies depending on the industry. Some organisations experience up to 85 % failure demand, but 40-70 % failure demand seems to be the standard in customer service centres. (Kjoller & Rasmussen, 2017) In other words, we are dealing with a huge and impactful phenomenon. Seddon (2009: 34) states that 'In service organizations failure demand often represents the greatest lever for performance improvement'.

Kjoller & Rasmussen (2017: 5) name three explicit benefits of eliminating failure demand. First of them is significant cost savings as operational excellence initiates focus on ensuring right kind of resource utilization and making the work more efficient. Secondly, customer experience is improved as there are

less unclear and ambiguous instructions, wasted time waiting on the phone is minimized and there is overall satisfaction with the product/service delivered by the company. This customer experience improvement has a direct positive impact on colleagues and co-workers as there is less need for solving customer problems. Thirdly, employee motivation is boosted as less time is used dealing with frustrated customers or colleagues.

Porru (2019: 35) states that the only way to prevent failure demand is to discover it from the system that is plagued by it. Teehan & Tucker (2010: 179) suggest three steps, which form the discovery process: understanding failure demand, capturing failure demand and categorizing failure demand. For the categorization Macomber et al (2018: 4) suggest a 5-whys technique. That technique is based on the idea that an explicit failure demand action is analyzed by asking five consecutive "whys" to get to the root cause of the failure. This indirect method may help us to dig a bit deeper in search of operational quality. Jaaron & Backhouse (2016: 952) call for a continuous discovery of failure demand as this enables the organization to find out the volume of failure demand in relation to the total demand.

In all, failure demand as a phenomenon seems to be quite hard to tackle due to its complex and abstract nature. In most cases we are aware of its existence but at the same time we really do not have tools to operationally avoid it. Quite often value demand and failure demand are bundled together and for that reason companies prefer to look at the total demand instead of separating between the different types of demand. However, most practitioners already understand that it is beneficial to strive for high quality, efficiency and good customer service – which all are typical characteristics of value demand. Several authors also argue that more emphasis should be laid on service design in order to boost these positive characteristics (see Yu & Sangiorgi, 2017; Heinonen, Strandvik & Voima, 2013; Zeithaml, Bitner & Gremier, 2013; Den Hertog, Van Der Aar & de Jong, 2010; Brown, 2008 and Matthing, Sanden & Edvardsson, 2004). In sum, reducing failure demand yields benefits for the organization, its employees, and its customers alike.

Service researchers and practitioners have increasingly embraced the viewpoint that customers are active resource integrators (Dong & Sivakumar, 2017). In other words, companies and customers integrate resources to advance customer well-being. Ple (2017) defines the integration shortly as a trade-off between benefits and costs, where customer "costs" are not just money but also time and effort. In a failure demand situation, however, both company and customer resources may be wasted without a desired end-result. Resource integration takes place when customers participate in service production. We use term 'customer participation' because it depicts both active and passive participation. Moreover, term customer participation has resulted in less confusion than other related terms, like co-production (see Dong & Sivakumar, 2017). In case of failure demand, we need to focus on both customers' and companies´ resource utilization during the service encounter. Unproductive resource use is an attribute and consequence of failure demand. Customers may typically interact with service providers through different digital touchpoints throughout their customer journey (Hallikainen, Alamaki & Laukkanen, 2018). It is obvious that the risk of failure demand is likely to increase in the modern digital and omni-channel service environment.

The failure demand research stream is closely associated with two central organizational functions: customer orientation and operational productivity. Customer orientation refers to the extent to which organizations and their employees are committed to identifying and satisfying customer needs (Zhao et al., 2023), whereas productivity generally concerns the relationship between resource inputs and outputs. Parasuraman's (2010) service productivity model acknowledges both organizational and customer perspectives on productivity, emphasizing that both parties contribute resources to the service production process. In the context of failure demand, however, the allocation of these resources may become highly inefficient, thereby undermining both customer orientation and the overall productivity of service operations. At the following, the methodology of this study is briefly presented.

Research Methodology

In our study we applied a qualitative approach to gather and analyze data. This methodological approach is especially suitably when there is an aim to study a particular subject in depth (Myers, 2013). The data collection of the study consists of two parts. First, we conducted an exploratory focus-group interview to explore the existence and nature of failure demand. Altogether 12 undergraduate business students took part in this phase, which was conducted digitally via Zoom. Secondly, we conducted three

theme interviews to study the phenomena more in-depth. Interviewees were service business managers and specialists. The theme interviews were carried out as follows:

Business type	Position	Date	Time
Social services in the third sector	Service specialist	Nov. 2024	40 min.
Congresses & events	CEO	Nov. 2024	45 min.
Retail sales of clothes	Store Manager	Jan. 2025	40min

Table 2. Theme interviews data collection

The interview themes were derived from the theory, where we used Parasuraman's (2010) work for resource integration, Seddon (2005) for failure demand and Kokku (2021) for channel and productivity issues.

Our analysis followed the aims and framework of the study. With data coding approach (Myers, 2013) our aim was to identify themes and to increase our understanding of failure demand characteristics. A loose coding list was created and used as a basis for the interview analysis. This kind of approach helps to handle data overload (see Miles & Hubermann, 1994). The data was categorized according to a loose list derived from theoretical discussions.

Quinton and Smallbone (2006) suggest that external validity in qualitative research should be evaluated in terms of the transferability of findings to other contexts and their continued relevance beyond the original research setting. Previous studies have demonstrated that failure demand phenomena occur across multiple service industries. In addition, the qualitative interviews conducted in this study involved professionals from a variety of service sectors. Taken together, these factors indicate that the study possesses an acceptable level of external validity.

Furthermore, Miles and Huberman (1994) introduce the concept of pragmatic validity in qualitative research, emphasizing that the value of research findings should also be assessed according to their practical usefulness and applicability. As failure demand substantially affects the productivity and operational performance of service organizations more broadly, findings related to this phenomenon are likely to provide practical benefits for companies across different service contexts.

Findings and discussion

In the following some empirical quotations are presented in the demand typology -format. After that the findings are briefly presented in five different blocks. All blocks include descriptive interview excerpts to provide empirical support to the findings.

Customer-originated failure demand 'Home delivery of flowers came, but no-one was at home.' 'A customer is calling an insurance company because she did not understand the reimbursement.'	Value demand 'In most cases everything works fantastically.'
Limited or non-existing possibilities for the demand to be realized 'The salesperson´s information about the delivery time did not match with the transportation company's information about the timetable.'	Company-originated failure demand 'Customers are waiting in a restaurant, but no-one is serving a table.' 'I tried to close my telephone line after business hours, but no-one is answering the phone.' 'A restaurant ran out of clean glasses and could not serve drinks to customers.' 'Government service is congested because customers are asking about documentation….' 'Home delivery service did not bring the goods on time.'

Table 3. Empirical micro episodes in a demand -typology format

The focus group analysis indicated that most of failure demand incidents took place within the company domain. Service capacity problems and communication issues were the biggest causes of failure demand. Companies have all reason to assess critically their own processes and procedures.

The prevalence of failure demand in service companies

According to the analysis, failure demand is a real challenge to service companies. The amount and occurrence varied in different service industries.

´Yes, it is quite a common situation, it relates to our production; customers let us know too late about the requirements and wishes…´

´Especially in our chat-service, this is typical. Customer service clerk notices that she has discussed a certain topic with the customer. Sometimes the customer approaches us several times and other clerks may come up with contradictory solutions.'

The challenge seems to be that failure demand is perceived as a natural part of companies' operative processes. There is a clear lack of tools to deal with the phenomenon.

Reasons and reactions for failure demand

While failure demand indicates that the customer receives partial service, wrong service or no service at all, it is likely that the empirical results reflect that as well. Most typical reasons for failure demand were service capacity challenges, communicational issues and simple misunderstandings.

´Reason could be that our processes are not well planned. Some employees write something down and then perhaps something else to the CRM-system. Some employees do not write anything down. Our approach is simply inconsistent.'

´The processes should be lean, and they should enable us to handle customer wishes and needs in a constructive way. That is not always the case.'

It's obvious that we must pay more attention to failure demand. Also, an analytical approach is needed to understand the problematic.

Failure demand in different channels and waste of resources

Failure demand takes place in different service channels. In general, Omni-channel structure is recommended in general as it is a clear customer focused channel design structure. Customers can be in contact with companies through the preferred channel. However, the channel preferred by the customer may be quite resource intensive. Therefore, customers should be gently guided towards 'right' channels.

´Failure demand is typical in our chat-service and on phone; we have three people who answer to customer service requests. Our goal is a mass-approach rather than providing individual guidance to our customers.'

´Well, it can happen that a customer visited the premises (for a company event) and told them what she wanted. Then she sends an email summarizing her wishes and we end up discussing the same things over again.'

´Failure demand situations eat up our service resources, but that is part of the game.'

´I think that about 10-15% of our resources are lost in different kinds of failure demand situations.'

Our findings indicate that the increasing Omni-channel structure in companies seems to increase failure demand. Therefore, analytical and critical channel management is gaining in importance.

Customers´ role in failure demand situations

While customers participate at all service encounters, they have a central role also in failure demand situations. One can say that customers bring uncertainty to service encounters and that is even more critical in failure demand situations. However, the general customer perception is that the company carries the full responsibility for avoiding failure demand incidents. In other words, the customers do not actually see their own role in co-production.

´Customers have a critical role in failure demand; they should give us answers to our questions and to open issues three weeks before the event, but they wake up just a day before; it is the corona time….'

´All channels and processes should work seamlessly together…, to get customer response and required information takes too much time…., it´s extremely annoying and it burdens both customers and our service personnel.'

As customers' active role seems to be accentuated in most service encounters, more communication about their role is needed. The division of labour must be clear.

Strategies to avoid failure demand

From the resource utilization point of view, service companies should have an idea, how to tackle unwanted service encounters. Focus group interview revealed also ideas on how companies should act to avoid failure demand situations. Interestingly, practically all ideas and measures were company originated. Customer-originated actions, like co-creation activities or customer participation modifications or development, were not mentioned:

´Phone calls that make sure that someone is at home when delivery is coming.'

´Clearer content and more structured information for the customers.'

´Service development to fulfill customer needs.'

´More employees to serve the customers.'

In all, it seems that failure demand incidents are quite common in service-companies. Reasons for that can be found both from the companies´ unclear service offering and/or processes and from the customer misbehavior. At the same time companies seem to underestimate the resource waste caused by failure demand. It´s also possible that companies ´forgive´ their customers misbehavior and focus solely on customer experience. This kind of approach, however, may lead to increased resource waste and it may even prevent the further development of the channels.

It became also very clear that customers mostly feel that the company carries the responsibility for any failure demand, and they don´t see the potential problems caused by the mistakes they have made in their own co-producer role.

Theoretical and practical conclusions of current study are clear. In sum, failure demand has several consequences for both companies and customers. Firstly, both service interaction parties waste resources in failure demand situations. Secondly, company's customer service channels may be jammed because of excess amount of useless customer contacts and thirdly, this will lead to lower customer satisfaction and additional costs for companies. From the customer perspective, value destruction may take place when the service level falls below customer expectations (see Ple 2017). The named situation also poses a serious productivity challenge to companies. As Parasuraman (2010) defines service productivity as resource input and outcome ratio in service domain, failure demand wastes all participants' resources without a clear service outcome.

Finally, failure demand touches also modern Omni-channel service design where customers may acquire service on a preferred channel. While the basic idea of multi- or Omni channel service design is to deliver value to customers (Kokku, 2021), there is a danger that Omni-channel service system decreases both customer and company value. Without cross-channel dialogue and data flow, value may not be added, and problematic issues are discussed from the very beginning in different channels. Current study underlines the importance of a clear customer journey design analysis in all service channels.

Managerial implications and directions of future research

Managerially a lot remains to be done. It is quite clear that companies should try to understand the structure of their demand and the difference between value demand and failure demand. In addition, companies should assess and develop their own customer processes and procedures on a constant basis. The management should pay attention to optimizing customer´s role and participation in service settings, optimize service channel structure and resource utilization. Some re-thinking is needed, and company development should be carried out based on an outside-in -approach. Customers must be involved in such a development. Our study also indicated that companies seem to underestimate the volume of failure demand.

It is also advisable to actively guide customers so that they choose the right channels. The 'right' channel is one that works and is also preferable from the company point of view. The guidance, however, must be carried out in an implicit way as customers seem to prefer to be on the top of things.

As an idea for further research the authors suggest in-depth operative research analysing different attributes and features in failure demand situations. More research is needed about this creeping phenomenon, which in a way can be compared to hypertension among humans. It develops in silence, and the symptoms accumulate over time – but there is treatment available.

In all, this study underlines the importance of both conceptual development and pragmatic managerial thinking. Hand in hand they help us to understand the logics of demand – the meeting zone of customers and companies.

As a final reflection, this study has made us more alert in our customer-oriented thinking. Companies should be more analytical and selective as they operate with different kinds of customer categories, where the business logic may be quite discrepant.

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