**Executive Summary**

That service failures are unavoidable is now a fact accepted by both companies and customers. While service failures are inevitable even for the most customer-oriented companies, to some extent they can control their reaction to such events. In fact, the inappropriate handling of a situation would significantly discourage the affected customers from returning, causing financial loss for the company. The vital question here is “what is *the right* compensation that should be offered under different circumstances?” An effective way of addressing this question is to apply the *resource exchange* theory whereby an attempt is made to match the resource lost as a result of the failure with the resource offered through the recovery (e.g., *refund* for overcharging). However, in practice, due to the nature of complaints or certain strategic decisions, companies cannot always, or choose not to, follow this resource matching advice. Instead, many firms offer a mix of matching and non-matching resources when recovering a service failure, with some firms addressing the majority of complaints by offering the same compensation (e.g. store credit or refund). We investigate whether this blanket approach delivers the desired outcome in terms of *retention* and *profitability*, and what needs to be offered under matching and non-matching circumstances to optimize retention and long-term profitability. To this end, we propose a framework (i.e., Mix&Match) for appropriate and tangible compensation under different service failure scenarios.

Our empirical findings suggest that when using tangible compensation to deal with goods- and service-based complaints, in order to increase retention and long-term profitability, the best approach is to offer, where possible, matching resources on both sides of the exchange (e.g., redelivery for goods complaints) and to choose the recovery resource with the greatest flexibility and universally-accepted value when offering non-matching compensation (e.g., money for service complaints). Those companies that use a mix of matching and non-matching compensation as their complaint recovery strategy, are strongly advised against deviating from the normative model of matching resources, where possible, as it damages customers’ lifetime value. Moreover, for companies that adopt the blanket approach of offering monetary compensation for the majority of complaints, our findings indicate that the offering of store credit (as opposed to refunds) is the best way to secure customers’ long-term value.