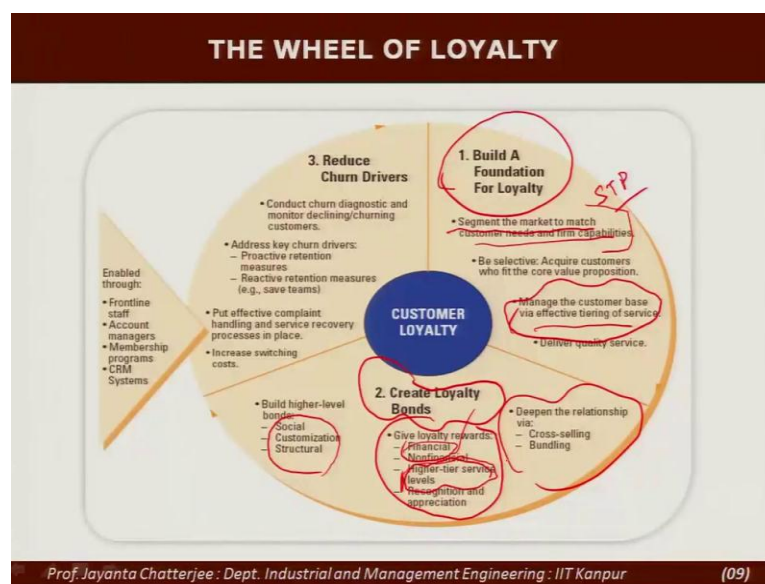


**Managing Services**  
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**Lecture - 42**  
**Loyalty – Relationship**

Hello, we are discussing about developing long term relationship with service customers and the importance of the journey from service loyalty to customer advocacy.

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This particular diagram which is in front of you puts together all the points that we discussed in the last couple of sessions. So, let us go through this diagram stage by stage. So, this is called the wheel of loyalty, this is also taken from the text book and in the text book, this is at page number 355 and we will, it is described in much more detail there and you must read. But, at the moment let us look at the different parts.

First is building a foundation for loyalty, this is an important point I think I might not have discussed it in the previous session that when you are developing a loyalty strategy, you have to go hand in hand with your Segmentation, Targeting and your value Proposition strategy, which we call the STP of services marketing. Because, particularly if you remember I had also discussed that the relationship is very important for companies at the early stage.

So, for startups, for at the beginning of the life cycle of organization, these relationships are highly, highly valuable much more valuable than at the declining stage or at the saturation stage and it is difficult to create relationship with a large variety of customers. You can only do that when your organization is also grown to a size, where different types of customers can be handled with different levels of service. So, initially it is very important to have a clear cut segmentation strategy.

So, segment the market to match the customer needs and organizational capability. Later on when you have the, you know number of different departments and so on, at that time you can handle a much larger customer base with different tiers of service. So, some authors have talked about this **tiering** has platinum, gold, silver, iron and so on. But, today I would say that instead of looking at it in that fashion you can have a much simpler division of, like it happens on flight sometimes.

So, you can have an economy, economy prime and business and first class type of three tier segregation will be good. But, before the three tier segregation comes much later, when you have different types of offerings and different segments of market that you are serving, initially it is important to focus on one segment and very clear cut offering, matching the requirement of that particular segment that is the foundation, where you start building loyalty.

Then, in the next stage you try to create loyalty bounds, this bounds as we are discussing can be different types, it can be social, it can be customization, it can be structural and we will discuss it a little bit more later in this session. Obviously, there must be rewards, there must be given take therefore, as you are continuously getting their business, you must also develop, give more and more facilities rewards to the customer. So, it can be financial, usually this is not the case, but of course, there are some cash backs or coupons, etcetera.

So, normally you actually as you develop the relationship as you have a longer term relationship, you move the customer to a higher tier of service level. So, if you have a gold card and if you have a silver card, then you go to a gold card, if you have a gold card, then you go to a platinum card and the same thing has happened in credit card or banks quite successfully.

And I wish now other service providers like say mobile, telephony companies, etcetera will adopt a way to reward their long term customers and bringing those **tiering** processes and possibly that will be a way to reduce their charm and depend the relationship via cross selling and bundling. This happens in mobile services in developed countries, already an India it is yet to come in a big way, but I am sure it will be soon in appearing.

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**TARGETING THE RIGHT CUSTOMERS**

- Target the right customer ✓
  - How do customer needs relate to operations elements?
  - How can service personnel meet expectations of different customers?
  - Can company match or exceed competing services that are directed at same types of customers?
- Focus on number of customers served and value of each customer
  - Some customers more profitable than others in the short term
  - Others may have room for long-term growth
- "Right customers" are not always high spenders ✓
  - Travel at IITK
  - Can be a large group of people that no other supplier is serving well

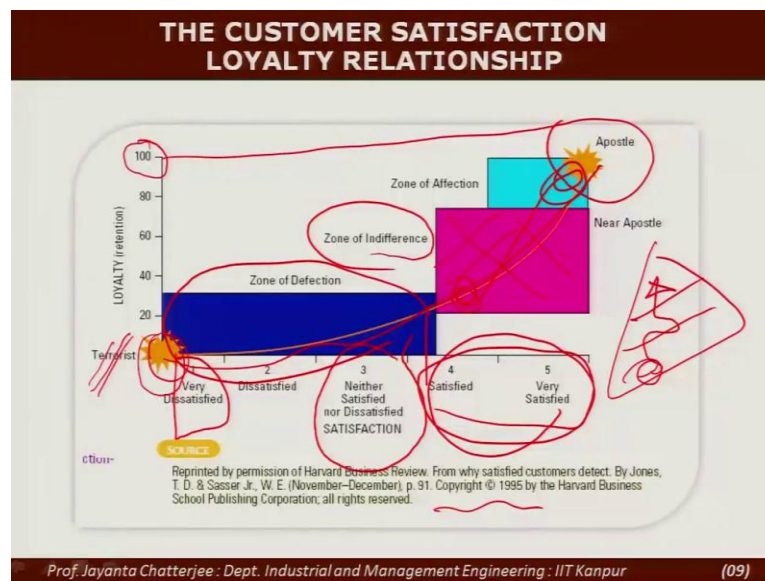
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So, target the right customers and focus on number of customers served in value of each customer and this right customer is important to know that the right customers are not always the high spenders. For example, a travel agency serving IIT, Kanpur has to know that the student customers who are big in number, they are not high spenders, but they can be regular customers, similarly if the faculty and so on.

Therefore, instead of looking at individual ticket value, such customer should be evaluated on the basis of their long term life time value. So, a student customer who is staying here for 4 years, 5 years can bring in a lot of business if the relationship is good and he is not the customer, he is not going away and start using some web based service. So, there is a travel agent on the campus and it is when that person that company recognizes the kind of requirements of the student customers and create value packages, matching that kind of requirement, then even a low per transaction value customer can become a very high value customer cumulatively.

So, therefore, it is important to know that the right customer is not always the high spender, can be a large group of people also that no other supplier is serving well. So, this is what, is this whole strategy about services at the bottom of the parameter that is another important one. Recognize the nature of your customer, recognize that they are frequency spenders rather than one time large spender and accordingly create your value proposition. So, this is the issue about targeting.

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This is an interesting research that I again share with you from 1995 which we are and this research shows that the customers can be put across this zone. So, there are if this is the loyalty and retention, so at the 100 percent retention level you have this apostles are your advocates and at the zero loyalty level, this is not may be a right terminology today, I mean you have, customers who are not at all important to you.

Obviously, the customers who have no relationship you want to move them to this relation, this is the same diagram that I showed you in a little while earlier by my pyramid approach, where from here I want to go to this level. That is the same diagram shown here in a different manner that understanding that customers who are between the very dissatisfied to neither satisfied, nor dissatisfied this is the zone where the customer may switch, so this is called the zone of defection. It is only when we have crossed the zone of defection, we are still to cross the zone of indifference.

So, there is a this pink thing that you have in front of you, which is the block between satisfied and very satisfied. This is the domain from where we may be able to develop some customer relationships to the level of advocacy. So, obviously, therefore, this the three things that you should notice here, one is that it is a journey and it is a continuous process by which the relationship needs to be upgraded, it does not automatically happen, it has to be managed. And particularly as you go towards the right side of this diagram, it becomes tougher and tougher to create the bonds of different types. So, that the customer goes from this point to this point.

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**STRATEGIES FOR DEVELOPING LOYALTY BONDS WITH CUSTOMERS**

- **Deepening the relationship**
  - **Bundling/Cross-selling services makes switching a major effort that customer is unwilling to undertake**
  - **Customers benefit from consolidating their purchasing of various services from the same provider**
    - **One-stop-shopping, potentially higher service levels**
    - **Higher service tiers, etc.**

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So, the relationship deepening can be done in various ways by bundling different other services. So, many mobile companies abroad in developed economies and I think soon it will happen in India too, they actually provide you handsets along with a subscriptions. So, handset you get almost free as long as you take a 5 years subscription and so on and they often reward the customer who are more higher users by voluntarily upgrading their handset, the mobile set.

And then therefore, if you are a heavy user of course, the price of the handset is build into the monthly bill that you are getting. But, it gives a good feel that when a customer automatically gets the next higher model of the phone, because of the personage that he or she is providing by regularly using the service. So, this kind of bundling, cross selling of services, it makes a switching from that customer that service provider to another

service provider a difficult task and therefore, as I discussed once before that loyalty often starts with inconvenience of switching.

So, you have to create these structural bonds by which you are able to make the customers life easier and switching more difficult. And of course, the customers also have some verified, because they have one stop shop. So, now a days there are many other services like video content delivery, different kind of news and other content delivery, some of the mobile companies are now already experimenting with a bundling in content delivery services. And as we go from 2G to 3G to 4G types of mobile telephony services and the equivalence in many other type of services, where technology allows you to provide a much higher bandwidth of service, we will see a more and more bundling happening.

So, that a service provider once they have a customer, they will focus not only on retention of that customer, but they will try to see how they can increase their customer share rather than focusing on market share. So, focusing on market share is expensive today, because acquisition cost of a new customer is much higher. So, if you have a customer and you can build in other services, associated services provided to the same customer or upgrade that service to a level, where it brings in more revenue and on the other hand more advantages to the customer, you will both sides will be in a win-win model.

And you will see this kind of processes developing much faster in a mobile telephony type of services, where the communication service, voice communication service the different types of data services, the different type of content delivery services will get interwoven and will increase the overall package that are being delivered to the same customer.

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**STRATEGIES FOR DEVELOPING LOYALTY BONDS WITH CUSTOMERS**

- **Reward Based Bonds:** Incentives that offer rewards based on frequency of purchase, value of purchase, or combination of both
  - **Financial bonds**
    - Discounts on purchases, loyalty program rewards (e.g., frequent flyer miles), cash-back programs
  - **Non-financial rewards**
    - Priority to loyalty program members for waitlists and queues in call centers; higher baggage allowances, priority upgrading
  - **Intangible rewards**
    - Special recognition and appreciation, tiered loyalty programs
- Reward-based loyalty programs are relatively easy to copy and rarely provide a sustained competitive advantage

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The bonds that I was talking about there... So, therefore there are financial bonds and there can be some kind of intangible rewards under the category of non financial rewards. So, intangible rewards are special recognition and appreciation like for example, if you have a platinum card then you can use certain services at airports free of cost, these are part of the reward package.

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**STRATEGIES FOR DEVELOPING LOYALTY BONDS WITH CUSTOMERS**

- **Social Bonds**
  - Based on personal relationships between providers and customers
  - Harder to build and imitate and thus, better chance of retention in the long term
- **Customization Bonds**
  - Customized service for loyal customers e.g., Starbucks
  - Customers may find it hard to adjust to another service provider who cannot customize service

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And then of course, you can create social bounds which we discussed you know birth day greetings and anniversary greetings, the more personal relationship between the



service provider and the customer that often happens in case of insurance and other types of services or banking services. And these are actually the best type of relationship, the costliest to create and it takes more effort and genuine effort to build it. But, once you have such an effort, such a relationship then the opportunity for creating advocacy is much higher.

So, this whole relationship banking for high network individuals which are now being created almost in a every banking, even public sector banks are creating this they are sometimes called private banking facility, sometimes they are called relationship banking facility etcetera. But, ultimately there the objective is to know the customer, the customer investment appetite, the customers risk profile or risk version profile well and based on that create a relationship, where the customer as the customer gets more better and better result, customer builds more and more confidence and based on that there is a retention that becomes a long term and this is the kind of best structure, best way to create long time loyalty.

And otherwise, you have services which for example, allow because of certain technical facilities and people capabilities. Star bucks can customize their morning coffee or after noon coffee for people in very different ways, somebody takes less sugar, somebody takes more sugar, somebody takes it with milk, somebody takes it without milk, somebody likes Arabia bean, somebody like some other flavor of coffee and so on and they have a mechanism of keeping track.

So, the recognize the person and say you are usual and the deliver the same coffee and they know that this person takes two cups, one for himself and one for another person and all these things the facilities are created by combining human competence with machine based data and data interpretation capabilities and machine based capabilities to create variety of product varieties right at the point of delivery, service variety right at the point of delivery. And so the social bond creation which basically is based on knowing the customer in depth as a individual and then combining that with technology assisted ways of customization can create really the most powerful bond.



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**STRATEGIES FOR DEVELOPING LOYALTY BONDS WITH CUSTOMERS**

- **Structural Bonds**
  - Mostly seen in B2B settings
  - Align customers' way of doing things with supplier's own processes
    - Joint investments in projects and sharing of information, processes and equipment
  - Can be seen in B2C environment too
    - Airlines - SMS check-in, SMS e-mail alerts for flight arrival and departure times
  - Difficult for competition to draw customers away when they have integrated their way of doing things with existing supplier

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So, structural bonds of course, are very common in B2B setting. So, a car manufacturer will have different types of services which are locked in with their ERP system. So, the vendor CRP system and the main OEM say Maruti ERP system will be locked in with the ERP system of their different service and product vendors and that will allow much more effective transaction. And, but; obviously, that sort of lock in ICT system means there is a structural bond and that is created, it also happens in B2C like when you have airlines who have who provide SMS checking SMS, E-mail alerts.

So, this is they have the data base of your telephone numbers, they know your E-mail id and it is all part of on your regular traveler. So, it is tied in with your frequent flier number and so delays are inform to you and these; obviously, will appreciate that you are not going to the airport, flight is delayed and you are unnecessary wasting your time, you get an E-mail or an SMS early enough. So, you delay the departure from your home or work place and you really appreciate these little gestures.

As I said earlier and I repeat that in building loyalty and in building customer relationships he have to take small steps with a on a plan small steps with big plan with the big objective to go from this has we showed in the diagram that where you have no relationship to where you have a relationship with the customer is your co marketer, customer is your advocate of your service. This journey you have to have a plan for this journey, you have to know that this is a long terms process and you have to take small

definite steps to verses, this is the key to loyalty building, relationship building, long term advantage building.

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**ANALYZE CUSTOMER DEFECTIONS AND MONITOR DECLINING ACCOUNTS**

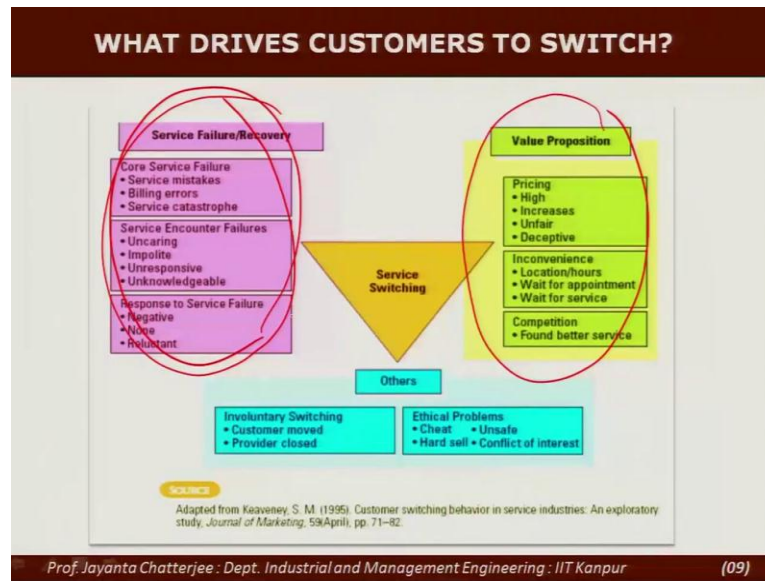
- Understand reasons for customer switching
- **Churn Diagnostics**
  - Analysis of data warehouse information on churned and declining customers
  - **Exit interviews:**
    - Ask a short set of questions when customer cancels account; in-depth interviews of former customers by third party agency
  - **Churn Alert Systems:**
    - Monitor activity in individual customer accounts to predict impending customer switching
    - Proactive detention efforts – send voucher, customer service representative calls customer

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And in spite of that if you lose the customer then also have a good mechanism to find out, so this is what we call churn diagnostics. So, please try to find out just as we have an a somebody leaves a company, we have this exit interviews try to have exit interviews with if you have by chance lost a good customer, a long term customer you must have really good in depth understanding of the situation and see connective actions are taken. Sometimes it may be beyond the if the customer is very much liking the new 4G service and your service is 2G then it is beyond your system, you cannot satisfied that customer.

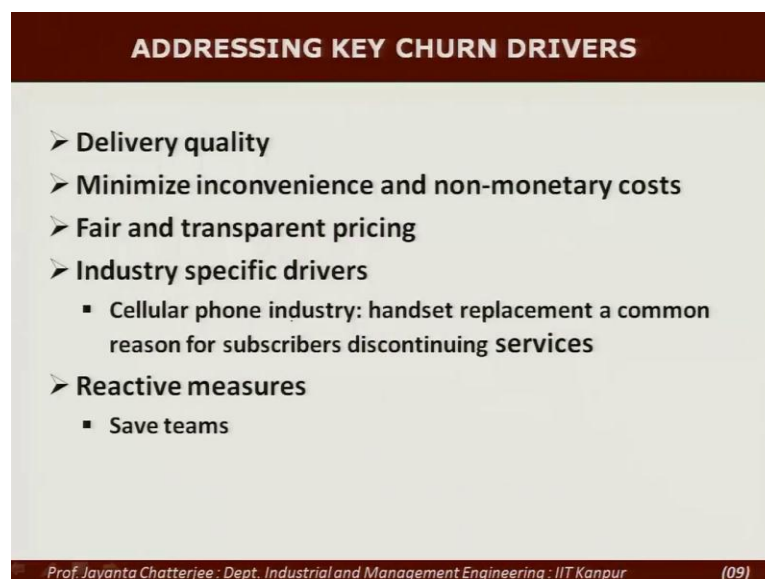
But, at least you might must know that the customer has migrated as churned out of your system, because of 4G versus 2G and not because somebody on your building department behave very badly with the customer. So, this is you must have, but we call a churn alert system, this is what if this journey during this journey therefore, there is a positive approach and wherever there is a failure you must have therefore, and analysis of that failure mechanism that is are both are very important.

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So, ultimately all end with particular diagram that you have to have good understanding that what makes customer switch. So, service failure and recovery all of these things if we are not worked; that means, it has failed your recovery did not work then you have loss the customer, all your value proposition; that means, your customers selection itself was wrong. So, customer needs 4G and you have do not have 4G then; obviously, customer will switch. So, it could be due to value proposition miss match that is sometimes beyond your control, what is most important is to focus here that why service field and why recovery failed.

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To conclude our whole discussion of this week is to focus on the five dimensions of service quality and to understand that loyalty building is a long term process retention is much more important than acquisition and only retention is not give good enough we have to create your system in your service business that you are able to win customer advocacy.

Thank you.