Services Marketing: Integrating People, Technology, Strategy
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Lecture 32 - Managing Relationships and Building Loyalty - Part 3

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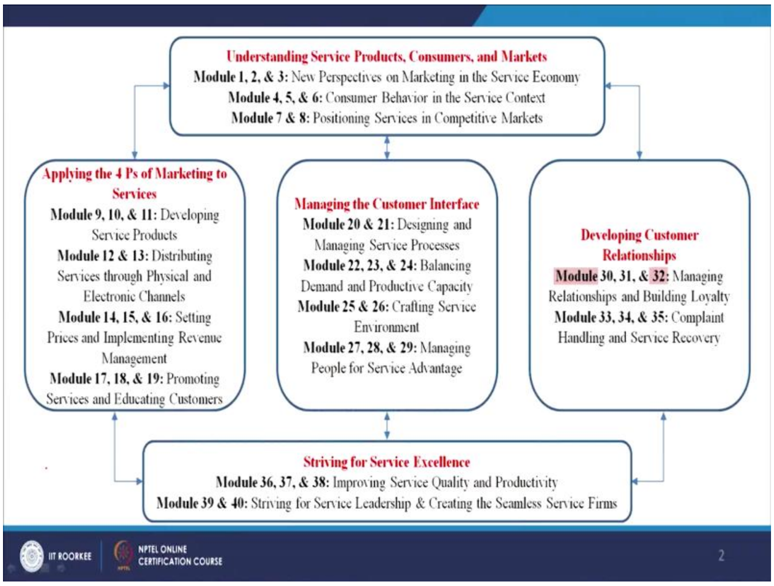

Welcome to services marketing. And now we will talk about module 32. So that is the last module in this section about managing relationship and building loyalty.

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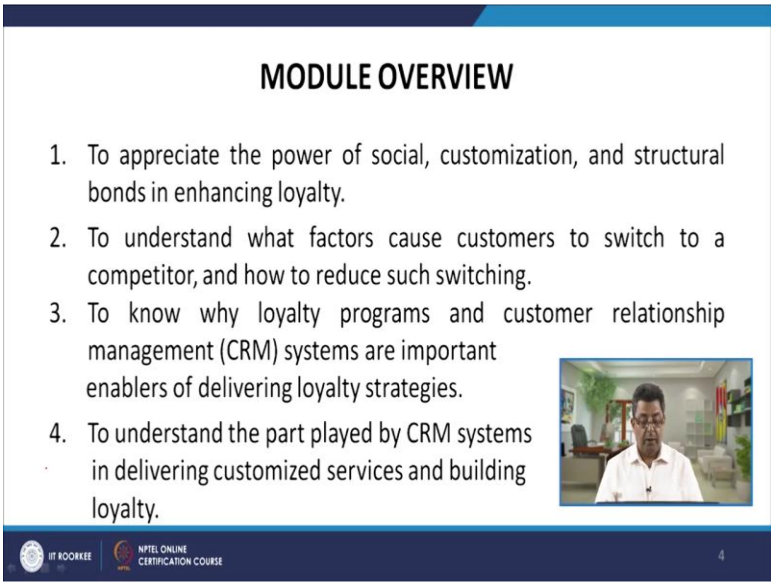

So, in this module we will appreciate the power of social customization and structural bonds in enhancing customer loyalty. We will then understand what factors cause customers to switch to a competitor, and how to go about reducing such switching. To know, why loyalty programs and sometimes relationship management and to know why loyalty programs and customer relationship management systems are important enablers to deliver loyalty strategies. And to understand the part played by CRM systems in delivering customized services and building loyalty.

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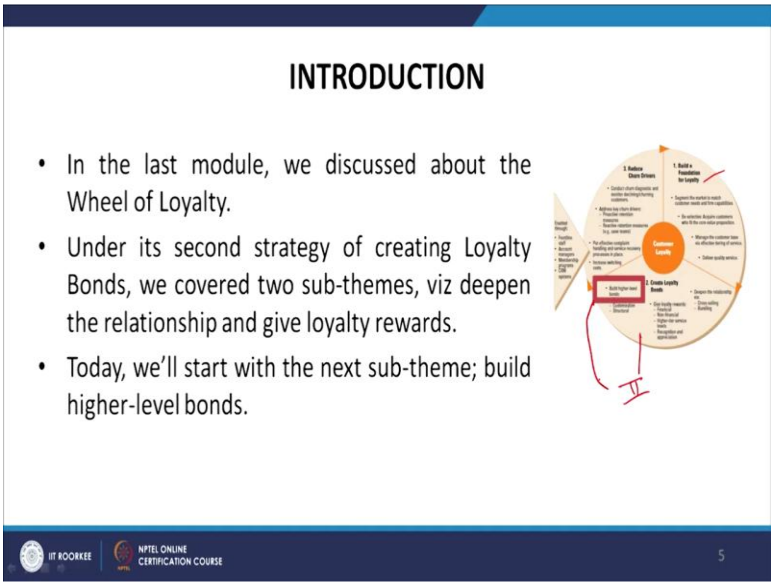

So, now to start, in the last module we were discussing about the Wheel of Loyalty. So, this is the Wheel of Loyalty shown on the right hand side. Under its second strategy of creating Loyalty Bonds, so in the earlier module we have talked about building foundation for loyalty, now we are talking about this, the second module creating Loyalty Bonds.

So we are talking about this. So, under its second strategy of creating Loyalty Bonds, we covered two sub-themes. And that are, deepening the relationship and giving loyalty rewards. So, this is what we are talking about, building higher lever bonds. Today we will start with the next sub-theme, building higher-level bonds.

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How to go about to build higher-level bonds? So, one objective of loyalty rewards is to motivate customers to combine their purchases with one provider or at least make it the preferred provider. However, reward-based loyalty programs are quite easy for other suppliers to copy, and they rarely provide a sustained competitive advantage. So, in contrast, these high-level bonds tend to offer a more sustained competitive advantage.

So, these reward-based points, reward-based loyalty programs are easier for everyone to copy. Therefore, they are not beneficial in the long run for this company. Therefore, what they can do is to go about creating high-level bonds which may give a sustained competitive advantage to the firm.

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THE WHEEL OF LOYALTY - STRATEGIES FOR DEVELOPING LOYALTY BONDS WITH CUSTOMERS

- **BUILD HIGHER-LEVEL BONDS**

Social Bonds

- Social bonds and related personalization of service are usually based on personal relationships between providers and customers.
- Social bonds are more difficult to build than financial bonds and may take longer to achieve, but they are also harder for other suppliers to replicate for that same customer.

THE WHEEL OF LOYALTY - STRATEGIES FOR DEVELOPING LOYALTY BONDS WITH CUSTOMERS

- **BUILD HIGHER-LEVEL BONDS**
- A firm that has created social bonds with its customers has a better chance of retaining them for the long term because of the trust the customers place in the staff.
- When social bonds include shared relationships (*Figure*) or experiences between customers, such as in country clubs or educational settings, they can be a major loyalty driver for the organization.

THE WHEEL OF LOYALTY - STRATEGIES FOR DEVELOPING LOYALTY BONDS WITH CUSTOMERS

- **BUILD HIGHER-LEVEL BONDS**

Figure: A knowledgeable and charismatic lecturer helps build social bonds with students

The three main types of higher-level bonds are, first is the Social Bond, the second is the Customization Bond and the third is the Structural Bond. What are these Social Bonds? Social bonds and related personalization of service are usually based on personal relationships between provider and the customers. So, provider and customers, they get into social bonds.

Social bonds are more difficult to build than financial bonds and may take longer to achieve, but they are also harder for other suppliers to replicate for that same customer. So, if the customer has social bonds with one supplier, it becomes difficult for other supplier to create these social bonds with the same customer.

A firm that has created social bonds with its customers has a better chance of retaining them for the long term because of the trust the customers place in the staff. When social bonds include shared relationships. So we will move, we will see the shared relationship in a moment.

Or the experiences between customers, such as in country clubs or educational settings, they can be a major loyalty driver for the organization. So, these are this is an example to build higher-level bonds. A knowledgeable and charismatic lecturer helps build social bond with students. So, this is how this lady is building bond with the students.

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The next level of bond are Customization Bonds. These bonds are built when the service provider succeeds in providing customized service to its loyal customers. So, this customization means customized service. In this figure, Starbuck's employees are encouraged to learn their customer's preferences. So, who will come and what do they prefer, so this is, so that the employees can give them the same kind of thing every time.

Many large hotel chains capture the preferences of their customers through their loyalty program databases. So, they have all this information in their database. First is that what is the preferred room type. Whether they want smoking or non-smoking, or a beach side or the pool side and bed type etcetera, twins or king size. The second is the kind of pillow that they like and the third is the newspaper that they want to read in the morning. So, these are some higher-level bonds, customization bonds. So, that room is customized for that kind of person.

So, when customers becomes used to this special service level, he or she may find it difficult to adjust to another service provider, who is not able to customize the service because he does not know the customer so well or at least immediately, as it takes time for the new provider to learn about someone's needs and preferences.

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Another type of bond are Structural Bonds. So, structural bonds they are more frequently seen in the industrial markets or business to business settings. They are created by getting customers to align their way of doing things with the supplier's own processes, thus linking the customers to the firm. This situation makes it more difficult for competitors to draw them away. For example, joint investments in projects and sharing of information, processes and equipments.

But, structural bonds can be created in B2C environment, also. For example, some car rental companies offer travellers the opportunity to create a customized account on the firm's website and mobile app, where they can retrieve details of past trips, including pick-up and return locations, and the types of cars, insurance coverage, billing address, credit card details, and so forth.

This simplifies the task of making new bookings for the customers. Once customers have integrated their way of doing things with the firm's processes, structural bonds are created, linking the customer to the firm and make it more difficult for competition to draw them away.

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What factors cause customers to switch to a competitor and how to go about reducing this switching? So far, we have discussed drivers of loyalty and how to tie customers more closely to the firm. A complementary approach is to understand the drivers of customer defection, also called customer churn and work on eliminating or at least reducing those drivers.

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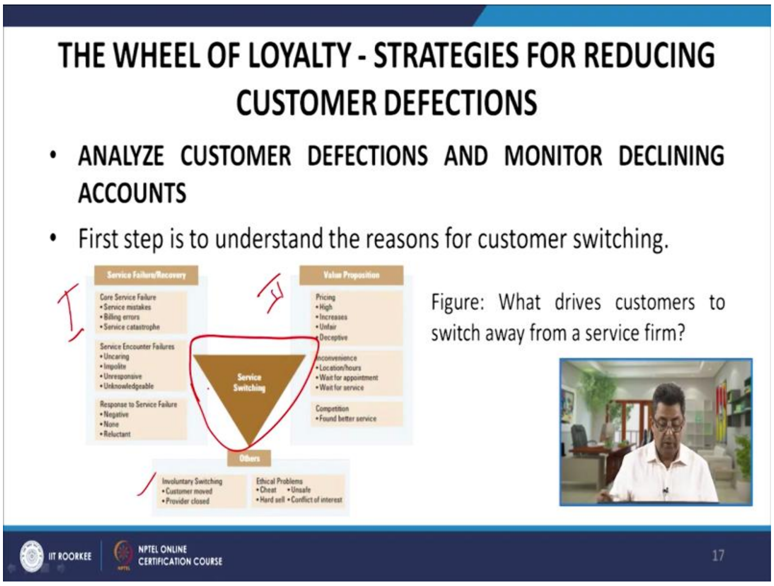

So, what you need to do is to analyse customer defections and monitor declining account. The first step is to understand the reasons for customer switching. So, now in this figure what drives customers to switch away from the service firm? So, these are on the left hand side, these are service failure and recovery strategies.

So, the core service failure, the service encounter failures and response to service failure. And here we have this, the value proposition, pricing, high or it increases, or unfair, or deceptive, inconvenience, location, hours, wait for appointment and wait for service and the competitions, so they found better service.

So, the customers found that the service failure is frequent in this company, the value proposition is no longer competitive and there are others involuntary switching. So the customer moved or provider is closed. Or there can be ethical problems, cheating, unsafe, hard sell or conflict of interest. So all these things they leads to service switching.

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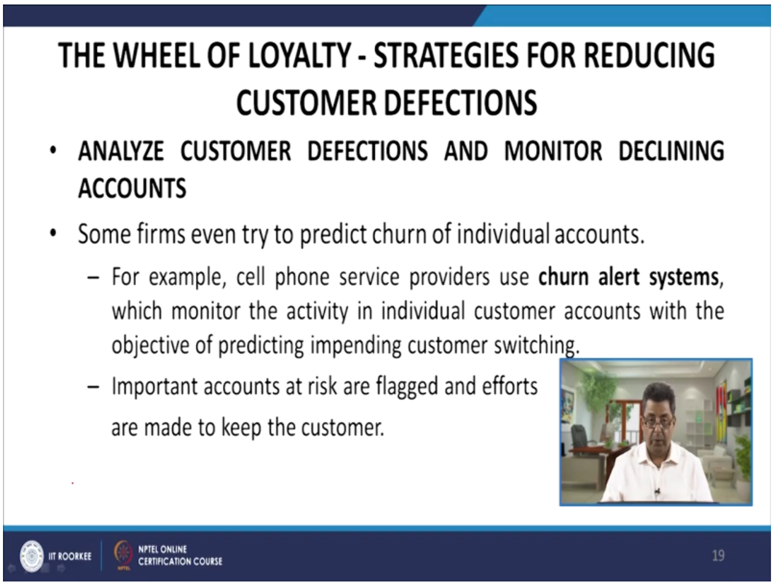

Progressive service firms regularly conduct what is called churn diagnostics to gain a better understanding of why customers defect. This includes, first is analysis of data from churned and declining customers. Then, second can be exit interviews. Call centre staff often make a short test of questions, they ask when a customer cancels an account. And the third is, in-depth interviews of customers by the third-party research agency, which typically yield a more detailed understanding of the churn drivers.

Some firms even try to predict churn of individual accounts. Obviously, when they have this kind of data, so it becomes easier for the firms to predict this churn. For example, cell phone service providers use churn alert systems, which monitor the activity in individual customer accounts with the objective of predicting impending customer switching. So, now they have the data about the demographics and the psychographics etcetera, of what kind of customers switch.

So, then they can just use that data to extrapolate the next customers who will defect. Important account at risk are flagged and efforts are made to keep the customers. So they are able to identify beforehand that which of the important account are likely to churn, likely to shift, likely to go out. And then, they can make some efforts, in order to retain those customers.

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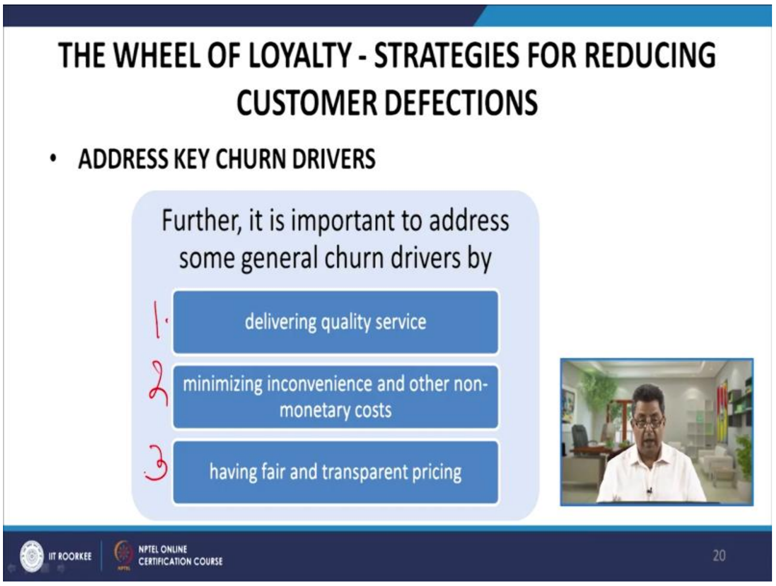

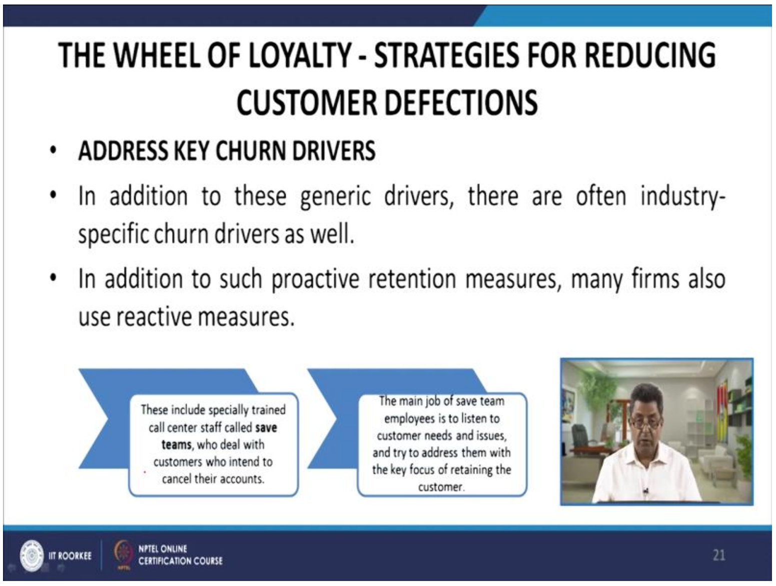

Further, it is important to address some general churn drivers by: first, so there are some general churn drivers, the first of that general churn driver is delivering the quality service. Second is minimizing inconvenience and other non-monetary costs. And the third is having fair and transparent pricing. Now, what else can be done in order to address the key churn drivers?

In addition to those generic drivers, there are often industry specific churn drivers as well. In addition to such proactive retention measures, many firms also use reactive measures. So, these includes specially trained call centre staff called save teams, who deal with customers who intend to cancel their accounts. The main job of the save team employees is to listen to customer needs and issues, and try to address them with the key focus of retaining the customer.

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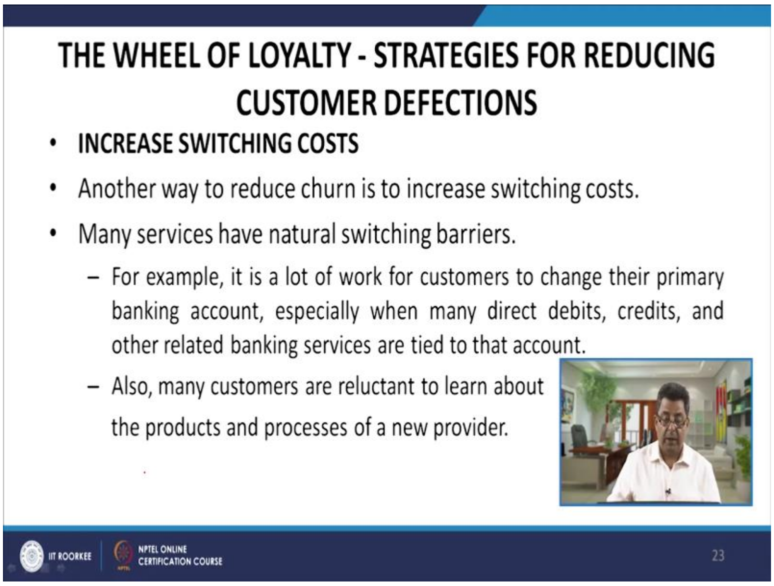

THE WHEEL OF LOYALTY - STRATEGIES FOR REDUCING CUSTOMER DEFECTIONS

- **INCREASE SWITCHING COSTS**
- Firms can increase these switching costs further by focusing on providing added value to customers through increased
  1 – convenience,
  2 – customization,
  3 – priority

(collectively called "positive switching costs" or "soft lock-in strategies") to tie a customer closer to the firm and make switching more costly.

THE WHEEL OF LOYALTY - STRATEGIES FOR REDUCING CUSTOMER DEFECTIONS

- **INCREASE SWITCHING COSTS**
- Such strategies have been shown to be more effective in generating both attitudinal and behavioral loyalty than the "hard lock-in strategies".
- Hard lock-in strategies refer to switching costs that are created by having contractual penalties for switching, such as the transfer fees payable to some brokerage firms for moving shares and bonds to another financial institution.

THE WHEEL OF LOYALTY - STRATEGIES FOR REDUCING CUSTOMER DEFECTIONS

- **INCREASE SWITCHING COSTS**
- However, firms need to be careful so that they are not seen as holding their customers hostage.
- A firm with high switching barriers and poor service quality is likely to generate negative attitudes and bad word-of-mouth.
- At some point, the last straw is reached and a customer will have had enough and continue to switch service providers even with significant switching costs, or at the first opportune moment, for example, when a contract expires.

Next, we will look at how to implement effective complaint handling and service recovery procedures. Effective complaint handling and excellent service recovery are two things crucial for keeping unhappy customers from switching providers. Well-managed firms make it easy for customers to voice their problems and respond with suitable service recovery strategies. In that way, customer will remain satisfied, and this will reduce the intention to switch.

Another thing that can be done is to increase switching cost. So, another way to reduce churn is by way of increasing the switching cost. So, many services have natural switching barriers. For example, it is a lot of work for customers to change their primary bank account, especially when they have direct debit, credits, and other related banking services are tied to that account.

Also, that we have seen earlier, when the customer has all those saving and current bank account and also a locker and loans in the same account. So, that increases the switching cost. Also many customers are reluctant to learn about the products and processes of a new provider. Firms can increase these switching costs further by focusing on providing added value to customers through increased: first is the convenience, so when it becomes more convenient for the customers, obviously the switching cost increases.

The second is customization and the third is priority. Collectively called as positive switching cost or soft lock-in strategies, to tie a customer closer to the firm and make switching more costly. And costly may not necessarily be in terms of money but other efforts also.

Such strategies have been shown to be more effective in generating both attitudinal and behavioural loyalty, than the hard lock-in strategies. Hard lock-in strategies refer to switching costs that are created by having contractual penalties for switching. Such as the transfer fee payable to some brokerage firms for moving shares and bonds to another financial institution. So, it is always good to have these kind of strategies rather than having those hard lock-in strategies.

However, firms need to be careful so that they are not seen as holding the customers hostage. So, when the companies, they create too many or huge switching cost then, it seems that they are holding customer as a hostage. And that is not a ethical think to do. A firm with high switching barriers and poor service quality is likely to generate negative attitudes and bad word-of-mouth.

At some point, the last straw is reached and the customer will have had enough and continue to switch service provider even with significant switching costs, or at the first opportune moment, for example, when the contract expires. So, the customer is waiting to defect. So as soon as the contract expires, so the customer will switch.

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Most strategies discussed in the Wheel of Loyalty requires an in-depth understanding of its customer and actively improve their loyalty. So, in this whole of this Wheel of Loyalty is based on in-depth understanding of the customer. Enablers of customer loyalty strategies provides this understanding and include the creation of membership-type of relationships such as through loyalty programs and the customer relationship management systems. Second is account managers. And the third is all-important frontline employees.

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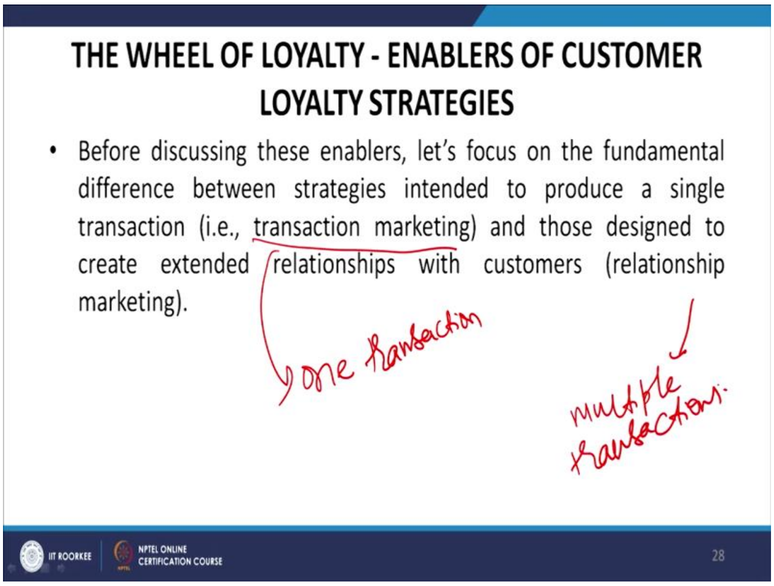

Now, before discussing these enablers, let us focus on the fundamental difference between strategies intended to produce a single transaction. That is transaction marketing. So transaction marketing focuses on single or one transaction. And those designed to extend relationships with customers and that is multiple relationships. So that is about multiple transactions. So, we are looking at how to go about shifting from transaction marketing to relationship marketing.

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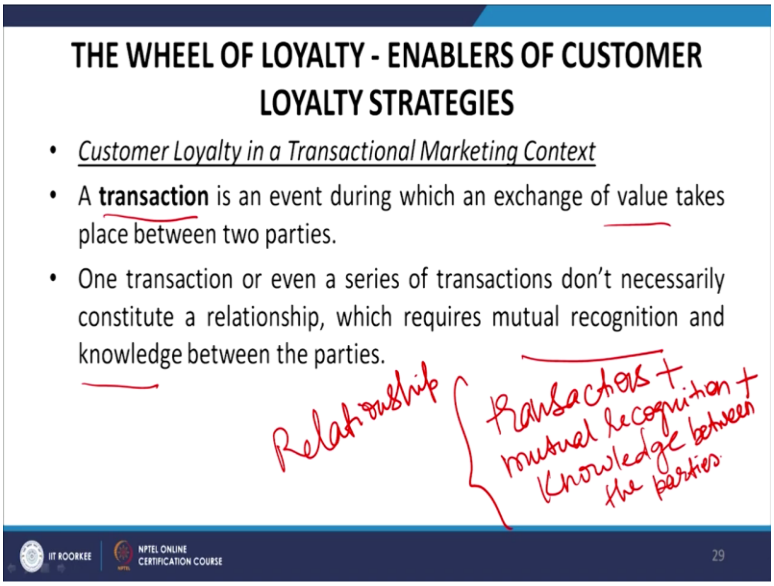

Let us look at Customer Loyalty in the Transactional Marketing Context. A transaction is an event during which an exchange of value takes place between two parties. So, this is what transaction is whereby exchange of value, so one person gives something and gets, another person gives something to that customer. So, in this way this value is exchanged between two parties.

One transaction or even a series of transactions do not necessarily constitute a relationship, which requires mutual recognition and knowledge between the parties. So, more number of transaction does not results in relationship. As this word suggest there should be mutual recognition and knowledge. So, these transactions plus mutual recognition plus knowledge.

So series of transactions are not relationships but transactions plus mutual recognition plus knowledge is relationship. So, that becomes a relationship: transactions plus mutual recognition and knowledge between the parties. So, it is not that only one party has a mutual recognition and knowledge of other party and the other party does not. So, both the parties or all the parties they have a mutual recognition and knowledge of all others and that leads to relationships.

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So, what is customer loyalty in a transactional marketing context? When each transaction between a customer and a supplier is, first essentially discrete and anonymous; two, with no long-term record kept of customer's purchasing history; and the third is little or no mutual recognition between the customers and employees. There then no meaningful marketing relationship can be said to exist, for example a food service, or a visit to a movie theatre.

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Customer loyalty strategies in a transactional marketing context have to focus mostly on the foundation strategies of the wheel of loyalty, such as segmenting the marketing and matching customer needs with firm's capabilities and delivering high quality service. So, this is important that the market is segmented and the needs of this target customers are matched with the firms capabilities.

Unless a firm knows the consumption behaviour of individual customers, it cannot apply tiering of services, loyalty rewards, customization, personalization, churn management, and the like. So, it is important that the company should be aware of the customers, consumption behaviour of individual customers, only then all this marketing will come into force. All this marketing regarding applying tiering of services, then loyalty rewards, then customization and personalization, etcetera, etcetera.

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Now, let us look at what is this Relationship Marketing? The term relationship marketing has been widely used to describe the type of marketing activities designed to create extended relationships with customers. Ideally, both the firm and the customers have an interest in a deeper engagement and high value-added exchanges.

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Creating membership-types relationships as enablers for loyalty strategies. A membership relationship is a formalized relationship between the firm and an identifiable customer, which often provides special benefits to both the parties. Now, let us look at this table that gives relationship with customers. So, on the left hand side this is about the nature of service delivery. So that can be a continuous service delivery or it can be discrete transactions.

And then we are talking about this, types of relationship between service organizations and its customers. So, there can be membership relationships or no formal relationships. So, now let us look at this first one; when we are talking of continuous delivery of services and the membership relationships. The examples are insurance, cable TV subscription, college enrolment and banking. When there are continuous delivery of services and there is no formal relationship, for example a radio station or a police protection, lighthouse and a public highway.

So, when there are discrete transactions and membership relationship, then what happens? For example long distance call from subscriber phone, theatre series subscription, travel on commuter ticket, repair under warranty and health treatment with HMO member. HMO stands for Health Maintenance Organization. And the fourth is the mail service, toll highway, movie theatre, public transportation and restaurant.

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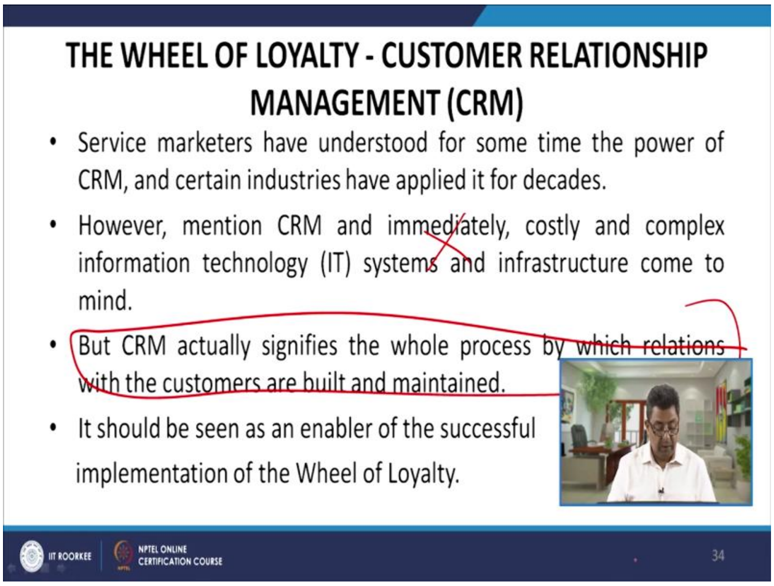

So, we are trying to understand what this customer relationship management is? So, service marketers have understood for sometime the power of CRM, and certain industries have applied it for decades. However, mention CRM and immediately, costly and complex information technology systems and infrastructure comes to the mind. But CRM actually signifies the whole process by which relations with the customers are built and maintained. So, this is what we are worried about and not this, so these are just tools for doing this. It should be seen as an enabler for the successful implementation of the Wheel of Loyalty.

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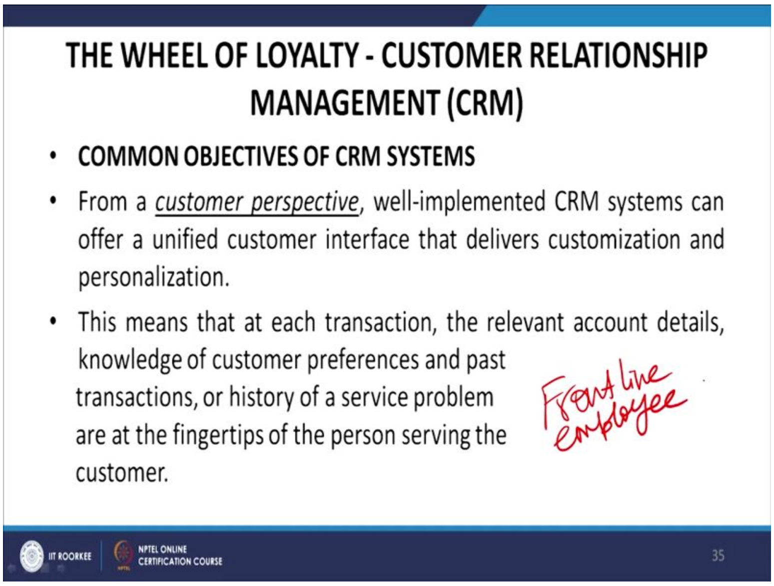

So, what are the common objectives of a customer relationship management system? From a customer's perspective, well implemented CRM systems can offer a unified customer interface and deliver customization and personalization. This means that at each transaction, the relevant account details, knowledge of customer preferences and past transactions, or history of a service problem are at the fingertips of the person serving the customer.

So, the frontline employee again knows the customers. And from a company's perspective, CRM systems allow a company to better understand, segment, and tier its customer base, better target promotions and cross-sellings and even implement churn alert systems that signals if a customer is in danger of defecting.

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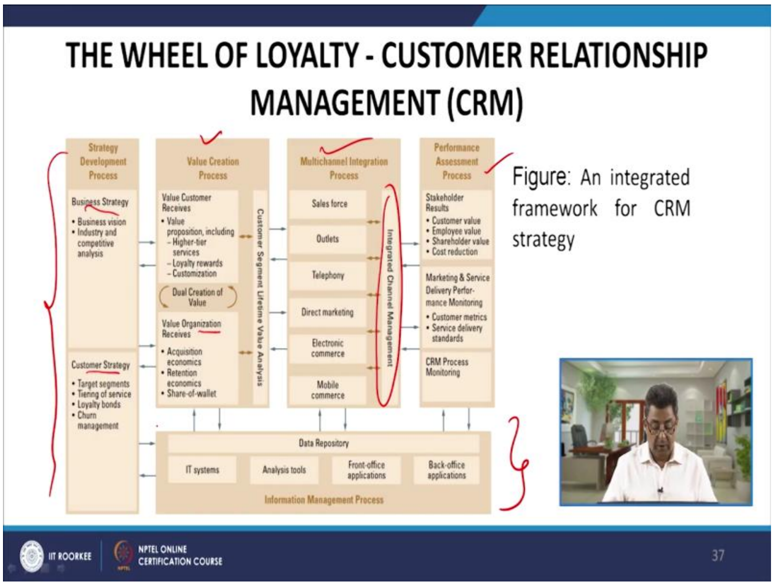

Now, this is an integrated framework for Customer Relationship Management. On the left hand side, we have the strategy development process. So we have business strategy and then we have this customer strategy. Business strategy includes business vision, industry and competitive analysis. And customer strategy includes target segments, tiering of service, loyalty bonds and churn management. Then, we have this value creation process, so value customer receives.

So value proposition including high tier services, loyalty rewards customization. Then there is value organization receives, so that is, acquisition economics, retention economics and share-of-wallet. So, that is customer segment lifetime value analysis. Now, this moves on to multi channel integration process, the sales force, the outlets, the telephone direct marketing, electronic commerce and mobile services. So that is integrated channel management.

And this gives this performance assessment process. So stakeholder results, customer value, employee value, marketing and service delivery performance monitoring, and CRM monitoring. Now, all this information is there in this data repository. So then we have this information management process, IT systems, analysis tools, front-office applications and back-office applications.

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The common CRM applications are, first is the data collection. The system captures customer data such as contact details, demographics, purchasing history, service preference. The second then is data analysis. The data captured is analysed and grouped by a system according to the criteria set by the firm. This is used to tier the customer base and tailor service delivery accordingly.

The third is, sales force automation, sales leads cross-sell and up-sell opportunities can be affectively identified and processed. And the entire sales cycles from lead generation to closing of sales, and provisions of after-sales services can be tracked and facilitated through the CRM systems. Then comes marketing automation and call centre automation.

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Now, the five key processes involved in a CRM strategy is, first is, strategy development, that is it involves assessment of business strategy, including articulation of company's vision, industry trends and competition. The second is value creation that is translating business and customer strategies into specific value proposition for the customers and firm. The third is multi-channel integration, serving customers well across multitude of channels, while offering unified customer interface that delivers customization and personalization.

The next is information management that is collecting customer information from all channels, integrating with other relevant information and making relevant information available to frontline at various touch points. And then comes the performance assessment, that is assessing performance of CRM to check if pre-determined goals are achieved.

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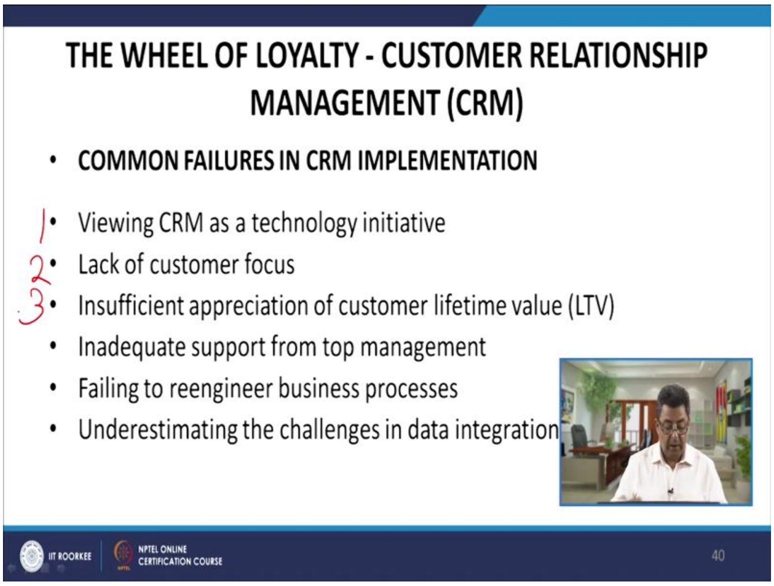

What are some common failures in this CRM implementation? The first is viewing CRM as a technology initiative. That is the first biggest cause of failure. The second is that this initiative lacks customer focus. The third is inefficient appreciation of customer lifetime value. So we have calculated the lifetime value wrongly. The fourth is inadequate support from top management. The fifth is failing to reengineer business processes and the sixth is underestimating the challenges in data integration.

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How to get CRM right? The key issues with implementing CRM. The first is, how should our value proposition change to increase customer loyalty? Second is, how much customization or one-to-one marketing and service delivery is appropriate and profitable? The third is what is the incremental profit potential of increasing the share-of-wallet with our current customers? How much does this vary by customer tier and or segment?

The fourth is, how much time and resources can be allocated to CRM right now? And the fifth is, if we believe in CRM, why have not we taken more steps in that direction in the past? What can we do today to develop customer relationships without spending a lot of money on technology?

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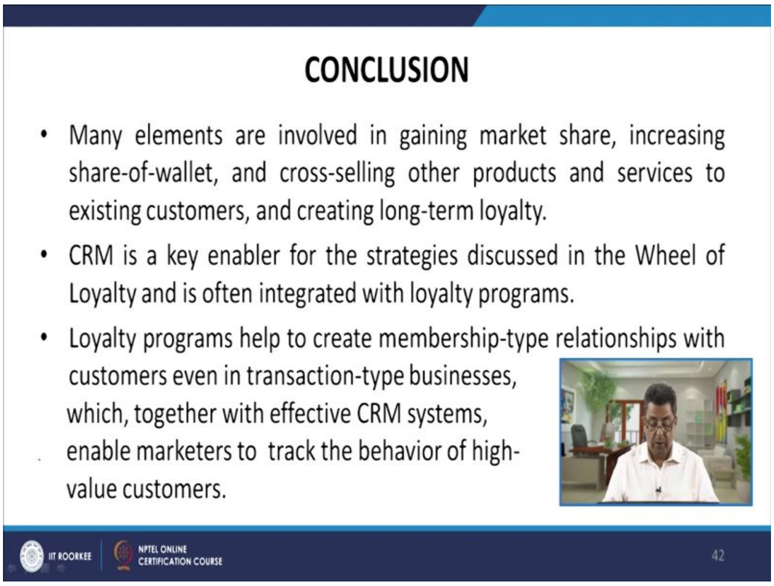

In the end to conclude, many elements are involved in gaining market share, increasing share-of-wallet and cross-selling other products and services to existing customers, and creating long-term loyalty. CRM is a key enabler for the strategies discussed in the Wheel of Loyalty and is often integrated with loyalty programs.

Loyalty programs help to create membership-type relationships with customers even in transaction-type businesses, which, together with effective CRM systems, enable customers to track the behaviour of high-value customers.

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And these are the three books from which the material for this module was taken, thank you.