

Services Marketing

Chapter 12: Managing Customer Relationships & Building Loyalty



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Recap

- **In which week of the course are we?**
- **Which part of the book are we starting?**
- **What is the most difficult part of working at the front desk?**
- **From where do the cycles (failure, mediocrity, or success) start?**
- **What are the three areas of the service talent cycle?**

Thought provoking questions

Why do I have to deliver a good teaching?

Are there services to which you are loyal?

Why is Customer Loyalty Important to a Firm's Profitability?

- **Customers become more profitable the longer they remain with a firm:**
 - ➔ **Increased purchases and/or account balances**
 - Customers/families purchase in greater quantities as they grow
 - ➔ **Reduced operating costs**
 - Fewer demands from suppliers and operating mistakes as customer becomes experienced
 - ➔ **Referrals to other customers**
 - Positive word-of-mouth saves firm from investing money in sales and advertising
 - ➔ **Price premiums**
 - Long-term customers willing to pay regular price
 - Willing to pay higher price during peak periods

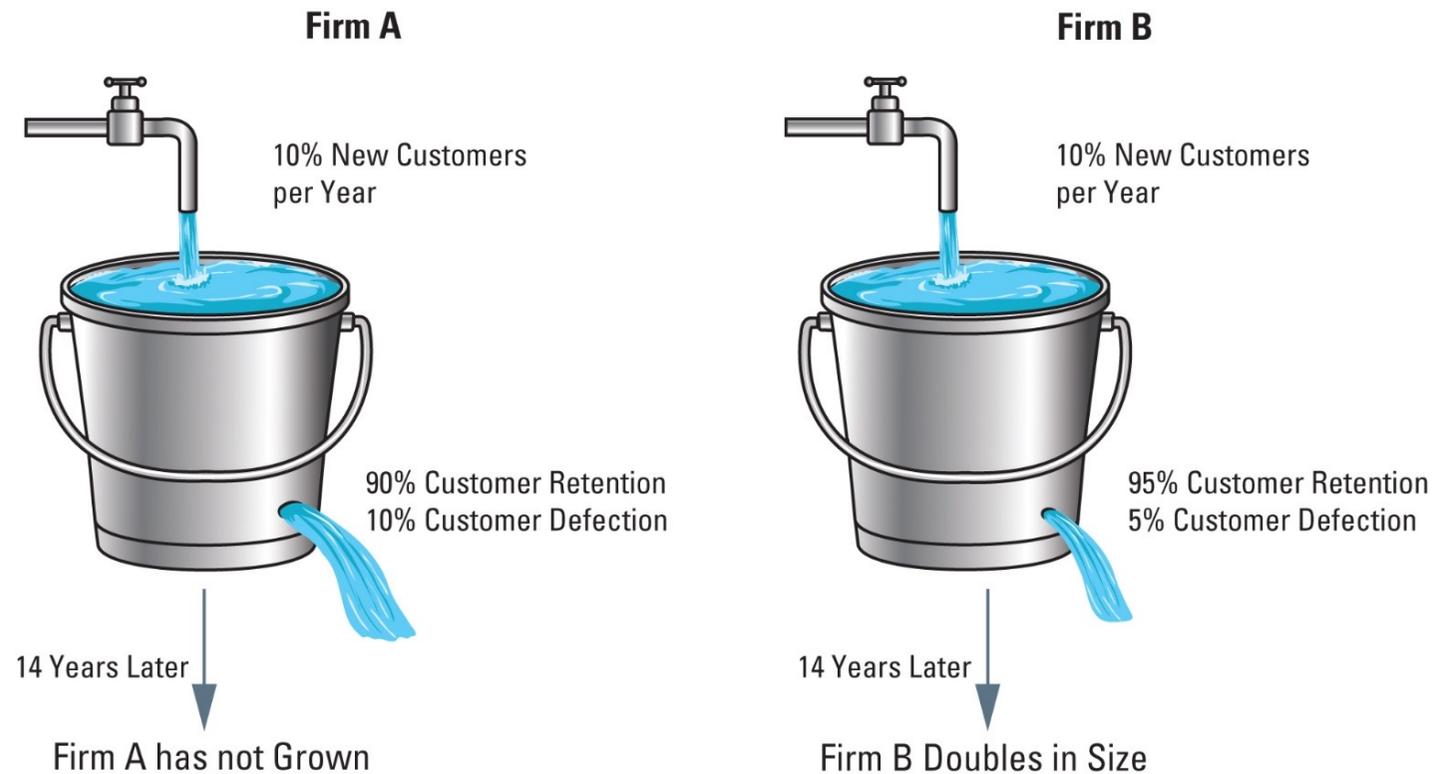
Customer loyalty and firm's profitability

Year 1

- **Customer basis: 1,000**
- **New customers per year: 10%**
- **Yearly customer retention: 95%**

Which is the customer basis for Year 2? And Year 3?

Why Customer Loyalty Is Important for a Firm's Profitability



Leaky bucket theory and firm growth

Assessing the Value of a Loyal Customer

- **Must not assume that loyal customers are always more profitable than those making one-time transactions**

Costs

- Not all types of services incur heavy promotional expenditures to attract a new customer

Revenue

- Large customers may expect price discounts in return for loyalty
- Revenues don't necessarily increase with time for all types of customers

Why are Customers Loyal?

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● Customers stay loyal when we create value for them

Confidence benefits

- Feelings by customers that in an established relationship, there is less risk of something going wrong, greater confidence in correct performance, and the ability to trust the provider.

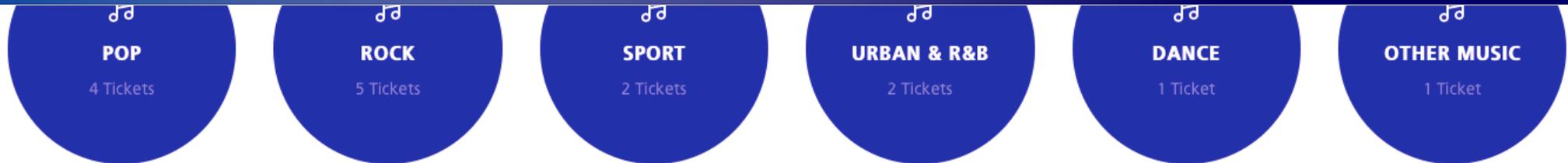
Social benefits

- Embrace mutual recognition between customers and employees, being known by name, having a friendship with the service provider, and enjoyment of certain social aspects of the relationship.

Special treatment benefits

- Better prices, discounts on special deals that are unavailable to most customers, extra services, higher priority when there is a wait, and faster service than most customers.

Example – Priority for existing customers



What's Priority?

Priority is our way of saying thanks. It's exclusive to O2 customers and brings you great offers from high street brands, tickets and experiences, as well as access to the best in entertainment.

Get gig tickets early

Relax. You can get Priority Tickets to thousands of gigs and events across the UK, up to 48 hours before general sale.

Download the app

Get the free app for quick and easy access to Priority whenever you like. Select your app store or text PRIORITY to 2020.



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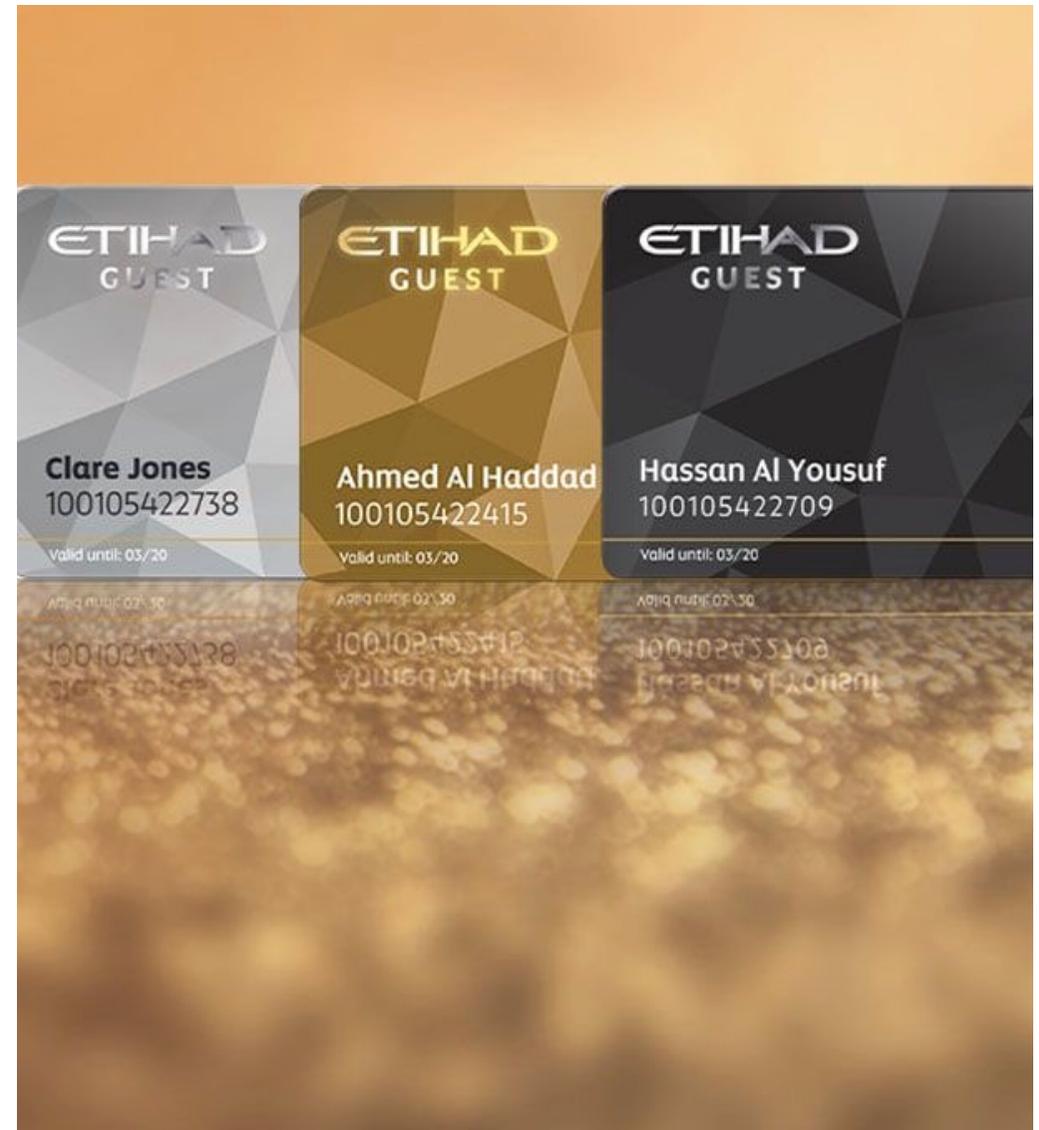
The Wheel of Loyalty

The Wheel of Loyalty



Building a Foundation for Loyalty

- Search for value, not just volume
 - ➔ Marketing is about getting *better* business, not just *more* business.
- Manage the customer base through effective tiering of service
 - ➔ Zeithaml, Rust, and Lemon illustrate this principle through a four-level pyramid.
- Customer satisfaction and service quality are prerequisites for loyalty
 - ➔ The satisfaction–loyalty relationship can be divided into three main zones: defection, indifference, and affection.



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**
 - Can be a large group of people that no other supplier is serving well



GENIUS 700 PLUS TUNED

THE GREATEST STORIES ARE LIVED, NOT TOLD

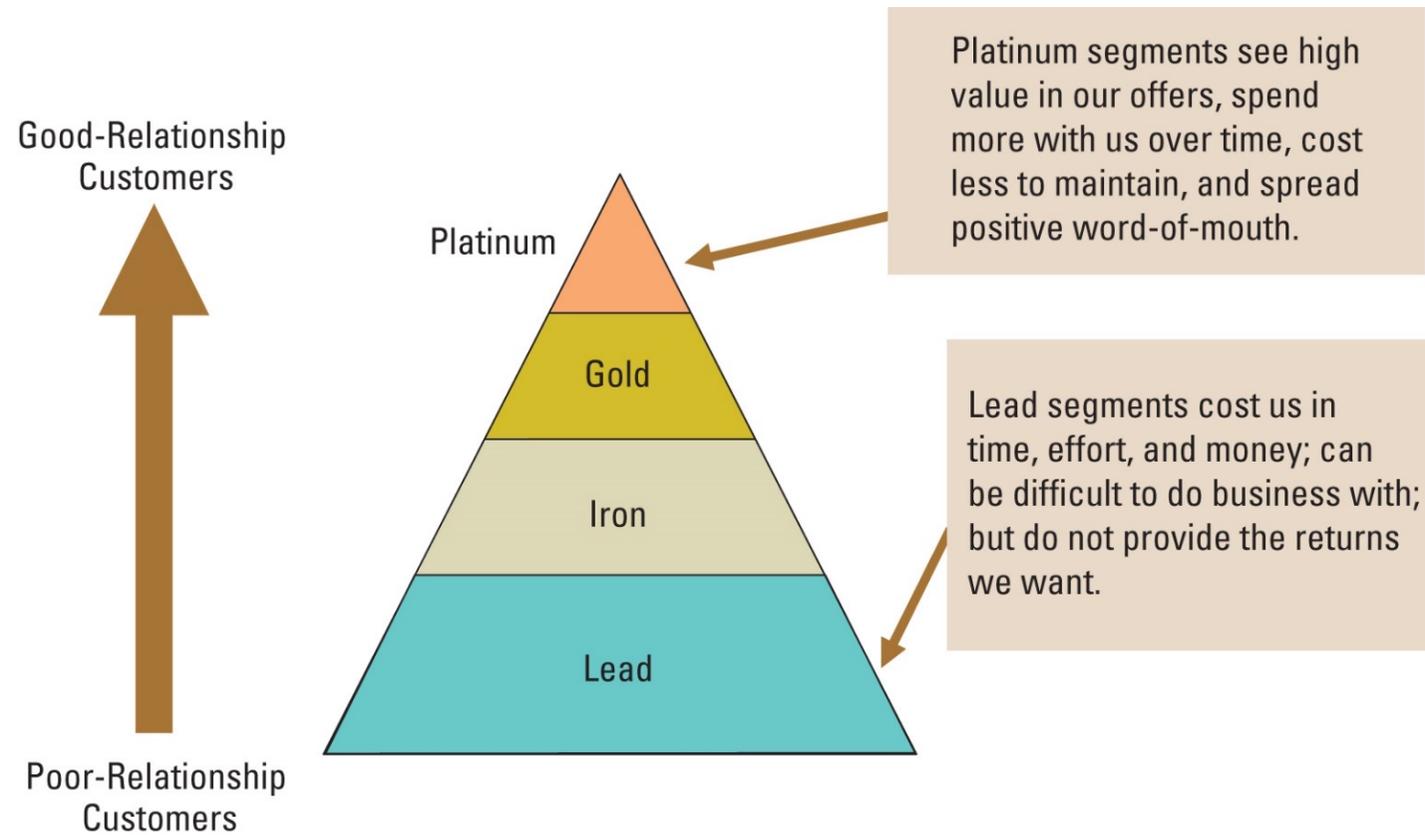
NO SHORTCUTS

Cycling is about your relationship with the journey – the exhilaration, the work, the passion you put into the experience is equal to what you'll get out of it. There are those who just bike, and those who live to bike.

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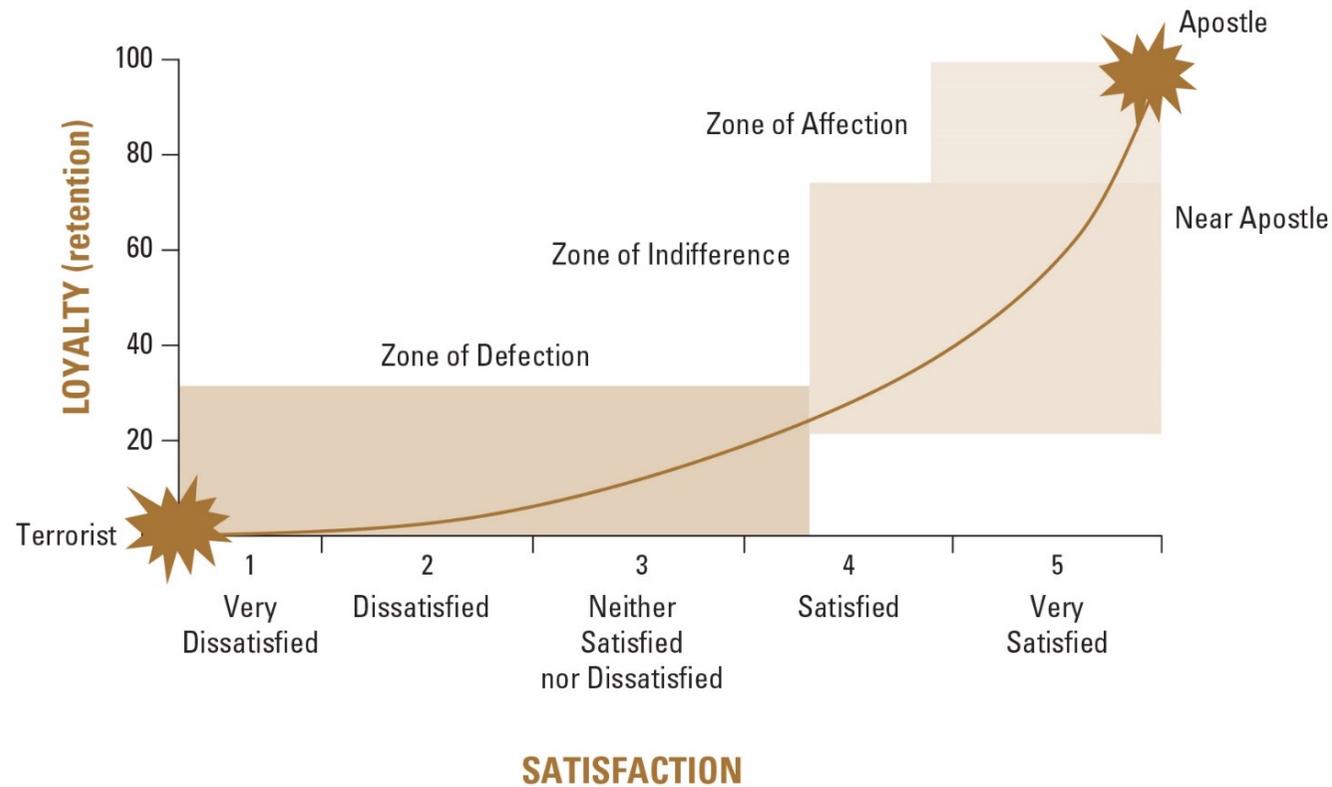


The Customer Pyramid



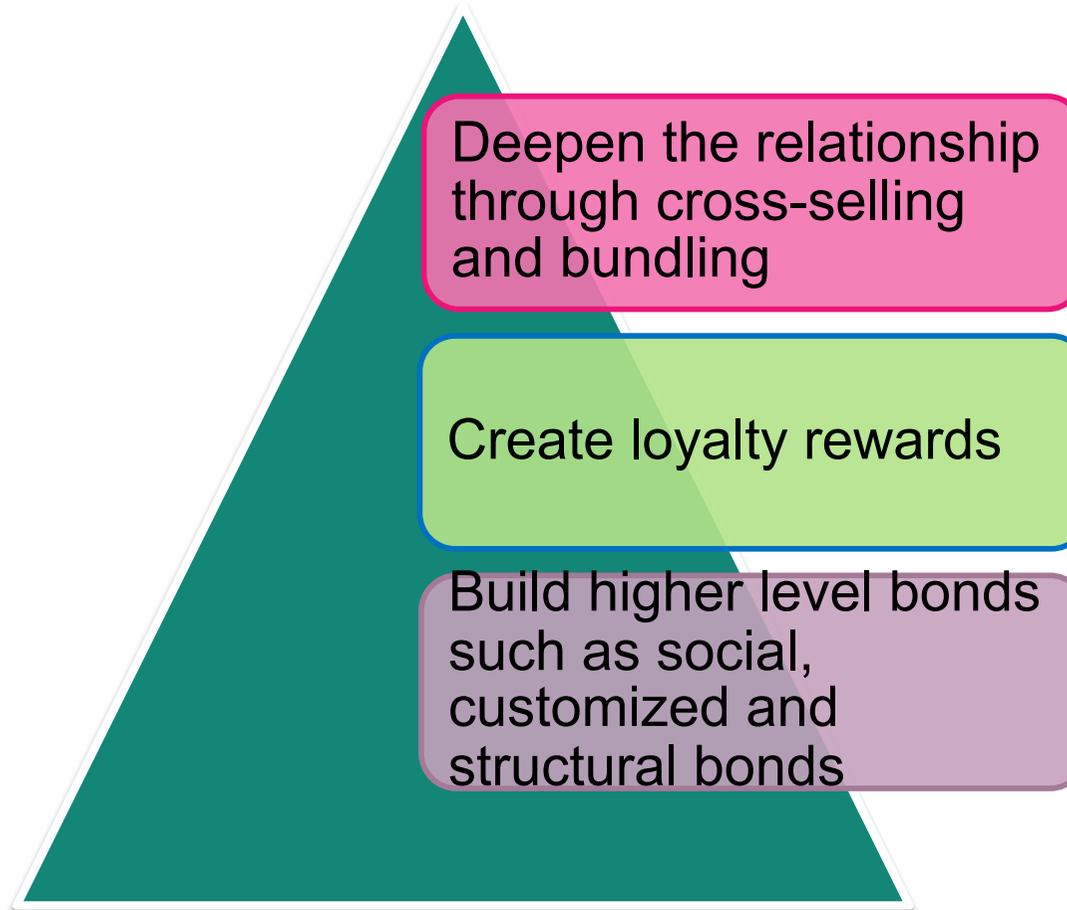
Source: Adapted from Valarie A. Zeithaml, Roland T. Rust, and Katherine N. Lemon (2001), "The Customer Pyramid: Creating and Serving Profitable Customers," *California Management Review*, Vol. 43, No. 4, pp. 118–142.

Customer Satisfaction and Service Quality as Prerequisites for Loyalty



Source: Adapted from Thomas O. Jones and W. Earl Sasser, Jr. (November–December 1995), “Why Satisfied Customers Defect,” *Harvard Business Review*, p. 91.

Strategies for Developing Loyalty Bonds with Customers



Example – Cross-selling

Tablets full of data, and lighter than a laptop

Enjoy the big-screen feel of your laptop a meets the portability of your smartphone – with a 15% discount on selected tablet plans. What's more, our tablet plans are packed with data on our award-winning network – so you can scroll, swipe, and surf wherever you are.

Add tablet plan



Full control of the family phone plans

Take control of the family plans when you add selected SIM only plans to your account as an additional plan. SIM only plans are better value than Pay as you go, and it's easier to manage the costs when you know what to expect on your bill – especially with 15% knocked off.

Example – One-stop shopping



Welcome to Vodafone

Your entertainment

Welcome to Vodafone Entertainment, where you can choose one of the top streaming subscription services as part of your smartphone contract. Examples of these include Spotify Premium, Netflix, Now TV Entertainment Pack and Sky Sports.

Select your country and see the special offers you can get:



Germany



Greece



Ireland



Italy



Netherlands



New Zealand



Portugal



Romania



Spain



South Africa



Turkey



United Kingdom



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**

Example – Financial bond

TUSCANYNOW&MORE® Italy & Tuscany Villa Rental Specialists since 1990



Free brochure

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Destinations ▾ Villas ▾ Experiences ▾ Discover Italy ▾ Concierge ▾ More ▾

Find a villa by name



Search live availability

Discount for returning clients

We continue to offer a 5% across the board reduction to all clients that have booked with us before. The offer applies to all the villas in the TN&M portfolio.

The Tuscany Now & More Loyalty Reward

This year TN&M continue to offer you that little bit extra with new properties and even more villas with dedicated cooks and maids plus specially selected local experiences that our sales & concierge staff have personally tried from wine tours, truffle hunts to cycling tours. Best of all, we'll continue to offer the same 5% price reduction should you have stayed in one of Tuscany Now's villas in the past. For next year bookings will also be able to secure a reservation with only a 10% deposit should you book before the 15th of November. As usual all our prices are guaranteed in £, \$ or €.

So, now's the time to secure a superb villa rental.

The reward is a token thanking those who have continued to use our services over the years. It's our way of saying "grazie"

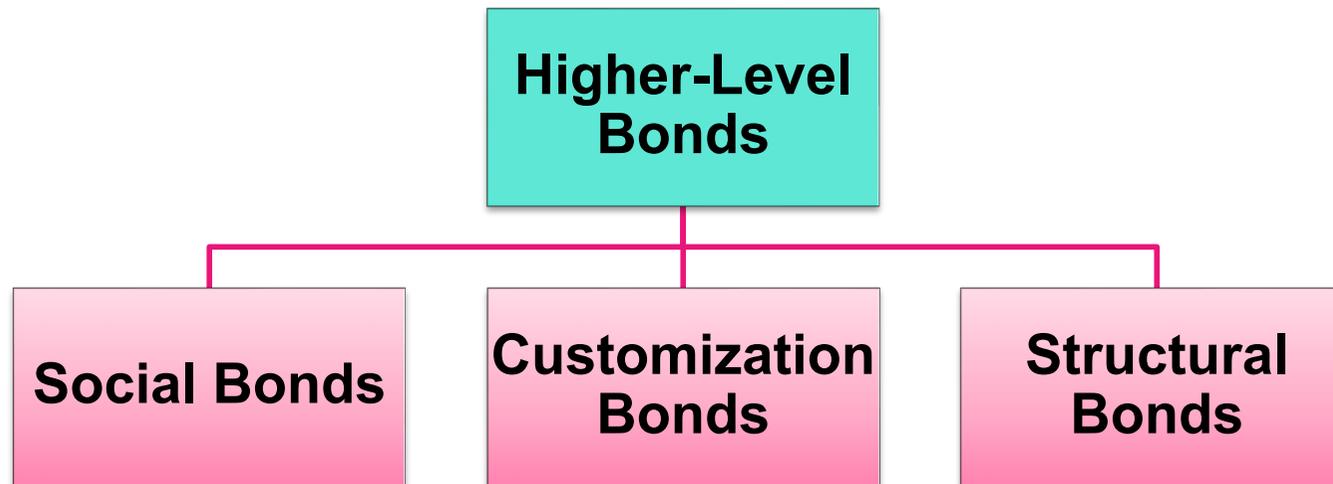
Simon Ball

Founder of Tuscany Now and Tuscany Now & More

Leave us a message



Build Higher-Level Bonds



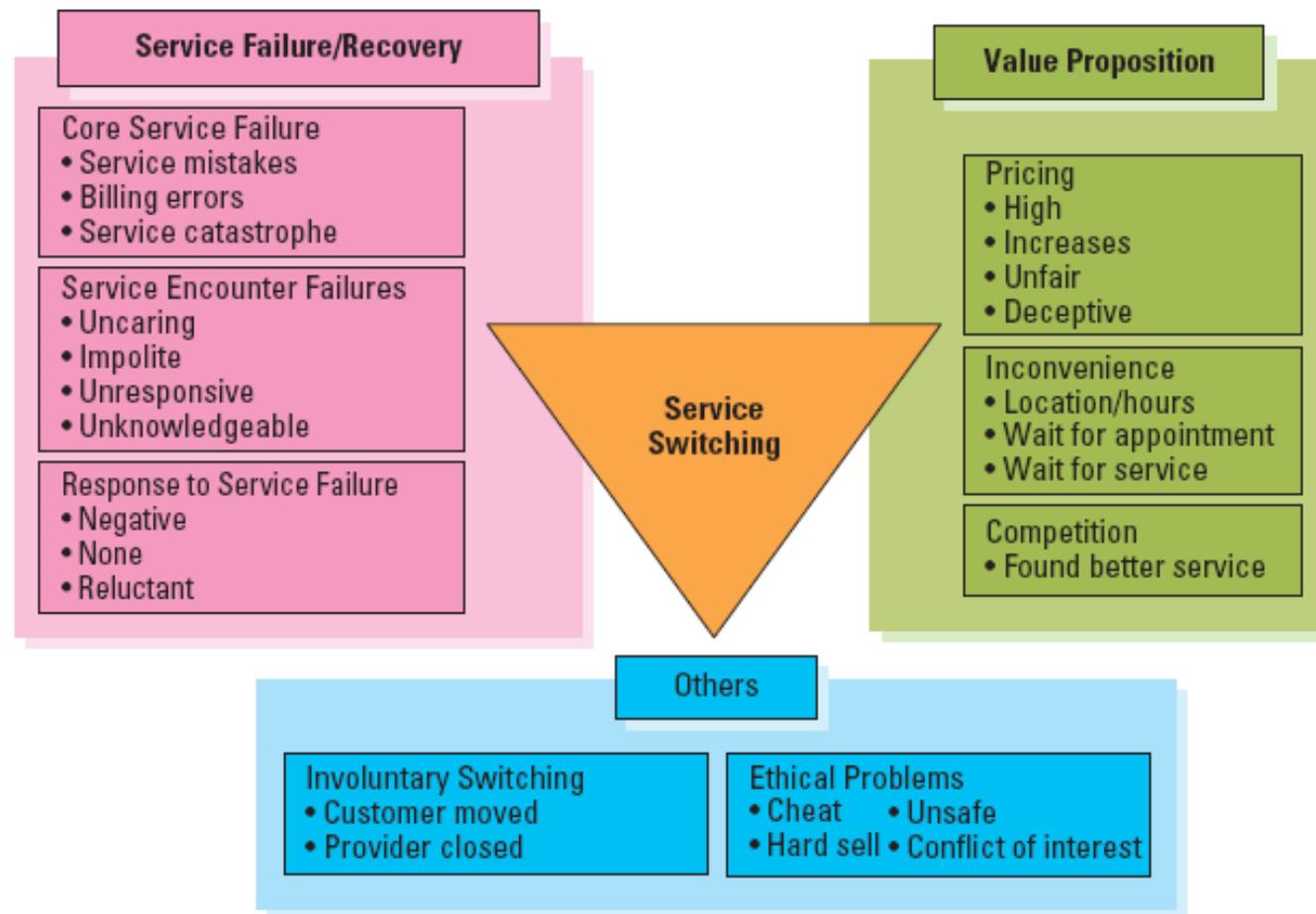
Strategies for Reducing Customer Defections

Strategies for Reducing Customer Defections

Analyze customer defections and monitor declining accounts

- Understand the reasons for customer switching.
- These include:
 - core service failures;
 - dissatisfactory service encounters;
 - high, deceptive, or unfair pricing;
 - inconvenience in terms of time, location, or delays;
and
 - poor response to service failure.

What Drives Customers to Switch?



SOURCE

Adapted from Keaveney, S. M. (1995). Customer switching behavior in service industries: An exploratory study, *Journal of Marketing*, 59(April), pp. 71–82.

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

Example – Churn diagnostic

Hello Super User,

We are sorry to find you are no longer interested in our newsletters.

Unsubscribe from this Mailing List
 Unsubscribe from all Mailing Lists
 Do not receive any e-mails from this website in the future

Before you go, we'd be grateful if you'd let us know why you're unsubscribing.

The emails we send you are too frequent
 The emails we send are not relevant to you

Please add any other reasons here:

Addressing Key Churn Drivers

- **Delivery quality**
- **Minimize inconvenience and non-monetary costs**
- **Fair and transparent pricing**
- **Industry specific drivers**
 - ➔ Cellular phone industry: handset replacement a common reason for subscribers discontinuing services – offer proactive handset replacement programs

Other Ways to Reduce Churn

- **Implement Effective Complaint Handling and Service Recovery Procedures**
- **Increase Switching Costs**
 - ➔ **Natural switching costs**
 - *e.g., Changing primary bank account – many related services tied to account*
 - ➔ **Can be created by instituting contractual penalties for switching**
 - *Must be careful not to be perceived as holding customers hostage*
 - *High switching barriers and poor service quality likely to generate negative attitudes and word of mouth*

Example – Handling complaints

Emirates

Inflight experience

The Emirates Experience

Family travel

Fly Better

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Formal complaint

Use this form to escalate a complaint if you feel your experience needs to be investigated for compensation.



If you're an Emirates Skywards member, please log in to populate your profile information.

Login

We're sorry to hear that you aren't satisfied with your Emirates experience.

If you have a complaint about a flight you recently flew with us, please use the form on this page to let us know. If you'd like to make a refund request for seat selection, please submit a refund request form.

If you need to speak to somebody about an upcoming flight the best way for us to help you is to talk to you. This means we can help you straight away and get the issue sorted in real time. Please contact your [local Emirates office number](#), you can contact us in most of our destinations.

If we changed your purchased seat for operational, safety or security reasons and were unable to seat you in a suitable alternative in line with our [refund eligibility criteria](#), please [request a refund](#) after completing all the flights in your booking.

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