MANAJEMEN BISNIS
INSTITUT TEKNOLOGI SEPULUH NOPEMBER

SERVICE MARKETING

CHAPTER 12: BUILDING LOYALTY, COMPLAINT HANDLING & SERVICE RECOVERY

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OVERVIEW

12.1 The Wheel of Loyalty

12.2 Building a Foundation for Loyalty

12.3 Strategies for Building Loyalty Bonds with Customers and Reducing Customers' Defections

12.4 Service Guarantees

THE WHEEL OF LOYALTY

THE WHEEL OF LOYALTY

<u>The Wheel of Loyalty</u> comprises of **3** sequential **strategies**: **<u>build a foundation for loyalty</u>**, **<u>create loyalty bonds</u>**, and **<u>reduce churn drivers</u>**

Source:
(1) http://www.lacreme.ie/sites/lacreme.ie/files/styles/large/public/friendly%20receptionist.jpg?itok=9qd14NiL

BUILDING A FOUNDATION FOR LOYALTY

TARGETING THE RIGHT CUSTOMERS

"the result should be a win-win situation, where ***profits are earned through the success and satisfaction of customers***, and not at their expense."

- Frederick Reichheld, Author

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the result of carefully targeting customers by matching the company capabilities and strengths with customer needs should be a superior service offering in the eyes of those customers who value what the firm has to offer.

Source:
(1) http://www.theultimatequestion.com/theultimatequestion/images/fred_thumbnail.jpg

TARGETING THE RIGHT CUSTOMERS

Acquire customers who fit the core value proposition!

Target the **<u>right customer</u>**

How do customer needs relate to operations elements?

Can company match or exceed competing services that are directed at same types of customers?

How can service personnel meet expectations of different customers?

Focus on **number of customers served** and **value of each customer**

Some customers more **profitable** than others in the ***<u>short term</u>***

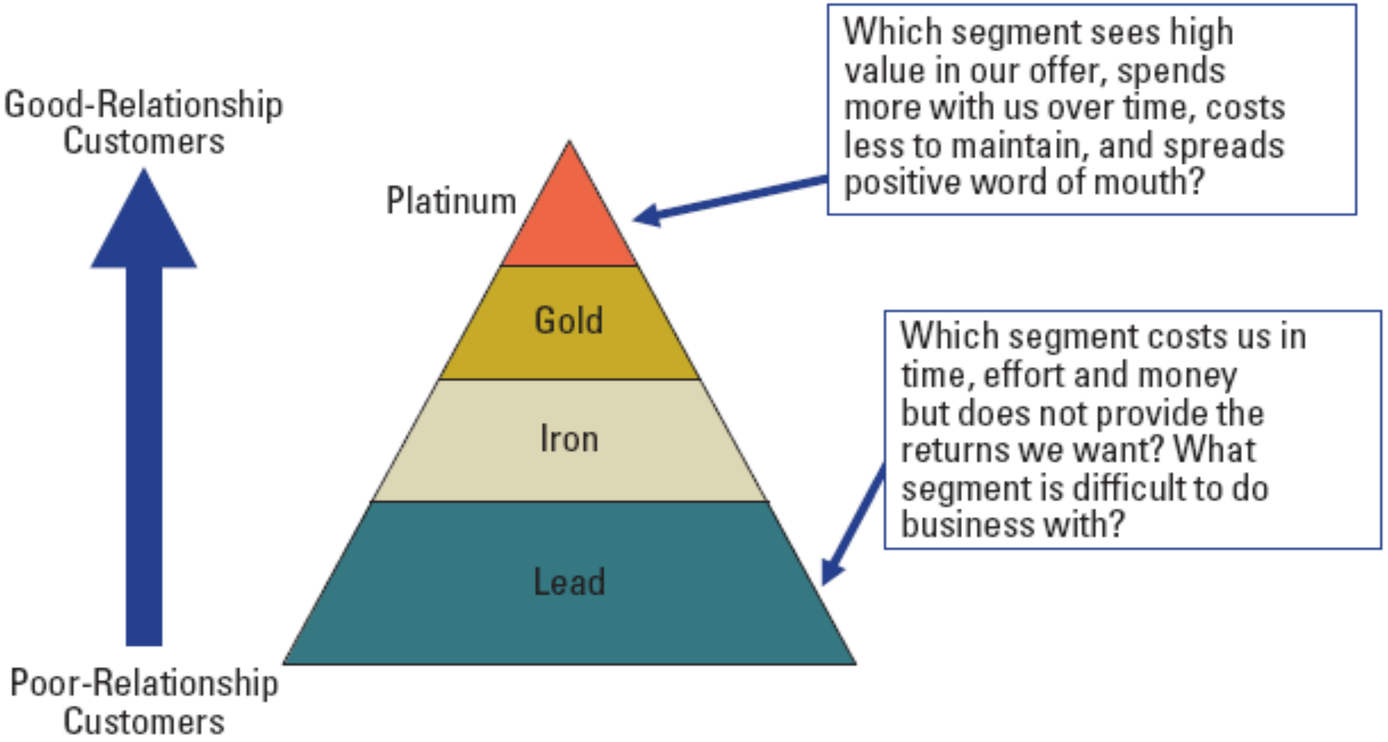
Others may have room for ***<u>long-term</u>*** growth

"***Right customers***" are **not always high spenders**

Can be a large group of people that
<u>no other supplier is serving well</u>

EFFECTIVE TIERING OF SERVICE
THE CUSTOMER PYRAMID

service tiers can be developed around **different levels** of ***profit contribution of different groups of customers and their needs*** (including sensitivities to variables such as price, comfort, and speed) and ***identifiable personal profiles*** such as ***demographics***.



SOURCE

Zeithaml, V. A., Rust, R. T., & Lemon, K. N. (2001). The customer pyramid: Creating and serving profitable customers. *California Management Review*, 43(4), (Summer), pp. 118–142.

THE CUSTOMER PYRAMID

1. ***Platinum***. These customers constitute a **very small percentage** of a firm's **customer base**, but they are **heavy users** and contribute a **large share** of the **firm's profits**.

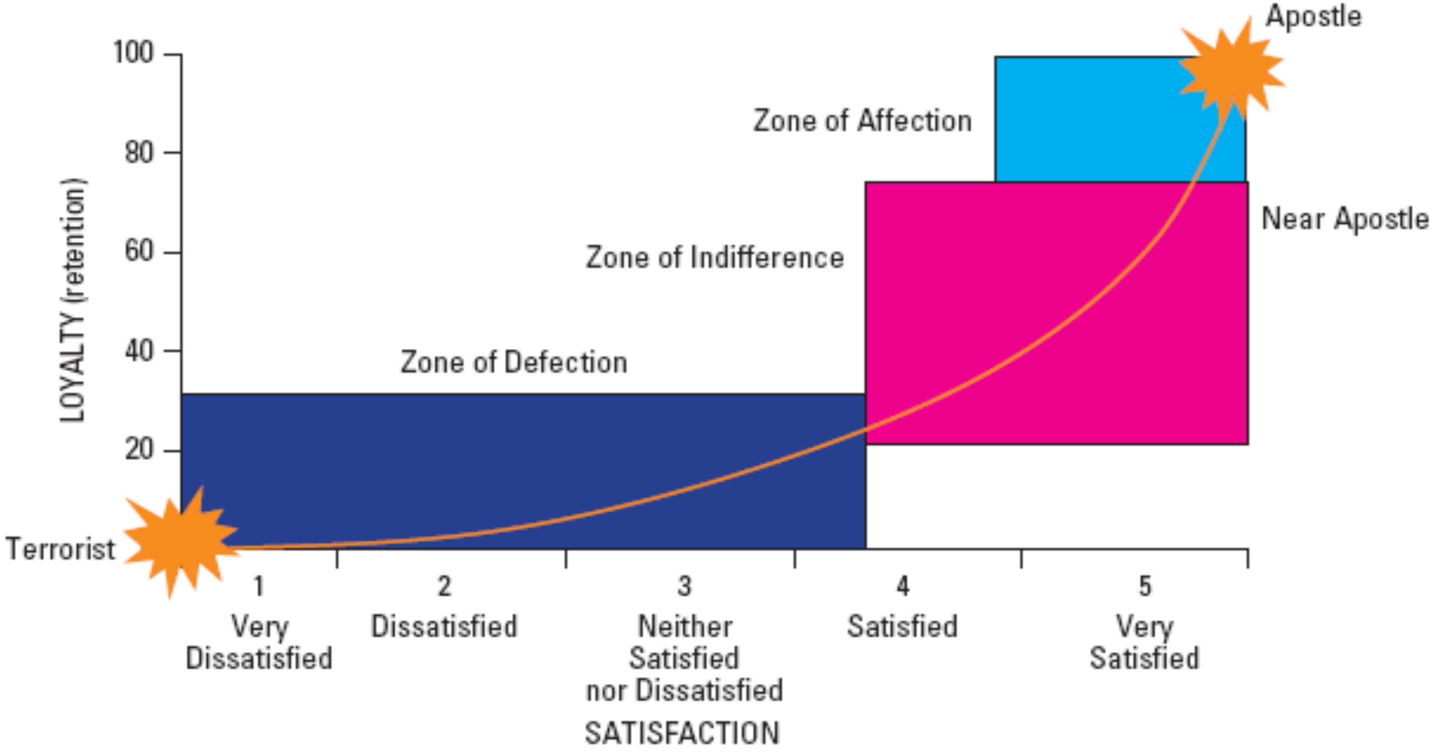
2. ***Gold***. The gold-tier includes a **larger** percentage of customers **than the platinum**, but individual customers contribute **less profit than platinum** customers.

3. ***Iron***. These customers provide **the bulk of the customer base**. Their numbers give the firm economies of scale.

4. ***Lead***. Customers in this tier tend to generate **low revenues** for a firm but often require the same level of service as iron customers, turning them into a **loss-making segment** from a firm's perspective.

THE CUSTOMER SATISFACTION LOYALTY RELATIONSHIP

The satisfaction-loyalty relationship can be divided into **<u>three</u>** main zones: ***defection***, ***indifference***, and ***affection***



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SOURCE

Reprinted by permission of Harvard Business Review. From why satisfied customers detect. By Jones, T. D. & Sasser Jr., W. E. (November–December), p. 91. Copyright © 1995 by the Harvard Business School Publishing Corporation; all rights reserved.

THE CUSTOMER SATISFACTION LOYALTY RELATIONSHIP

The *zone of defection* occurs at **low satisfaction levels**. Customers will switch unless switching costs are high or there are no viable or convenient alternatives.

The *zone of indifference* is found at **intermediate satisfaction levels**. Here, customers are willing to switch if they find a better alternative.

The *zone of affection* is located at very **high satisfaction levels**, where customers may have such high attitudinal loyalty that they do not look for alternative service providers.

Customers who **praise** the **firm** in public and **refer others** to the firm are described as "***apostles***."

STRATEGIES FOR BUILDING LOYALTY BONDS WITH CUSTOMERS AND REDUCING CUSTOMER DEFECTIONS

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**

When having many services with the same firm, the customer may **achieve a higher service tier** and **receive better service**, and sometimes service bundles do come with price discounts.

CASE: ROYAL BANK OF CANADA

Royal Bank of Canada use **data modeling** to segment its base of 10 million customers.

The segmentation variables include ***credit risk profile***, ***current and projected profitability***, ***life stage***, ***likelihood of leaving*** the bank, ***channel preference*** (i.e., whether customers like to use a branch, self-service machines, the call center, or online banking), ***product activation*** (how quickly customers actually use a product they have bought), and ***propensity to purchase another product*** (i.e., cross-selling potential).

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***

FINANCIAL REWARDS

Financial rewards are customer incentives that have a financial value (also called "hard benefits")

Marketers need to examine three psychological effects:

Brand loyalty versus deal loyalty. To what extent are customers **loyal to the core service** (or brand) **rather than** to the **loyalty program** itself?

Timing. How soon can benefits from participating in the rewards program be **obtained** by customers? Deferred gratification tends to weaken the appeal of a loyalty program. One solution is to send customers **periodic statements** of their account status.

FINANCIAL REWARDS

How buyers value rewards. Several elements determine a **loyalty program's value** to customers:

- Cash value of the redemption awards
- Range of choice among rewards
- Aspirational value of rewards
- Amount of usage required to obtain an award
- Ease of using program and making claims
- Psychological benefits of belonging to the program

NON-FINANCIAL REWARDS

Nonfinancial rewards (also called "soft benefits") provide benefits that cannot be translated directly into monetary terms.

Unlike financial rewards, nonfinancial rewards **directly relate** to the ***firm's core service*** and directly **enhance** the **customers' experience** and **value perception.**

Example:

In the **hotel** context, getting **priority** for **reservations**, **early check- in**, **late check-out**, **upgrades**, and ***receiving special attention and appreciation*** make your stay **more pleasant**, leave you with the fuzzy warm feeling that this firm appreciates your business.

DEVELOPING LOYALTY BONDS WITH CUSTOMERS

There are three main types of higher level bonds

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***

Source:
(1) https://mymonline.com/mymblog/wp-content/uploads/2014/07/072-illustration-bad-employee-600.jpg

DEVELOPING LOYALTY BONDS WITH CUSTOMERS

Structural Bonds

Mostly seen in **B2B** settings and **aim** to **stimulate loyalty** through **structural relationships** between the **provider and** the **customer**.

Can be seen in **B2C** environment too

e.g., **Airlines –SMS check-in, SMS e-mail alerts for flight arrival and departure times**

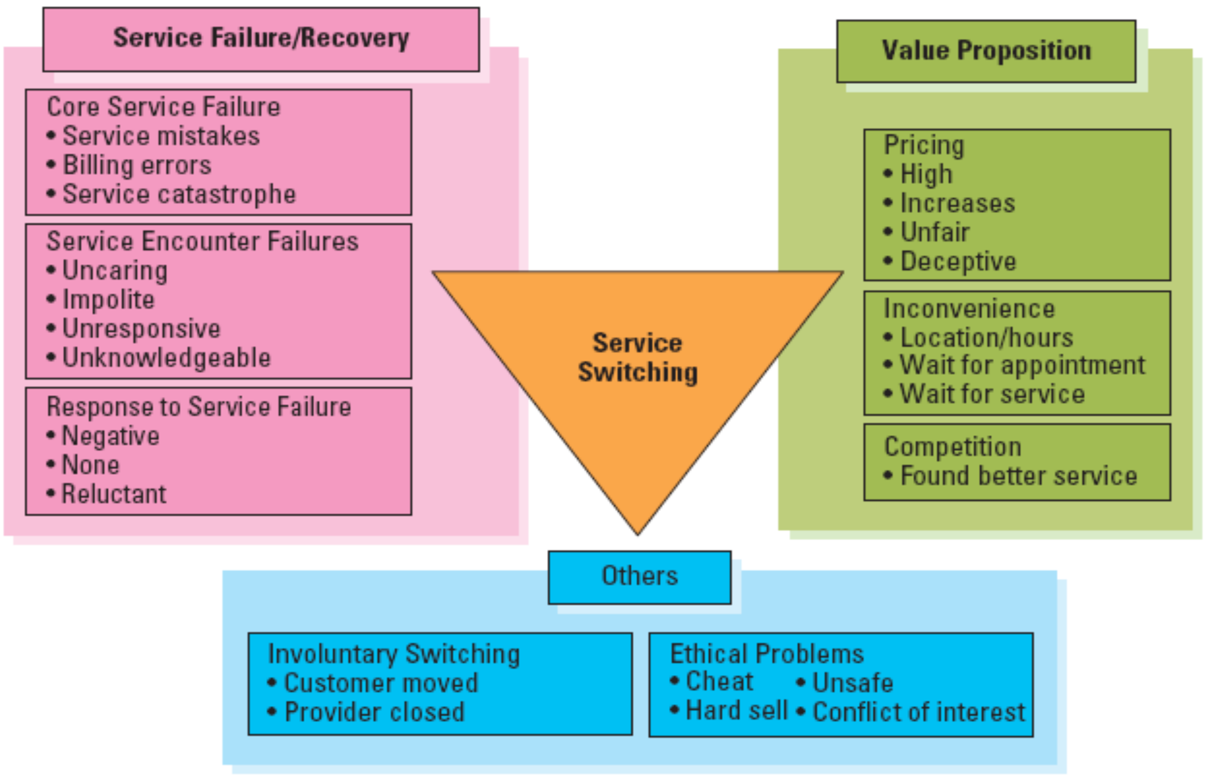
<u>Align</u> customers' way of doing things with **supplier's** own **processes**

e.g., **Joint investments in projects and sharing of information, processes and equipment)**

Difficult for competition to **draw customers away** when they have *<u>integrated their way of doing things</u>* with existing supplier

WHAT DRIVES CUSTOMERS TO SWITCH?

The first step is to **understand** the **reasons** for ***customer switching***



SOURCE

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

Susan Keveaney conducted a large-scale study across a range of services and found several **key reasons** why **customers switch to another provider**

ANALYZE CUSTOMER DEFECTIONS AND MONITOR DECLINING ACCOUNTS

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

In-depth interviews of former customers by a third-party research 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

ADDRESSING KEY CHURN DRIVERS

Delivery quality

Minimize inconvenience and non-monetary costs

Offering fair and transparent pricing

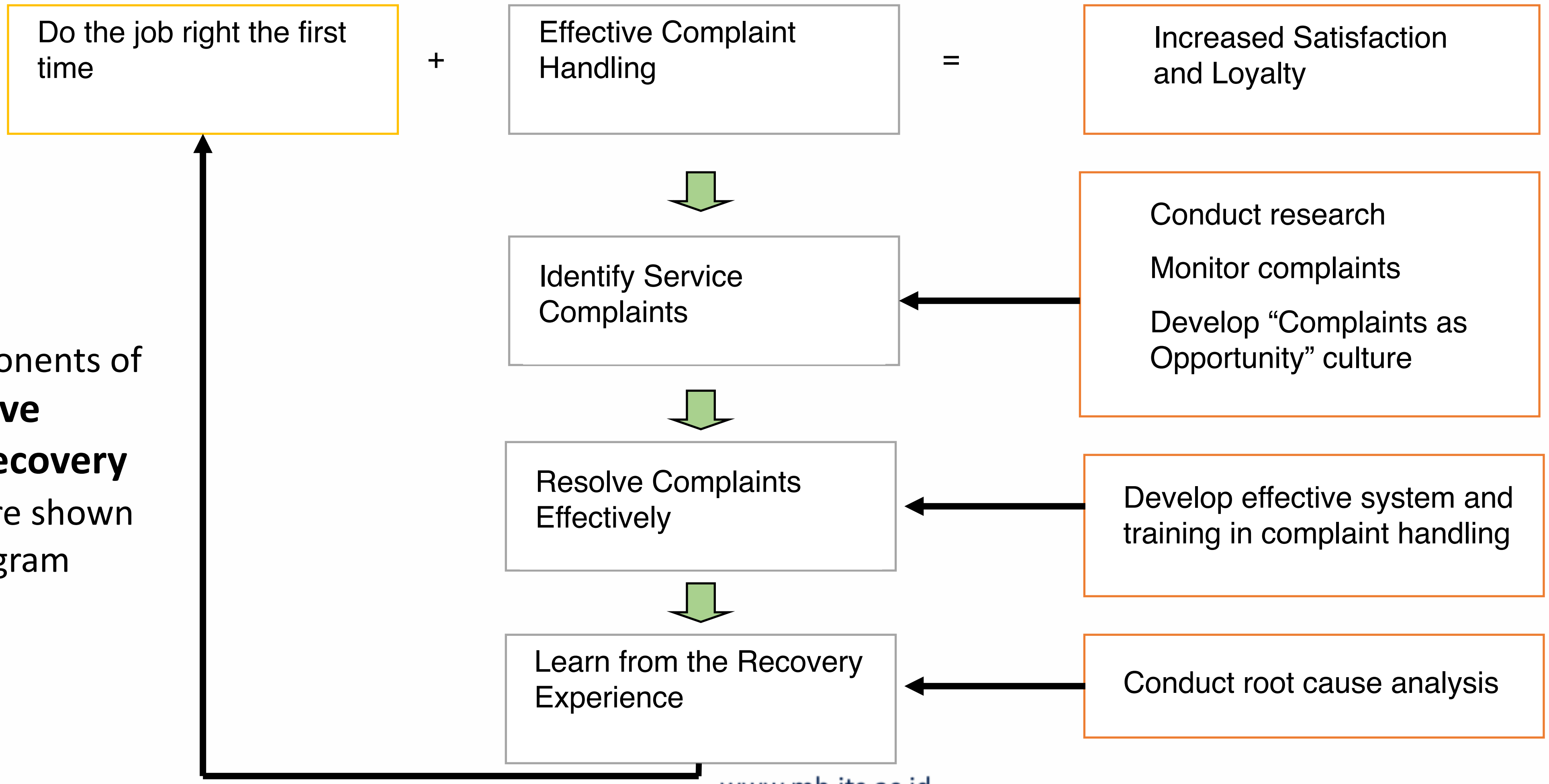
Industry specific drivers

Reactive measures –Save teams who listen to customer needs and issues and to try to address them with the key focus of retaining the customer.

OTHER WAYS TO REDUCE CHURN

Implement Effective Complaint Handling and Service Recovery Procedures

The components of an **effective service recovery system** are shown in this diagram



Source: Adapted from Christopher H. Lovelock, Paul G. Patterson, and Rhett Walker, *Services Marketing: An Asia-Pacific and Australian Perspective,* 4th edition (Sydney: Prentice Hall Australia, 2007), p. 388.

OTHER WAYS TO REDUCE CHURN

Increase Switching Costs

Natural switching costs

e.g., Changing primary bank account – ***many related services tied to account***

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**

SERVICE GUARANTEES

SERVICE GUARANTEES HELP PROMOTE AND ACHIEVE SERVICE LOYALTY

One way for particularly customer-focused firms to institutionalize professional complaint handling and effective service recovery is ***service guarantees***.

- Force firms to **focus** on **what customers want**
- Set **clear standards**
- **Highlight cost** of **service failures**
- Help firm **identify** and **overcome fail points**
- **Reduce** the **risk** of **purchase decision** and **build long-term loyalty**

THE POWER OF SERVICE GUARANTEES CASE: HAMPTON INN

It became imperative that **every staffs and managers** ***listen carefully to guests***, ***anticipate their needs*** to the greatest extent possible, and ***remedy problems quickly*** so that guests were satisfied with the solution.

the guarantee has become a **vital tool** to help managers ***identify new opportunities*** for ***quality improvement***.

Hampton's strategy of **offering** to **refund** the cost of the room to a guest who expresses **dissatisfaction** has attracted new customers and also served as a **powerful retention device**.

Source:
(1) https://blog.kissmetrics.com/wp-content/uploads/2010/11/Hampton.jpg

HOW TO DESIGN SERVICE GUARANTEES

Unconditional	there should not be any element of surprise for the customer.
Easy to understand and communicate to the customer	clearly aware of the benefits that can be gained from the guarantee.
Meaningful to the customer	the guarantee is for something important to the customer, and the compensation should be more than adequate to cover the service failure.

HOW TO DESIGN SERVICE GUARANTEES

Easy to invoke	It should be easy for the customer to invoke the guarantee.
Easy to collect on	If a service failure occurs, the customer should be able to easily collect on the guarantee without any problems.
Credible	The guarantee should be believable

TYPES OF SERVICE GUARANTEE

Single attribute-specific guarantee	Multi-attribute-specific guarantee	Full-satisfaction guarantee	Combined guarantee
• Explicit minimum performance standard on one important attribute is guaranteed (e.g., delivery by noon the next day)	• Explicit minimum performance standard on a few important attributes is guaranteed	• All service aspects are guaranteed to be delivered to the full satisfaction of the customer with no exceptions or conditions attached	• All service aspects are guaranteed (as for full-satisfaction guarantee) • Explicit minimum performance standards on important attributes are guaranteed (as for multi-attribute-specific guarantee)

IS IT ALWAYS SUITABLE TO INTRODUCE A GUARANTEE?

It may **not** be **appropriate** to ***introduce guarantees*** when:

- Companies have a strong reputation for service excellence
- Company does not have good quality level
- Quality cannot be controlled because of external forces
- Consumers see little financial, personal, or physiological risk associated with the purchase

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