Prof. Shainesh G

3

Building Customer Relationship

RELATIONSHIP BUILDING AS A PROCESS

The foundation of effective CRM is built on an iterative process of learning and customisation. Companies interact with their customers and learn about them — who they are, what do they want, how much they buy, and how much it costs to serve these customers. By analysing this data, they will be able to identify the profitable customers. This analysis would also show that many of the loyal customers make disproportionate contributions to profitability. Therefore, it is imperative for companies to keep these customers. To retain these customers, companies have to learn to tailor their offerings to suit the requirements of the needs and wants of these profitable customers through customisation of some aspect of product and/or service mix. Each customer has specific needs and expectations from a company. The company should treat each customer in a way that reinforces the trust that the customer has shown in the company. Based on the cumulative learning from multiple interactions with the customer, the company's offerings start matching the customer's needs better. This in turn should lead to greater perceived value for the customer and create a strong switching barrier for the customer. Therefore, we notice an *iterative learning process*, which helps in building a relationship between a company and its customers. This process is also visible in relationship building with other stakeholders like intermediaries and suppliers.

Peppers and Rogers (1993), the proponents of one-to-one marketing, proposed the IDIC framework to explain the process of converting existing customers into loyal customers. IDIC represents the following four key steps in the relationship building process:

1. *Identify* — This step requires the company to locate and contact a large number of its customers directly and know as much detail about them as possible. This includes their names, addresses, phone numbers, account details (wherever relevant), habits, preferences, etc. Now this kind of information cannot be collected easily or through a one-time questionnaire based activity. Most organizsations, in fact, sit on a pile of customer data but they are typically dispersed over different databases across departments. Therefore, Eevery interaction with the customer through any channel should be seen as an opportunity to learn about them and this knowledge has to be used to serve them better.
2. *Differentiate* — Customers can be differentiated on the basis of the *value* they represent and also on their *needs*. The value represented is an indication of the customer's worth to the company — the more valuable they are, the more the company should be interested in retaining them. Although the easiest measure of value is the revenue contribution of the customer, this can become tricky if the cost to serve is high for the high revenue customers. Thus, the ideal measure of customer value is the profit contribution, which in many cases is difficult to measure as the cost to customers is difficult to isolate due to sharing of overheads and lots of common services.

   Some customers need very standard products and services while others have very specialised needs. Customers with specialised needs create opportunities for customisation. Customisation helps meet these needs and tie a customer with mutual benefit. Differentiation should help the company tailor its offerings to each customer to reflect their value's and needs.

3. *Interact* — The purpose of interaction is to learn more about the customers starting with the more valuable customers. These interactions can happen when the customer is making a purchase, using a service or even while the customer is making a complaint. It can be done through formal surveys, telephone interactions or selfservice channels like the web, call centres, or ATMs in banking services. They should add on to the existing knowledge about the customer and this should be done in a cost effective manner by using the lower cost electronic channels. The learning relationship gets smarter with each interaction.
4. *Customise* — The last step is the most critical as it builds upon all the learning about the customers to offer real value to them by tailoring some aspect of the service related to a product or even *mass customising* the product. When the customisation is done on the basis of what the customer has indicated during his interactions, it improves the ability to fit the product and service to this customer's exact needs. This helps the customer enjoy a high level of convenience, which cannot be easily duplicated by a competitor without the customer having to put in the time and effort to teach the competitor the lessons already learned by his existing company.

Inspite of the overlaps across the steps, the IDIC framework is useful in understanding the process to be adopted for building relationships with existing customers. It is equally important to know the stages through which a prospect becomes a customer and then a loyal customer.

Seth Godin (1999) in his best selling *Permission Marketing* describes the complete process,

> *There's a continuum that runs from strangers to friends to customers to loyal customers to former customers. One-to-one marketing is focused on turning customers into loyal customers, and on preventing them from becoming former customers. The big idea behind permission marketing is that this continuum begins before the person spends the first dollar. It is not right to ask strangers to become customers without spending time to teach them, to gain their trust, and to have a mutually beneficial dialogue instead of a narcissistic monologue.*

We will use the concept of the ladder of loyalty to explore the complete relationship building process.

THE LADDER OF LOYALTY

The ladder of loyalty shows the different stages through which a prospect becomes a customer, a client and finally a partner.

Prospect — The prospect is an individual in a retail market or an organisation in the business market, which fulfills the requirements of the marketer's definition of target. For example, a cellular service provider may segment the market and target executives in blue chip companies with a special offer.

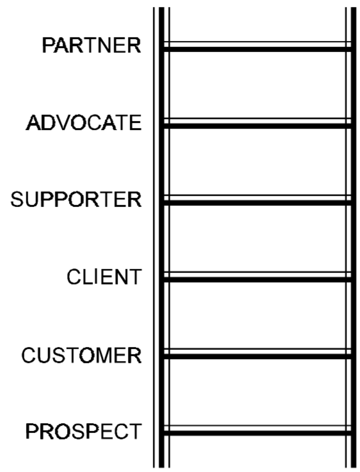


Figure 3.1 The Ladder of Loyalty

BMW Turns Prospects into Customers

Profitable customer relationships can often be built long before an actual sale. Smart companies can grow Learning Relationships by interacting with prospects too. Consider luxury cars. At BMW of North America, Kay Madati, relationship marketing manager, explains "We are moving away from purchasing, lists to more of a focus on cultivating those prospects we already know something about. He says, what BMW is learning, is that prospects who interact with the company prior to purchase are 'as much as three times more likely to become buyers than those we find from other sources.'

So BMW now tracks the paths a consumer takes before he buys. Did he request a brochure, or visit a dealer? Did he attend an event, such as one of BMW's 'Ultimate Driving Experience' rallies? Did he build a car online at the virtual center? Based on information collected from customer interactions and across touchpoints, BMW parses the relevant data. According to Madati, certain combinations of actions indicate a higher propensity to purchase, and once identified, 'these are the prospects where BMW focuses greater resources.'

BMW continues the dialog with a series of personalised communications via email, direct mail, and if the timing is right, a personal invitation to attend a special event. Over a perioe of time, BMW learns about the potential needs if the customer and preferences with each interaction— a key step for turning these prospects into customers. 'For us,' says Madati, 'it is all about extending the dialog to the right prospects.'

Once the prospect buys, BMW continues to develop the relationship. Every year dealer staffs are trained on customer-centric procedures for 'handing over the keys.' Upon vehicle presentation, a welcome kit invites customers to move more deeply into what Madati calls the 'ownership experience.' The kit, he says, 'is an invitation to customise and manage the way you want to interact with BMW.' It puts the customer in control, limiting BMW's communications to her preferred channel and frequency of contact. Two weeks after the purchase, buyers receive a customer satisfaction call from BMW corporate. New owners rate their dealership, delivery, and buying experiences, all of which BMW feeds directly back to the dealers. When grievances are raised, the dealer responds within two days. 'The result,' says Madati, is 'turning complaints into loyalty because you are listening to customers and responding to their needs after the sale.'

All told, BMW's prospecting strategy helps the company build profitable relationships, all the way from prospect to repeat customer. What they've learned, says Matadi, 'is that the people we spend time with, the ones we immerse in the BMW experience of products and services, are much more likely to purchase than if left alone.' Though unable to divulge the precise ROI on his company's activities, Matadi insists 'it's all very, very good.' (Source : http:/www.1to1.com)

Customer — The prospect becomes a customer when s/he gets attracted by the offering of the marketer and buys the product/service.

Client — A customer becomes a client when s/he purchases the product or service more than once. While a customer may make the initial purchase as a trial or test, the client is one who does a repeat purchase. It is likely that the trial was a satisfactory experience for the client.

In several buying situations, customers become clients due to the nature of the product or service. For example, the purchase of a durable product like a PC, TV or car results in the customer becoming a client of the associated services like servicing. Some services like banking, insurance, club, fixed line telephone services, etc., are 'membership' services which makes it difficult, if not impossible, for customers to switch. Prospects may spend a lot of time and effort in searching for information, making comparisons and then making the selection. After all the effort, once we an account is openedopen a bank account, take an insurance policy/a club membership/a telecom service is bought, the customer continues patronising the service provider. It does not mean that this customer is a long term loyal client. Many a time it is the sheer inertia that makes customer continue in a relationship. Therefore, in these categories, the customer and the organisation are likely to have an association of a longer duration.

However, in many buying situations like retailing, hospitality, airlines or fast moving consumer goods, customers can switch after trial, i.e. testing it and then decide to use a competitor's offering. The nature of the product or service does not ensure repeat purchase. It is the customer's satisfaction with the first purchase and consumption that determines repurchase.

Customers can also become clients when organisations cross-sell multiple products to an existing customer. A good example of such a firm is Wells Fargo, a leading financial services firm in the US. On an average this firm sells more than four of its services to each customer (more than twice the industry average). This has ensured that customers do not switch as frequently from this firm, increasing its profitability as a whole.

Supporter — A client becomes a supporter when he is satisfied with the offering and recommends it to his friend, relatives and acquaintances. This positive word-of-mouth (WOM) has tremendous positive impact as it helps the company get new customers. WOM is the most influential source of information in converting prospects into customers.

Advocate — An advocate is a supporter who, in addition to referrals that gives increases sales, proactively works with the company to improve its products and services. While developing new products software companies regularly depend on the feedback from the lead users of their clients during the Beta test phase. So is the case in new product development situations in several industrial firms, who set up the prototype in their client's premises for usage and feedback, which helps in improvements. In these situations, the level of interactions between the customer and the company is at a much higher plane. There is sharing of vital information and the comfort level as well as the confidence between the parties is high.

Partner — An advocate becomes a partner when they become actively involved in the decisions of the company. Any relationship that attempts to develop customer value through partnering activities is likely to create greater bonding between customers and marketers. In many cases, there are joint investments resulting in a structural bonding. Examples include the kind of relationship that exists between Procter & Gamble and Wal Mart, the world's largest retailer. This relationship is characterised by genuine partnership. Wal Mart shares the scanner data from its check out counters in its over 4500 stores through satellite. This information gives the movement of P&G's products, the status of stocks in its outlets and helps the joint teams comprising of P&G and Wal Mart executives to plan replenishments. It helps P&G plan its production, better management of its production runs and keep its inventories low as it no longer depends on sales forecasts but actual sales data. Overall, it reduces the selling costs to P&G. Wal Mart gains as it does not have to keep inventories, gets faster replenishments, incurs low cost and is able to pass on the savings to the customers, thus, reinforcing its image of 'Everday Low Prices' among its consumers.

Consider the relationship that exists between Federal Express and IBM where in Federal Express stocks IBM's spare parts in its own warehouses and delivers them across the world on instructions from IBM's service personnel. The reliability of FedEx's service, the efficiency of its operations due to specialisation and processes all make it cheaper and faster for IBM when compared to the alternative of doing it in-house.

The marketer's emphasis during the first two steps in the ladder viz. prospects and customers is *customer attraction* while emphasis during the subsequent steps are on *developing and enhancing the relationships*.

Therefore, relationship marketing goes far beyond repeat purchase. Repeat purchases are only a precursor of relationships. Greater value is added through the involvement of customers, sharing of information and bonding between customers and marketers. The greater the enhancement of the relationship through bonding, the more committed the customer is to the relationship and hence he is less likely to patronise competitors.

Let's now explore the concept of bonding.

BONDING FOR CUSTOMER RELATIONSHIP

Berry and Parasuraman (1991) have identified four levels of bonds

1. Financial Bonds — Volume and Frequency rewards, Bundle and Cross selling, andStable pricing,
2. Social Bonds — Personal relationships, continuous relationships and Social Bondsamong customers,
3. Customisation Bonds — Customer intimacy, Mass Customization and Anticipation/Innovation,
4. Structural Bonds — Integrated information systems, Joint Investments, and SharedProcesses and Equipment.

Level 1: Financial Bonds

The financial bonds tie in the customer primarily through financial incentives — lower prices for volumes or for customers who have been patronising the firm over a period of time. Loyalty programs such as fFrequent flyer programs, rewards program of hotels and credit cards are examples of financial bonding through volume and frequency rewards.

Bundle and cross selling is seen in the case of magazine subscriptions, credit cards, telecom and internet services in which customers can buy other services provided by the same provider or someone else at a lower cost.

Companies also offer the assurance of stable prices or lower price increase than those paid by new customers to retain their old customers. The option of earning a higher interest rate given to ICICI Bond holders, whose bonds were getting redeemed, if they invested the redemption amount in a fixed deposit is an example of stable prices in a situation where the interest rates were going down. Many electronic firms have a 30 day low price guarantee where they match the lowest price at which a particular product is sold in the marketplace. Similarly in an effort to increase its product use, American Express provides the difference in price for a product, if it is available at a lower price. This holds true within certain price levels and as long as the customer is using certain American Express cards.

One of the biggest disadvantages of the financial bonds is that they can be easily imitated. Also, it attracts a lot of price sensitive customers who switch to a cheaper option at the first available opportunity. Thus if firms in an industry resort to this type of bonding, it depresses the profitability of this industry as a wholel. Hence,Thus f financial bonds are the weakest bonds.

Unfortunately they are the most commonly used bonds across industries.

Level 2: Social Bonds

Marketers build social bonds with customers by viewing them as 'clients' who are not merely nameless faces. They find ways to keep in touch with them and interact with them to find their changing needs and offer solutions.

It is easy to visualise social bonds of the personal kind in the context of professional service providers (doctors, teachers, accountants, etc.) and personal service providers (hairdressers, maidsbaby sitters) with their clients. During interactions, information sharing and rapport are necessary for providing the service as they also cement a social, interpersonal bond. Opportunities for social bonding also exists in business markets where the account/relationship managers work very closely with the client's team. This helps them build social bonds, which transcend the commercial transactions.

Continuous relationships are provided to customers when companies have stable, long standing dealers who bring in the local market knowledge and maintain close relationships with customers.

In several cases, social bonding develops *among the customers* instead of relationship between the company and the customer. This can happen in services where customers interact with each other, e.g. a club, gym, library, etc. It can also be facilitated by the marketers like the Harley Davidson Owners' Club, Saturn Performance Club and various clubs promoted by Volkswagen. Tsimilar attempts he Passport Program of by Hero Honda and Airtel's 'Friends and Family' rewards program also creates a kind of social bonding in addition to the financial reward received by the customer. These clubs create opportunities for sharing common interests and activities that bring the customers together and keep them from switching.

Social bonds are relatively more difficult to break and hence enduring.

Level 3: Customisation Bonds

Intimate knowledge of customers and their needs developed through a learning relationship is very useful in retaining valuable customers. Customer intimacy connotes that the customer is actively sharing information during interactions and contributing in the marketer's endeavor to customise the products, services or any aspect of the marketing mix. Every member of the organisation organisation uses every opportunity of interaction to learn new things about the customer and add to the organisational organisational knowledge of the customer. Marriott Hotels knows the likes, dislikes and special habits of its over 5 million customers. This information is shared across its hotels worldwide. If you have stayed at Marriott Delhi and are visiting Singapore with a reservation at the Marriott, the receptionist will surprise you with your favourite welcome drink. She may also give you your favoured room with a view of the swimming pool! This type of information is collected and keyed in by the employees when one stays at one us the Marriott Hotels.

Mass customisation refers to the use of flexible processes and organisational organisational structures to produce varied and often individually customised products and services at the price of standardised, mass-produced alternatives (Pine 1993). It does not mean providing customers with endless choices but providing tailored products or services with little additional effort and cost effactive production and communication technologies. At its special outlets, Levis gives customers the option to buy jeans made to their own specifications. Instead of buying the preferred 501 with a standard 36" waist size, one can give measurements which are passed to the factory to make a customised 501 for delivery within a week. Similarly, the National Bicycle Corporation, Japan, can potentially make over eleven million varieties of bicycle using flexible manufacturing systems and make deliveries in two weeks. My CNN.com or MyBBC.com are examples of information services provided over the internet which help the surfers customise the services to meet their specific requirements.

Reflect.com markets customissed skincare, hair care, fragrances and colouur cosmetics over the Internet. Set up by the initial funding provided by Procter & Gamble, Reflect.com provides 'one-of-a-kind products for one-of-a-kind *You'* by interacting with its customers through specific questions composed by its beauty experts and research scientists. It ships the products free of cost in the US and Canada and provides a guarantee which states, 'We will recustomizse your product until it is right or we will refund your money.' Once customers provide the website with information about their skin, they get frequent emails about products that may be applicable to them. Besides, customers also get reminders about special occasions for special products.

The ability to customise, in combination with customer intimacy, can be used to anticipate customer needs and recommend innovative solutions to meet these needs. Anticipation brings in an element of pleasant surprise — the WOW factor! It is like being offered a glass of cold water when you walk into an office on a hot summer afternoon. Amazon.com uses collaborative filtering techniques to anticipate customer needs. When a customer searches for a travelogue e.g. Lonely Planet series on India, a list titled India Travel Pack prepared by Rob McDonald, Travel Editor of Amazon.com also pops up on the screen. Among the 9 items are other readings like Arundhati Roys 'God of Small Things' and James O'Reilly's 'Travellers' Tales India'.Thus, when a customer buys a book on oneto-one marketing, it also provides them information on other books such as permission marketing which have been bought by customers who bought the one-to-one marketing book. Amazon's collaborative filtering technique uses the knowledge gained by the purchase behaviour of customers with similar profile and requirements to even anticipate the needs of a prospect who registers for using the service and in the process shares information.

Customisation bonds are also difficult to break as the customer would need to start from scratch and teach the new potential provider even if the provider has the capability to meet the customer's requirements. However, firms must be careful about trying customisation bonds. For example, some customers are very clear about the products they need. They do not appreciate being prompted about other purchases. It is important to understand the psychological profile of the customer before developing customisation bonds with customers.

Level 4: Structural Bonds

The partnership between Wal Mart and Procter & Gamble described earlier, is an example of structural bonding through integrated information systems, joint investments and shared processes.

American Express bonds with its customers through the use of its debit cards and the Travel Related Services (TRS). TRS takes care of all the travel and stay need of executives belonging to its corporate clients. TRS personnel, in many cases operating out of the client's premises, arrange visa, passport, and bookings for airline, taxi, and hotels at special prices through arrangements with all their partners, thus, providing a 'one stop shop' and a hassle free experience for the executive as well as the client organisation. When the executive travels, all the expenses are paid through the Amex debit card. It does not stop here. Amex then consolidates the travel and entertainment (T&E) expenses and presents it to the client organisation in the format that its accounting/financial system requires — executive wise, location wise, budgetted vs. actuals. Thus, by meeting the requirements of the executive, the P&A department and accounts department of the client organisation, Amex provides good service value and builds strong structural bonds with its customers.

Federal Express ties its customers with its PowerShips — free computers at client sites to store addresses and shipping data, print mailing labels, and help track packages. The client saves time and can keep track of daily shipping records.

Structural bonds are the strongest bonds and hence the most difficult to break.

As organisations move from Level 1 to Level 4, they will observe the following–

−The bonds become stronger. Structural bonds are stronger than customissation bonds, customissation bonds are stronger than social bonds and financial bonds.

−As the bonds become stronger, customer loyalty increases and the opportunities and scope for reaping the benefits of relationship marketing increases.

In business-to-business contexts, we also see the presence of other kinds of bonds such as legal, planning, and technical bonds.

ZERO CUSTOMER DEFECTIONS

We discussed different types of bonds and their impact on customer loyalty. Companies will engage their customers through different levels of bonding to ensure that they do not defect. The quality movement in the 1980s focussed on 'zero defects'. Now we are moving towards 'zero defections' (Reichheld, F. F. and Sasser, W. E., 1990: Reichheld, F. F., 1996). The concern for reducing and eliminating customer attrition emerged from studies that indicated the following:

- Customers are profitable over a period of time. The longer they stay with an organisation, the more profitable they are likely to be.
- Across industries, profits can increase by 35 to 85 per cent by increasing customer retention by only 5 per cent.

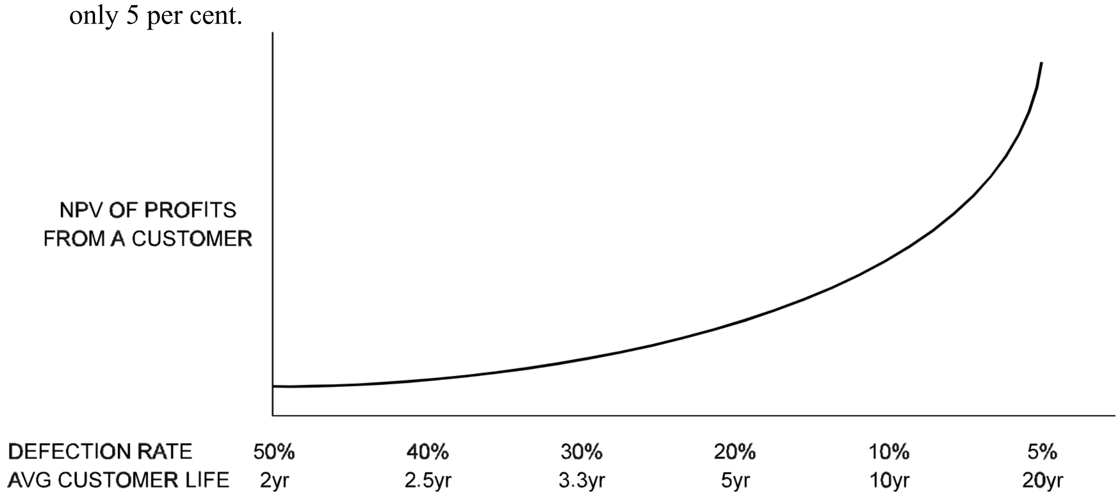


Figure 3.2 Customer Defection Curve

- About 70 per cent of customers switch to competitive offerings due to perceived indifference of the current provider.

The graph below indicates that the net present value (NPV) of profits from a customer is in the shape of an exponential curve i.e. the profits from a customer increase exponentially over a period of time.

It is important to understand why customers defect and what can be done to reduce defections. Studies have shown that about 70 per cent of the customers defect due to perceived indifference of the company personnel. Perceived indifference includes lack of proper response to any query for service, inefficient complaint handling, lack of courtesy, etc.

In service businesses, where the customers keep coming back and ensure a continuous stream of revenue like hospitality, retailing, telecom, credit cards, banking, etc, customer defection has serious implications on profitability. Unfortunately, this gets hidden because customer defection is not measured by most organisationsorganisations.

This is also true for product markets which have reached a stage of commoditisation commoditisation as a result of technological parity, e.g personal computers and durables like household appliances, consumer electronics. In such markets, services (attached to the product like financing, after sales service, etc) become a major source of differentiation. Superiority in services is sustainable, as they are relatively more difficult to copy.

In 83 per cent of the cases, customers shift to competitive offerings on account of issues that are under the control of the company. Now all defections do not have the same impact on the company — the attrition of valuable customers has disproportionate impact. Customers who defect can be broadly categorised as

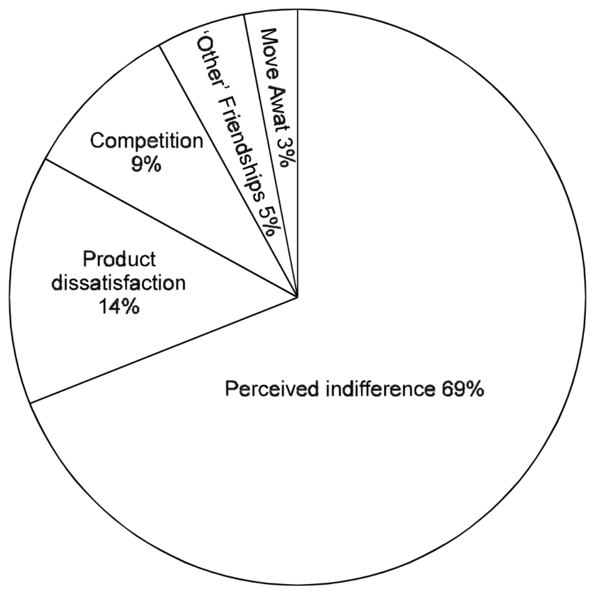


Figure 3.3 Why Customers Defect?

1. *Price defectors* — These customers have shift to a competitor who offer a cheaper price. In most cases, these customers are compulsive 'bargain hunters' and one may be better off by not having them. But in some cases, customers do not see value in patronising their existing service provider as a competitor is offering similar or better service at cheaper rates. It is also important to note that some firms inadvertently encourage this behaviour. They do so by providing 'offers' to new customers only and not to existing customers. In such cases an existing customer may feel neglected and cheated.
2. *Product defectors* — Product defectors are former customers who are not satisfied with their existing product. This may be due to a bad experience with the product performance or availability of better products.
3. *Service defectors* — Service defectors are former customers who are dissatisfied with the quality of service.

Findings from PIMS (Profit Impact of Market Share) indicate that:

– Perceived good service providers could charge an average 9–10 per cent more for the same basic product or service
– They grow two times faster than their competitors
– Perceived service leaders improve their market share at an average of 6 per cent a year, whereas the perceived poor service providers lost as much as 2 per cent MS per year

Studies by TARP (Technical Assistance for Research Program) in the US showed that

- 96 per cent of unhappy customers never bother to complain
- Each dissatisfied customer on an average will tell 15 other people
- Each satisfied customer will tell no more than 6
- Smart organisations never allow an irate customer to retell their complaint to more than one employee in the company
- 71 per cent of the customers feel their complaint has been handled satisfactorily if they only need to deal with one individual. This level drops down to 61per cent if more than one employee was involved in solving the problem.
- If a customer complaint was handled well, 95 per cent of the customers will return to do business with the organisation.

Therefore the impact of service dissatisfaction is normally very high. At the same time, customers give enough opportunity for organsations to retain them.

4. *Market defectors* — Market defectors have stopped patronising their former service provider as they have moved away from their previous business.
5. *Technology defectors* — These customers would have shifted to another, normally superior technology. Examples include customers shifting from type write to a word processor, from a digital diary to a PDA (personal digital assistant), a line printer to a inkjet printer, from fax to email, etc.
6. *Organisational defectors* — Individual users who belong to a group (organisation, club, association, etc.) may shift to an alternate supplier because the group has switched, although some of the individuals may be satisfied with the existing service provider. This can happen in the case of shared internet services in an organisation and the organisation decides to shift from VSNL to Spectranet. one service provider to the next.

Every organisation, especially in the service industry should have a customer retention program to reduce customer defection. The steps include -

(a) Measure customer retention — This is a useful beginning. Start by looking at howmany customers were lost in the last one year. In many cases it is difficult even to identify defected customers. Typically customers do not stop business completely. I have an account in a neighbouring bank that I have been operating for over 5 years. A competing bank opens a branch in the neighbourhood and I open an account with them. It is unlikely that I will shift all my business to the new bank immediately. Like me, most customers defect slowly. They start reducing their volume of business. At the end of the year, my account may be still alive with the minimum balance but I would have dealing of all my business transactions with the new bank. So one has to be careful in defining the customer retention — a dead account with minimal balance has to be treated as a lost customer.

Once the quantum and percentage of customer attrition has been found, calculate the cost of these lost customers using the net present value (NPV) of the future cash flows had these customers stayed for the entire 'customer life'.

(b) Interview former customers — This helps in identifying the reasons why customersdefect. It is useful to get a customer's view on reasons, which made them switch. These insights can help set up systems and procedures to eliminate the root causes for defection. Thus, an 'exit interview' with customers may help the organisation to avoid developing an number of ex-customers.

(c) Analyse complaint and service data — Complaint and service data also help identifythemes that customers keep repeating and hence could be induced due to systemic errors and would need a review of the service and complaint handling process. In many cases, the information can be used to redesign the service delivery process itself.

(d) Identify switching barriers — The final task is to identify switching barriers. Thismay include convenient operating hours, speed of transactions, or tie in through multiple offerings. One of the managers of a progressive public bank analysed his customer data and found that his former customers who had shifted to a competing bank, offering an ATM service, were the ones who did not have a locker. Now he promotes the availability of locker as one of the advantages of having an account with his bank.

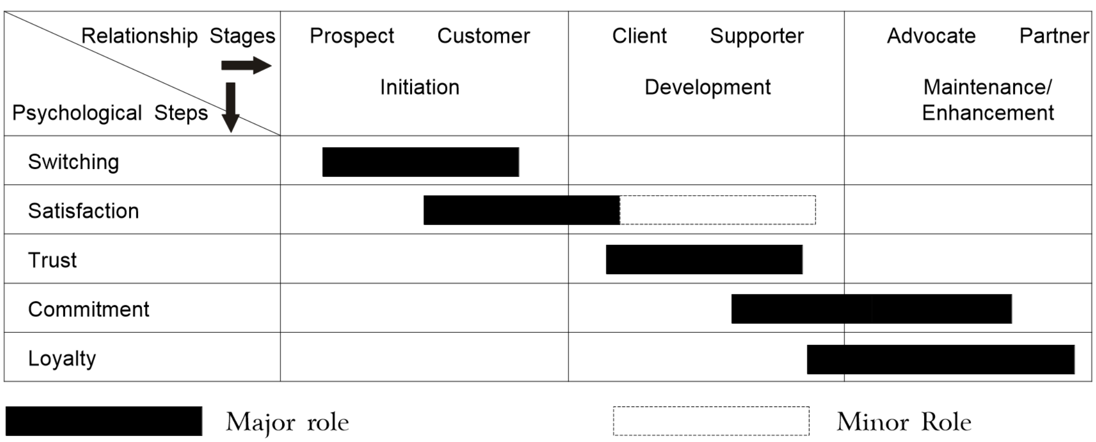
He explained his approach, 'Even though I do not have a ATM, my customers stay with me as we give prompt, courteous and efficient service. In addition, I provide them with a locker that helps me get other members of the family. This will help me keep all my customers as long as I continue to provide goods. Similarly, AOL and other internet service providers have started providing multiple email accounts for family members of subscribers. This to a certain degree ensures against switching to another service provider, as the email accounts of each of the family members has to be changed and is likely to lead to resistance within the family.

Now let us tie up the discussions with a framework that relates the different stages of relationship building with the psychological processes associated these stages.

CRM FRAMEWORK

Our studies (Mookerjee, A. and Shainesh, G., 2000) indicate the following:

> *'In competitive markets even satisfied customers switch or defect to competitive offers. Since loyal customers are more profitable for any organisation, there is a need to identify better predictors of loyalty. Indicators of relationship strength like trust, satisfaction and commitment are better predictors of loyalty and by including these parameters in customer satisfaction surveys, managers can modify service delivery with a focus on customer loyalty.'*



Major role

Figure 3.4 Psychological Steps Across Relationship Stages.

In some cases, the relationships deteriorate, which may even lead to the dissolution of the relationship. But our focus here is limited to the initial formative, development and maintenance or enhancement stages. You will notice that these stages also overlap with the loyalty ladder that we discussed earlier.

Let us now look at each of the psychological steps:

(a) *Switching* — Switching is very common in the initial stages of a relationship process. A prospect who gets attracted by a company's marketing program may try out its product or service offering and becomes a customer. But the initial interactions and experiences determine whether the customer is willing to continue or not. In the cellular service industry, the first two weeks are the most crucial. Most customers need a lot of handholding, support and technical help to start using the service. If it is handled well, customers are likely to continue using the service. Similarly, in the health fitness industry, clubs provide a personal trainer when a customer signs up. This is to encourage the customer to start using the service. Subsequently the customer is signed up for an extended period of time. This prevents switching at least in the short term.

(b) *Satisfaction* — Satisfaction is a complex emotion, which depends on the offer characteristics, expectations and usage situation. Customers are satisfied when the performance of the product or service matches or exceed their expectations. Hence, it is important for marketers to manage customers expectations too. Setting a very high level of expectations is likely to lead to customer dissatisfaction, for the same level of performance. Satisfied customers are more likely to continue their patronage. Therefore, satisfaction is an important intermediate step in the relationship building process and many of the satisfied customers will become clients.

(c) *Trust* — Satisfaction over multiple interactions lead to a stage where the customer begins to have faith in the offering and its consistency in performance. Satisfaction leads to trust when some more antecedent conditions, such as shared values and goals, dependence based on stable expectation/perception of performance, and perceived switching costs, are fulfilled. Trust is defined as the willingness to rely on an exchange partner in whom one has confidence. It exists when a party has confidence in an exchange partner's reliability and integrity and when they share common goals and values. It is a consequence of interdependence due to a stable customer experience of expectations being exceeded, and of being provided the best value by the existing firm, so that switching is not seen as a better option. Rather, helping the firm to improve its performance by working together on mutual needs seems a better option (sharing of goals).

The concept of trust is common among marketers in the packaged goods industry which depends on trust to build brand loyalty. Niall Fitzgerald[1], Chairman —
Unilever Plc., suggests that (Economic Times, October 24, pp. 1-2)

> *'In order to function at all human societies rely on the existence of trust. Good brands invite trust, earn trust, honour trust and reward trust. Good brands guard their reputations with their lives, and if by accident they transgress, they apologise with grace and true humility, – quickly.*
>
> *Every change that we face in marketing today makes the establishment of trust and the maintenance of trust more necessary and more valuable, because for consumers the mounting complexities of choice will make the need for trust more urgent. It is a promising future for brands that live up to and deliver on these expectations."*

(d) *Commitment* – Commitment to a relationship is defined as an enduring desire to maintain a valued relationship. Therefore commitment exists only when the relationship is considered important. It can be operationalised using the two dimensions of:

(i) attitude towards interacting with each other, and
(ii) the formation of bonds. The bonds may be legal, planning, knowledge, social,technical and structural in nature.

Trust and commitment are key variables because they encourage marketers to work at:

– preserving the relationship investments with partners/clients,
– resist short term gains which may be lesser than expected benefits of staying on in the relationship, and

[1] Economic Times (Corporate Dossier), October 24, 2003, 1–2.

– as they view potentially high risk actions as acceptable, since they expect that partners will not act opportunistic.

Further, both the key variables should be present for the existence of the loyal behaviour patterns like increasing purchase, referrals, sharing of information,

(e) *Loyalty* — Loyalty is not simply repeat buying. Loyalty includes future purchase intentions, price sensitivity, complaining and referral behaviouur (positive word of mouth). In terms of measurement of loyalty or loyalty related behaviour, typical questions would refer to:

– intentions regarding the next purchase,
– whether change in supplier would be considered with a particular level of increase in the prices,
– the number and intensity of complaints,
– the tendency to talk about the supplier to other clients, and – the degree of desire to share positive experiences (word of mouth).

While the framework is a useful framework in understanding the progression of a relationship through seemingly discrete psychological steps, it must be kept in mind that all buyer – seller relationships do not necessarily go through sequentially. In some cases, clients may exhibit a lot of loyalty related behaviour when they are satisfied with the performance of the seller over multiple interactions.

SUMMARY

In this chapter, we viewed relationship building as a process because every relationship has a time dimension. Relationships are built over a period of time and companies can build learning relationships with valuable customers so that every interaction becomes an opportunity to make the company smarter and better in serving the customer.

The 'ladder of loyalty' helped us understand the stages of converting a prospect into a partner. Different types of bonds were explored to help companies build relationship of varying strength and durability. The concept of 'zero customer defections' helped us understand a parameter, which is not normally captured by any company's financial statements but has a great impact on its long term profitability.

Finally we tied up the discussions with a framework of CRM that links the psychological steps with the progression of relationship.

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