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FINAL THESIS REPORT

IMPROVING CUSTOMER LOYALTY THROUGH A REGULAR CUSTOMER PROGRAM

Case: Onninen Oy

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ABSTRACT

The objective of this thesis was to gather up to date information on the needs, wishes and values of small and medium-sized contractors, in order to comprehend customer value perception, purchase behavior and customer loyalty. The results of this qualitative research were reflected upon theory, to come up with improvement suggestions for the present regular customer program of Onninen. The revised program should lead to higher sales productivity, improved operating, overall profitability, increased customer loyalty and satisfaction.

The theory which the empirical research was reflected upon comprised of customer loyalty and how to improve it through customer loyalty schemes, business processes and other management tools. Customer Relationship Management (CRM) is discussed among customer loyalty, maximizing retention and enhancing marketing efforts and service/product quality.

Due to the sensitivity of the research material and current operations of the client, the case-section is restricted according to the confidentiality agreement signed by the writer, Tampere University of Applied Sciences and the client. The public version will only consist of theory and common information which is available to the general audience.

Keywords: Customer loyalty, Regular customer program, Customer relationships, Customer commitment, Retention, Customer relationship management

Contents

1. Introduction to the thesis

Onninen Oy introduced its regular customer program for small and medium-sized contractors in 1996. The program is, if not unique, very rare in the Finnish industry.

Onninen has had the current regular customer program running for a long time. After the introduction of the program, it has eventually drifted into an unknown status. The goal of this thesis was to research the situation with the current program and find out what can be done to improve it. The research was done by a qualitative method and it aimed to investigate customer perceptions concerning the program and how it could be improved from the customers' perspective.

> *For the past 10-15 years, becoming more customer-centered has been one of the top two or three challenges facing large organizations. CEOs have generally assumed that becoming more customer-centered would lead to more rapid growth, better profitability, and higher stock price. Many firms have thus invested in a range of customer-centered initiatives such as: customer satisfaction research, customer value management, customer relationship management, complaint handling systems, and customer loyalty programs to ensure they continuously focused on the customer for future success.*
> (Naumann, Williams & Khan (2009, 320.)

Customer loyalty as a topic goes deep and broad. To understand the nature of loyalty it is imperative to be acquainted with the aspects which influence it. The conception of the topic requires accurate definitions, but the most important point is to perceive the entirety. This thesis will discuss the development of loyalty behavior starting from relationships and the reasons for engaging in them, such as quality of the service, customer purchase behavior and customer perceptions.

The linkage of the different aspects starts from the service/product and customer expectations. Intrigued by mutual benefits the provider and client start engaging in a relationship dialogue. This bonding is a prerequisite to relationship commitment. The relationship and commitment deepen if the relationship is seen valuable by both parties, which generally builds trust. Loyalty is often the outcome of this accumulated trust. The rapid advances in information technology have also shaped customer loyalty generation. Countless tools, new management models and theories provide new insight into creating loyalty.

By implementing these new technologies companies are more capable of precise data mining and engaging into a more intimate relationship with the customer leading to competitive advantage. Relationship Marketing (RM) and Customer Relationship Management (CRM) are the most known frameworks. It is generally agreed that CRM developed from RM and is considered as an evolved version of relationship marketing. Despite the fact that both attempt to deepen customer relationships, CRM is considered a more sophisticated model as it "-- incorporates other business functions, invariably contributing to the provision of a value maximizing service to the consumer via the management of customer relationships, and increasing the relative likeliness of creating loyalty and retention" (Customer relationship management).

Table 1, provides a view on how a company can proceed with its marketing. The slight differences in RM and CRM can be seen from the table. RM is very customer-centered and it relies on marketing communication and supplier-customer dialogue, however, CRM incorporates other business functions and focuses more on individual marketing attributes. As a result companies are able to mass customize marketing and product offering and effectively target their market.

Table 1: Levels of interactivity (Customer relationship management, 1)

Individualising of Solution	*Intensity of Customer Relationship*	
	Customised Marketing Product Construction Product Configuration	**Individual Marketing** Customer Profiling Self Customisation Database Marketing Mass Customisation Learning Relationship
	Mass Marketing Transaction Standard Product Repetitive Buy	**Relationship Marketing** Partnership Loyalty Customer Integration

Adapted from Link & Hildebrand (1997) cited in Muther (2002)

1.1. Objectives of the study

The theoretical objectives of the study were to investigate the relationship between customer loyalty and regular customer programs and how to improve loyalty through business processes and loyalty schemes. The aim of the empirical frame was to combine the research data with the gathered theory, in order to develop the current regular customer program of Onninen so that would meet the customers' values more accurately and improve the programs operating efficiency. Below are listed the key points that have been focused on to get the desired outcome.

Theoretical key points:

- Investigate the relationship between customer loyalty and regular customer programs
- Gather theory on how to improve customer loyalty through regular/loyal customer program

Empirical research key points:

- Find out reasons for conducting business with Onninen
- Find out attitudes towards Onninen regular customer program
- Investigate the success of current program
- Investigate the state of current program
- Extract improvement suggestions
- Investigate possible reasons for dissatisfaction with the program
- Uncover the power-balance between suppliers

Outcome:

- Combining empirical research data and theory to devise improvement suggestions to develop customer loyalty through management, operational business processes and customer program

1.2. Onninen Group

Onninen Group is a family-owned company, founded in 1913. It offers complete materials services to contractors, industry, public organizations and technical product retailers. The group employs over 3 000 people in its operations in Finland, Sweden, Norway, Poland, Russia, Kazakhstan and the Baltic countries. The majority of the workforce is based in Finland, followed by Poland. In 2009, the net sales totaled EUR 1.34 billion. Onninen has 43 sites in Finland with the Head office located in Vantaa and the distribution center located in Hyvinkää. (Onninen.com - Facts & figures, 2010.)

Financial statement

In 2009 Onninen Finland´s turnover was EUR 660 million, almost 24% less than the previous year. Operating profit came down to EUR 5.2 million (39.3 MEUR in 2008). The economic turmoil had the same effect on all operating countries. (Onninen.com - Key figures, 2010.)

Vision, mission and values

Onninen aims to be the first option in material services for their customers and suppliers. It also sets high value to being an exemplary employer (Onninen.com – Vision). The company's mission is to "provide technical goods and services in order to improve our customers' businesses with value adding business and service concepts" (Onninen.com - Mission). For the suppliers, they can provide a reliable channel of products and information to the final customers. In essence, Onninen's business revolves around helping customers so that they can focus on their core business.

The core values consist of teamwork, responsibility, reliability, respect, innovation, commitment and development. All of the previously mentioned direct and apply to each employee, supplier and partner of Onninen. (Onninen.com – Values.)

Strategy

According to the company's website, Onninen's strategy aims at growth, profitability and geographical expansion by the means of customer focus and closer integration with customers. This reflects upon improvement of productivity through core processes and functions – guaranteeing trustworthy, first-rate services to its customers and suppliers. The Group drives differentiation by renewing their business concepts through the better understanding of customer needs. This strategic objective connects Onninen to this thesis: "renew and improve competencies and ensure knowledge sharing. We [Onninen] continuously make sure that we are able to better serve and proactively respond to the changing needs of customers and suppliers." (Onninen.com – Strategy.)

2. Customer loyalty

An interesting finding indicated by the majority of the used sources stated that loyalty programs do not bring about customer loyalty. Another issue was that the programs are often run inefficiently and should be altered quite radically. Most sources also stated that these loyalty schemes do not create profit as well as should be expected in return to the financial input. Another proposition was that they are just considered as drivers of repurchase activity but do not entice actual loyalty. It’s also fair to say that in addition to the considerable financial commitment the programs also require a lot of attention and effort marketing-wise and service-wise.

Active and current information is constantly needed in order to be able to conjure any kind of improvement suggestions. The company’s fine idea will most likely be far off from what the consumer wants, be it an individual or business.

Based on the used sources, loyalty programs are experiencing a time of change. This may be a result of the fact that loyalty programs don’t create customer loyalty in the correct sense. The common customer program may cause small changes in customer purchase activity at a certain company, but temporary price reductions and a bonus system are not sustainable tools by themselves. Arantola (2002, 9) indicates that, “-- loyalty programs have become so common that it is often predicted that they will lose their impact on the individual consumer.” She also refers to Butscher[1] (1998) who found that 90% of the programs in his study were based on price-related benefits making them short-term tools. It’s also worth remembering that there is high probability that the competitor already has an exactly similar program or can imitate it swiftly.

Loyalty derives from understanding the customer and by offering them something more than just the product they need. Attention needs to be put into the augmented product and service, because loyalty cannot be sustainable just by offering reduced prices.

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[1] Original source: Butscher, S. A. (1998) Customer clubs and Loyalty Programmes. A Practical Guide. England: Gower.

Most of the sources I have used have been pointing towards CRM as the best option to make actual use of customer drivers and information. This way it's possible to efficiently coordinate marketing activities accordingly to the genuine expectations of the key customer segments. It is also otherwise possible to research the drivers of customer purchase behavior; however, CRM offers a refined database function and automated corporate system which may find competitive advantage among the data. According to the literature on the topic CRM also helps identify the direction of future purchase habits, wants and trends.

Lacey and Morgan (2009, 4) pointed out that customer loyalty programs have not been studied that extensively in business-to-business environments. The differences in behavior between business-to-business and consumer loyalty programs have not been adequately covered and cannot give a trustworthy evaluation of any possible differences or if there are any. In my opinion, this is especially important when talking about small and medium sized entrepreneurs. SME's are usually owned by a single person who employs few people and they operate usually at relatively modest turnover levels. Should they be considered more as individual consumers rather than a business, or perhaps as hybrids?

2.1. Defining customer loyalty

Arantola (2002, 46) imposes the question, "-- are marketers aiming at loyalty in today's marketing environment? What, then, is the loyalty the marketers aim at?" It appears to be a habit of not defining the necessary terms and lose sight of the context under which the particular phenomenon is observed from. It is the foundation of any loyalty program to have a clear understanding of what the company means with loyalty. It is a difficult term to define, largely as result to the numerous different approaches, theories and levels of customer loyalty. Below are listed some general views of loyalty.

According to Arantola (2002, 46), researches on retailing and repeat-buying-behavior consider loyalty by,

> *the proportion of consumer's expenditure devoted to a store, attitudes to the store, sequences of purchase in the same store or hybrid measures. Most of these studies rely on scanner data taken directly from cash registers and panel data collected on the household level.*

Arantola (2002, 46) also points out that, “Survey data is often collected at the point of purchase, which leads to the over-representation of frequent shoppers”. Other options would be to focus on measuring intent to return, switching intentions and actual switching behavior. From the managerial point-of-view, loyalty is often seen as the opposite of defection. It’s also important to remember that, “measuring satisfaction often leads to fairly good results but these results do not measure loyalty” (Arantola 2002, 49).

2.2. Concept of a relationship in business-to-business

In order to understand the big picture it’s essential to understand the concept of a relationship. There are two relevant differences between business-to-business and business-to-customer relationship motivation: the nature of the relationship and the definition of an actor in the relationship. In a B2B relationship the parties are more defined, this is largely because the nature of the relationship is based on the assumption that both parties seek common benefits and equality in the relationship. Today’s relationships evolve from discrete exchanges between customer and provider into a relationship. However, it is hard to pinpoint when a relationship is really considered to exist. (Arantola 2002, 40)

The dissolution of a relationship in the consumer market is often thought of as the customer exit or switching. In the B2B world the end is thought of in terms of a process and that dissolution and switching are just changes in the relationship. According to Arantola (2002, 41) the implication is that “-- the relationship still exists after dissolution”.

2.3. Relationship drivers and benefits

There's a difference which should be understood between motivation in discrete transactions and motivation in relationships. Figure 1, illustrates how frequency of transactions can derive from transactional or relational motivation. This illustration reminds that low-frequency buyers may also act as a result to relational motivation. Arantola (2002, 39-40) states that the figure should be understood as a basic tool "-- to understand the nature of relational motivation". She also adds that motivation cannot be understood simply "by observing only frequency, recency or volume of transactions."

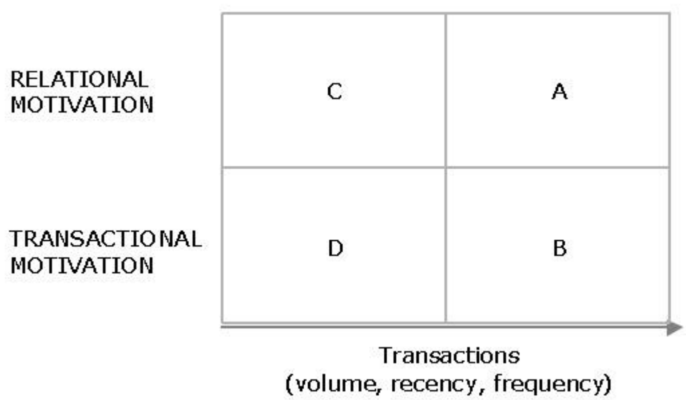

Figure 1, Arantola (2002, 40)

Figure 2 on page 13, brings out the different drivers in consumer and business-to-business relationships. Supplier drivers include attraction, trust, satisfaction, bonds and commitment. If the customer is a business, the drivers are considered to correspond to those of the supplier.

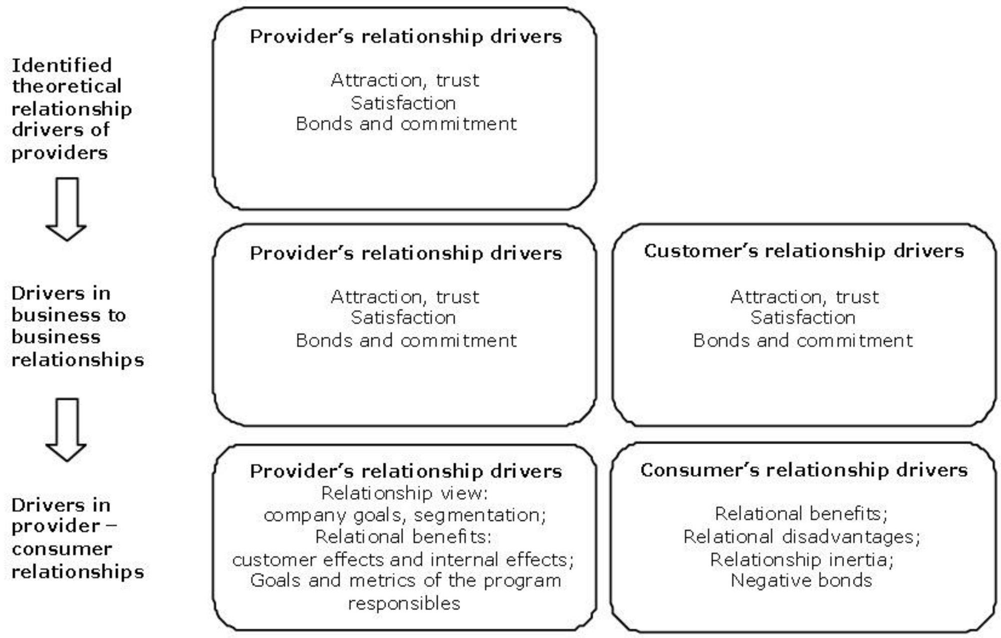

Figure 2, Arantola (2002, 118)

2.3.1. Relational benefits to the provider

According to Arantola (2002, 54-55), studies suggest that "Loyal customers increase their share of purchases and buy a more comprehensive product line from one provider". According to Reichheld (1996) loyal customers are not as price sensitive and lead to predictable sales and profit. They also may lead to decreased costs because "sales, marketing, and setup costs can be amortized over a longer customer lifetime" (Arantola 2002, 55). Another aspect is that they are less likely to search for alternatives and are more resilient against persuasion from competitors. From the company's perspective, loyal customers give "-- personal referrals and are more likely to engage in positive word-of-mouth" (Arantola 2002, 55).

Arantola (2002, 55) lists quite a few mutual benefits as a result from relational marketing including, “reduced uncertainty, managed dependence, exchange efficiency, social satisfaction, and the possibility of significant gains in joint payoffs as a result of effective communication and collaboration.” Relational benefits to the provider have been provided by Arantola (2002, 71) (Figure 3). Probably the most desirable outcomes are reduced interest in the competition, higher volume and customer share, decreased price-sensitivity, positive word-of-mouth and process improvement through dialogue and effective marketing communications.

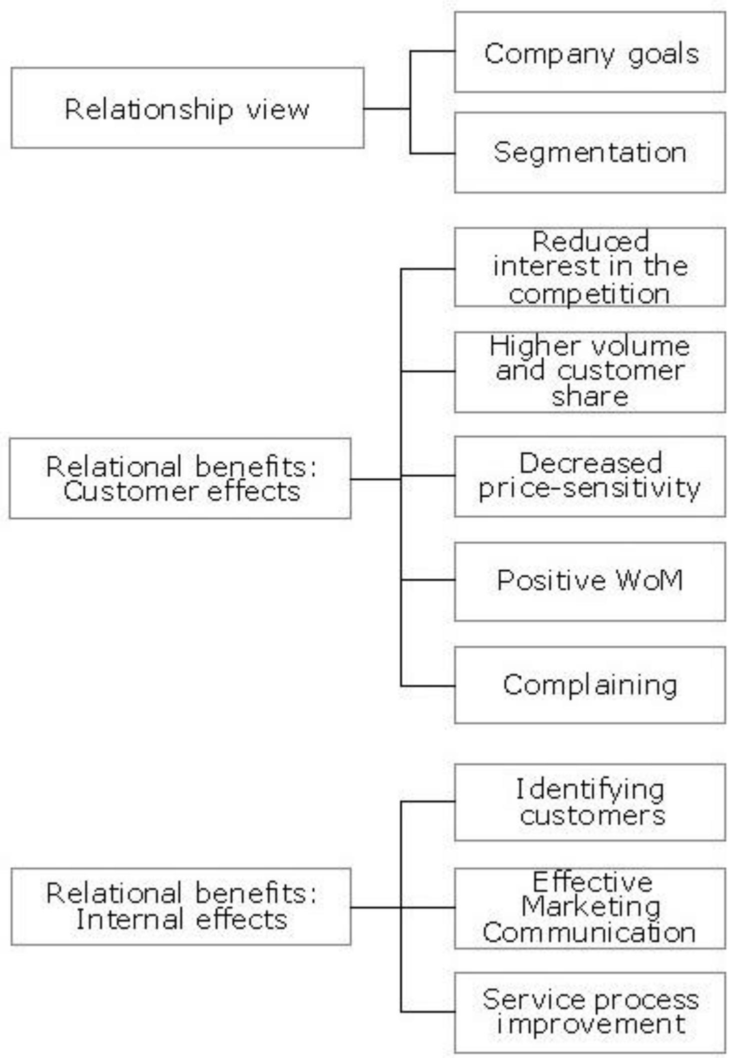

Figure 3, Relational benefits to provider. Arantola (2002, 71)

2.3.2. Relational benefits to the customers

Numerous research papers[2] indicated by Arantola (2002, 1) suggest that the customers view to engage in a relationship consists of relational benefits, emotions and perceptions. Arantola (2002, 1) feels that despite these researches the discussion on customer interest in engaging in a relationship is very superficial and that "-- marketing managers are seemingly expected to act on the basis that the customer are motivated by reward/greed, philantrophy/guilt and love/obligation."[3]

Arantola (2002, 2) gave some examples of assumptions to why a customer engages in a relationship. One vision was that a customer is assumed to be more involved based on the amount they engage in information processing. Another assumption is that "personal contact creates more involvement and this is why human contact should be increased to generate loyalty or commitment" (Arantola 2002, 2). Arantola refers to research carried out by Javalgi and Moberg (1997)[4]. They claim that, "-- memberships automatically bring high repeat patronage; and loyalty is created by offering cash incentives" (Arantola 2002, 2). Arantola's work also mentions Fournier (1998)[5] who believes that "intensive relationships with physical products and emotional experiences are possible also without human contact, e.g., through exposure to advertising" (Arantola 2002, 2).

It's apparent that there are contradicting views in the literature handling provider-consumer relationships. Arantola (2002, 2) has named four aspects, which should be analyzed and incorporated with current motivation drivers and understanding of customer relationships in order to help explain the nature of long-term relationships.

1. *The concept of a customer relationship seen from both actors' viewpoints*
2. *The drivers of providers and consumers in relationships*
3. *Possibilities of engaging the consumer in a relationship*
4. *The goals of management of consumer relationships.*

(Arantola 2002, 2.)

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[2] ed.s. Gwinner, Gremler & Bitner, 1998; Sheth and Parvatiyar, 1995; Fournier, 1998
[3] Original source: Seybold, P. (2001). Loyalty Incentives. *Executive Excellence*. 18(7), 15.
[4] Original source: Javalgi, R. & Moberg, C. R. (1997). Service Loyalty: implications for service providers. *Journal of Services Marketing*, 11 (3), 165-179.
[5] Original source: Fournier, S. (1998). Consumers and Their Brands: Developing Relationship Theory in Consumer Research. *Journal of Consumer Research*, 24, 343-373.

Arantola (2002, 53) concludes that it's possible to assume that relationship motivations and transactional motivations are most likely different and are built on different antecedents and individual characteristics. Arantola (2002, 53) refers to the thoughts of numerous other authors[6] by categorizing a theoretical framework of benefits from the customers' perspective (Table 2) comprising of monetary, soft and recognition benefit types. Monetary benefits include free items, discounts and bonuses based on purchase volume. The soft or special treatment benefits consist of convenience, customization and special benefits, like gifts and events. Recognition comprises of confidence benefits (reduced risk), relevance benefits and social benefits.

Table 2, Customer benefits (Arantola 2002, 72)

Benefit type	Benefit	Description
Monetary	Free items or services	• Cash value: free items • Using the program currency: Redemption choice (relevant options) • Aspirational value: Looking forward to reaching the benefit
	Discounts and bonuses	• Cash value: Discounts • Cash value: Bonuses based on volume
Soft i.e. special treatment benefits	Convenience benefits	• Limited hassle with e.g. coupons and mailings (customization benefits also create convenience benefits) • Non-monetary time-savings: faster service, reduced search costs, avoided learning costs • *N.B. Inertia: benefit from not having to make choices*
	Customization benefits	• Preferential treatment: overall service level and customer service • Special service not available to others • Customer history as an enabler • customer information not available to all customers or earlier than to other groups of customers.
	Specials	• Happenings and seminars • Gifts
Recognition	Reciprocity	• Good service in return for being a good customer
	Confidence benefits	• Feelings, such as comfort, security, trust, reduced anxiety, reduced risk through familiarity, cognitive consistency
	Relevance benefit	• Important role in the customer's life or one area of the customer's life, creates meaning • Ability to understand this role and to support the customer better than other providers • *N.B. avoidance of boredom: the relationship needs to remain "fresh"*
	Social benefits 1) Tangible signs of relationship 2) Benefits realized by the personnel 3) Personal identification	• Signs visible to the personnel and to other customers • Personal recognition - remembering, individual level • Fraternization or affinity - "togetherness" with personnel or group of customers • Friendship with personnel • Self-esteem: Social status (community) or individual status (personal perception)

[6] ed.s. Gwinner, Gremler & Bitner (1998); O'Brien & Jones (1995); Christy et al (1996); Sheth & Parvatiyar (1995)

2.3.3. Influences on customers' relational behavior

There are three types of influences on relational behavior: personal, social and institutional. According to Arantola (2002, 50), the aim of the customer on the personal level is to be more efficient in decision-making and reduce information processing, cognitive consistency and reduced risk. Social and institutional influences are considered as behavioristic rules and habits set by, for example, family members, friends, religion and marketing efforts.

These drivers can be put into four categories: social, psychological, economic and customization as seen in Figure 4.

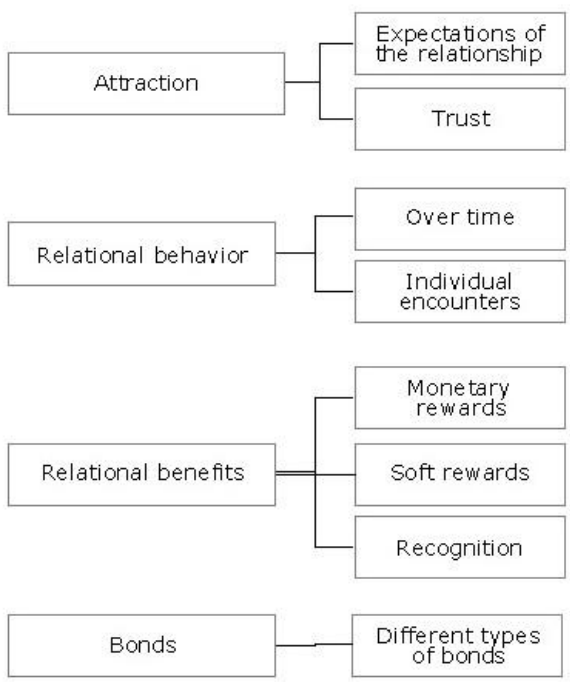

Figure 4, Theoretical relationship drivers (Arantola, 2002, 73)

2.4. Bonding, commitment and trust

Bonds can be seen as strong emotional states and sources of sustained competitive advantage. Bonding has become a central concept in customer relationships and is seen to be a key objective of relationship marketing. According to Sheth and Parvatiyar (1995)[7] cited by Arantola,

> *any relationship that attempts to develop customer value through partnering activities is likely to create a greater bonding between customers and marketers. The greater…such bonding, the more committed the consumer becomes in the relationship…*
> (Arantola 2002, 59.)

Arantola (2002, 59) states, that bonds “always include a mutual orientation”. The more bonds a customer has to a certain provider, the more willing they are to accept lower service quality whether the bond is dedication-based or constraint-based. Usually intentionally built bonds work well as exit barriers. However, these types of bonds usually still have some sort of time limit. Social bonds are based on values and thus last longer, but usually take considerable time to develop. (Arantola 2002, 59-60.)

Table 3 on page 21, enlists different bonds and how they work depending on how they are perceived. Lacey and Morgan (2009, 4) define commitment as, “-- an implicit or explicit pledge of relational continuity between buyers and sellers” when Arantola (2002, 65) expands the definition also to the mental exclusion of other exchange partners. According to Arantola, commitment can be measured by the following criteria: inputs, durability and consistency. Inputs can be broken down to economic, communicative or emotional; durability translates into future-orientation and consistency means predictability of the parties.

Trust can be defined as a belief that a company is reliable and holds its own end of the deal sincerely. Lacey and Morgan (2009, 4) indicate that trust reduces customers’ vulnerability because they are certain that they can rely on their business partner’s personnel, products and services. In many relationship marketing researches, trust is thought of as an antecedent

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[7] Original source: Sheth, J. & Parvatiyar, A. (1995). Relationship Marketing in Consumer Markets: Antecedents and Consequences. *Journal of the Academy of Marketing Science*, 23 (4), 255-271.

to commitment. A model suggested by Lacey & Morgan (2009, 4), assumes that B2B loyalty program membership is expected to positively affect relationships because commitment assures the customer that they will benefit from the program.

Lacey and Morgan (2009, 4) researched two hypotheses regarding trust in B2B loyalty behavior. They found support to the first hypothesis; trust in the supplier is positively related to the commitment level of the customer. The second hypothesis of a loyalty program positively moderating trust and commitment to the firm, however, was not supported by research data. So without founded trust, the loyalty program is regarded insufficient in assuring a client to commit to a deeper relationship.

Table 3, Interpretations of bonds (Arantola 2002, 63)

Nature of bonds

	Negative perception, varying strength	Neutral perception, weak	Positive perception, varying strength
Economic bond	Monetary relational investments or special pricing prevent desired exit.	There are relational investments or special pricing but they do not affect the customer's perception of motivation to stay in the relationship.	The customer perceives being tied to the provider due to relational investments or special pricing, but perceives the relationship as beneficial and the situation positive.
Legal bond	The customer is bound by an agreement that prevents desired exit.	The customer is formally tied by an agreement. This does not affect the customer's perception of motivation to stay in the relationship. The eventual sanctions for breach of contract, or waiting for the contract to end are not perceived as important.	Customer perceives benefits from the legal agreement and perceives that the marketer is bound by it, thus benefiting the customer.
Knowledge bond	The customer is in a learning relationship and it is perceived too costly and time consuming to teach another provider to deliver the same level of service, even though exit is desired.	Neutral or no perception of knowledge creation or learning.	Customer has taught the provider to provide service to the customer's liking. Familiarity reduces risk and increases comfort levels, and the customer is motivated to stay in the relationship.
Social bond	*If there is a negative perception of the provider's contact person/s, the perception cannot act as a tie, therefore negative social bonds cannot exist.*	Neutral or no perception of social relations between the customer and the provider.	Personal relations are perceived as positive and important, and the customer is motivated to stay in the relationship.
Technical bond	The customer has invested in relationship specific technology (or knowledge of it), which prevents desired exit.	Neutral or no perception of relationship specific technology (or knowledge of it) between the customer and the provider or the investment is not perceived as important.	Familiar technology reduces risk and increases comfort levels, thus making the customer motivated to stay in the relationship.
Psychological, emotional, value, cultural, language bond	*If there is a negative perception of the provider's values, culture, language compatibility or if there are negative emotions, these cannot act as ties, therefore negative psychological, emotional, value, cultural or language bonds cannot exist.*	Neutral or no perception of the provider's values, culture or language compatibility, neutral or no emotions attached to the relationship.	The customer feels emotionally attached to the provider or perceives value, culture or language compatibility with the provider, and is thus motivated to stay in the relationship.
Time bond	The service hours or speed of service delivery of the provider prevent the customer from desired exit.	Neutral or no perception of the provider's service hours or speed of service delivery.	Customer perceives convenience and time saving benefits, and is thus motivated to stay in the relationship.
Structural bond	The provider provides value added service that is not available elsewhere or the customer has reached a preferred service level based on the relationship history. It would be expensive to build a relationship history and reach the service level elsewhere, which prevents desired exit. Structural bonding can incorporate time, knowledge and economic bonds.	Neutral or no perception of the service level or the relationship history (i.e., relational investments) required for reaching the level.	The special service level and structure are perceived as valuable and important, and the customer is motivated to stay in the relationship.
Geographical bond	Service location is (by far) the most convenient or there is a geographical monopoly, which prevents desired exit.	Neutral or no perception of the location vis-à-vis the alternatives.	The customer prefers a local provider instead of others, and is thus motivated to stay in the relationship. *(NB This is closer to value or cultural bonds than geographical bonds.)*

2.4.1. Commitment-generated support behaviors of customers

Information sharing

Information sharing is defined as the willingness of business customers to provide organization-specific information to enforce and build the customer relationship (Lacey & Morgan, 2009, 4). Lacey and Morgan (2009, 4) refer to Campbell (2003)[8], "migrating from aggregated marketing information systems to focused, individual customer relationships can be used to position the firm toward realizing strategic advantage." The use of this individual intelligence can help personalize products, services and communications. Customer companies that are already committed to the provider are predicted to be more willing to share this organization-specific information. These more strongly committed customers show more confidence that the supplier will use good judgment and appropriately store the information in support of its business activities. According to Lacey and Morgan,

> -- *a key benefit of B2B loyalty programs resides in the data mining and knowledge base that firms can use to develop statistical models to develop new offerings and support customer service, contributing to reduced customer defection and increased CLV [Customer Lifetime Value].*
> (Lacey & Morgan 2009, 4-5.)

Lacey and Morgan (2009, 5) researched two hypotheses on information sharing: the first, testing if the customer's commitment had positive effect on information sharing; and the second, testing if the loyalty program membership had positive influence between commitment and information sharing. The first hypothesis was empirically supported whereas the second was found unsupported; the loyalty program in itself did not prove to moderate the relationship.

[8] Original source: Campbell, A. J. (1997). Relationship Marketing in Consumer Markets: A Comparison of Managerial and Consumer Attitudes about Information Privacy. *Journal of Direct Marketing*, 11 (3), Summer.

Marketing research support

Marketing research support is customer input on such issues as improvement suggestions, services and processes, contributing feedback on new products and sharing thoughts on unfulfilled needs. The assumption is that the stronger the relationship, the more a customer will be involved in marketing research support. Lacey and Morgan fluently state,

> *Since customer input is fundamental to the marketing concept, active customer participation is necessary for collaborative marketing relationships and B2B loyalty programs are a key facilitator to solicit customer participation. -- committed customers are anticipated to willingly provide marketing research support*" and that loyalty program membership influences this willingness. (Lacey & Morgan 2009, 5.)

However, the second hypothesis of program membership influencing the customer's willingness to engage in market research support was proved unsupported. The customer's commitment was found positively related to marketing research support.

Word-of-mouth referrals

Reichheld (2006, 9-10) depicts that the strength of a customer relationship shows in their willingness to recommend the firm to others. These favorable referrals carry a considerable power and acts as a credible testimonial influencing customer acquisition. In today's internet-oriented world it might have an even more powerful role than before. As in the previous cases, customer commitment was positively related to word-of-mouth referrals whereas the membership in the loyalty program was not seen to moderate the effect between commitment and word-of-mouth referrals.

Increased re-patronage intentions

Lacey and Morgan (2009, 5) imply that, "in the marketing literature, there is wide agreement on the crucial role of reptronage as the key behavioral outcome for relationship marketing success." The proportion of purchase to a single provider is seen as indication of committed customer behavior. Not only is the current level of business important, but also addressing the customer intentions in increasing the level and proportion of purchase activities in the long run. Lacey & Morgan (2009, 5) find evidence that customer commitment "-- is positively related to increased repatronage intentions." Once again the hypothesis on the program membership positively moderating the effect between commitment and increased re-patronage intentions was not supported by research data.

Summary

The research conducted by Lacey and Morgan (2009, 8-9) appears to be consistent with the general viewpoint that many loyalty programs only promote commitment behavior towards the program but not to the supplier in itself. Dholakia (2006, 111) reported that customers who perceive their joining voluntary engage more in relational outcomes. Trust nonetheless has significant positive effect on commitment leading to positive impact on information sharing, marketing research support, word-of-mouth and increased re-patronage intentions. Despite the fact that there was no evidence that B2B loyalty programs moderate this advocacy behavior does not mean that companies cannot benefit from loyalty programs. These advocacy activities go beyond the loyalty concept and should not be discarded. The loyalty program still helps in, for example, easing privacy concerns.

3. Retention and defection

Increased customer value and loyalty is often improved through long-term relationships. For this to happen, companies must minimize customer defection. The idea is that the better the retention of customers, the longer the commitment and the relationship. These long relationships deepen the commitment and entice loyalty behavior. Zineldin (2006, 434) says that in order to pursue customer retention efforts, it is vital for "-- companies to be responsive to customer concerns by keeping open dialogues with them." He suggests this to be done by efficiently handling complaints, analysis of customer satisfaction data and active solicitation, and by developing of long-term strategic relationships by meeting constantly changing customer expectations.

A company should evaluate customers through the lifetime value (LTV) of a satisfied customer rather than profit gained from an individual transaction. The lifetime value comprises of future purchases, referrals and avoiding negative word-of-mouth. Zineldin demonstrates how the LTV calculation is done:

1. *Determine the target (segmentation) customers, e.g. 1,000 customers.*
2. *Identify the annual marketing and sales costs of gaining, managing and maintaining those customers.*
3. *Identify the costs of selling additional Prodserv [Product/Service] to them.*
4. *Identify the revenues that have been generated by those 1,000 customers each year (for a period of two, or five years).*
5. *Subtract costs from the profit to produce a stream of net contribution per year (or over the time period).*
6. *Use discounted cash flow techniques (net present value) to calculate the LTV for those customers.*
7. *Divide the total by the number of customers to find out a per customer value.*

(Zineldin 2006, 434.)

The result of the LTV calculation together with the evaluation of customer loyalty provide answers to questions like: whether or not a particular customer type should be retained, how much does the retaining cost, what methods should be used to develop and enhance the relationship, which customers are profitable at the present and how profitable are they. (Zineldin 2006, 435.)

3.1. Intelligent complaint management

Complaint handling is very significant to the customer. A complaint should be viewed as an opportunity to mend any sores in the relationship. This is where most companies make the error of neglecting or misunderstanding the nature of intelligent complaint management. The manner in which the company handles the situation dictates the fate of the customer's future profit stream.

A poorly handled confrontation may result in unexpected impact on company image by word-of-mouth. By average, dissatisfied customers passes on the bad experience to 9-10 people and 13% will tell it to about 20 people. (Zineldin 2006, 435.) Once again it's worth calculating how much does the replacing of a damaged good, for example, cost in comparison to the defection of a profitable customer.

3.2. Strategies for improving customer retention

It's good to keep in mind that a pleased client does not always equal a loyal client. They may be satisfied and be repeatedly purchasing, yet still be buying primarily from competitors or be thinking of changing provider. Zineldin (2006, 435) suggests companies to discard the traditional CAST survey approach and move to using customer value management (CVM) methodologies when assessing customer satisfaction. He also lists some strategies which can be applied to improve retention:

1. *Measuring customer retention rates over time and by line of business and in each of the business areas. These results of the measurement must then be communicated to the employees.*
2. *Analyzing the root causes of defections. Understanding why customers are leaving the company provides that company with the essential information needed to implement a customer retention program. An effective retention program is likely to increase customer satisfaction and thereby improve customer retention and profitability.*

3. *Focusing attention on the most profitable customers and setting clear targets and measuring results as well as identifying switching barriers.*
4. *Focusing attention on internal marketing and particularly front-line employees to ensure that they are offering product and service quality that consistently meets the requirements of the target market (segment or segments).*

(Zineldin 2006, 436.)

3.3. Broadening the reasons of defection

In the previous chapter, Zineldin (2006, 435), stated that loyalty and satisfaction do not always go hand in hand. Naumann, Williams and Khan (2009, 321), conducted a research on the topic coming to the same conclusion. They concluded that many satisfied customers are not loyal and will eventually defect. This loops back to Zineldin's improvement suggestions of analyzing the root causes of defection. Naumann et al. (2009) case will give better insight to why this should be considered important.

Naumann et al. (2009, 322) were conducting a research to help a company develop a loyalty model. After conducting the research by using customer retention as the dependent variable they could understand the key drivers of defections to 60% of the cases. However, the organization was not pleased with not being able to understand the reasoning behind the rest 40%. To understand more comprehensively, Naumann et al., had to gain better insight to the customer decision making process in a B2B service context. One apparent factor was that there were a number of factors that were discluded from the current customer satisfaction research. They perceived these factors to provide a more accurate prediction on customer loyalty in the future because these factors notably influenced the vendor selection process in B2B organizations.

According to Naumann et al. (2009, 323), “customer acquisition strategy is virtually never addressed in CSR.” They continue that, “each customer has a decision-making culture which could enhance or reduce customer-loyalty.” Price-sensitiveness can be considered such a characteristic of this corporate culture. In Naumann et al. (2009) research 20-30% of customers would lower their commitment levels if a competing supplier would offer a 10% discount. Customers willing to reduce their commitment can be considered as price-sensitive. Regarding customer factors, Naumann et al. (2009, 324), found three propositions relevant to this thesis:

- *Customers acquired through low price strategies (a low bid or a price promotion) are less loyal.*
- *Customers who are required to solicit and accept low-costs bids are less loyal.*
- *Customers who are more price-sensitive are less loyal.*

(Naumann et al. (2009, 324.)

According to Naumann et al. (2009, 324), 20-30% of business customers consider another supplier as the best option rather than the one they are currently using. These clients are usually those acquired primarily through low bids and are more probable of defecting. Those who considered their current supplier as best choice were conceived to be far more loyal.

Naumann et al. (2009, 324), suggest that the customers market position within the industry can also effect loyalty. For example, a customer with a steadily increasing market share often tells of quite high supply chain loyalty and can be seen as more loyal than those losing market share. Quoting Naumann et al. (2009, 324), “Growing firms are expanding their productive capability, which has a positive impact on supply chain relationships. As they expand, they usually also increase their expenditure.”

Customer expectations are commonly based on relative competitive alternatives of suppliers. A competitor’s actions, claims and promises can directly influence customer expectations and affect contract renewal. 90% of the customer companies in Naumann et al. (2009, 324) research had an active relationship with the leading 3-4 suppliers of their industry. This is a very regular habit to minimize supply-chain risk, but these clients tend to have lower loyalty levels. From the clients’ perspective, commitment to a single provider may become troublesome if the supplier ends up in financial problems. It's also possible that the client does not wish "to lose bargaining power by sole-sourcing" or that it requires "service in geographical areas which are not covered by a single supplier" (Naumann et al. 2009, 325) or they require several different brands of equipment.

Promotional efforts by competitive providers often give the customer certain leverage. If the competitor is able to convince a customer that it's possible to reduce costs by a certain amount, they often expect it to apply on each of the other providers as well. This results in low loyalty and is especially common in high-intensive industries. (Naumann et al. 2009, 325)

A healthy industry is a solid foundation for building customer relationships. In withering industries, companies often need to revolutionize their business model and this often includes in cost-reduction having inevitable influence on supply-chain relationships. Naumann et al. (2009, 325), came up with six propositions to consider concerning industry and competition factors influencing client loyalty:

- *Customers who think another firm is the "best supplier" in an industry are less loyal.*
- *Firms with an increasing market share in their defined markets will be more loyal than firms with a decreasing market share.*
- *Customers who sole source suppliers will be more loyal than customers who diversify their purchases across several suppliers.*
- *Customers who have an active business relationship with the perceived "best supplier" will be less loyal to other suppliers.*
- *Customers in highly competitive industries will be less loyal.*
- *Customer who operate in a healthy, growing industry will have higher customer loyalty than firms in a shrinking industry.*

(Naumann et al. 2009, 325.)

Socio-economic factors are known to cause troubles every once in a while. The impact may differ in industries, but these changes in external business environment can change customer loyalty behavior. As an example we can consider the raise of interests. It may not have much effect on healthcare industry, but will definitely change attitudes on residential housing industry. In this case, it's probable that the decreasing will send a ripple effect to the supplier by means of decrease in sales of doors, appliances and so forth. "The implication is that a supplier needs to understand how changes in the external environment influence their customers", states Naumann et al (2009, 327).

Another aspect worth the attention of suppliers is the changes in the needs and expectations of the customer's customers. Naumann et al. (2009, 328) identified three propositions on macroeconomic factors:

- *Adverse changes in the customer's business environment make the customer less loyal.*
- *Customer with stable needs and expectations are more loyal than customers with rapidly changing needs and expectations.*
- *The longer the repurchase cycle (the time from initial purchase decision to repurchase decision), the less loyal customers will be.*

(Naumann et al. 2009, 328.)

The proposed factors should be considered when predicting loyalty. Ignoring them will most likely lead to customer defection regardless of satisfaction survey statistics. The final issue that is problematic with customer satisfaction research is the conceptualizing of loyalty. The amount of tools and range of methods often results in confusion as to which is the most suitable in the current situation. The simplified way of considering loyalty in means of repurchase intention and positive word-of-mouth, very seldom give a reliable picture on loyalty behavior.

The two most dominant negative behaviors which should be included in CSR should be defection and reduction in revenue. Defection can be looked as completely severed relationships or contract non-renewal. In many cases, customer databases are filled with these entries and sometimes over 50% of the names are not current customers. Reduction in revenue is very important as well because it gives insight on power shifts between suppliers. Changes in year-to-year revenue, share of pocketbook or total revenue per account indicate this quite well. As the final proposition, Naumann et al. (2009, 329) mention that "Researchers should measure both actual loyalty behaviors as well as loyalty attitudes to help predict loyalty in the firm." These propositions accounted for 75-85% of the defecting customers who replied to be satisfied or very satisfied with the supplier's services.

4. Customer Relationship Management

As stated in the introduction, new customer management models have appeared within the years as a result to fast technological leaps. These technologies are capable of engaging into a more intimate relationship with the customer. I will take a look into CRM in creating loyalty.

Customer Relationship Management, or shortly put CRM, aims to understand the customer comprehensively and create services or products that are truly relevant and valuable to clients. In exchange, the service providers gain, "-- a new level of competitive differentiation through impermeable customer relationships" (Nykamp 2001, 1). CRM is a product deriving from relationship marketing and the increased emphasis on improving customer retention through relationship management (Zineldin 2006, 431).

Fill (2007, 273) considers CRM "-- as the delivery of customer value through the strategic integration of business functions and processes, using customer data and information systems and technology." Nykamp has listed several key aspects which will help understand the nature of CRM.

> *Imagine that the provider understood:*
> *The products that are most relevant to you*
> *The price you are willing to pay*
> *The most effective way of communicating with you*
> *The level of service and support you expect, and your preferred channels*
> *Their value to you, and your value to them*
> *What it would take to increase your loyalty.*
> (Nykamp 2001, 1.)

It's apparent in both Nykamp's (2001) and Fill's (2007) text that just knowing the answers to the previous conditions is meaningless unless the provider is willing and able to live up to expectations consistently and implement them in an efficient manner. This is why CRM is linked closely with technology which automates and synchronizes business functions.

Applications usually comprise of call management, lead management, customer records, sales support and payment systems (Fill 2007, 274). All previously mentioned characteristics are crucial in order to respond to questions from customers and precisely co-ordinate strategy, processes and sales forecasts, which are essential points for internal stakeholders.

Fill refers to Ang and Buttle (2003)[9], who suggest that there are three main approaches to CRM: strategic, operational and analytical. In the strategic approach Customer Relationship Management is seen as a core business strategy, while the operational approach focuses on automating organizational functions such as sales and marketing. The remaining methodology concerns data management to improve the efficiency of all phases in the customer relationship life cycle. (Fill 2007, 273)

4.1. Potential of CRM

According to Nykamp (2001, 3) it's vital to create "a consistent, positive customer experience across all channels and media and across all sales, marketing, and service functions" in order to increase customer loyalty and advocacy. In this sense it might turn out to be well worth the investment to implement Customer Relationship Management. Naturally, every organization is different from the other and thus the level of implementation and benefits will vary as well.

[9] Original source: Ang, L. & Buttle, F.A. (2003). ROI on CRM: a customer journey approach. *CRM Today*. Retrieved 16 August 2004 from www.crm2day.com/library/EpFlupuEZVRmkpZCHM.php.

Nykamp (2001, 13) suggests to think more on why not utilize CRM rather than why to utilize CRM. It gives reason to believe that it can drive down costs and increase revenue exponentially. If a company is too strung up on old-fashioned business approaches and fails to make an effort and take the chance it may be shutting out very beneficial contracts and at worst be giving them away to the competitor. Zineldin (2006, 431) referring to Clemons (2000)[10] brings out that there might be a tenfold difference between average customers and the most profitable ones. Keeping this in mind, Nykamp (2001, 13) evidently put it, "Consider the cost of not implementing CRM. Consider the gradual or rapid exodus of your customers…. Can you really afford not to implement CRM?"

4.2. CRM failure

CRM systems have been seen unnecessary and far too expensive in comparison to the benefits it creates. The reasons to these views in the past might be in the maturity of the science and in the glitches and/or complexity of related programs. Another factor might be the incapability to understand the shifts in customer behavior.

Perhaps some of the conflicting impressions have spawned from the early applications which were designed for suppliers to help them manage their end-user customers. Ever since, the support system has become continuously more sophisticated and evolved to a more extensive entity to back up management decisions. This way the negative impression from the initial systems which were front-end applications mainly for sales force automation; have left a serious stain on the modern versions. (Fill 2007, 273.)

Fill (2007, 274) claims that the majority of CRM implementation failures are a result of the lack to "understand the central tenets of a customer-focused business philosophy". Many focus needlessly too much on the interface and fail to see the big picture. Fill has also gathered some explanations for CRM underachievement in referral to other authors:

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[10] Original source: Clemons, E. (2000). "Gathering the nectar", in Understanding CRM, Financial Times publication, Spring Supplement, 24-27.

- failure to adopt Customer Relationship Management within a strategic orientation.[11]
- "CRM is regarded as a mere add-on application that is expected to resolve all customer interface difficulties."[12]
- the system may not be able to accommodate the vast array of relationships that the organization seeks to manage.[13]
- internal political conflicts concerning ownership of the systems, data and budgets.[14]

Competitive advantage is most commonly sought from a service perspective. Grönroos (2000, 9) implies that the service perspective requires a customer relationship management approach where the value is created for the customer through long-term commitment. For a company who has successfully managed to create a service of value and high quality, money should be piling in and creating value also for shareholders. However, the downside is during turbulent economic situations where the developing of relationships will take time. Shareholders may see the situation as a dramatic shift in value towards investment and start focusing on short-term sales as a way of looking for quick growth through profit and volume. (Grönroos 2000, 9.)

In most cases, the neglecting of long-term relationships will corrupt the whole operation chain as the relationships between suppliers, distributors and other network partners cannot be established in a sustainable manner. So shareholders reacting on a quarterly basis need to focus more on the structure rather than numbers. Otherwise the management will be forced to take measures which might crucially affect the balance of value-creation. Grönroos (2000, 9) says that in the end "shareholder value comes from profitable customer relationships, not from the stock exchange markets." It's fair to say that not only does the company have to look for long-term clients but long-term investors who understand the nature of long-term growth and profit. It is of utmost importance if they wish to compete and develop their capability through service competition. (Grönroos 2000, 10.)

[11] Wightman (2000)
[12] Stone (2002)
[13] Sood (2002)
[14] O'Malley and Mitussis (2002)

When the economic crisis started in 2008, most companies flushed out employees and aimed to minimize costs. Others have been able to see opportunity and have focused on investing precisely which has lead to rises in their market share – an increase in customers that will still be there when the economy starts reviving. Companies like these will have rock-solid base when heading towards the new economic cycle.

4.3. The CRM process in short

CRM focuses to create optimal value to the customers and provide the company with precise information on how to communicate with clients, not only through the traditional product, price, promotion and place, but also benefit from the accurate use of the augmented product.

In Figure 5 on page 36, Nykamp introduces the CRM process as a continuous cycle of ongoing interactions. The cycle consists of four phases: 1) understanding and differentiating, 2) developing and customizing, 3) interacting and delivering and finally 4) acquiring and retaining.

By keeping the cycle in motion and sticking to the principles, CRM allows companies to gain insight from each phase that will reflect upon the following stages and enhance the development process by becoming increasingly sophisticated and consistent. A company's CRM processes will start evolving and result in successful differentiation in the marketplace. (Nykamp 2001, 10) According to Zineldin (2006, 432), the success of the differentiation may depend on how well the company is able to adopt a holistic approach.

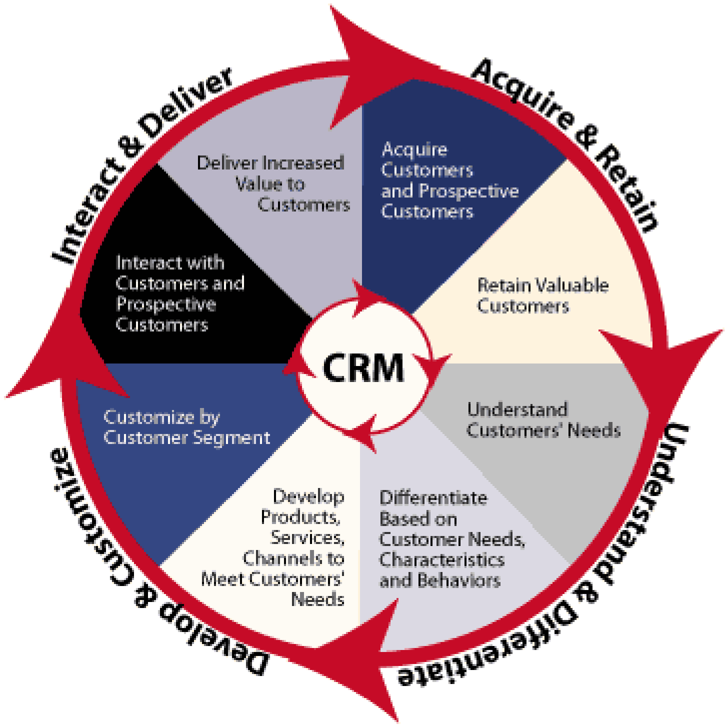

Figure 5, The CRM process (Nykamp, 2001, 6)

It’s most logical to start from understanding and differentiating since there has to be a direction in which to proceed, otherwise it would lead to shooting in the dark which cannot be thought as either wise or efficient. Nykamp (2001, 7) has identified four aspects which are involved in customer understanding: customer profiling, customer segmentation, primary research and customer valuation.

According to Nykamp (2001, 7), customer profiling is an easy way to gain strategic insight to the most fundamental issues of relationship management by providing an overview on who are the customers. Customer profiling categorizes, for example, customer demographics and geographic characteristics like age, size of households, and proximity to the nearest retail location. The most important aspects when profiling businesses would include information on the number of employees, company revenue, purchase recency and frequency (Nykamp 2001, 7; 80).

In customer segmentation a company tries to define unique and logical customer groups and categorize them depending on their shared similar characteristics such as needs, expectations and purchase behavior (Bain & Company; Nykamp, 2001). This is used to identify unmet customer needs and outperform competition by serving these unique segments. By describing each customer segment qualitatively and quantitatively it's possible to define CRM strategies. Bain & Company state that "This prioritization can help companies develop marketing campaigns and pricing strategies to extract maximum value from both high- and low-profit customers." However, Nykamp (2001, 80) insists that this prioritizing does not limit only to marketing and pricing, but to all customer interactions from product development, customer service, sales and marketing to retail and field operations.

Zineldin (2006, 432) suggests starting with distinguishing relationship customers and transactional customers. Referring to Newell (2000)[15], relationship customers are more potential for loyalty and are usually willing to pay premium prices for a service which they deem valuable to them whereas transactional customers are more volatile and have little loyalty.

Primary research is conducted to understand customer needs and attitudes related to products, services and the organization as a whole (Nykamp 2001, 7). Customer valuation is done to put a figure on how much a specific client group contributes to the company's current profitability and evaluate potential future value (Nykamp 2001, 7). Nykamp has listed three measures that should be evaluated: profitability, lifetime value and share of wallet. Profitability is defined as "customer revenues less all costs of providing goods and servicing customers." (Nykamp 2001, 81) Lifetime Value, or LTV, is an annual profitability forecast over the entire lifespan of a customer based on current net value financial calculations. Share of wallet is used to measure loyalty by estimating how much a customer is purchasing from your company in relation to the competitors.

[15] Original source: Newell, F. (2000). *Loyalty.com: Customer Relationship Management in the New Era of Internet Marketing.* New York: McGraw-Hill.

The next step is to develop and customize products, services and channels to meet the needs presented by the customers, which then leads to customization for customer segments. In this phase CRM is at its best. Nowadays, almost without exception, customers have the power and organizations need to follow their lead as a primary basis for competitive differentiation or even to be capable of competition on a general level. The databases and automated systems give the supplier significant knowledge and recognize new possibilities which can provide significant differentiation and profit. Due to this customization such business models have occurred as just-in-time delivery and all variations of e-business. (Nykamp 2001, 8).

After developing and customizing the product or service a company must interact with customers and prospects and deliver increased value to the customers according to the past and on-going interaction. If a company fails to use the dialogue to their advantage their products will become obsolete and result in client defection. Nykamp (2001, 9) points out that the customer interaction happens throughout the whole organization from distribution to shipping and from customer service to the company website. She also sees it essential to have ease of access to useful customer information and to ensure the training of staff throughout the organization on how to implement customer information to offer the clients the highest possible value.

The more interaction a company has from the previous phase the more it has come to learn about its customers. This knowledge makes it easier to pinpoint and attract new customers. With this fresh understanding of key clients, acquisitions become increasingly effective as targeting them with relevant product, relevant media, and relevant message saves time and maintains their interest. The other half to acquiring new customers is the retention of existing ones. According to Nykamp (2001, 10) consistency is the key-word and it should be followed through in three specific principles. Firstly, maintain interaction of two-way communication. Secondly, deliver according to the customer’s definition of value. Finally, a company needs to be constantly alert of shifts in customer value perception and be ready to adapt any product accordingly to the new circumstances.

4.4. Improving loyalty with CRM

Zineldin (2006, 430) refers to Porter (1980)[16] who defined two common ways of establishing competitive advantage: a low-cost supplier or differentiating the offer. One way of improving competitive advantage is by increasing loyalty (Zineldin 2006, 430). This revolves around adequately satisfying customers and increasing customer retention (Lee-Kelley, Gilbert & Mannicom 2003, 239). Lee-Kelley et al. (2003,239) remind of the fact that previous research findings have concluded that greater customer loyalty leads to higher customer profitability. This has lead organizations to “become more customer-focused and driven by customer demands, the need to meet customers’ expectations and retain their loyalty becomes more critical” (Lee-Kelley & al. 2003, 239). Zineldin (2006, 431) remarks that, “close relationships provide a boost to the added value. The added value creates customer loyalty.” Lee-Kelley et al. (2003, 239) also note that, “-- relationship strength is a key barrier to external forces such as economic changes and competition.”

Each service encounter includes elements which can build the relationship between the user and provider. Several encounters may even lead to an emerging relationship. If the customer feels something special and valuable the encounter may develop into a relationship. It’s important to keep in mind that this does not make them a loyal customer. However, perceived relationships are a central issue. (Grönroos 2000, 7.)

Grönroos affirms that relationship marketing has re-emerged as a marketing paradigm and that “-- understanding relationship marketing or marketing based on customer relationship management becomes a necessity for understanding how to manage a firm in service competition” (Grönroos 2000, 8).

Zineldin (2006, 430) states that any company that is not taking into notice the changing business atmosphere and not building or protecting their competitive position will be consumed. Protecting the competitive advantage requires measures of finding new solutions and improving the quality of products and services (Zineldin, 2006).

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[16] Original source: Porter, M. (1980). *Competitive Strategy: Techniques for Analyzing Industries and Competitors*. Free Press: New York.

Zineldin (2006, 431) defines the delivered value as the subtraction of the total cost to the customer and the total value offered to the customer. “Total customer value can include functional value of the product, service value, emotional value, social value, conditional value, and epistemic value, and image” whereas “total customer cost can include monetary price, time, shopping efforts, energy and psychological cost efforts.” He also remarks that, “Improving the intangible attributes of quality is not necessarily achieved by higher resource spending”, but rather by addressing the correct aspects. In understanding and examining these aspects CRM is at its best.

I feel that many companies talk about the customer perspective being one of their values and a key area in their strategy. However, I feel that it has become more of a trend and is not actively pursued, understood or even taken into consideration to the degree in which it should. Every company knows that without a customer they have no chance of succeeding so they claim that customer perspective is exceedingly important. From my personal view, it has lead to the mitigation of the term customer service.

Grönroos (2000, 3-4) notes that “Customers do not buy goods or services, they buy the benefits goods and services provide them with. -- Customers do not seek products or services per se; they look for solutions that serve their own value-generating processes.” He also mentions that the consumers purchasing behavior is based on offerings comprising of goods, services, information, personal attention and other components which render services. It is the customer-perceived service of an offering that creates value for them. So in other words, the value of the goods is not generated in factories and offices, but in the value-generating process of the consumer. (Grönroos 2000, 3). “Consequently firms should provide customers with solutions consisting of all the components required to function in a value-creating way in customers’ own value-generating processes”, he continues.

In many cases companies see services as a tool that reflects positive experience in customer relationships. Grönroos (2000, 3) claims that the view is restricted since the services which are usually seen by the organization are only service components that can be invoiced and calculated as part of total turnover and only form a fragment of the total service which is offered to customers. The customer on the other hand often sees so-called non-billable service components. These are small aspects such as how the billable services are performed.

Grönroos (2000, 3) also reminds that usually these non-billable services influence the customer perception far more than the billable ones. Customers especially note the way how business is conducted. This can be the way in which an organization handles quality problems, mistakes and service failures, manages complaints, how they offer help and training and whether or not they answer their phones and emails. It would be fair to say that billable services are seen by the provider and the non-billable by the purchasing party, but it's evident that they are connected. As an example, we can imagine that a customer would rather not get an invoice at all. However, once an invoice has been received it is more important to the customer that the invoice is accurate and clear than that the invoice was received. (Grönroos 2000, 2-3.)

At best the non-billable services save time and costs of the customer. This will contribute to the customer perspective and prevent the consideration of using other suppliers. Grönroos (2000, 3) states that management seldom perceives non-billable services and, they are thus often neglected and not included in service management as value-enhancing. I feel that it has changed to the contrary. Management is nowadays more aware of consumer behavior and value-creation which makes it even more a necessity to realize the intangible trait of services. It may be that non-billable services have lost some of the edge in creating competitive advantage and become more of a necessity to keep up with other contenders. I personally see hidden services as requisite for conducting profitable business. It's by far the easiest way to boost sales, handle customer relationships, minimize retention and gain true customer loyalty.

An effective database will evidently help a company understand the needs of their customers and what they require from the relationship. This data will help identify key customers, develop CRM with future customers, calculate revenue generated by customers and estimate own future investment opportunities. (Zineldin 2006, 431.)

Understanding where you stand with your service isn't easy and there's always the possibility that you over-emphasize marketing communication or fall into a price-trap as a result of poor service management. More than ever before, companies find themselves with a core product that only enables them a starting point for developing competitive advantage.

The service perspective is controlled by three variants: customer, competition and technology. The demand of today is more than just a technical solution to a problem as a result of a more sophisticated and informed customer. This leads to higher expectations regarding the product. Customers seek for comfort, fewer problems, lower additional costs and less trouble caused by the use of the products or services. Competition is becoming more fierce and increasingly global. (Grönroos 2000, 10.) In my opinion, the service perspective has pretty much become a necessity, but the possibility to gain from it is shrinking constantly. Without sufficient service and product oriented R&D any company will not stand out. Grönroos (2000) suggests that the rapid development of IT-technology has been a large reason for the changes in client knowledge and awareness. Ironically it is also a way to distinguish oneself from competitors through new innovative IT-technologies and applications which to tempt the customer and generate useful value. (Grönroos 2000, 10-11.)

4.5. Enhancing marketing activities with CRM

It has been testified that strong brands powered by consistent marketing investments allow companies to operate on a higher level. Crosby and Johnson (2001, 1) have identified different stages in the measurement habits of marketing performance. At first marketing performance was focused on financial measures such as sales, gross margin and percent revenue from new products and services. In the 1980's the results of marketing activities were viewed in regard to market share gained. Over the 1990's, "soft" indicators such as customer satisfaction came into play. (Crosby & Johnson 2001, 1.)

Quoting Crosby and Johnson (2001, 1): "With the advent of the CRM era, we have the opportunity to greatly expand the set of marketing performance indicators and to "connect the dots" in terms of linkages among the measures." With the information invested in the CRM tools, "-- managers should be able to significantly improve marketing effectiveness and efficiency and, in the process, demonstrate marketing's true value to the organization" (Crosby & Johnson 2001, 1). Zineldin (2006, 430) takes into notice that marketing today has to "-- integrate the customer into the design of the products/service and to design a systematic process for interaction that will create substance in relationships." Combining the improved measurement capabilities with systematic business improvements is what CRM is all about.

Crosby and Johnson have illustrated the marketing process (Figure 6). Critical components are the knowledge of customer behavior in respect to segmentation, brand commitment, customer loyalty and employee commitment. Marketing comprises of input, which is used to manage processes leading to the important metrics that then feed the cycle over and over again. By this constant information generation it's possible to understand loyalty/retention and customer perceptions.

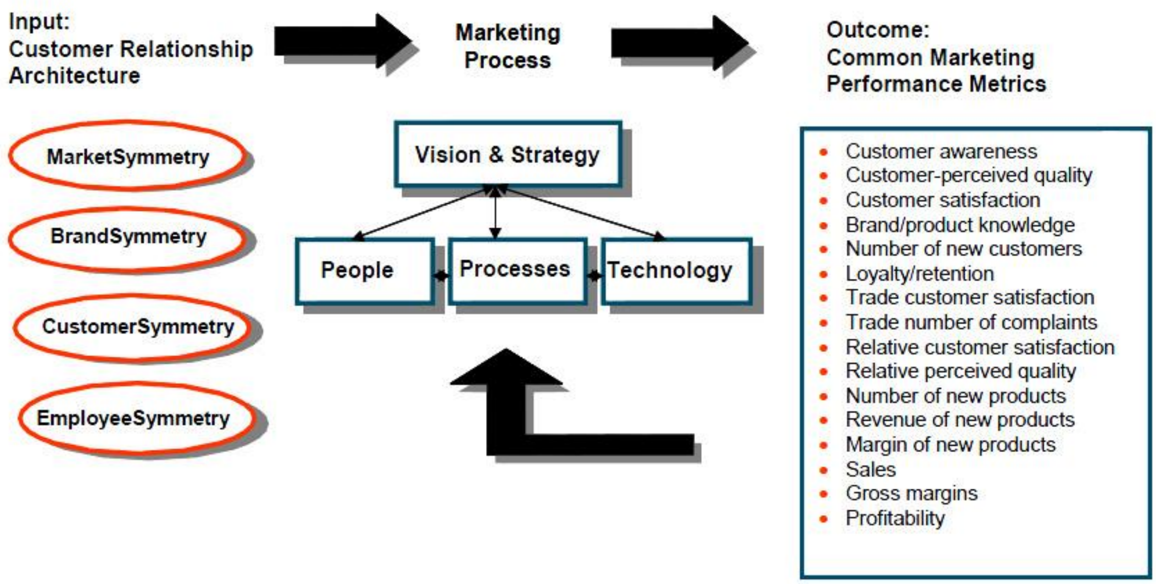

Figure 6, How marketing works (Crosby & Johnson 2001, 1)

According to Crosby and Johnson (2001, 1), the information of the customer landscape derives from sophisticated market research and analytic CRM represented in cause-effect models. "This process input knowledge shapes the firm's CRM vision/strategy (the marketing process), which is then implemented through people, processes, and technology" (Crosby & Johnson 2001).

Performance indicators exist all throughout the supply chain and should be stored into the company's CRM system. This information will enable the following of processes, value creation for customers and shareholders, marketing efficiency, and so on. Crosby and Johnson (2001) state that in addition to the conventional financial and share measures, this information in a CRM system provides a more meticulous view at, for example, marketing effectiveness concerning customer acquisition and defection rates, customer value, percent of inactive customers and cross-selling. Crosby & Johnson (2001) say that CRM gives an opportunity to back-trace and diagnose reasons which lead to a currently observed outcome and understand the true value created for customers "in metrics relating to perceived quality and value; loyalty; brand equity and commitment; and relationship strength."

As examples of CRM's capability to provide detailed indicators, Crosby and Johnson have listed:

- *Process measures by segment – sales funnel management (e.g., number of inquiries, number of presentations, number of proposals, and proposal hit rate) and campaign management (e.g., reach, frequency, response rates, and response latency)*
- *Technology-related measures (e.g., size of prospect database, number of SKUs on the Web site, number of links to the site, number of sure hits, and Web hit conversion rates)*
- *People-related measures (e.g., marketing staff tenure, sales-person turnover, staff training hours, developmental achievements, and rewards given).*
  (Crosby & Johnson 2001, 2.)

By tracking and improving on the information any company can create high performance marketing. Crosby and Johnson (2001, 2) provide an excellent example where a company may find out "-- that customer loyalty and likelihood of cross-selling are direct functions of the customer's evaluation of the account manager." This may be linked with the frequency of visits by the account manager. As such, it would be wise to measure and improve the frequency of visiting customers.

Figure 7, as provided by Nykamp (2001, 28), shows the most recognizable points of customer contact and opportunities to interact ranging from sales and customer service to staff functions and marketing communications. Some of the areas will have significant and positive impacts while others might result in very negative impressions. However, as stated before a company with emphasis on the service strategy should be well aware of these contact points and control each one of them invariably. With integrated efforts at each contact points it's possible to make a real impact on the customer.

Potential points of customer contact.

Sales
Telesales—Inbound
Telesales—Outbound
Point of Service/Sale
Field Sales
Store Personnel
Layaway Department

Customer Service/Support
Customer Service
Customer Training
Customer Support
Voice Recognition Unit (VRU)
Website Support
Service/Repair Department
Claims
Warranty Department

Distribution
Delivery Personnel
"Will Call" Window
Order Processing
Shipping/Fulfillment

Staff Functions
Accounts Receivable
Credit Department
Collections
Billing

Marketing Communications
Customer Acquisition
Customer Retention
Customer Reactivation
General Advertising
Public Relations

Figure 7, Potential points of customer contact (Nykamp 2001, 28)