

# BUILDING CUSTOMER RELATIONSHIPS

Service Management  
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Universitas Pembangunan Jaya



# Building customer relationships

- Relationship marketing
- Relationship value of customers
- Customer profitability segments
- Relationship development strategies
- Relationship challenges



# Relationship marketing

- A philosophy of doing business, a strategic orientation, that focuses on keeping current customers and improving relationships with them
- Does not necessarily emphasize acquiring new customers



# Relationship marketing (continued)

- Usually cheaper (for the firm)
  - Keeping a current customer costs less than attracting a new one
- Thus, the focus is less on attraction, and more on the retention and enhancement of customer relationships



# Why Relationship Development Makes Sense



# EVOLUTION OF CUSTOMER RELATIONSHIP

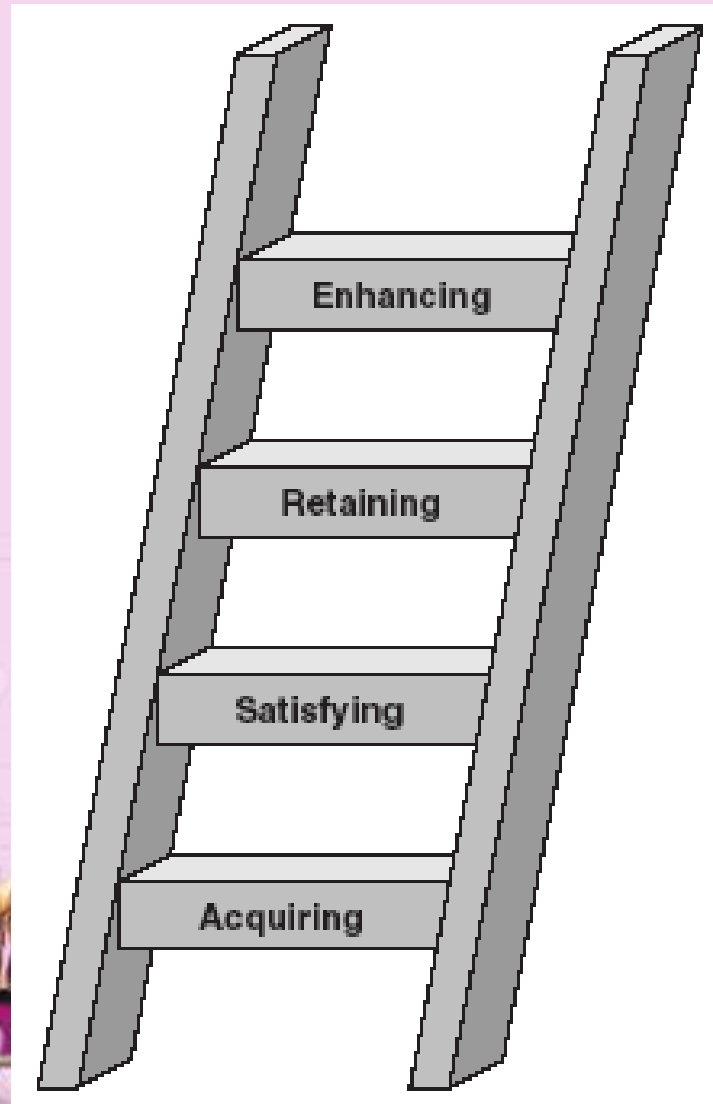


## A Typology of Exchange Relationships

	Acquaintances	Friends	Partners
Product offering	Parity product as a form of industry standard	Differentiated product adapted to specific market segments	Customized product and dedicated resources adapted to an individual customer or organization
Source of competitive advantage	Satisfaction	Satisfaction + trust	Satisfaction + trust + commitment
Buying activity	Satisfaction facilitates and reinforces buying activity and reduces need to search for market information.	Trust in supplier is needed to continue the buying activity without perfect information.	Commitment in the form of information sharing and idiosyncratic investments is needed to achieve customized product and to adjust product continuously to changing needs and situations.
Selling and servicing activities	Familiarity and general knowledge of customer (identification) facilitates selling and serving.	Specific knowledge of customer's connection to segment need and situation facilitates selling and serving.	Specific knowledge of customer's need and situation and idiosyncratic investments facilitates selling and serving.
Acquisition costs	Low: Generally low but depends on industry factors such as market growth, satisfaction with competing alternatives, distribution, and media availability.	Medium: Acquisition and/or conversion costs increase with degree of differentiation in product (perceived risk), established preferences for competing alternatives, and availability of segment specific channels and media.	High: Acquisition and/or conversion costs increase with degree of customization and level of idiosyncratic investments from one or both sides.
Time horizon	Short: Generally short because the buyer can shift supplier without much effort or cost.	Medium: Generally longer than acquaintance relationships because trust in a differentiated position takes a longer time to build and imitate.	Long: Generally long because it takes time to build and replace interconnected activities and to develop a detailed knowledge of a customer's need and the unique resources of a supplier to commit resources to the relationship.
Sustainability of competitive advantage	Low: Generally low, but competitors can vary in how they build unique value into selling and serving even if the product is a form of industry standard.	Medium: Generally medium but depends on competitors' ability to understand heterogeneity of customer needs and situations and the ability to transform this knowledge into meaningful, differentiated products.	High: Generally high but depends on how unique and effective interconnected activities between customer and supplier are organized.

Figure 7.2

# Customer goals of relationship marketing





# Customer expectations of relationships

- Transactional expectations
- Active relational expectations
- Passive relationship expectations

Source: Gronroos 2007



# Benefits of relationship marketing for customers

- Receipt of greater value
- Confidence benefits:
  - Trust
  - Confidence in provider
  - Reduced anxiety



# Benefits of relationship marketing for customers (continued)

- Social benefits:
  - Familiarity
  - Social support
  - Personal relationships
- Special treatment benefits:
  - Special deals
  - Price breaks



# Benefits of relationship marketing for firms

- Economic benefits:
  - Increased revenues
  - Reduced marketing and administrative costs
  - Regular revenue stream
- Customer behaviour benefits:
  - Strong word-of-mouth endorsements
  - Customer voluntary performance
  - Social benefits to other customers
  - Mentors to other customers



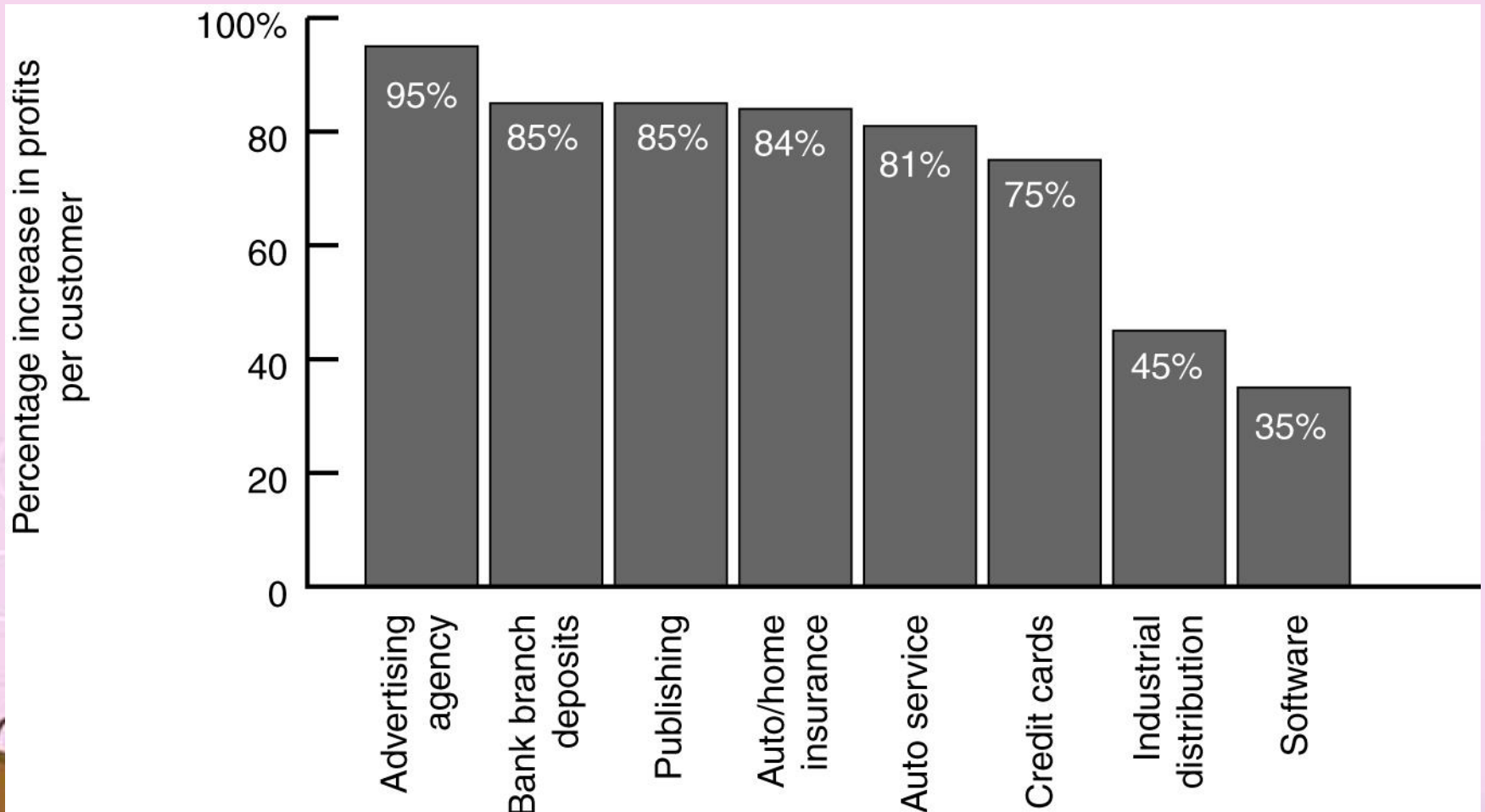
# Benefits of relationship marketing for firms (continued)

- Human resource management benefits:
  - Easier jobs for employees
  - Social benefits for employees
  - Employee retention



Figure 7.4

# Profit impact of 5% increase in retention rate



Source: F. F. Reichheld, "Loyalty and the Renaissance of Marketing," *Marketing Management*, vol. 2, no. 4 (1994), p. 15.

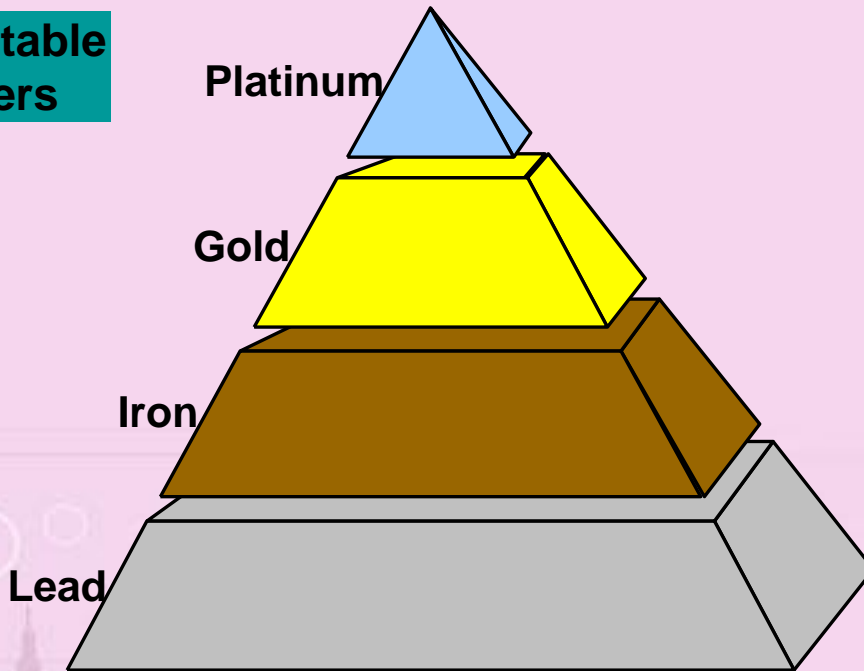
Figure 7.5

# The Customer Pyramid

**Most profitable customers**



**Least profitable customers**



**What segment spends more with us over time, costs less to maintain, spreads positive word-of-mouth?**



**What segment costs us in time, effort and money yet does not provide the return we want? What segment is difficult to do business with?**



# Profitability Tiers-The Customer Pyramid

## The Lead

- Customers who are costing the company money
- Demand more attention, sometimes problem customers—complaining about the firm to others

## The Iron

- Essential customers who provide the volume needed to utilize the firm's capacity, but their spending levels, loyalty and profitability are not enough for special treatment

## The Gold

- May be heavy users
- Perhaps want price discounts that limit margins and not as loyal as platinum

## The Platinum

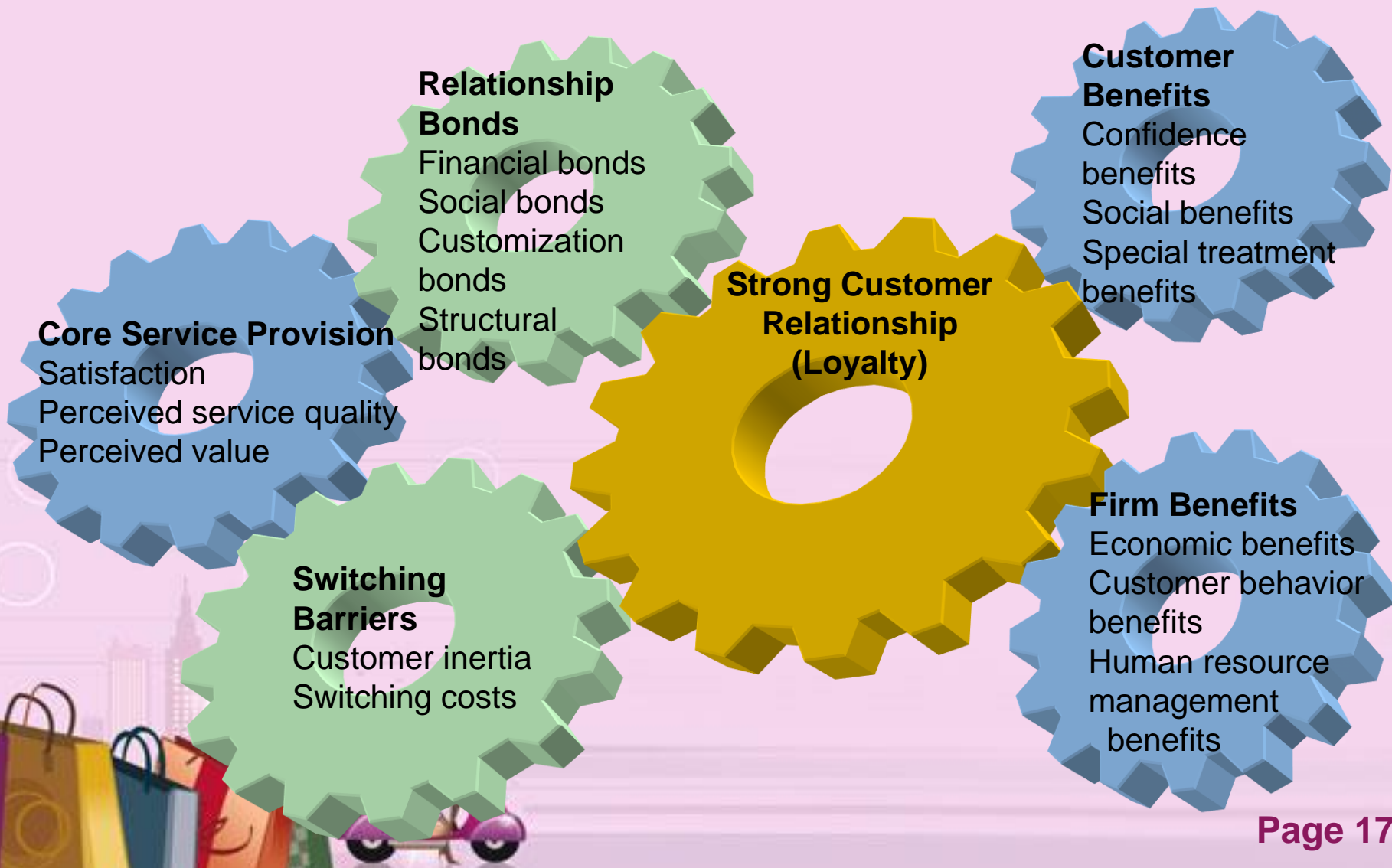
- Most profitable customers
- Heavy users of the product
- Not price sensitive, willing to invest and try new offerings, committed customers of the firm





Figure 7.6

# Relationship development model



# Strategies for building relationships

- **Core service provision:**
  - Service foundations built upon delivery of excellent service:
    - Satisfaction, perceived service quality, perceived value
- **Switching barriers:**
  - Customer inertia
  - Switching costs:
    - Set up costs, search costs, learning costs, contractual costs



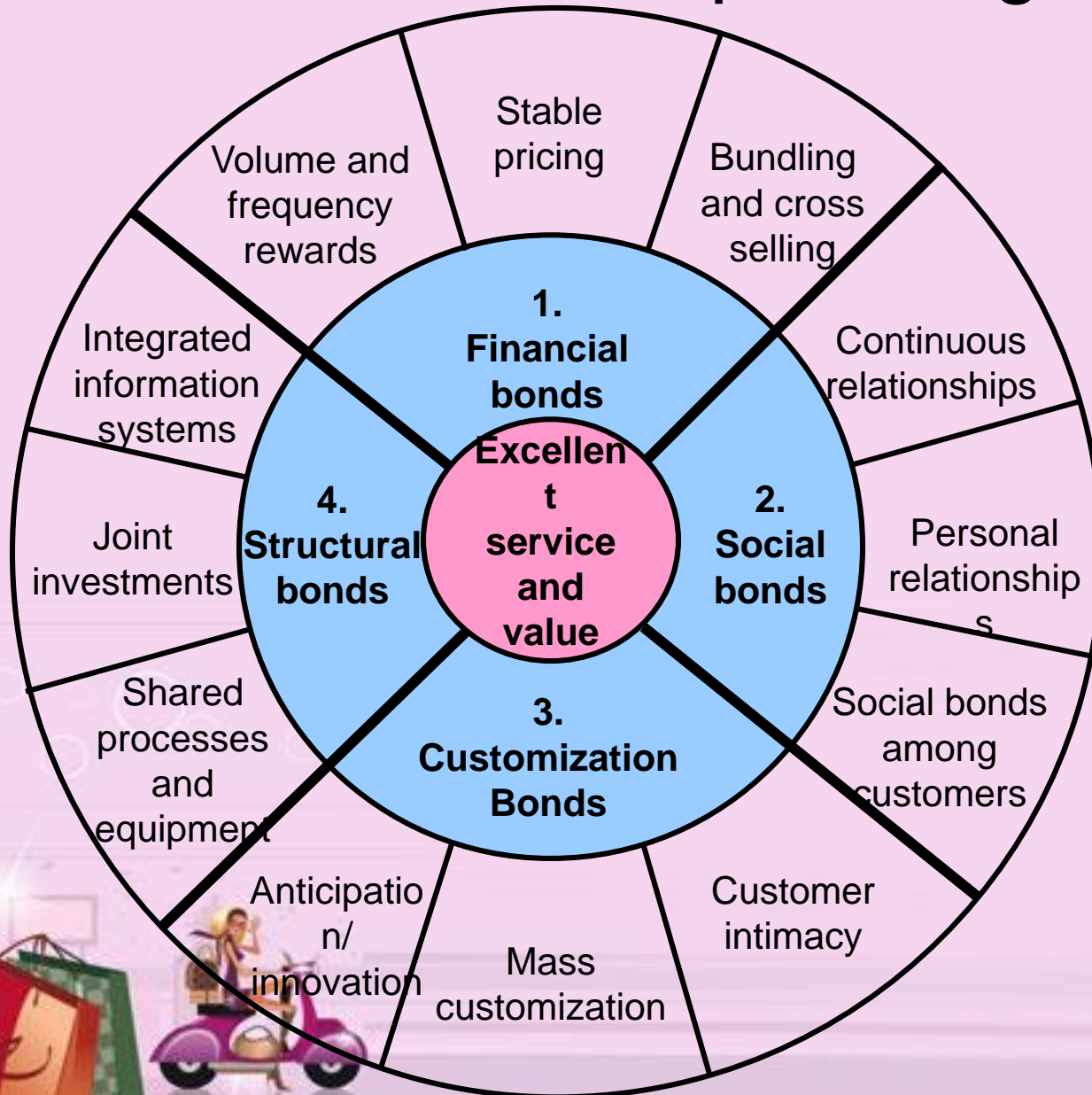
# Strategies for building relationships (continued)

- **Relationship bonds:**
  - Financial bonds
  - Social bonds
  - Customization bonds
  - Structural bonds



Figure 7.7

# Levels of relationship strategies



# “The customer is NOT always right”

- Not all customers are good relationship customers:
  - Wrong segment
  - Not profitable in the long term
  - Difficult customers



# Fire your customers?

- May be best to discontinue relationships with some customers---for the sake of customers, the firm or both

