Chapter Summaries

# Chapter 6 – Relational and sustainability strategies

## Introduction

Consumers are becoming increasingly concerned about a wider range of social issues when choosing products or services to purchase. In particular, the wants and needs of society and the importance of doing business in an ethical and non-harmful manner are important key contextual considerations. Firms must not only produce excellent goods and services and keep customers happy, but they must also be concerned with their relationship with society at large as well as with the environment. Sustainability has become a necessity along with managing the carbon footprint.

## Relationship development and stages

All customers are not equal. One of the best frameworks in which to discuss the nature of different customers is the loyalty ladder as envisioned by Adrian Payne (2000). Payne’s ladder includes the following designations from least to most desirable: suspects, prospects, customers, clients, supporters, advocates, and partners. This framework presents an effective mechanism for discussing relevant costs and communication strategies.

### Prospects

A better candidate would be found in the prospect. This is a warm lead, who has interest in your product but who has not yet made a purchase. Customer equity would probably be higher for the prospect than for the suspect; however, interest is not a guarantee of purchase, and the other question that should be asked is: What is the probability of purchase? This is not a regular buyer of your products or services, and the problem is that the costs of acquiring and retaining the prospect may far outweigh their potential lifetime value.

### Customers

A customer, of course, is someone who has bought your product or service. The game is to try to enhance that individual’s or company’s purchase frequency and volume over time, so that the customer becomes increasingly profitable and valuable to the company. The important question, which really must be asked, is whether all customers are ‘good’ customers. In the services industries, many firms have learned that customer interactions can be problematic.

### Clients

Clients are regular customers. Customers become clients when they have some level of trust in the seller and believe that the seller’s offerings will be beneficial to them. This is the first development of a relationship between the buyer and seller; however, it is not necessarily a relationship that will last forever, and it may not be a relationship that remains mutually beneficial for both of the parties involved.

### Supporters

Supporters are those who buy everything you produce that they can use. However, while they are supportive of your company and its products and services, and while they will spread good word-of-mouth for you, they will not necessarily be motivated to the level of an advocate. They will not go out of their way to recruit others to your company.

### Advocates

The advocate is a coveted position. It is the consumer who buys your products and services and actively recruits others to do the same. They are valuable commodities. These are the individuals that you particularly want to keep happy. The point is to convert the supporter to an outright advocate. As they are important to the company, they need to be communicated with even more than the lower-level consumers on the ladder.

### Partners

Partners are at the ultimate level of relationship, as they share in everything. For the B2B situation, this is where the buyer and seller enter into a joint position of commitment where, for example, the partner may modify their way of working or behaviour to accommodate the seller.

### Relationships and loyalty in B2B markets

In B2B markets, selling is far more complex: as buyers may be groups instead of individuals and selling teams may be important, although often there is a key salesperson who deals with a key customer. These potential relationships become critical. These target markets are often made up of one customer instead of thousands or even tens of thousands of individual customers. The chapter presents a B2B loyalty ladder in which the different segments deal with increasingly higher levels of loyalty, and the amount of time and effort spent by the company on relationship -building and maintenance should be commensurate with the levels on the ladder. Beginning at the bottom and moving up the ladder, loyal customers move through a series of behaviours as they become increasingly loyal, and these characteristics must be carefully nurtured by B2B marketers. As the customer displays the next level of loyalty, the revenues will increase.

## Relationship enablers

### Compatibility management

Compatibility management is a concept from the services literature that is quickly gaining support for use in dealing with the mixing of different types of customers. Much depends on a thorough understanding of the target customers and their spending patterns. This is referred to in the services literature as compatibility management and is an important consideration for service businesses, where customer interactions can significantly affect the service experience. Some customers should probably not interact with your target customers.

### Loyalty schemes

Loyalty schemes are programmes that are established by companies to provide added value to the regular purchaser as opposed to the irregular customer. It provides increasing benefits for increasing levels of company loyalty. The idea is to build up points or credits for purchases, which allow the consumer to get rewards such as discounts off a series of special products or announcements about new offerings that no others receive. The chapter presents several different types of these schemes.

## Customer relationship management

Customer retention is obviously an important goal for any company, especially in light of the costs necessary to acquire a new customer as opposed to keeping an old one. So how does the company deliver appropriate levels of customer satisfaction? The corporate solution is the creation of a customer relationship management (or CRM) system. CRM is a process by which a firm gathers information about the wants and needs of its customers to enable it to adjust its offerings to better fit those wants and needs. It involves data gathering, storage, and dissemination to those who need it. Often this involves the acquisition of relationship management software and data mining techniques, which promise to effectively track customers and build large customer storehouses of data for use by the company in building long-term relationships. One can easily see the benefit inherent in getting information in a B2B marketing situation, since industrial marketers have fewer customers to deal with on a regular basis than B2C companies. It gets trickier with companies aiming at large groups of customers, especially when there are many competitors with what appear to be very similar offerings.

### Data mining

Data mining has become an important tool in customer relationship management. Data mining is the analysis of consumer databases to look for new possible relationships that can provide direction for innovative customer relationship strategies. Since the early findings of synergies in reservations among airlines, hotels, and car rentals in the SABRE reservation system utilized by American Airlines, customer data have been analysed to look for possible relationships that researchers never before knew existed. The trouble is that data being gathered for the sake of having data to add to the customer knowledge system may be problematic.

### CRM pitfalls to avoid

Companies can easily get caught up in spending enormous amounts of money on a variety of customer relationship management schemes, but many of these will fail. Rigby, Reichheld, and Schefter provide a series of suggestions for marketers in their 2002 Harvard Business Review article that enhance their chances of success by avoiding a series of significant CRM pitfalls. The chapter discusses a variety of the pitfalls inherent in CRM systems. The main point here is that data collected for the sake of collecting data will do very little to help the company build strong relationships with customers. These relationships must be carefully nurtured with different types of information being collected and managed to allow the firm to best address different customer types and needs.

## Relationship outcomes

### Customer satisfaction

Client satisfaction becomes an important barometer to measure the potential for changes in relationships so that proper corrective action can be taken to shore up the relationship. Of course, the use of marketing for the sake of marketing is not necessarily a good way to handle this situation. A discussion of key strategic ways to handle customer satisfaction is presented.

### Customer lifetime value

Customer lifetime value (CLV) has recently become a vital consideration for many companies as they recognize that happy customers are loyal customers who not only spread their satisfaction by word of mouth to friends, colleagues, and relatives, but they also spend increasing amounts on the purchase of particular products/services over time. CLV is the present value of the future profits that will accrue from the customer’s lifetime purchases. The company must attempt to measure future earnings from the customer as well as be able to subtract from those earnings the cost of acquiring and maintaining the relationship with the customer. The key issue is to determine CLV for each individual customer or group of customers so that each group can be assessed to determine the proper investments that will be necessary to make in each customer to build meaningful relationships and retain customers.

### Customer love

What is the ultimate level of bond with the customer? Bell (2002) suggests that it is building an emotional bond that verges on love. This suggests that it is no longer sufficient to just have a relationship with your customer; you need to develop the love of your customer. The chapter presents a discussion of how to measure customer love and issues to avoid.

### Customer profitability pyramid

Zeithaml, Rust, and Lemon (2001) proposed the creation of a customer pyramid based upon profitability for firms trying to improve long-term firm performance. The authors suggest that profitability tiering allows the company to manage the customer mix for maximum profitability. The firm can build stronger associations between service quality and profitability as well as provide an effective tool for optimal resource allocation.

### Customer equity

From a financial standpoint marketing budget setting becomes the job of balancing what is spent on customer acquisition with what is spent on retention. The customer equity test first measures each customer’s expected contribution to offsetting the company’s fixed costs over their expected lifetime. Then, expected contributions to net present value are discounted at the rate set by the company as its target rate of return for any marketing investments, and finally the company adds together all of the discounted expected contributions across all of the company’s current customers.

## Viability of relationships and competitive advantage

### Judging viability

In the B2B literature, recent research has proposed the imperative to manage buyer–seller relationships for the long term. There has been a major paradigm shift for B2B marketers, and with it that the approach to relationship marketing has shifted from a short-term to a long-term focus. For a short-term relationship to become a long-term relationship, it is imperative that the engagement between the firms or between the firm and the customer becomes an emotional one.

## Latest thinking on customer relationships

With the increasing move for customers to engage with companies online, a recent study found that if service agents online do not use the right words to engage customers, they can cause more harm than good. While in-person interactions can be significantly affected by service personnel tone of voice and empathetic responses, this can also be achieved, at least in part, via digital transactions. Another recent study of interest found that since relationships will change over time, different strategies may be needed at different times in the evolution of that relationship. They found that customer relationship quality in B2B relationships can be examined around four dimensions: 1) trust, 2) commitment, 3) dependence, and 4) relational norms (expectations about conduct within the relationship).