CRM Chapter 8 The relationship policy

- In this chapter, we will first discuss on what type of customer to develop a relationship with. This can be identified by understanding the customer segments and where do they stand in the relationship phase.

- After identifying the current and potential value of the customers, the decision may be made as to which level of service will be offered and how intensive the communication will be with the customers.

- A framework may be created within the policy focusing on the relationship development of customers or customer groups may be designed.

- This policy will then have to be translated into a contact 'strategy.

- Finally, we will discuss on the loyalty programmes that company might offer to strengthen the relationship policy.

8.1. Improvement of the size and quality of the customer database

- The relationship policy refers to the development of relationship marketing policy.

- A relationship marketing policy emphasises on increasing the quality and quantity of the customer database.

- It is important to increase the quality and quantity of the customer database. Why do you think it is important to do so?

- Referring to customer pyramid (Figure 2B as in Chapter 2), most companies want to turn their customer into partner.

- The customer who turns into partner will become a profitable customer which the company refers as a 'quality customer'.

- However, not only quality that the company is chasing for.

- Without growth in the number of new customers, the future of the organisation will be uncertain.

- Therefore, quantity and quality of the customer is equally important for companies.

- With a larger database, company might increase its chances to acquire greater number of customers.

- With larger number of customers, company might increase its chances to turn the customers into partner.

8.2. Relationship policy per segment

- Relationship policy should be elaborated further according to different segments.

- By understanding customers from different segments, a mutually profitable relationship can be developed.

- How to elaborate the relationship policy from different segments?

- There are many ways of doing this depending on the creativity of the organisation!

- However, a good practice is to build framework on the basis of financial arguments.

- This means, the segment is divided into THREE different distinction based on their financial contribution towards the company. The customer can be either Gold or Silver or Bronze.

- Gold customer represents those who contribute the most profit in the company while Silver contributes lesser than Gold customer. Bronze customer contributes the least.

- By understanding the different segment of customers, company can determine the most suitable way to satisfy and develop the relationship further.

- Refer to figure 8.2a for the example of a framework build based on financial arguments.

Figure 8.2a Relationship policy per segment

Availability and service level

		Gold	Silver	Bronze
Access	Telephone Face to face E-mail Internet	Free calls Personal Account manager Newsletter Personal page	Regular call rate None Newsletter Personal page	0800/0900 no. None None Standard
Service levels	Telephone Response time 1st/2nd line	24 hours 20 seconds 90%/10%	24 hours 30 seconds 80%/20%	Office hours
	Account manager Back-up	Experienced and trained Yes	Young None	None
	E-mail Response time	1 hour	4 hours	24 hours
	Internet personalisation	High	High	Less
Communication	Newsletter Transaction status Education Activities/campaigns	+ hardcopy Internet + mail Seminar Face to face	ID Internet + mail Internet Tel./mail	E-mail Internet Internet E-mail
Service levels	Newsletter Frequency Personalisation	12/yr Yes	4/yr Yes	3/yr No
	Transaction Frequency Costs	12/yr Free	6/yr Free	3/yr Fee
	Education Frequency Costs	2 seminars/yr Free	2 seminars/yr Contribution costs	None
	Activities Incentives Personalisation Cross-selling	Max. 25% Yes $p > 50\%$	Max. 15% Yes $p > 35\%$	Max. 5% By name $p > 5\%$

8.3. Relationship policy by relationship phase

- Company should not use the relationship per segment alone. The relationship life cycle will have to be taken into consideration.

- The relationship life cycle indicates the idea of type of approach that is suitable for customers although they are in the same segment.

- Refer to figure 8.3a for an example of relationship police per phase.

Figure 8.3a Relationship policy per phase

	Exploratory	Growth	Maturity	Decline
Transaction	Low	Growing	Stable	Declining
Commitment	Average high	Decreasing	Maximum	Low
Objective	Both higher	Both higher	Retain	Prevent, departure
Policy	Inform Differentiate Measure satisfaction	Interact Appeal Cross-selling Customisation Exceed expectations	Change routines	Determine cause, suggest solution

Exploratory phase

- During exploratory phase, the relationship starts out positively.

- The goal for the relationship policy in this phase is to reinforce the relationship and to increase commitment.

- The supplier at this stage should increase the volume of transactions to get return on investments from the relationship made.

- The supplier has positioned itself as an attractive company in order to acquire customer.

- This will raise certain expectation among customers or potential customers on the company's products or services.

- That is why, it is important for the supplier to spot negative developments of the relationship to make sure the relationship does not end.

- At this stage, the relationship is still quite fragile since there is no history created. This means, no sentimental value created on the products or services.

Growth phase

- The goal of the relationship policy during the growth phase is to increase commitment and to continue the positive growth trend seen in the turnover.

- This can be done by having unique and appealing activities that continue to attract customers.

- For example, giving rewards to repeat purchase customers can create attractiveness in the relationship.

- Apart from that, giving good services with extra and warmth care to the customers may also show appreciation towards customers. If this service able to leave an unforgettable impression, the relationship will nourish and will be getting stronger.

Saturation or Maturity stage
- At this stage, a supplier encounters its most profitable and loyal customers.

- This means, the investments in the customer have already been recovered, the chance of the relationship being terminated is low, and the level of spending by the customer is relatively high.

- Each party knows what it may expect from the other.

- Trust has been built up; in the past, both have proven to be reliable.

- If one of the two make makes a mistake, it does not lead to an immediate end of the collaboration.

- The belief exists that the other party has not knowingly or intentionally make mistake and is prepared to repair the damage.

- The challenge in this phase is to break out the routines or prevent similar habit patterns from forming in an early stage.

- At this stage, the parties must continue to express their mutual appreciation for the relationship.

Decline phase
- The decline phase shows a possible end to the relationship.

- Turnover decreases and commitment lessens.

- The objective of the relationship policy in this phase is to determine the causes of the change.

- Normally, the cause of the changes in relationship is due to the external factors such as the need for supplier services has disappeared. A person may no longer have their car. This means relationship with supplier is no longer needed.

- How to retain this type of customer?

- The suppliers may actually get in contact again with the customer like what they did at introduction and growth stage.

8.4. Translating the relationship policy into contact moments with customers

- *Translating the relationship policy into contact moments means,* identifying customers from different segments and phases, and match with the most suitable communication means to approach the customers.

- This means, once customers are identified and classified based on different segment and phases (as discussed in section 8.2 and 8.3), now the supplier should identify the most suitable communication means and strategy to approach the customers.

- A communication plan must be outlined to appreciate an effective relationship management.

8.4.1 Communication pressure and initiative

- The reasons to communicate with customers could be vary from one supplier to another.

- The company may be introducing new products, created a special promotion, or to inform customer about specific developments in the industry.

- For example, an insurance company has a new form of savings account, or would like to provide customers who are insured via their employer with an extra special offer, or inform them about the consequences of upcoming legislative changes for their pension fund.

- In creating the contact plan, the supplier, depending on the stage in the relationship.

- How to translate relationship policy into communication with customers? Or in other words, what are the initiatives to maintain a good communication that may strengthen the relationship with customers?

Normally, at **exploratory phase**, supplier are suggested to:

1. Offer a welcome packet or make a welcome 'call' to give positive experience to customers.
   - This initiative allows the company to gather important information about customer.

   - This can be done by giving questionnaire or customer's interview.

   - Questions are asked about the other wishes and/or purchase plans of the customer and their satisfaction with the product or service.

2. Develop communication calendars.
   - Communication calendars are useful to note when the customer will be approached and with what particular information.

3. Cross-selling
   - Cross-selling means the strategy to push different products to the customer after they make the first purchase.

   - The new product is recommended to the customer based on their past purchases.

   - This strategy helps the supplier to identify the chances of the customer to consider in purchasing the product within a certain period.

   - It also tells the supplier whether approaching the customer is worth the effort.

4. Did not attempt to have a differentiated approach on customers
   - Since supplier is not really familiar with the customer's preference at this phase, then it is impossible to give a differentiated approach towards customers.

   - Doing so leads towards misunderstanding of customer's needs and wants.

5. Did not put too much investment on communication effort
   - The relationship value is still unclear at this stage.

   - Customers are still exploring and tend to shift to other suppliers at anytime without rational justification.
   - Therefore, investing too much money on communication effort at this stage would be worthless.

Meanwhile, at **growth phase**, supplier should:

1. Invest further on the relationship development.

- Supplier should focus on greater investment for customers who are identified as profitable in the relationship

- For example, Robeco Direct, a Dutch financial services company, sends its valuable customers a personal annual report. This report has the stock market information, as well as his or her investment portfolio and the risk profile.

- Customers become more open and transparency which change the transaction-oriented relationship (during the exploratory stage), into a relationship-oriented one.

2. Establish stable and reliable communication means with customers.
   - At growth phase, supplier should have known the favourable mean of communication for the customers.

   - Therefore, in this phase, the supplier should draw a proper contact plan to match with customer's preferences.

   - Example, some customers prefer to be contacted via phone, email, while some customers need priority in certain period within a year.

At **saturation or maturity** stage, supplier should:

1. Continue improving the communication medium

   - This can be done either by technological advancement or allocating more experienced staff to the appropriate customers.

At **declining** stage, supplier should:
1. Seek contact with customers who threaten to end the relationship
   - Simply demonstrating interest can provide an important reason for customers to adjust their image of the supplier.

2. Undergo an exit interview with customers
   - Even a portion of the customers who have already left may be persuade during an exit interview to give the supplier another chance.

8.4.2 Influence of marketing communication on relationship development
   - Marketing communication is very crucial on relationship development as it helps the company to obtain reliable information on future events involving its customers.

   - Besides that, it helps the company to make contact at exactly the right time with the customer.

- In the future, organisation with customer relationship management strategy aims for a marketing communication where customers help one another.

- For instance, via a 'member-get member' promotion. This approach is increasingly popular because it represents a relatively high value to the company (Verbeke, Peelen and Brand, 1995).

- The advantages of this type of communication are less effort required to convinced customer as well as lower communication cost.

8.5. Loyalty programmes

- In order to further develop the commitment of their customers, various companies also implement loyalty programmes.

- The term 'loyalty' here means savings schemes which are linked to a database containing information on the name, address, city, certain behaviour and background information for individual customers.

- The success of the programme lies in providing customers with specific rewards.

- The intention of loyalty programme is to rewards loyal, frequent buyers more often.

- Customers are classified between good and bad customers using the behaviour parameter (justified by the company itself).
- For example, Motorists who buy fuel from Esso more often can qualify for double points. In reality, companies are careful about discriminating between bad, good, better and best customers. This is because, if the customers know that the company applies this distinction, it will encounter resistance from certain customers to use the product or service.

8.5.1 Categories of loyalty programmes

- There are THREE (3) categories of loyalty programmes consist of savings programme, club programme, and relationship marketing programme.

1. Saving programmes
- Savings programmes are not true loyalty programmes.

- This is because, the focus of saving programmes is to encourage customer to make transactions by rewarding him or her for certain behaviour: purchasing.

- Customer will be differentiated between short-term and long-term savings programmes.

- The *short-term savings programmes* aim to stimulate behaviour. For example, the customer will be made eligible to receive a gift with minimum additional charge or free of charge.

- The *long-term savings programmes* aim to retain relationship with customers.

- This program is more popular compared to short-term one.

- However, to prevent consumers from having to wait too long for their rewards, and the chance that the desired customer behaviour will decrease, customers will be given a combination of long and short-term savings programmes.

- This allows the customer to receive benefits both within short and long-term.

2. Club programmes
- Club programmes are programmes when people are offered the opportunity to become members of a club either free or for a very small fee.

- Upon registration, customers receive a card with which they may identify themselves as participants.

- There is a great variety to be found in these cards: from private label cards offering credit facilities to co-branded credit cards.

- The advantage for consumer members lies in the company magazines, discounts, payment facilities and insurance that they receive.

- An example of club programmes is Felix or Pedigree Pal pet foods. The company provides nutritional guidance, birthday cards and other small tokens of appreciation from the supplier. This allows the members to take better care of their animals.

3. Relationship marketing programmes
- The relationship marketing programmes or the 'real' loyalty programmes aim to improve the involvement of suppliers and customers.

- Suppliers continue to improve the commitment and purchasing behaviour of customers in long term.

- This program discriminates between good and bad customers in order to really appreciate the most long-term profitable customers.

- For example, Malaysia Airlines appreciates customers who regularly fly with MAS with the frequent flyer programmes. Passengers can save to obtain product-related rewards such as flights upgrade. The size of the reward not only rely on

how frequent the passenger fly, but also the number of kilometres the customer has flown per year in a certain class.

Refer to table 8.5a for clearer differences between the three categories of loyalty programmes.

Table 8.5a Categories of loyalty programmes

Type	Threshold	Communication	Objective	Incentive	Operant conditioning
Savings programme	Performing a purchase transaction	Geared towards points and gifts	Increase spending behaviour of customers; retention of customers	Free or with additional payment (Product-related) reward	Yes
Club programme	Customers must register; the conditions under which members are accepted vary (buying history, payment of contribution, etc.	Geared towards product and brand, or points	Increase customer involvement with brand/supplier Long-term commitment with the customer and thus more purchases	Information (magazine), possible discounts, insurance, credit, guarantees, etc	No, cognitive processes also take place
Relationship marketing programme	Minimum number of transactions	Geared towards customer usage patterns, product/brand, points and gifts	Increase mutual involvement between customer and supplier; long-term commitment with the customer and thus more purchases	Compliment ary products and services, including customer magazine, advice, service, discounts, credit, etc	No, cognitive process also take place

Source: Broekhuizen and Peelen (1997).

8.5.2 Effectiveness of loyalty programmes
- The savings and club programmes and the 'real' relationship marketing programmes will definitely have different impact on customers.

- The effectiveness of these loyalty programmes are also depending very much on the company itself.

- If the company able to appreciate, activate and inform the customer effectively, then loyalty programmes will be most likely to become an effective mean to attract and retain customers.