The Increasing Focus on Managing Relationships and Customer Retention

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Abstract

There has been unprecedented need for firms and organizations today to focus on customer service, retention and loyalty as a way of increasing their competitive advantage and improving their bottom line. This paper discusses the increasing focus on managing relationships and customer retention in recent years. Initially customer retention strategies are identified, followed by an analysis of the benefits of value creation for both customers and services providers, key indicators of customer relationship and managing relationship. The study identified the competitive nature of business today and hence many businesses devising strategies such as switching barriers and retaining employees to retain customers. Consumers are increasingly developing relationships with numerous services providers rather than committing to one, hence associating loyalty with repeat patronage rather than long-term commitment.

***Key words**: Customer, relationship, retention, business, management*

1. Introduction

In the past decade the focus on relationship management has increased and organizations are now focused on customer retention rather than acquisition in order to increase profits (Woo and Frock, 2004; Sheth and Kellstadt, 2002). Companies now focus on the lifetime value of customers and employ technology to enhance relationship management strategy (Lovelock, Patterson and Walker, 2007) since (according to Pareto's law) 80% of business usually comes from 20% of customer, therefore reinforcing customer relationship strategies in order to increase retention.

This paper initially discusses customer retention strategies, followed by analysis of the benefits of value creation for both customers and services providers, key indicators of customer relationship and managing relationships. The paper will seek to discuss the increased focus on managing relationships and retaining customers in today's market.

1.2 Literature review

Relationship Marketing

Relationship marketing is a customer retention strategy that, as defined by Gonroos (1994) is when firms establish, maintain and enhance relationship with customers and other stakeholders in order to cement continuous, profitable exchanges over time that create fulfillment of promises. Relationship marketing is also about creating organizational congruency, that is, ensuring suppliers, employees, customers and the community are aware of the business and receives consistent messages.

A study from Mohr and Bitner (1995) highlights that customers recognize employee effort but may be less appreciative when they do not receive their desired outcome. Employees are therefore seen as a vital part of creating and managing relationships with customers (due to the intangibility of services) with some having more direct contact than others contributing to the provision of service quality and satisfaction, that may lead to retention (for example in a full-service restaurant employees provide customer with an experience due to interaction, they can therefore also assist in creating a negative experience if customers are not served efficiently and in a friendly manner). This is also because the person delivering the service is the service.

Employees also play a role in communicating values of the service organization to the public through managing the time zones of pre-purchase (assisting with inquiries about a service), the service encounter and post purchase (for example, follow up phone call to make a customer feel special-offer them a special discount for their next visit) (Anonymous, 2006)

Relationship marketing strategies are more applicable to services that are high in experience qualities and continuous such as hairdressers and doctors. The changing focus of marketing is also emphasized by social responsibility and personalized products to promote retention rather than mass production and sales. Since services are low in search qualities it is also important for businesses to employ the extended marketing mix to initially attract customers such as promotional methods and advertising (for example, a fitness centre may create television advertisements that display the premises of the service provider along with an introductory membership price in order to initially attract customers who live in close proximity).

According to De Wulf, Odekerken-Schroder and Lacobucci (2001) and Javalgi, Maring and Young (2006), Ritz-Carlton is known for its relationship marketing practices that involve providing guests with personalized services (such as greeting by name and tailored meals). Airlines are also known to provide rewards for their most profitable customers such as special privileges and complimentary flights. Therefore, service providers now seek innovative methods for rewarding profitable customers that will promote organizational growth.

Lovelock, Patternson and Walker (2007) identify possible growth that may be created through successful relationship marketing strategies are; Attracting new customers, selling more to existing customers (for example, purchasing a conditioning treatment along with a hair cut), selling up to existing customers, regaining lost customers and also revaluating unprofitable relationships (decisions whether to terminate or create ways of making customers more profitable through new initiatives), hence creating customer relationship management.

1.3 Discussion

Customer Relationship Management (CRM)

This customer retention strategy is adopted by business today to create consistent communication along with reminding customers of the values they bring to the business (Burgarski, 2007). The process involves being customer-centric (focusing on the outside in) and anticipating customer needs so that a mutually beneficial relationship may be maintained (Cherkassky, 2006). Business are increasingly focusing on CRM (also as a holistic view, integrating marketing, human resources and operations) as organizational benefits may occur from increased satisfaction such as increased profits, loyalty, reduced costs and competitive advantage.

1.4 Technology

The use of technology such as customer relationship databases are adopted by firms to target segments of customers with respect to purchase patterns, preferences and localities. Segments of customers may receive newsletters promoting particular events or special pricing, phone calls and emails for example. The use of these strategies aims to move repeat customers to regular users (members) of a service with the ultimate goal for them to become advocates for the company and to identify customers that may be close to switching.

1.5 Switching barriers

Another strategy of retention is the creation of switching barriers (economic and psychological) that aim to prevent customers from deflecting and create hostage customers. For example, economic barriers are adopted by business today such as telephone companies (Safaricom and Zain for example). This involves creating financial penalties in the event a customer wishes to exit a contract. If financial penalties are high, customers are therefore hesitant to switch.

Psychological switching barriers may occur with respect to services that are continuous such as a doctor or hairstyling services, as relationships are formed that can develop into friendships over time. Hence, customers may feel anxious about terminating a service provider as this terminates a friendship and may cause stress for the customer. Colgate and Lang (2001), also argue that dissatisfied customers may still be classified as loyal when they stay with a service provider due to the high cost of switching, not because of value.

1.6 The creation of value

Gronroos (1998) identified the difficulty in valuing trust or feelings and since services are produced and consumed simultaneously, it is hard to manage quality control and evaluation. Value may be created however from a symbiotic and synergetic relationship, that is, due to inseparability, customer and service provider can together create a mutual benefit. In many cases the core service is not the most important factor for continuing business for a services firm as the benefits that are associated with a long term commitment are perceived as more important to customers. Customers have both a production and consumption role in the service encounter, therefore value may be created when a satisfactory outcome occurs through effective script, for example, providing satisfactory information to a hairstylist or doctor will result in an appealing hairstyle or appropriate diagnosis.

In a study by Gwinner, Gremler and Bitner (1998), it was shown that confidence benefits were discovered to be the most important element for long-term relationship. This may occur when customers trust that if a business knows them well, they will do a better job. Social benefits occur when customers feel welcomed and recognized; value is created for them as they feel a friendship has been developed. Businesses can create staying power in customers when they promote special treatment such as discounts if the customer has been a long term client. However Gwinner, et al. (1998) also highlighted that unstructured (random) special treatment was the least important compared to having confidence in the service provider.

Organisational benefits acquired from an ongoing relationship with customer are; Opportunities to cross sell related services to existing customers (may reduce operating costs as long term customers display fewer problems and fewer demands), reduced operation costs since loyal customers cost less to service and increased purchases since consumers are known to spend more with increased satisfaction.

1.7 Foundation of relationships / key indicators

Key determinates of successful customers relationships are; Trust, that is, customer tend to continue to purchase from a service provider if they know that their best interests will be considered, particularly for credence-based service (Lijander and Roos, 2002), for example, when using the same travel agent to book a holiday a customer may trust that the agent will provide them with the best possible deal for their money.

1.8 Satisfaction

Satisfaction is a positive reaction to service efforts and is arguably the most important element in maintaining a relationship (De Wulf, Odekerken-Schroder and Lacobucci, 2001). However Javalgi, Martin and Young (2006) state that satisfaction doesn't necessarily lead to retention and loyalty in highly competitive markets. Value may be different for customer (for example, location, price, friendship) sustain a mutual relationship between customer and service provider (such as empathy, responsiveness and provision of information in a timely manner) and create social bonds (friendships). Length of patronage may also create stronger commitment to an organization and hence avert defection to competitors.

1.9 Managing relationships

The creation of relationships may be described metaphorically as a marriage according to Lovelock, Patterson & Walker (2007), that is, they promote mutual benefits, status and long term commitment. Relationship management is the process that will, according to Gounaris and Venetis (2002) create value, ensure longevity and make it difficulty to switch service providers along with having the ability to recover customers in the event of negative experience. Customers may also be retained through efficient service processes created through effective backstage systems to provide a positive experience and allow business to continue managing a relationship.

Service providers in recent years now recognize three stages of customer retention that may prevent deflection. The first stage is that of the financial gain. Pricing incentives of a service can dictate customer attraction in the first instance. At the second stage of retention, stronger social benefits can be promoted to the customers that may create repeat business. The third stage however is where service providers must create unique experiences and incentives for their clientele that will be difficult for competitors to duplicate (such as sms reminders or package deals offered at beauty therapy clinics that allow customers to combine services for a set price) Customers may develop into evangelists who create a positive perception in the market place of the business through positive word of mouth publicity. (Lovelock, Patterson & Walker, 2007)

2.0 Aspects of customer loyalty

Alan and Kunal (1994) refer to customer as the strength of a relationship between attitude and repeat patronage. Customers are loyal to value, that is when benefits outweigh the sum of all costs, so therefore customers do not necessarily want a long term approach as they generally concerned with getting more for less (Izquierdo, Cillan and Gutierrez, 2005) Encouragement of long term loyalty to a service provider can however be created through incentives such as discounts for services (for example, discount on hotel stays for frequent customers) or reward cards (such as the flybys card that entitles customers to receive mileage in return for repeat purchases). Since services are intangible, insperable, variable and perishable, there is a higher risk perceived, therefore loyalty is likely to increase due to familiarity with businesses Javalgi, Martin and Young (2006). On the other hand a study completed by Liljander and Roos (2002) found that loyalty may be classified as repeat patronage rather than a long term commitment as stated by Javalgi, et al. (2006), satisfaction does not necessarily result in loyalty and retention due to high competitive markets.

2.1 Customer defection

Just as assets depreciate at a quicker rate if not maintained, so do customers of service providers, that is they may defect to competitors. Reasons for customer deflection are increasingly acknowledged so that strategies for prevention can be put in place. Javalgi, Martin and Young (2006) state that deflection can stem from a bad experience such as a core service failure (such as a late taxi), poor product acknowledge, failure to respond to a service failure (can cause hostility and negativity), inconveniences such as long waiting times, competition and involuntary switching due to forced closure of a service provider. Javalgi, et al. (2006) also stated that distinct increases in price were not the most popular reasons for defection, contrary to popular belief. Businesses focus on recognizing situations where deflection may occur and create relationship strategies that will strengthen associations so that customers will be more inclined to continue with a business (and prevent negative publicity) in the event of a negative situation.

Conclusion

Various studies have demonstrated the increasing focus on a relational approach rather than a transactional focus on customers with a view to creating long term commitment to business (Mittal, 2001). However, it has been noted by Liljander and Roos (2002) that loyalty may be classified as the continuous purchase of a service rather than a commitment as consumers are interested in value created through service quality and satisfaction and may use many services providers to provide it. It may therefore be recommended for further studies to investigate customer’s attitude in order to find out whether loyalty can be referred to as long term commitment or whether it is merely repeat patronage.

Employees have proven to be important in creating satisfaction as the service is provided by the employee. Businesses therefore must create management strategies that also retain their staff in order to create rapport with regular clientele as this may promote retention due to familiarity and confidence in ability.

Switching barriers are another important retention strategy in business today. Due to competition, business is not only looking to maintain a relationship but hold customers hostage in order to prevent them from defecting. Mobile phone companies employ these techniques that create high fees in the event customers wish to change service providers. Therefore, due to customers having increasing choice and the competitive nature of market, businesses may look to create innovative switching barriers to retain customers and hence maintain profits.

In recent time's business have also been increasingly influenced by the use of technology in managing customers. New programs allow for segmentation that provides managers with information in order to create strategies that will target particular customer (such as ones who may be about to defect as their purchase behaviour may be low). Technology will therefore play an increasingly important role for management and retention strategies due to competition. With the above mentioned points in mind, the evolution of marketing from a focus on customer and sale to retention and management focus is evident in many businesses today.

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