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Customer loyalty in downturn

Dr. Elvira Tabaku
European University of Tirana

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Customers

- A customer is the most important person in every business.
- The company depends on the customer
- Customer are human beings so they deserve to be treated properly
- The customer has needs and wants; the company should satisfy them
- Without customers companies have to close their doors.

Customers

- Customer is the king; companies should consistently offer value to customers in order to gain value in return.
- The two rules of customer service:
 1. The customer is always right
 2. If the customer is ever wrong, re-read rule # 1

Customer loyalty

- We all want loyalty
- Companies also want loyalty
- Loyalty is a feature of people = **customer loyalty**
- Companies should be loyal to their customers in order to gain loyalty in return



Customer loyalty

- **Loyalty** is a deeply held commitment to re-buy or re-patronize a preferred product or service in the future despite situational influences and marketing efforts having the potential to cause switching behavior.
- **Behavioral loyalty** - repeated purchases that result in the extension of the purchases and expenditures with the same provider
- **Attitudinal loyalty** - commitment toward a brand or service and on the intention to buy it

Customer loyalty

Loyalty to company:

- More profits (through selling more and cross-selling)
- Price premium
- Entry barrier
- More low cost marketing (WOM)
- Cost less to serve

Loyalty to customer:

- Simplifies the buying process
- Fast and better service
- Possibility to tailored offers
- Notified first about company deals



Customer loyalty

- Loyal customers at Harley Davidson



Customer loyalty

How can companies create and maintain Customer Loyalty?



- Quality?
- Satisfaction?
- Trust?
- CRM?
- Retention?
- Image?
- Value?

Product/service quality

- **Quality** is an ambiguous term
- “although we cannot define quality, we know what quality is” (Pirsig,1987)
- It is an important element of every product as it can significantly impact customer purchases and product success

Product/service quality

- Service quality is “the judgment of the customer about the general excellence or superiority of a product” (Zeithaml et al. 1996)
- Quality is the totality of features and characteristics of a product, or service that bear on it’s ability to satisfy stated or implied needs.

Service quality

Services are more difficult to evaluate!
WHY?



Dimensions of service quality

- **Tangibles** - Appearance of physical elements
- **Reliability** - Dependable and accurate performance
- **Responsiveness** - Promptness; helpfulness
- **Assurance** - Competence, courtesy, credibility, security
- **Empathy** - Easy access, good communication, understanding of customer

Parasuraman et al., 1985

Product/service quality

- **The importance of quality**
- ❖ Quality is closely linked to profits
- ❖ Premium prices
- ❖ Customer preference
- ❖ Customer retention
- ❖ Market expansion/market share
- ❖ Other benefits:
 - productivity, advertising, distribution/access

Product/service quality

Increased profits are due to:

- fewer customer defections
- stronger customer loyalty
- more cross-selling of products and services
- higher margins (due to service enhancements of core products)
- improved service quality cuts costs
- fewer customers to replace
- less corrective work to do
- fewer inquiries and complaints to handle
- lower staff turnover and dissatisfaction

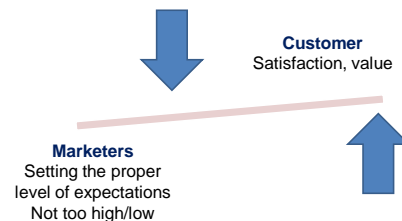
Product/service quality

- Improving service quality



Customer satisfaction

- **Customer satisfaction** – how well a product, service, support and engagement (experience) are able to meet customers' expectations



Customer satisfaction

- Products - physical or services
- Service – customer service after sale, responding to their queries
- Support – repair and maintenance after sale
- Engage – engaging with customers about new products, new selling schemes, reengineering activities and empowering customers.
- Expectations – about company's offer/delivery

Customer satisfaction depends on how well a company manages its delivery and how well it manages customer expectations

How do we create expectations?

Customer satisfaction

- Customer satisfaction can bring to loyalty.
- **satisfaction ≠ loyalty**
- Satisfied customers are more engaged in positive word-of-mouth.
 - satisfied customers tell an average to 9 people about a good experience while unsatisfied ones tell to 16 others about a bad one.
 - satisfied customers increase their life time value

How many customers can we communicate with through internet?

Perceived value

- **Customer perceived value** is the difference between the prospective customer's evaluation of all the benefits and all the costs of an offering and the perceived alternatives.



Perceived value

- Steps in a Customer Value Analysis
 1. Identify the major attributes and benefits of customers value (customer are asked).
 2. Assess the quantitative importance of the different attributes and benefits (customers rate the importance of different attributes and benefits)
 3. Assess the company's and competitors' performances on the different customer values against their rated importance.

Company image

- **Product image** is the overall impression in consumers' mind that is formed from different sources
- It is a unique bundle of associations within the minds of target customers, a set of beliefs held about a specific company/product.
- Company/product images can be strengthened using brand communications like advertising, packaging, word of mouth publicity, other promotional tools, etc.

Perceived value

- **Total customer benefit** is the perceived value of the bundle of **economic, functional, and psychological benefits** customers expect
- **Total customer cost** is the perceived bundle of costs customers expect to incur in evaluating, obtaining, using and disposing of the given market offering, including **monetary, time, energy, and psychological costs**.

Perceived value

- Steps in a Customer Value Analysis (cont.)
 4. Examine how customers in a specific segment rate the company's performance against a specific major competitor on an individual attribute or benefit basis (charge a higher price if it exceeds competitor)
 5. Monitor customer values over time (periodically redo its studies of customer values).

Company image

- Image may have a positive or negative impact in a company's marketing activities

Image of a hotel includes

- the location, design and the physical aspect
- atmosphere, reputation and attraction that it exercises

Functional dimension

- location
- design
- physical aspect

Emotional dimension

- feelings
- attitudes

Customer trust

- **Trust** - the confidence that one part has in the ability and integrity of the other part that is considered a business partner or the beliefs, feelings, behavioral intention or expectations from the exchange with a partner
- Trust has a key role in the creating and maintaining long-term relationships between the provider and the customer - **marketing goal**
- It is not easy to become trusted - but it is very easy to lose trust

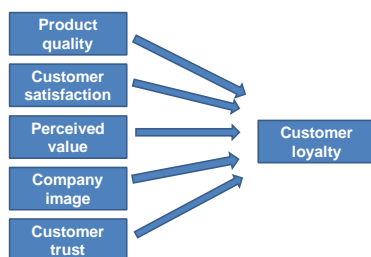
Customer trust

In the **hotel sector**:

- **competence trust** - customer trust in the ability and infrastructure of the hotel, in the ability and knowledge of the employees, the capacity of the hotel to offer the expected information and services when the customers are in the hotel
- **Benevolence trust** - the belief about the attention, concern, honesty and benevolence from the hotel.
- **Integrity** - the perception that the other part is honest and behaves in an honest manner



A model of customer loyalty



Customer relationship management (CRM)

- **CRM** - the process of carefully managing detailed information about individual customers and all customer touch points to maximize customer loyalty. A customer touch point is any occasion on which a customer encounters the brand/company and product— from actual experience to personal or mass communications to casual observation.

For a hotel, the touch points include reservations, check-in and checkout, frequent-stay programs, room service, business services, hotel facilities, laundry service, restaurants, and bars.

Customer retention

- **Customer retention** is how well a customer stays and stays engaged with a company or its products and services
- Stays – customer being active and user of product/service
- Stays engaged – customers maintaining or increasing their level of relationship with the company or its products (the customer can be retained but reduces his average relationship, buys).

Customer retention

- Types of churn:
 - a. Voluntary churns – where customers choose to switch service offer
 - no assurance to service continuity
 - differences between back-office and front-line employees
 - only temporary solutions provided
 - b. Involuntary churns – where customers are obligated to switch service offer because of its deactivation etc.

Customer retention

- Reduce churn by:
 - Finding out why your customers aren't happy why they switch and to which competitor?
 - Develop an adaptable approach to customer service a dedicated team to high paying customers
 - Implement a good customer loyalty program

Customer retention

- Churn management gone wrong



Call center employees rewarded for saving customers who wanted to cancel their service

Customer retention

- **Silence is not golden!**



- Empower customer service employees for first contact resolution
- Incent and reward these employees for retention
- Create retention programs for employees (employee turnover is costly)
- ROI metrics are important- measure and adjust/refine results
- Get use of automatization

Customer retention

- **Encourage customer complaints**
 - Only 10% articulated complaints
 - The 90% of non articulated complaints are manifested in different forms: unpaid invoices, negative word-of-mouth
- until** switch off from the company.

Encourage customer complaint; they can be more loyal if appropriately handled

Understand and offer what customers call value; is a good weapon/instrument to obtain customer loyalty

Customer service

- Customer service recovery at JetBlue and Marriott Wharf Hotel



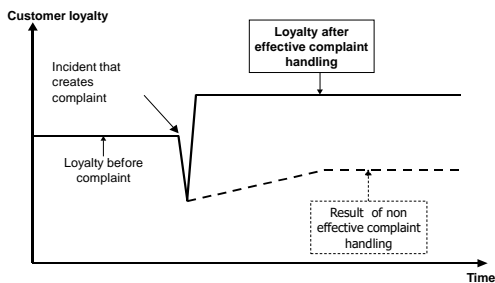
Customer service

- Companies focused in customer experience generate more profits than their competitors
- Offer consistent customer service experience
- Nearly 80% of customers will engage in repeat business after good customer service recovery.

The best strategy: Do it right the first time!



The service recovery/loyalty paradox



Customer loyalty in downturn

- Customers buy less in a recession but they still buy - they are just choosy and selective about where they spend their money.
- Why do they not buy from you?
- In over 50% of cases, **lack of trust** is the primary reason the customer decides not to buy.
- This requires you to know who your most profitable customers are and to consistently deliver a customer experience so as to create a high degree of trust in your brand/company.

Customer loyalty in downturn

- During a recession, marketers need to **identify their most profitable customers**, then **find ways to improve the customer experience** and increase business with those customers.
- Managers have to remain **determined in developing communications programs that strengthen the loyalty bonds** with existing customers
- **Customers are looking for deals** so reward them in a way that doesn't hurt/damage you

Customer loyalty in downturn

- Ensure that your **loyalty program is unique enough** to get people talking about it and spreading the word.
- Companies need to accept that **customers are not alike** and therefore **should be treated differently**.
- Companies should **keep customers updated** and provide them with preferential treatments, let them feel special and know that they are valued and needed.



Customer loyalty in downturn

- **Devoting part of your budget to give back to your consumers** seems like a risky move. But, it can be a profitable strategy unto itself.
- **Rewards schemes** specifically can convince customers to continue returning to your business instead of trying a new one.
- Use technology and innovation to reach your customers but don't forget the **human touch and personalization**

Customer loyalty in downturn

- **Maintain customer loyalty in recession by:**
 - Rewarding loyalty
 - Offering exceptional experience
 - Offering regular sales and specials (if customers believe to buy at discounts they will continue shopping)



Thank you!