chapter**five**

Relationship Marketing and Customer Loyalty

Creating a Formula for Success in Ski Resorts

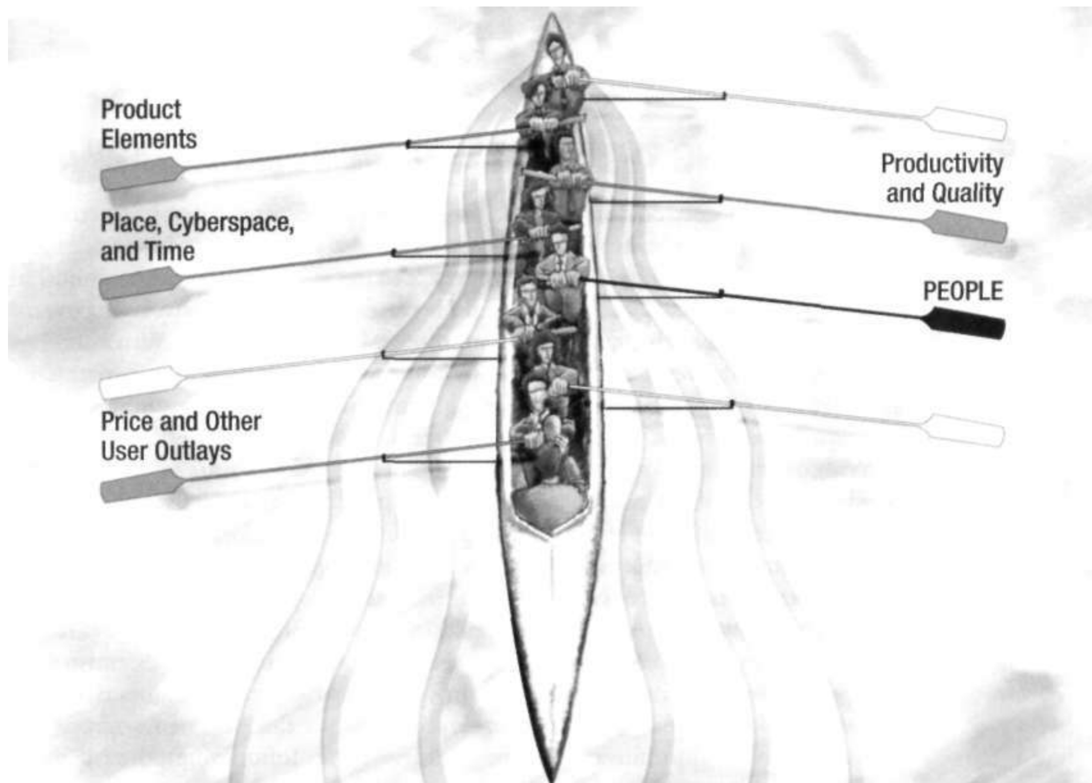
Located high in the Coast Mountain range of British Columbia, Whistler and Blackholm ski resorts receive an average of some 30 feet (9 meters) of snow each year and claim to offer the longest ski season and largest skiable terrain in North America. Vancouver-based Intrawest Corporation, whose other ski properties include Mammoth in California, Copper Mountain in Colorado, Stratton in Vermont, and Mont Tremblant in Quebec, owns the two resorts.[1]

Whistler and Blackholm, located 75 miles (120 km) northeast of Vancouver, offer the greatest vertical drop of any ski mountains in North America—one vertical mile (1600 m)! Day skiers from Vancouver and its suburbs were originally Whistler and Blackholm's only source of business—and the resort still courts their loyalty with big savings on season passes. But by creating a major destination resort, Intrawest has been able to appeal to vacationers from across the continent and even overseas. Whistler's appeal is evident from the fact that it has been named the number one ski resort on the North American continent by three different ski magazines. This recognition has boosted the ski resort's success, since skiers' vacation destination preferences tend to be shaped by the best facilities they have experienced, heard about from their friends, seen on TV, or read about in magazines.

Intrawest's management believes that it has created a formula for success. The strategy begins with enhancing the skiing experience on each mountain. The skiers' experiences on the slopes must be good if they are to remain loyal customers. This means that Intrawest must provide well-maintained trails that will satisfy skiers from beginners to experts, plus sufficient lift capacity to avoid lengthy delays.

Recent investments to improve facilities at Whistler and Blackholm have included replacing old chairlifts with new express "quads" to improve reliability, increase lift capacity, and reduce waiting times. Recognizing the growing popularity of snowboarding, the company also purchased a new Pipe Dragon, a unique machine used to shape and groom snowboard half-pipes. Meantime, a wide range of new trails was opened at Blackholm. New snow cats were purchased for trail grooming, and upgrades were made to snowmaking equipment to ensure good skiing conditions, even on days when Mother Nature is not cooperative. To appeal to summer visitors, Intrawest expanded the trail system for the Whistler Mountain Bike Park. New construction at the base includes improved guest services and a children's facility with one-stop check-in, a learning center, and a special kids' shuttle train to the gondola.

In addition to enhancing the ski facilities, Intrawest also wanted to provide an attractive and lively resort community so that people would choose to stay longer. After all, apres-ski activities are part of the appeal of a ski vacation for many people! Satisfied skiers have started coming back more often and spending more money. They have also told their friends about their positive experiences. This has created a larger customer base of new and returning customers, who



have helped finance the construction of more lodging and additional attractions.

Intrawest is now drawing even more people to the resort by increasing its year-round activities to maximize the use of shops, hotels, convention facilities, and restaurants. The resort's goal is to expand its target market (and profitability) by including non-skiers in its customer base. Intrawest is also encouraging customers to purchase condominiums or chalets, since property owners tend to come back more often throughout the year. After all, the mountains are lovely in summer and fall as well as in winter and early spring when there is still snow on the upper slopes for skiing. And the resort operators can also manage properties on behalf of their owners, who can receive income by renting to other visitors.

Learning Objectives

After reading this chapter, you should be able to

- set priorities for targeting specific customer segments
- understand that not all customers are equally attractive to a firm
- recognize the role of customer loyalty in determining financial success
- calculate the value of a customer who remains loyal to a firm
- provide examples of customer loyalty programs
- identify different types of customer misbehaviors and strategies for handling them

TARGETING THE RIGHT CUSTOMERS

Intrawest targets customers who will enjoy the skiing experience that it offers, can afford this relatively expensive sport, and are also likely to purchase additional services at the resort. It also appeals to non-skiers looking for a mountain vacation. This company is not alone in recognizing the need for ongoing investments to keep current customers loyal and to appeal to prospective customers. Managers in innovative service firms constantly debate what new services or improvements in product elements they need to offer to attract and retain customers in attractive **target segments.** Whistler would not have grown to its present size if it had continued to rely on skiers from nearby Vancouver, which is close enough to allow residents to make an easy day trip to the slopes. Its carefully planned growth is designed to attract vacationers who will spend a week or more at the resort.

target segments: segments selected because their needs and other characteristics fit well with a specific firm's goals and capabilities.

In this chapter, we continue to examine the question, ***Wltat customers should we serve and how should we relate to them?*** (see the service decision framework in Figure II.1, page 49). In particular, we emphasize the importance of asking: *Wltich customer relationships are worth developing and preserving?* A service business must take a focused approach to its markets, targeting prospects in the desired segments, while seeking to avoid those it cannot hope to serve profitably. In the case of nonprofit organizations, where financial profits are not the goal (except in fundraising), the objective should be to focus on attracting and serving those customers who are central to the organization's mission.

Acquiring the right customers is only the beginning. The real challenge lies in building a relationship with them, growing the volume of business they transact, and maintaining their loyalty over a long period of time. Even when customers fit the desired profile, a few may prove through undesirable behavior to be candidates for prompt termination rather than retention. Although some believe the saying "the customer is always right," that's not true in every instance. We address this issue in more depth later in the chapter when we discuss the different ways in which customers may misbehave.

Airborne skier at Whistler.

FROM TRANSACTIONS TO RELATIONSHIPS

Too many service firms still focus on the number of customers they serve without giving sufficient attention to the value of each customer. As David Maister emphasizes, marketing is about getting better business, not just more business.[2] Volume alone is not a good measure of excellence, sustainability, or profitability. Generally speaking, customers who buy more frequently and in larger volumes are more profitable than occasional users. Consider your own behavior. Do you have a favorite restaurant where you often eat with friends or family? Is there a movie theater that you patronize regularly? Are you a frequent customer at your local laundromat? If you answered yes to any of these questions, then you are probably a lot more valuable to the management of these different organizations than a one-time visitor who is just passing through town. The revenue stream from your purchases may amount to a considerable sum over the course of the year. (You would probably be quite surprised if you calculated the amount!)

Sometimes your value as a frequent user is openly recognized and appreciated. In these situations, you feel that the business is tailoring its service features, including schedules and prices, to foster a relationship with you and encourage your long-term loyalty. But at other times, you may feel that nobody in the organization knows or cares who you are. You may be a valuable customer, but you certainly don't feel valued. Thus you are not likely to remain loyal if an opportunity arises to switch to another service provider. Well-managed organizations work hard to develop relationships with desirable customers and to grow the volume of business that they conduct. That strategy is usually a wise use of marketing resources, since it may cost a firm five to six times as much to attract a new customer as it does to retain an existing one.[3]

Building relationships with desirable customers can be very profitable. But what constitutes a relationship? One **transaction**—or even a series of transactions—does not necessarily represent a relationship. Mutual recognition and knowledge between the parties is required for a relationship to exist. When each transaction between a customer and a service provider is essentially separate and anonymous, with no long-term record of a customer's purchasing history and little or no mutual recognition between the customer and the firm's employees, then no meaningful marketing relationship can be said to exist.

transaction: an event during which an exchange of value takes place between two parties.

A word of caution is in order at this point. Not all customers *want* to have in-depth relationships with the firms whose services they buy. Some people prefer to patronize several suppliers, either because they enjoy variety or because they like to search for the best terms on any given purchase. Some dislike constant contact from a firm—by mail, telephone, or e-mail—informing them about new developments and selling them new services. Others are worried about privacy. They don't like the idea of a firm gathering detailed information about their background and product usage behavior, because they worry that this information might be sold or otherwise made available to other organizations without their permission. The advent of the Internet as an interactive marketing channel has increased these concerns.[4]

The Nature of Service Relationships

Although some services involve discrete transactions, in other instances purchasers receive service on a continuing basis. But even when transactions are separate and independent, there may still be opportunities to create an ongoing relationship. The different nature of these situations offers an opportunity for categorizing services. First, we can ask: Does the supplier enter into a formal **membership relationship** with customers, as with telephone subscriptions, banking, and the family doctor? Or is there no defined relationship? And second: Is the service delivered on a continuous basis, as in insurance.

membership relationship: a formalized relationship between the firm and a specified customer that may offer special benefits to both parties.

TABLE 5.1
Relationships with Customers

Nature of Service Delivery	Type of Relationship Between the Service Organization and Its Customers: "Membership" Relationship	No Formal Relationship
Continuous Delivery of Service	Insurance Cable TV subscription College enrollment Banking	Radio station Police protection Lighthouse Public highway
Discrete Transaction	Long-distance calls from subscriber phone Theater series subscription Travel on commuter ticket Repair under warranty Health treatment for HMO member	Car rental Mail service Toll highway Pay phone Movie theater Public transportation Restaurant

broadcasting, and police protection? Or is each transaction recorded and charged separately? Table 5.1 shows the resulting matrix, with examples in each category.

A membership relationship is a formalized relationship between the firm and an identifiable customer, who signs up in advance for service. Firms in the top left quadrant of Table 5.1 are natural "membership" organizations; customers must apply in advance before they can receive service. Such relationships have the potential to offer special benefits to both parties, because the potential exists for both sides to get to know each other better.

The advantage to the service organization of having membership relationships is that it knows who its current customers are, what they spend, and (usually) when, where, and how often they use the services offered. This information can be valuable for segmentation purposes if good records are kept and the data are readily accessible in a format that lends itself to computerized analysis. Knowing the identities and addresses of current customers enables the organization to make effective use of direct mail (including e-mail), telemarketing, and personal sales calls—all highly targeted methods of marketing communication. In turn, members can be given access to special numbers or even designated account managers to facilitate their communications with the firm.

Discrete transactions—when each usage involves a payment to the service supplier by an essentially "anonymous" consumer—are typical of services like transportation, restaurants, cinemas, and shoe repair shops. The problem for marketers of such services is that they are usually less informed about who their customers are and what use each customer makes of the service than their counterparts in membership-type organizations. But firms that sell their services on a transactional basis to anonymous customers can create relationships with frequent users by selling the service in bulk (for instance, a theater series subscription or a commuter ticket on public transport) and recording the customers name and address. Another approach is to offer extra benefits to customers who agree to register with the firm so that their usage can be tracked (for example, loyalty programs for hotels, airlines, and car rental firms). In this way, an organization can shift at least part of its customer base from the bottom right quadrant of the matrix shown in Table 5.1 to the bottom left one.

In small businesses such as hair salons, frequent customers are (or should be) welcomed as "regulars" whose needs and preferences are remembered. Keeping formal records of customers' needs, preferences, and purchasing behavior is useful even in small firms. Accurate records eliminate the need for employees to ask repetitive questions during every service encounter. Customer data can also be used to personalize the service

given to each customer. In large companies with substantial customer bases, transactions can be transformed into relationships by opening accounts, maintaining computerized customer records, and instituting account management programs that provide customers with a telephone number to call for assistance or a designated account representative. Long-term contracts between suppliers and their business customers take the nature of relationships to a higher level, transforming them into partnerships and strategic alliances.

The different types of service relationships shown in Table 5.1 have important implications for pricing. Whenever service is offered on an ongoing basis, there can be a single periodic charge covering all contracted services. Most insurance policies fall in this category, as do tuition and board fees at a residential college. The big advantage of this package approach is its simplicity. In other instances, the price paid by "members" is tied to the number and type of specific transactions and may also include a base subscription fee. While more complex to administer, such an approach recognizes variations in usage patterns and may discourage wasteful use of the service. In these cases, "members" may be offered advantages over casual users—for instance, discount rates (telephone subscribers pay less for long-distance calls made from their own phones than do pay phone users) or advance notification and priority reservations (such as theater subscriptions). Some services require no fee and are available to all. The final category in Table 5.1 represents continuously delivered services like broadcasting, police protection, lighthouse services, and public roads that are typically funded by advertising, donations, or tax revenues.

Micro-Segmentation at the Royal Bank of Canada

At least once a month, Toronto-based analysts at the Royal Bank of Canada (the country's largest bank) use data modeling to segment its base of 10 million customers. The segmentation variables include credit risk, current and projected profitability, life stage, likelihood of leaving the bank, channel preference (whether customers like to use a branch, the call center, or the Internet), product activation (how quickly customers actually use a product they have bought), and propensity to purchase another product. Says a senior vice president, "Gone are the days when we had mass buckets of customers that would receive the same treatment or same offer on a monthly basis. Our marketing strategy is [now] much more personalized. Of course, it's the technology that allows us to do that."

The main source of data is the marketing information file, which records what products customers hold with the bank, the channels they use, their responses to past campaigns, transactional data, and details of any restrictions on soliciting customers. Another source is the enterprise data warehouse, which stores billing records and information from every document that a new or existing customer fills out.

Royal Bank analysts run models based on complex algorithms that can slice the bank's massive customer database into tightly profiled micro-segments that are based on simultaneous use of several variables, including the probability that target customers will respond positively to a particular offer. Customized marketing programs can then be developed for each of these micro-segments, giving the appearance of a highly personalized offer. The data can also be used to improve the bank's performance on unprofitable accounts by identifying these customers and offering them incentives to use lower-cost channels.

An important goal of Royal Bank's segmentation analysis is to maintain and enhance profitable relationships. The bank has found that customers who hold packages of several services are more profitable than those who don't. These customers also stay with the bank an average of three years longer. As a result of the sophisticated segmentation practices at Royal Bank, the response rates to its direct marketing programs have jumped from an industry average of only 3 percent to as high as 30 percent.

Source: Meredith Levinson, "Slices of Lives," *CIO Magazine,* 15 August 2000.

Relationship Marketing

relationship marketing: activities aimed at developing long-term, cost-effective links between an organization and its customers for the mutual benefit of both parties.

There's a fundamental distinction in marketing between strategies intended to bring about a single transaction and those designed to create extended relationships with customers. **Relationship marketing** involves activities aimed at developing long-term, cost-effective links between an organization and its customers for their mutual benefit. Among the approaches used by service firms to maintain and enhance relationships are such basics as treating customers fairly, offering service augmentations, and treating each customer as though he or she were a segment of one—the essence of mass customization. Service "extras" often play a key role in building and sustaining relationships between vendors and purchasers of industrial goods.

Research by Coviello, Brodie, and Munro suggests that there are three distinct categories of relationship marketing: database marketing, interaction marketing, and network marketing.[6]

Database Marketing In this type of marketing, the focus is on the market transaction but includes information exchange. Marketers rely on information technology—in the form of a database or the Internet—to form a relationship with targeted customers and retain their patronage over time. However, the nature of these relationships is often not a close one, with communication being driven and managed by the seller. Technology is used to (1) identify and build a database of current and potential customers, (2) deliver differentiated messages based on consumers' characteristics and preferences, and (3) track each relationship to monitor the cost of acquiring the consumer and the lifetime value of the resulting purchases.[7] Although technology can be used to personalize the relationship (as in word-processed letters that insert the customer's name), relations remain somewhat distant, as illustrated by utility services such as electricity, gas, and cable TV.

Interaction Marketing A closer relationship exists in situations where there is direct interaction between customers and company representatives (in person or by telephone and e-mail). Although the service itself remains important, people and social processes also add value through interactions that may include negotiations and mutual sharing of information. This type of relationship has long existed in many local environments where buyer and seller know and trust each other, ranging from community banks to dentistry. It is also commonly found in many business-to-business services. Both the firm and the customer are prepared to invest resources to develop a mutually beneficial relationship. This investment may include time spent sharing and recording information. As service companies grow, they face the challenge of maintaining satisfying relationships with customers as new technologies encourage a shift from high- to low-contact service.

Network Marketing We often say that someone is a "good networker" because he or she is able to put individuals in touch with others who have a mutual interest. This type of marketing occurs primarily in a business-to-business context, where firms commit resources to develop positions in a network of relationships with customers, distributors, suppliers, the media, consultants, trade associations, government agencies, competitors, and even the customers of their customers. Often a team of individuals within a supplier's firm must collaborate to provide effective service to a parallel team within the customer organization. However, the concept of networking is also relevant in consumer marketing environments where customers are encouraged to refer friends and acquaintances to the service provider.

CREATING AND MAINTAINING VALUED RELATIONSHIPS

For the service provider, a valued relationship is one that is financially profitable in the long run. In addition, the benefits of serving a customer may extend beyond revenues to include such intangibles as the knowledge and pleasure obtained from working with that customer over time. In a healthy and mutually profitable relationship, both parties have an incentive to ensure that it extends for many years. The seller, in particular, recognizes that it pays to take an investment perspective. The initial costs of acquiring new customers and learning about their needs—which may even make the account unprofitable in the short run—are justified by the expectation of future profits.

How do customers define a valued relationship? It's one in which the benefits received from service delivery significantly exceed the associated costs of obtaining them. Research suggests that relational benefits for individual consumers include greater confidence, social benefits, and special treatment (see the boxed discussion on "How Customers See Relational Benefits"). Valued relationships in business-to-business services are largely dependent on the quality of the interactions between individuals at each of the partnering firms. "As relationships strengthen over a period of time," Piyush Kumar observes, "the service provider's personnel often assume the role of outsourced departments and make critical decisions on behalf of their clients."

How Customers See Relational Benefits

What benefits do customers gain from an extended relationship with a service firm? In personal interviews, respondents were asked to identify service providers that they used on an ongoing basis and discuss any benefits they received as a result of being a regular customer. Their comments included the following:

- "I like him [hair stylist]____He's really funny and always has lots of good jokes. He's kind of like a friend now."
- "I know what I'm getting—I know that if I go to a restaurant that I regularly go to, rather than taking a chance on all of the new restaurants, the food will be good."
- "I often get price breaks. The little bakery that I go to in the morning, every once in a while, they'll give me a free muffin and say, 'You're a good customer, it's on us today.'"
- "You can get better service than drop-in customers .... We continue to go to the same automobile repair shop because we have gotten to know the owner on a kind of personal basis, and he... can always work us in."
- "Once people feel comfortable, they don't want to switch to another dentist. They don't want to train or break a new dentist in."

After evaluating and categorizing such comments, the researchers designed a second study. Subjects were told to select a specific service provider with which they had a strong, established relationship. They were then asked to indicate what benefits they received from this relationship and how important these benefits were to them. Analysis of the results showed that most of the benefits could be grouped into three clusters.

Confidence benefits—the most important group—included feelings by customers that in an established relationship there was less risk of something going wrong, more confidence in correct performance, greater ability to trust the provider, lowered anxiety when purchasing, better knowledge of what to expect, and an expectation of receiving the firm's highest level of service.

Social benefits involved mutual recognition between customers and employees, being known by name, friendship with the service provider, and enjoyment of certain social aspects of the relationship.

Special treatment benefits included better prices, discounts or special deals that were unavailable to most customers, extra services, higher priority when there was a wait, and faster service than most customers.

Source: Kevin P. Gwinner. Dwayne D. Gremler, and Mary Jo Bitner, "Relational Benefits in Services Industries: The Customer's Perspective," *Journal of the Academy of Marketing Science* 26, no, 2 (1998): 101-114.

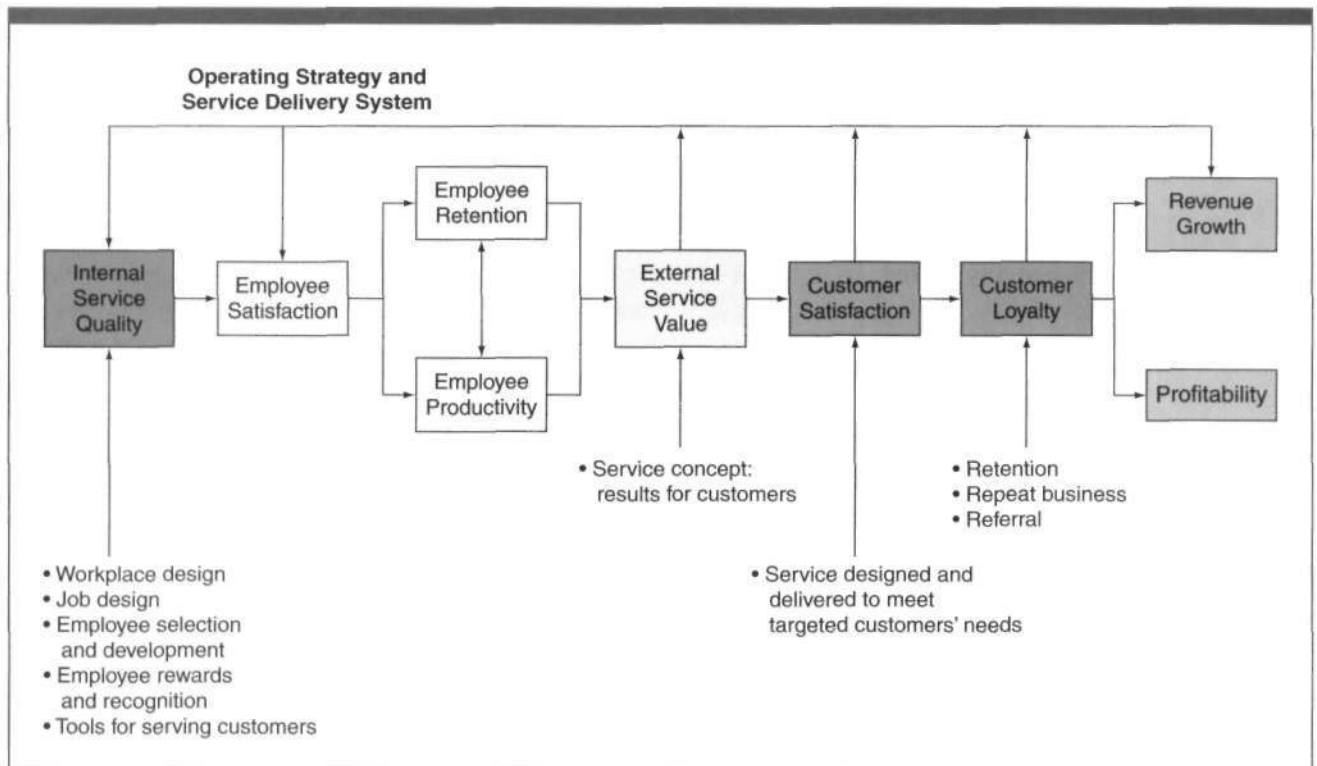
The Loyalty Effect

loyalty: a customer's voluntary decision to continue patronizing a specific firm over an extended period of time.

Loyalty is an old-fashioned word, traditionally used to describe fidelity and enthusiastic devotion to a country, cause, or individual. More recently, in a business context, it has been used to describe a customer's willingness to continue patronizing a firm over the long term, purchasing and using its goods and services on a repeated and preferably exclusive basis, and voluntarily recommending it to friends and associates. "Few companies think of customers as annuities," says Frederick Reichheld, author of *The Loyalty Effect,* and a major researcher in this field.[9] And yet that is precisely what a loyal customer can mean to a firm: a consistent source of revenues over a period of many years. However, this loyalty cannot be taken for granted. It will only continue as long as the customer feels that he or she is receiving better value (including superior quality relative to price) than could be obtained by switching to another supplier.

There are many possible ways to disappoint customers through service quality failures. A major source of disappointment, especially in high-contact situations, is poor performance by service employees. Researchers believe that there is an explicit link between customers' satisfaction with service and employees' satisfaction with their jobs (Figure 5.1). To the extent that service workers are capable, enjoy their jobs, and perceive themselves as well treated by their employer, they will be motivated to remain loyal to that firm for an extended period of time rather than con-

FIGURE 5.1
The Links in the Service-Profit Chain



Source: James L. Heskett, Thomas O. Jones, Gary W. Loveman, W. Earl Sasser, Jr., and Leonard A. Schlesinger, "Putting the Service Profit Chain to Work," *Harvard Business Review,* March-April 1994. Copyright© 1994 by the President and Fellows of Harvard College.

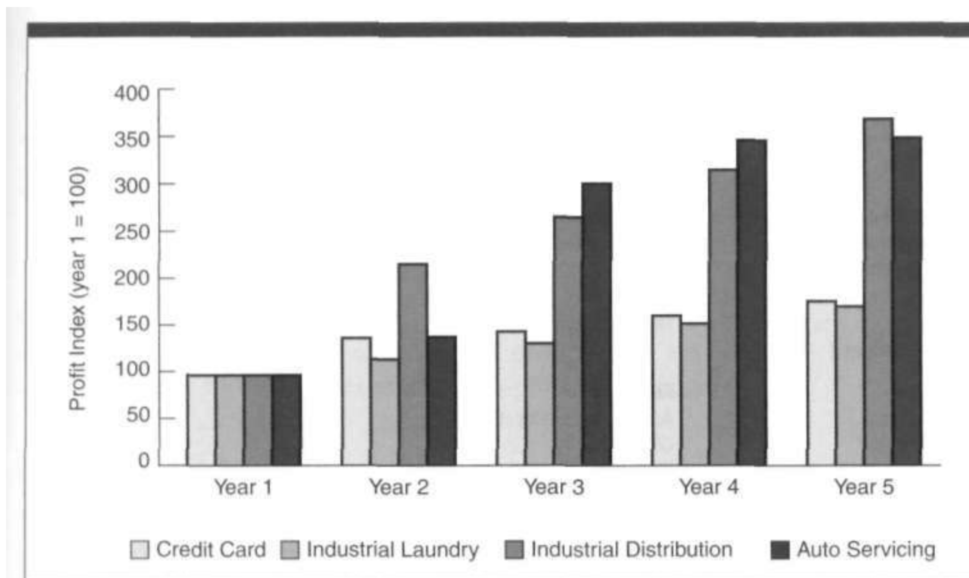
stantly switching jobs. Competent and loyal workers tend to be more productive than new hires, to know their customers well, and to be better able to deliver high-quality service. In short, employee loyalty can contribute to customer loyalty through a series of links referred to as the "service profit chain."

"Defector" was a nasty word during the Cold War in the mid-1900s. It described disloyal people who sold out their own side and went over to the enemy. Even when they defected to "our" side, rather than away from it, they were still suspect. Today, the term defection is being applied to customers who transfer their brand loyalty to another supplier. Reichheld and Sasser popularized the term "zero defections," which they describe as keeping every customer the company can profitably serve. (As we've already said, there are always some customers a firm is not sorry to lose.) Not only does a rising defection rate indicate that something is wrong with quality—or that competitors offer better value—it may also signal the risk of a future decrease in revenues. Profitable customers don't necessarily disappear overnight; they may signal their mounting disaffection by steadily reducing their purchases. Observant firms record customer purchase trends carefully and are quick to respond with recovery strategies in the event of decreased purchases, customer complaints, or other indications of service failure.

defection: a customers decision to transfer brand loyalty from a current service provider to a competitor.

Realizing the Full Profit Potential of a Customer Relationship

How much is a loyal customer worth in terms of profits? In a classic study, Reichheld and Sasser analyzed the profit per customer in many different industries, categorized by the number of years that a customer had been with the firm.[12] They found that the longer customers remained with a firm in each of these industries, the more profitable they became to the company. Annual profits per customer, which have been indexed over a five-year period for easier comparison, are summarized for four different service industries in Figure 5.2.



Source: Based on data in Frederick F. Reichheld and W. Earl Sasser, Jr., "Zero Defections: Quality Comes to Services," *Harvard Business Review*, October 1990.

FIGURE 5.2
How Much Profit a Customer Generates Over Time

According to Reichheld and Sasser, four factors work to the supplier's advantage in creating incremental profits over an extended period of time. In order of magnitude at the end of a seven-year period, these factors are:

1. *Profit derived from increased purchases* (or higher account balances in credit card or banking environments). Over time, business customers often grow larger and need to purchase in greater quantities. Individuals may purchase more as their families grow or as they become more affluent. Both types of customers may decide to consolidate their purchases with a single supplier who provides high-quality service.
2. *Profit from reduced operating costs.* As customers become more experienced, they make fewer demands on the supplier (for instance, less need for information and assistance). They may also make fewer mistakes when involved in operational processes, thus contributing to greater productivity.
3. *Profit from referrals to other customers.* Positive word-of-mouth recommendations are like free sales and advertising, saving the firm from having to invest as much money in these activities.
4. *Profit from price premium.* New customers often benefit from introductory promotional discounts whereas long-term customers are more likely to pay regular prices. Moreover, when customers trust a supplier they may be more willing to pay higher prices at peak periods or for express work.

Reichheld argues that the economic benefits of customer loyalty noted above often explain why one firm is more profitable than a competitor. Further, the upfront costs of attracting these buyers can be amortized over many years. For insights on how to calculate customer value in any given business, see the worksheet in Table 5.2.

It's important to note that not all loyal customers are necessarily profitable. Banks and telephone companies, for instance, have many small accounts whose revenues do not cover the costs of servicing them. Reinarz and Kumar suggest that the loyalty model works best in situations where customers enter into a formal membership relationship with the supplier.[13] When such a relationship is absent, then customers are free to shop around each time they need to make a transaction.

TABLE 5.2

Worksheet for Calculating Long-Term Customer Value

Acquisition		Ongoing Use	Year 1	Year 2	Year 3	Year *n*
Initial Revenue		**Annual revenues**				
Application fee[a]	____	Annual account fee[a]	____	____	____	____
Initial purchase[a]	____	Sales	____	____	____	____
		Service fees[a]	____	____	____	____
		Value of referrals[b]	____	____	____	____
Total Revenues	____		____	____	____	____
Initial Costs		**Annual Costs**				
Marketing:	____	Account Management	____	____	____	____
Credit check[a]	____	Cost of sales	____	____	____	____
Account set up[a]	____	Write-offs (e.g., bad debts)	____	____	____	____
Less Total Costs	____		____	____	____	____
Net Profit (Loss)	____		____	____	____	____

[a]If applicable.

[b]Anticipated profits from each new customer referred (could be limited to the first year or expressed as the net present value of the estimated future stream of profits through year *n*); this value could be negative if an unhappy customer starts to spread negative word of mouth that leads existing customers to defect.

For profit-seeking firms, the potential value of a customer should be a key driver in marketing strategy. Grant and Schlesinger state:

Achieving the full profit potential of each customer relationship should be the fundamental goal of every business. . . . Even using conservative estimates, the gap between most companies' current and full potential performance is enormous.[14]

They suggest analysis of three gaps between actual and potential performance:

- What percentage of its target customers does a firm currently have, and what percentage could it potentially obtain? (If there is a large gap between a firm's current share and its potential, then it may make sense to develop strategies to attract new customers.)
- What is the current purchasing behavior of customers in each target segment? What would the impact be on sales and profits if they exhibited the ideal behavior profile of (1) buying all services offered by the firm, (2) never purchasing from competitors, and (3) paying full price? (To get customers to buy more, firms should examine opportunities to cross-sell new services to existing customers. Frequent user programs that reward loyalty can help to strengthen relationships. But getting customers to pay higher prices than they are used to may be difficult unless competitors are also trying to reduce the availability of discount promotions.)
- How long, on average, do customers remain with the firm? What impact would it have if they remained customers for life? (As we showed earlier, the profitability of a customer often increases over time. If valued customers are defecting, it is important to identify the reasons why customers defect and then take corrective action.)

Many elements are involved in gaining market share, cross-selling other products and services to existing customers, and creating long-term loyalty. The process starts, as we suggested earlier, by identifying and targeting the right customers, then learning everything possible about their needs, including their preferences for different forms of service delivery. However, there's a dark side to the emphasis on identifying and catering to an organization's most profitable customers. Some companies are making very little effort to serve those customers who offer little or no financial value to the firm. According to a recent *Business Week* article,

The result could be a whole new stratification of consumer society. The top tier may enjoy an unprecedented level of personal attention, but customers who fall below a certain level of profitability for too long may find themselves bounced from the customer rolls altogether or facing fees that all but usher them out the door. . . . [M]arketers . . . are doing everything possible to push their customers—especially low-margin ones—toward self-service.[15]

Such strategies take segmentation analysis and database marketing to a new extreme in identifying which customers will be most profitable to a firm in the long run and actively courting them at the expense of less-profitable segments.

Loyalty Reward Programs

The big challenge for service marketers lies not only in giving prospective customers a reason to do business with their firms, but also in offering existing customers incentives to remain loyal and perhaps even increase their purchases. Among the best-known strategies for rewarding frequent users are the "frequent flyer" programs offered by passenger airlines (see box).

American Airlines was probably the first service firm to realize the value of its customer database for learning more about the travel behavior of its best customers. The company uses this data to create direct mail lists targeted at specific customers (such as travelers who fly regularly between a certain pair of cities). The airline was also quick to examine bookings for individual flights to see how many seats were filled by frequent flyers, most of whom were probably traveling on business and therefore less price sensitive than vacationers and pleasure travelers. This information helped American to counter competition from low-cost discount airlines, whose primary target segment was price-conscious pleasure travelers. Rather than reducing all fares on all flights between a pair of cities, American realized that it only needed to offer a limited number of discount fares. These fares were available primarily on those flights known to be carrying significant numbers of nonbusiness passengers. Even on such flights, the airline would limit availability of discount fares by such

Reinforcing Loyalty by Rewarding Frequent Flyers

American Airlines established the original "frequent flyer" program in 1983. Targeted at business travelers (the individuals who fly the most), this promotion enabled passengers to claim travel awards based on the accumulated distance they had traveled on the airline. "Miles" flown became the scoring system that entitled customers to claim from a menu of free tickets in different classes of service. American was taken by surprise at the enormous popularity of this program. Other major airlines soon felt obliged to follow and implemented similar schemes of their own. Each airline hoped that its own frequent flyer program, branded with a distinctive name such as "AAdvantage" (American) or "Mileage Plus" (United), would induce a traveler to remain brand loyal, even to the extent of some inconvenience in scheduling. However, many business travelers enrolled in several programs, thereby limiting the effectiveness of these promotions for individual carriers.

To make their programs more appealing, the airlines signed agreements with regional and international carriers, "partner" hotels, and rental car firms, allowing customers to be credited with mileage accrued through a variety of travel-related activities. What had begun as a one-year promotion by American Airlines was soon transformed into a permanent—and quite expensive—part of the industry's marketing structure. In due course, many international airlines felt obliged to introduce their own frequent flyer programs, offering miles (or kilometers) to compete with American carriers and with each other.

As time passed, airlines in the United States started to use double and triple mileage bonus awards as a tool for demand management, seeking to encourage travel on less-popular routes. A common strategy was to award bonus miles for flying during the low season when many empty seats were available or for changing flights at an intermediate hub rather than taking a nonstop flight. To avoid giving away too many free seats at peak time, some airlines offered more generous redemption terms during off-peak times. A few even created "blackout periods" during key vacation times like Christmas and New Year, in order to avoid cannibalizing seat sales to paying customers.

Competitive strategies often involved bonus miles, too, with "bonus wars" breaking out on certain routes. At the height of its mid-1980s battle with New York Air on the lucrative 230-mile (370 km) New York-Boston shuttle service, the PanAm Shuttle offered passengers 2,000 miles for a one-way trip and 5,000 miles for a round trip completed within a single day. Bonus miles were also awarded for travel in first or business class. And bonuses might also be used to encourage passengers to sample new services or to complete market research surveys.

To record the mileage of passengers enrolled in their frequent flyer programs, the airlines have had to install elaborate tracking systems that capture details of each flight. They have also created systems for recording and maintaining each member's current account status. United uses its extensive customer database to reward loyalty in a unique way. If a flight is canceled, passengers are placed on a waiting list for the next available flight according to how many miles they have accumulated. Thus more loyal customers are given preferential treatment in terms of service and convenience.

means as requiring an advance purchase or an extended stay in the destination city, making it difficult for business travelers to trade down from full fare to a discount ticket.

One problem with frequent flyer programs is that customers who travel extensively tend to belong to several different programs. To encourage loyalty to a single carrier, some airlines have added a points system, based upon the *value* of the customer's business in a given year, not just the mileage. For instance, at British Airways Executive Club, travel in business class and first class qualifies, respectively, for double and triple the number of points awarded in economy class, but discounted economy fares do not qualify for points at all. Longer flights, being more expensive, yield more points. Once club members have amassed a certain number of points, they receive silver or gold tier status, valid for 12 months. This points-based reward system offers a number of privileges, including automatic doubling of air miles for gold tier members and a 25 percent bonus for silver tier members. A number of other airlines now use similar approaches, but the tier system gives travelers an incentive to consolidate their flights with a single airline.

Service businesses in other industries have sought to copy the airlines with frequent user programs of their own. Hotels, car rental firms, telephone companies, retailers, and even credit card issuers have been among those that seek to identify and reward their best customers. For instance, the Safeway supermarket chain offers a Club Card that provides savings on its own merchandise and discounts on purchases of services from partner companies. Similarly, car rental firms offer vehicle upgrades and hotels offer free rooms in vacation resorts. Not all companies offer their own products as rewards; instead, many firms offer miles credited to an airline's frequent flyer program since air miles have become a valuable promotional currency in their own right.

Perhaps the most creative awards are those that even wealthy customers might find difficult to obtain on their own. For example, Merrill Lynch recently offered its premium clients an opportunity to use Visa card points to "purchase" top seats at an award-

By *specializing in cutting children's hair and providing an appealing environment for them, this salon hopes to build a relationship with both the kids and their parents.*

winning Broadway musical or a VIP package to attend the 2001 All-Star Hockey Game in Denver, including a champagne reception at which the legendary player, Gordie Howe, was scheduled to speak.

Despite the popularity of customer loyalty programs, researchers claim that these programs have proved "surprisingly ineffective" for many firms. To succeed in competitive markets, they suggest that loyalty programs must enhance the overall value of product or service and motivate loyal buyers to make their next purchase.[16] In some instances, like the airline s frequent flyer miles, the benefits are popular with customers and virtually all players in the industry have felt obliged to offer a loyalty program. Additional valued benefits for loyal airline customers often include priority reservation and check-in services, use of airport lounges, and upgrades. In other industries, however, the benefits are not perceived as valuable enough to encourage loyalty or justify a higher price than competitors. This may have been one reason why AT&T, facing fierce price competition in the telecommunications industry, ended its "True Rewards" loyalty program in 1998.

The bottom line is that rewards alone will not enable a firm to retain its most desirable customers. If these customers are not delighted with the quality of service they receive, or believe that they can obtain better value from a less-expensive service, they may quickly become disloyal. No service business can afford to lose sight of the broader goals of providing quality service and good value relative to the price and other costs of service that customers incur.

Ending Unprofitable Relationships

Although our focus so far has been on increasing customer loyalty, not all of a firm's existing customers may be worth keeping. Some customers no longer fit the firm's strategy, either because that strategy has changed or because the customer's behavior and needs have changed. Many relationships are no longer profitable for the firm, since they cost more to maintain than the revenues they generate. Just as investors need to dispose of poor investments and banks may have to write off bad loans, each service firm needs to regularly evaluate its customer portfolio and consider terminating unsuccessful relationships. (Legal and ethical considerations, of course, will help determine whether it is possible or proper to take such actions.)

Occasionally customers have to be terminated directly (although concern for due process is still important). Bank customers who bounce too many checks, students who are caught cheating on exams, or country club members who consistently abuse the facilities (or staff and other members) may be asked to leave or face expulsion. In other situations, termination may be less confrontational. Banks have been known to sell accounts that no longer fit with corporate priorities to other financial institutions; the "traded" customers typically receive a letter in the mail or a phone call from the new supplier informing them of the change. Professionals such as doctors or lawyers may suggest to difficult or dissatisfied clients that they should consider switching to another provider whose expertise or style is more suited to their needs and expectations.

THE PROBLEM OF CUSTOMER MISBEHAVIOR

Customers who act in uncooperative or abusive ways are a problem for any organization. But they have more potential for mischief in service businesses, particularly those in which the customer comes to the service factory. As you know from your own experience, the behavior of other customers can affect your enjoyment of a ser-

vice. If you like classical music and attend symphony concerts, you expect audience members to keep quiet during the performance, rather than spoiling the music by talking or coughing loudly. By contrast, a silent audience would be deadly during a rock concert or team sports event, where active audience participation adds to the excitement. There is a fine line, however, between spectator enthusiasm and abusive behavior by supporters of rival sports teams. Firms that fail to deal effectively with customer misbehaviors risk damaging their relationships with all the other customers they would like to keep.

Addressing the Challenge of Jaycustomers

Visitors to North America from other English-speaking countries are often puzzled by the term "jaywalker," that distinctively American word used to describe people who cross streets at unauthorized places or in a dangerous manner. The prefix "jay" comes from a nineteenth-century slang term for a stupid person. We can create a whole vocabulary of derogatory terms by adding the prefix "jay" to existing nouns and verbs. How about *"jaycustomer"* for example, to denote someone who "jayuses" a service or "jayconsumes" a physical product (and then "jaydisposes" of it afterwards)? We define a **jaycustomer** as one who acts in a thoughtless or abusive way, causing problems for the firm, its employees, and other customers.[17]

jaycustomer: a customer who acts in a thoughtless or abusive way, causing problems for the firm, its employees, and other customers.

Every service has its share of jaycustomers. But opinions on this topic seem to polarize around two opposing views of the situation. One is denial: "The customer is king and can do no wrong." The other view sees the marketplace of customers as positively overpopulated with nasty people who cannot be trusted to behave in ways that self-respecting service providers should expect and require. The first viewpoint has received wide publicity in gung-ho management books and in motivational presentations to captive groups of employees. But the second view often appears to be dominant among cynical managers and employees who have been burned at some point by customer misbehaviors. As with so many opposing viewpoints in life, there are important grains of truth in both perspectives. What is clear, however, is that no self-respecting firm would want to have an ongoing relationship with an abusive customer.

Six Types of Jaycustomers

Jaycustomers are undesirable. At worst, a firm needs to control or prevent their abusive behavior. At best, it would like to avoid attracting them in the first place. Since defining the problem is the first step in resolving it, let's start by considering the different segments of jaycustomers who prey upon providers of both goods and services. We've identified six broad categories and given them generic names, but many customer-contact personnel have come up with their own special terms. As you reflect on these categories, you may be tempted to add a few more of your own.

The Thief This jaycustomer has no intention of paying and sets out to steal goods and services (or to pay less than full price by switching price tickets or contesting bills on baseless grounds). Shoplifting is a major problem in retail stores. What retailers euphemistically call "shrinkage" is estimated to cost them huge sums of money in annual revenues. Many services lend themselves to clever schemes for avoiding payment. For those with technical skills, it's sometimes possible to bypass electricity meters, access telephone lines free of charge, or circumvent normal cable TV feeds. Riding free on public transportation, sneaking into movie theaters, or not paying for restaurant meals are also popular. And we mustn't forget the use of fraudulent forms of payment such as stolen credit cards or checks drawn on accounts without any funds. Finding out how people steal a service is the first step in

preventing theft or catching thieves and, where appropriate, prosecuting them. But managers should try not to alienate honest customers by degrading their service experiences. And provision must be made for honest but absent-minded customers who forget to pay.

The Rulebreaker Just as highways need safety regulations (including "Don't Jaywalk"), many service businesses need to establish rules of behavior for employees and customers to guide them safely through the various steps of the service encounter. Some of these rules are imposed by government agencies for health and safety reasons. The sign found in many restaurants that states "No shirt, no shoes—no service" demonstrates a health-related regulation. And air travel provides one of the best of examples of rules designed to ensure safety—there are few other environments outside prison where healthy, mentally competent, adult customers are quite so constrained (albeit with good reason).

In addition to enforcing government regulations, suppliers often impose their own rules to facilitate smooth operations, avoid unreasonable demands on employees, prevent misuse of products and facilities, protect themselves legally, and discourage individual customers from misbehaving. Ski resorts, for instance, are getting tough on careless skiers who pose risks to both themselves and others.[18] Collisions can cause serious injury and even death. So ski patrol members must be safety oriented and sometimes take on a policing role. Just as dangerous drivers can lose their licenses, so dangerous skiers can lose their lift tickets.

At Vail and Beaver Creek in Colorado, ski patrollers once revoked nearly 400 lift tickets in just a single weekend. At Winter Park near Denver, skiers who lose their passes for dangerous behavior may have to attend a 45-minute safety class before they can get their passes back. Ski patrollers at Vermont's Okemo Mountain may issue warnings to reckless skiers by attaching a bright orange sticker to their lift tickets. If pulled over again for inappropriate behavior, such skiers may be escorted off the mountain and banned for a day or more. "We're not trying to be Gestapos on the slopes," says the resort's marketing director, "just trying to educate people."

How should a firm deal with rulebreakers? Much depends on which rules have been broken. In the case of legally enforceable ones—theft, bad debts, trying to take guns on aircraft—the courses of action need to be laid down explicitly to protect employees and to punish or discourage wrongdoing by customers. Company rules are a little more ambiguous. Are they really necessary in the first place? If not, the firm should get rid of them. Do they deal with health and safety? If so, educating customers about the rules should reduce the need for taking corrective action. The same is true for rules designed to protect the comfort and enjoyment of all customers. There are also unwritten social norms such as "thou shalt not jump the queue" (although this is a much stronger cultural expectation in the United States or Canada than in many countries, as any visitor to Paris Disneyland can attest!). Other customers can often be relied upon to help service personnel enforce rules that affect everybody else; they may even take the initiative in doing so.

There are risks attached to making lots of rules. They can make an organization appear bureaucratic and overbearing. And they can transform employees, whose orientation should be service to customers, into police officers who see (or are told to see) their most important task as enforcing all the rules. The fewer the rules, the more explicit the important ones can be.

The Belligerent You've probably seen him (or her) in a store, at the airport, in a hotel or restaurant—red in the face and shouting angrily, or perhaps icily calm and mouthing off insults, threats, and obscenities.[19] Things don't always work as they should:

Machines break down, service is clumsy, customers are ignored, a flight is delayed, an order is delivered incorrectly, staff are unhelpful, a promise is broken. Or perhaps the customer in question is expressing resentment at being told to abide by the rules. Service personnel are often abused, even when they are not to blame. If an employee lacks authority to resolve the problem, the belligerent may become madder still, even to the point of physical attack. Drunkenness and drug abuse add extra layers of complication (see the box "Air Rage"). Organizations that care about their employees go to great efforts to develop skills in dealing with these difficult situations. Training

Air Rage: Unruly Passengers a Growing Problem

Joining the term "road rage"—coined in 1988 to describe angry, aggressive drivers who threaten other road users—is the newer term, "air rage." Perpetrators of air rage are violent, unruly passengers who endanger flight attendants, pilots, and other passengers. Incidents of air rage are perpetrated by only a tiny fraction of all airline passengers—reportedly about 5,000 times a year—but each incident in the air may affect the comfort and safety of hundreds of other people.

Acts of violence may be committed against employees or the aircraft itself. On a flight from Orlando (Florida) to London, a drunken passenger smashed a video screen and began ramming a window, telling fellow passengers they were about to "get sucked out and die." The crew strapped him down and the aircraft made an unscheduled landing in Bangor (Maine), where U.S. marshals arrested him. Another unscheduled stop in Bangor involved a drug smuggler flying from Jamaica to the Netherlands. When a balloon filled with cocaine ruptured in his stomach, he went berserk, pounding a bathroom door to pieces and grabbing a female passenger by the throat.

On a flight from London to Spain, a passenger who was already drunk at the time of boarding became angry when a flight attendant told him not to smoke in the lavatory and refused to serve him another drink. Later, he smashed her over the head with a duty-free vodka bottle before being restrained by other passengers (she required 18 stitches to close the wound). Other dangerous incidents have included throwing hot coffee at flight attendants, head butting a copilot, invading the cockpit and disengaging the autopilot, throwing a flight attendant across three rows of seats, and attempting to open an emergency door in flight. In August 2000, a violent passenger was restrained and ultimately suffocated by other passengers after he kicked through the cockpit door of an airliner 20 minutes before it was scheduled to land in gait Lake City

!n testimony before the U.S. Congress, an airline captain speaking for the Air Line Pilots Association declared, "Passenger interference is the most pervasive security problem facing air-|ines» A growing nurnber of carriers are takjng air rage perpetra-tors t0 court Northwest Airlines permanently blacklisted three vio-|ent travelers from flying on its aircraft. British Airways gives out "warning cards" to any passenger getting dangerously out of con-trol. Some airlines carry physical restraints to subdue out-of-con-trot passengers until they can be handed over to airport authorities, tn Aprl| 2ooo, the U.S. Congress increased the civil penalty for air rage fram $-, 100 to $25,000 in an attempt to discourage passen-gersfrom misbehaving. Criminal penalties—a $10,000 fine and up to 20 years in jail—can also be imposed for the most serious inci-dents However, airlines have been reluctant to publicize this infor-mati0n forfear 0f appearing confrontational or intimidating,

What causes air rage? Researchers suggest that air travel has become increasingly stressful as a result of crowding and longer f|ightS; the airlines themselves may have contributed to the prob-|em by squeezing rows of seats more tightly together and failing to exp|ain de|ays Findings suggest that risk factors for air travel stress inc|UC|e anxietY an(j an anger-prone personality; they also show that traveling on unfamiliar routes is more stressful than on a fami|iar orie Another factor may be restrictions on smoking,

Ainines are trainJng their employees to handle violent individ-ua|S and t0 spot pr0D|em passengers before they start causing seri-0us problems. Some carriers offer travelers specific suggestions on how t0 relax during long flights. And a few European airlines are considering offering nicotine patches to passengers who are des-perate for a smoke but are no longer allowed to light up.

Source: Daniel Eisenberg, "Acting Up in the Air," *Time,* 21 December 1998; Carol Smith, "Air Travel Stress Can Make Life Miserable," *Seattle Post Intelligencer,* syndicated article, August 1999; "Air Rage Capital: Bangor Becomes Nation's Flight Problem Drop Point," *The Baltimore Sun,* syndicated article, September, 1999; "Airlines Strangely Mum About New Fine," *The Omaha World-Herald,* syndicated article, 25 September 2000; and Metanie Trottman and Chip Cummins, "Passenger's Death Prompts Calls for Improved 'Air Rage' Procedures," *The Wall Street Journal,* 26 September 2000.

exercises that involve role-playing help employees develop the self-confidence and assertiveness that they need to deal with upset, belligerent customers (sometimes referred to as "irates"). Employees also need to learn how to defuse anger, calm anxiety, and comfort distress (particularly when there is good reason for the customer to be upset with the organization's performance).

What should an employee do when an aggressive customer brushes off attempts to defuse the situation? In a public environment, one priority should be to move the person away from other customers. Sometimes supervisors may have to arbitrate disputes between customers and staff members; at other times, they need to stand behind the employee's actions. If a customer has physically assaulted an employee, then it may be necessary to summon security officers or the police. Some firms try to conceal such events, fearing bad publicity. But others feel obliged to make a public stand on behalf of their employees, like the Body Shop manager who ordered an ill-tempered customer out of the store, telling her: "I won't stand for your rudeness to my staff."

Telephone rudeness poses a different challenge. Service personnel have been known to hang up on angry customers, but that action doesn't resolve the problem. Bank customers, for instance, tend to get upset when learning that checks have been returned because they are overdrawn (which means they've broken the rules) or that a request for a loan has been denied. One approach for handling customers who continue to berate a telephone-based employee is for the latter to say firmly: "This conversation isn't getting us anywhere. Why don't I call you back in a few minutes when you've had time to digest the information?" In many cases, a break for reflection is exactly what's needed.

The Family Feuders People who get into arguments (or worse) with other customers—often members of their own family—make up a subcategory of belligerents we call family feuders. Employee intervention may calm the situation or actually make it worse. Some situations require detailed analysis and a carefully measured response. Others, like customers starting a food fight in a nice restaurant (yes, such things do happen!), require almost instantaneous response. Service managers in these situations need to be prepared to think on their feet and act fast.

The Vandal The level of physical abuse to which service facilities and equipment can be subjected is truly astonishing. Soft drinks are poured into bank cash machines; graffiti are scrawled on both interior and exterior surfaces; burn holes from cigarettes scar carpets, tablecloths, and bedcovers; bus seats are slashed and hotel furniture broken; telephone handsets are torn off; customers' cars are vandalized; glass is smashed and fabrics are torn. The list is endless. Customers don't cause all of the damage, of course. Bored or drunk young people are the source of much exterior vandalism. And disgruntled employees have been known to commit sabotage. But much of the problem does originate with paying customers who choose to misbehave. Alcohol and drugs are sometimes the cause, psychological problems may contribute, and carelessness can play a role. There are also occasions when unhappy customers, feeling mistreated by the service provider, try to take revenge in some way.

The best cure for vandalism is prevention. Improved security discourages some vandals. Good lighting helps, as does open design of public areas. Companies can choose pleasing yet vandal-resistant surfaces, protective coverings for equipment, and rugged furnishings. Educating customers on how to use equipment properly (rather than fighting with it) and providing warnings about fragile objects can reduce the likelihood of abuse or careless handling. And there are economic sanctions: security deposits or signed agreements in which customers agree to pay for any damage that they cause.

What should managers do if prevention fails and damage is done? If the perpetrator is caught, they should first clarify whether there are any extenuating circumstances (because accidents do happen). Sanctions for deliberate damage can range from a warning to prosecution. As far as the physical damage itself is concerned, it's best to fix it fast (within any constraints imposed by legal or insurance considerations). The general manager of a bus company had the right idea when he said: "If one of our buses is vandalized, whether it's a broken window, a slashed seat, or graffiti on the ceiling, we take it out of service immediately, so nobody sees it. Otherwise you just give the same idea to five other characters who were too dumb to think of it in the first place!"

The Deadbeat Leaving aside those individuals who never intended to pay in the first place (our term for them is "the thief"), there are many reasons why customers fail to pay for services they have received. Once again, preventive action is better than a cure. A growing number of firms insist on prepayment. Any form of ticket sale is a good example of this. Direct marketing organizations ask for your credit card number as they take your order, as do most hotels when you make a reservation. The next best thing is to present the customer with a bill immediately on completion of service. If the bill is to be sent by mail, the firm should send it fast, while the service is still fresh in the customers mind.

Not every apparent delinquent is a hopeless deadbeat. Perhaps there's good reason for the delay and acceptable payment arrangements can be worked out. A key question is whether such a personalized approach can be cost-justified, relative to the results obtained by purchasing the services of a collection agency. There may be other considerations, too. If the client's problems are only temporary ones, what is the long-term value of maintaining the relationship? Will it create positive goodwill and word-of-mouth to help the customer work things out? These decisions are judgment calls, but if creating and maintaining long-term relationships is the firm's ultimate goal, they bear exploration.

Conclusion

All marketers need to be concerned about who their customers are, because some are more profitable (or more central to the organization's mission) than others. This concern takes on added dimensions for certain types of services. When customers have a high level of contact with the service organization and with one another, the customer mix helps to define the character of the organization, because customers themselves become a part of the product. So marketers must be selective in targeting the desired customer segments. Too diverse a portfolio of customers may result in an ill-defined image, especially if different customer segments are present at the same time. Avoiding inappropriate behavior is a related issue. Abusive customers—what we call "jaycustomers"—are a particular concern since they may spoil the experience for others and hurt profitability in other ways, too.

Marketers need to pay special attention to those customers who offer the firm the greatest value. Programs to reward frequent users—of which the most highly developed are the frequent flyer clubs created by the airlines—help identify and provide rewards for high-value customers and track their behavior in terms of where and when they use the service, what service classes or types of product they buy, and how much they spend. The most successful organizations give their best customers incentives to remain loyal, creating valued relationships that are nurtured over time.

Study Questions and Exercises

1. What criteria should a marketing manager use to decide which customer segments should be targeted by the firm?
2. Make a case both for and against the statement that "The customer is always right."
3. Identify some of the measures that can be used to encourage long-term relationships with customers.
4. Why should companies spend money to keep existing customers loyal?
5. Evaluate the strengths and weaknesses of frequent user programs in different types of service industries.
6. Select a people-processing service business.Then pick two types of jaycustomers and develop strategies designed (a) to discourage these customers from using your service, (b) to prevent them from causing distress to other customers and/or to employees, and (c) to minimize financial loss to your organization.

Endnotes

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