Chapter 12
Managing Relationships and Building Loyalty

GENERAL CONTENT

Multiple Choice Questions

1. Which of the following is NOT one of the advantages to incremental profits of a loyal customer?
   a. Profit from increased purchases.
   b. Profit from decreased advertising.
   c. Profit from reduced operating costs.
   d. Profit from referrals to other customers.
   e. Profit from price premiums.
   (b; Easy; p. 320)

2. The term ____________ has been widely used to describe repeated transactions that form a relationship between the buyer and the supplier.
   a. relational services
   b. relationship renewal
   c. relationship justification
   d. relationship management
   e. relationship marketing
   (e; Easy; p. 325)

3. Which of the following is one of the types of relational marketing?
   a. Database marketing
   b. Transactional marketing
   c. Corporate marketing
   d. B2B marketing
   e. B2C marketing
   (a; Moderate; p. 325)

4. Technology is used to do all of the following EXCEPT ____________ in relational marketing.
   a. identify and build a database of current and potential customers
   b. handle discrepancies between order requests
   c. deliver differentiated messages based on consumers’ characteristics and preferences
   d. track each relationship to monitor the cost of acquiring the consumer and the lifetime value of the resulting purchases
   e. all of the above are ways technology is used in relational marketing
   (b; Challenging; p. 325)
5. The wheel of loyalty is composed of which of the following three main components?
   a. Create loyalty bonds; deliver quality service; segment the market
   b. Create loyalty bonds; build higher level bonds; deliver quality service
   c. Build a foundation for loyalty; create bundling; build higher level bonds
   d. Build a foundation for loyalty; create loyalty bonds; reduce churn drivers
   e. Create loyalty bonds; understand customer value; understand service value
   (d; Moderate; p. 327)

6. Which of the following is NOT one of the four customer tiers discussed by Zeithaml, Rust, and Lemon?
   a. Platinum
   b. Gold
   c. Bronze
   d. Iron
   e. Lead
   (c; Easy; p. 330)

7. Which of the following are the three main zones of the satisfaction-loyalty relationship?
   a. Direction; institution; affluence
   b. Defection; indifference; affection
   c. Detection; elimination; subversion
   d. Detection; affluence; rejection
   e. Direction; intention; rejection
   (b; Moderate; p. 333)

8. Which of the following is NOT one of the strategies for developing loyalty bonds with customers?
   a. Deepening the relationship
   b. Lag-based bonds
   c. Social bonds
   d. Customization bonds
   e. Structural bonds
   (b; Moderate; p. 335)

9. What three psychological effects do Dowling and Uncles argue that marketers need to examine?
   a. Make versus buy decision; where buyers shop; how much buyers spend
   b. Brand loyalty versus deal loyalty; where buyers shop; how much buyers spend
   c. Brand loyalty versus deal loyalty; how buyers value rewards; timing
   d. Make versus buy decision; how buyers value rewards; timing
   e. Make versus buy decision; how buyers value rewards; how much buyers spend
   (c; Moderate; p. 336)
10. Which of the following is NOT one of the key strategies used to reduce customer defections?
   a. Eliminate nuisance customers.
   b. Address key churn drivers.
   c. Implement effective complaint handling and service recovery procedures.
   d. Increase switching costs.
   e. Analyze customer defections and monitor declining accounts.
   (a; Easy; p. 340)

True/False

11. As service companies grow larger and make increasing use of technologies such as interactive Web sites and self-service equipment, maintaining meaningful relationships with customers becomes less significant of a marketing challenge.
   (False; Moderate; p. 325)

12. Network marketing occurs mainly in a business-to-business context, where firms commit resources to develop positions in a network of relationships.
   (True; Moderate; p. 325)

13. A membership relationship is a formalized relationship between the firm and an identifiable customer that may offer special benefits to both parties.
   (True; Moderate; p. 326)

14. The advantage to the service organization of having membership relationships is that it knows who its future customers are and, usually, what they think of the services offered.
   (False; Easy; p. 326)

15. Most people can think of dozens of service firms they truly like and where they are committed to going back to.
   (False; Easy; p. 327)

16. Good relationships start with a good fit between customer needs and company capabilities.
   (True; Easy; p. 328)

17. Successful customer relationships cannot be built if a firm is selective about the segments they target.
   (False; Moderate; p. 328)

18. Many service firms put too much emphasis on value without enough consideration of the number of customers they will serve.
   (False; Moderate; p. 328)
19. The lead customer tier tends to generate moderate revenue, but only a small amount of business.
(False; Moderate; p. 331)

20. The two ends of the customer satisfaction/loyalty relationship are terrorist and apostle.
(True; Challenging; p. 333)

**Short Answer**

21. Define loyalty in a service context.

Loyalty is a customer’s willingness to continue patronizing a firm over the long-term, preferably exclusively, and recommending the firm’s products to others.
(Easy; p. 320)

22. Why do firms benefit from a price premium with loyal customers?

New customers often benefit from introductory promotional discounts, whereas long-term customers are more likely to pay regular prices and will pay even more when highly satisfied.
(Moderate; p. 321)

23. Define total relationship marketing.

Marketing based on relationships, networks, and interaction, recognizing that marketing is embedded in the total management of the networks of the selling organization, the market, and society. It is directed to long-term, win-win relationships with individual customers, and value is jointly created between the parties involved.
(Challenging; p. 325)

24. Describe the “Iron” customer segment discussed by Zeithaml, Rust, and Lemon.

These are the bulk of the customer base. They give the firm economies of scale and are often only marginally profitable.
(Challenging; p. 331)

25. Explain what a “structural bond” means.

Structural bonds are mostly seen in B2B settings and aim to stimulate loyalty through joint investment and sharing of information, processes, and equipment.
(Moderate; p. 340)
Essay

26. Describe the wheel of loyalty.

According to the wheel of loyalty, customer loyalty is derived from three main components. The first is building a foundation for loyalty. Here, the market is segmented to match customer needs and firm capabilities, customers are selected to match the core value proposition, services are tiered, and quality service is delivered. The second component is creating customer loyalty bonds. This component involves building social, customization, and structural bonds. It also involves rewarding (financial, recognition, bonuses) and deepening the relationship through cross selling and bundling of services. The third component reduces churn drivers through effective complaint handling and increasing switching costs. All of these processes are enabled through frontline staff, account managers, membership programs, and CRM systems.

(Challenging; p. 327)

27. Discuss the framework of the five key processes involved in a CRM strategy.

The first key process is strategy development that involves the assessment of business strategy. This is typically the responsibility of top management. Once developed, it should guide the development of customer strategy, including the choice of target segments and tiers, the design of loyalty bonds, and churn management. Value creation, the second process, translates the business and customer strategies into specific propositions. The value to customers includes all benefits delivered through tier rewards, loyalty rewards, and customization. Value to the firm should include reduced customer acquisition, retention costs, and increased profit. Multichannel integration is the third process. This simply refers to the need to interact consistently across different interfaces (e.g. face-to-face and online). The fourth process is information management. A firm’s ability to maintain multichannel consistency and provide value creation, etc. rests on its management of information. Customer information (demographics, etc.) and churn information (turnover) are key aspects of information of which firms need to be aware. Finally, performance assessment allows a firm to know how well it is doing on creating value, achieving market and service delivery performance objectives, and its CRM process performance overall.

(Challenging; p. 344)
APPLICATION CONTENT

Multiple Choice Questions

28. Which of the following is an example of a service that involves discrete transactions within a membership context?
   a. Repair under warranty
   b. Insurance
   c. Radio station
   d. Car rental
   e. Pay phone
   (a; Moderate; p. 326)

29. Which of the following is an example of a service that involves continuous delivery without a formal relationship?
   a. Police protection
   b. Movie theater
   c. Restaurant
   d. Banking
   e. Insurance
   (a; Moderate; p. 326)

30. Vanguard’s success is measured by which of the following?
   a. Low redemption rates
   b. High redemption rates
   c. Low customer turnover
   d. High customer turnover
   e. Portfolio stability
   (a; Challenging; p. 329)

31. Which of the following is NOT an aspect of ING Direct’s no-frills strategy?
   a. High interest rates
   b. Offers only a handful of basic products
   c. Lures low-maintenance customers
   d. Firing customers who don’t fit the profile
   e. Increased contact with the bank
   (e; Moderate; p. 332)

32. Which of the following is NOT an example of common CRM applications?
   a. Data collection
   b. Data analysis
   c. Market reinvestment
   d. Sales force automation
   e. Call center automation
   (c; Moderate; p. 343)
True/False

33. DHL’s less powerful accounts generate significantly lower profitability than their major accounts.
(False; Moderate; p. 322)

34. Vanguard Group is very careful about acquiring the right type of customer.
(True; Easy; p. 329)

35. ING Direct could be called the fast-food model of consumer banking because it is about as no-frills as it gets.
(True; Moderate; p. 332)

36. Customer satisfaction (based on the ACSI) is highly related to the stock price of individual firms.
(True; Moderate; p. 334)

37. Part of British Airways’ strategy is that customers can earn BA points and air miles on other airlines.
(True; Challenging; p. 338)

Short Answer

38. What are the two questions that need to be asked when analyzing the nature of a current relationship?

1) Does the supplier enter into a formal “membership”? and 2) Is the service delivered on a continuous basis?
(Challenging; p. 326)

39. Describe how Vanguard Group keeps its costs down to attract the right type of customer.

Vanguard focuses on index funds that create lower management fees and higher long term returns. They also do little advertising and have a policy of not trading.
(Moderate; p. 329)

40. Give an example of a firm discussed in the chapter that successfully built a strategy on serving customer segments that were neglected by established players that didn’t perceive them as sufficiently “valuable.”

Enterprise Rent-A-Car or Charles Schwab.
(Moderate, p. 330)
41. Describe the difference between miles and points on British Airways.

   Miles refer to distance flown and are redeemed for air travel rewards. Points earned, upgrade members to higher silver or gold tiers.
   (Moderate; p. 338)

42. Explain how AOL got itself into legal trouble with poor churn management.

   AOL rewarded its call center employees with bonuses for “saving” over 50 percent of customers who called in to cancel their service. Rather than retain customers through quality service, they attempted to retain them by making it aggravating to leave the service.
   (Challenging; p. 342)

Essay

43. Discuss how Vanguard Group’s pricing is set up to reward the right kind of customers.

   For many of Vanguard’s investors, only a one-time upfront fee is charged that goes into the fund to compensate all current investors for the administrative costs of selling new shares. The fee basically subsidizes long-term investors, and penalizes short-term investors. They also created Admiral shares for their loyal investors, which carry an expense fee one-third below ordinary shares. These efforts keep administrative and sales costs to the firm down, which are passed along to their loyal investors.
   (Challenging; p. 329)

44. Discuss how tiering helps a leading U.S. market research agency better understand its customers.

   This agency uses the four-tier pyramid suggested by Zeithaml, Rust, and Lemon. Platinum clients are large accounts that are willing to plan a certain amount of research during the year and also able to commit to the timing, scope, and nature of the projects. They make capacity management easy and provide high margins because of the size of the projects. Gold accounts are similar, but represent a more price sensitive segment. These accounts are still fairly large, but unwilling to commit to a specified amount of work during the year. Iron accounts spend a moderate amount in research and commission work on a project-by-project basis. They seek the lowest price and often do not allow the research firm time to finish a quality job. Lead accounts request isolated, low cost projects, which are quick and dirty and often invite multiple bids on their business. These accounts also tend to be high maintenance, as they do not understand research well enough.
   (Moderate; p. 332)
45. Discuss the benefits offered by British Airways to its Gold tier members.

Gold tier members at British Airways receive a host of benefits for their patronage and the value of their patronage. Members can be guaranteed a seat in economy even when a flight is fully booked and the member gives more than 24 hours of notice, essentially bumping another consumer from a lower tier. They receive the highest priority on standbys and advance notification of delays over 4 hours from the United States or Canada. They are checked in first and may board the aircraft at their leisure. Members are given access to the first class departure lounge even when not flying on British Airways. They receive an additional 50 percent bonus for air miles and free cabin upgrades for achieving a certain amount of points within a year.

(Moderate; p. 339)