Summer 6-30-2018

e-Control of Online Customers: When Companies Make Customers Compliant … Lessons for 21st Century China

Edward Kasabov
Huddersfield Business School, Advanced Institute of Management Research, University of Exeter Business School, United Kingdom

Alexander James Warlow
Institute of Direct and Digital Marketing, United Kingdom

e-Control of Online Customers: When Companies Make Customers Compliant … Lessons for 21st Century China

Edward Kasabov

(Huddersfield Business School, Advanced Institute of Management Research, University of Exeter Business School, United Kingdom)

Alexander James Warlow

(Institute of Direct and Digital Marketing, United Kingdom)

Abstract: With the advent of new technologies, an increasing number of companies have been redefining the manner in which they interact with their customers. Some of the fundamental precepts of marketing thinking, including what we read in our textbooks - such as customer centricity and customer orientation - have been questioned by practitioners. Companies treat customer demands as illegitimate until proven otherwise. Literature advice of individualised problem solving, and the adoption of an organic approach to complaint management, has been overturned and replaced with control and disciplining through the use of scripted rules and standard, cost-effective complaint processes. As a result, customers defined by the company as difficult and expensive are subordinated, whereas customers who comply with company expectations benefit from the low cost and better service levels, and appear willing to accept these new rules of engagement between customer and provider.

1. INTRODUCTION

Over the last decade or so, a new type of company has emerged, being enabled by deregulation, privatisation, liberalisation of markets, but most significantly by technological advances including the Internet, intranets and the growth in call-centres . The software systems, providing real-time direct communication with the customer has allowed these companies to employ a strategy of 'Customer Compliance' in place of the traditionally practiced 'Customer Centricity' which suggests that each complaint and complainer should be dealt with individually.

The press, bloggers, and even some academics argue that 'Customer Compliance' companies treat their customers as if they are NOT right and so the action of such companies is unfair and only to the benefit of the company, typified by an article in *Harvard Business Review* where McGovern and Moon (2007) suggest that 'many companies' allegedly 'infuriate their customers', 'bleeding them' with the commissions and fees, 'confounding them' with the small print regulations, and 'penalizing' them in whatever way they could[1]. To McGovern and Moon, customers make substandard purchase decisions because they are 'confused'.

Our research fundamentally disagrees with such an assessment. To us, it was marketers who were wrong by incorrectly identifying what they thought customers did or did not want. We argue, and our research supports the conclusion, that a large majority of the customers of businesses practising 'Customer Compliance' are satisfied because the goods and services are supplied at a price and a service level which the customer could not previously afford. Importantly while a small minority of complaining customers may be excluded, the majority receive a better service. We question the ideas that these companies practising 'Customer Compliance':

1. 'accidentally' 'end up' with such strategies,

2. detract value, and ultimately risk failure through customer dissatisfaction,
3. should reform their ways.

'Customer Compliance' businesses have appeared across sectors: low cost air travel, banking, insurance and financial services (Barclays Banks, Egg, Directline and E-sure), retail sector (Tesco and IKEA), telecommunications, TV and broadband supply (BT, Virgin and Sky), tourism (Hertz and Holiday Autos, Lastminute.com, Expedia, and Holiday Extras). Central to the strategy of these businesses is that the customer complies with the company systems. In return, the customer benefits from lower cost of product or service provision and a good level service which may incorporate timeliness, quick delivery, no quibble return systems and 24/7 access to the service.

By studying this new breed of businesses, we show how, by 'disciplining' customers, making them compliant and even excluding some, these businesses:

1. meticulously and consciously plan and implement 'compliance' and 'exclusion' strategies,
2. far from adopting an 'antagonistic strategy', add value by offering low price, good service by identifying customer needs,
3. provide examples of best practice for other businesses to emulate, particularly those that they have displaced.

We define 'Compliance Marketing' in terms of 'disciplining' customers and exclusion, with exclusion marketing implying companies being selective about the customers with whom they choose to work. Such companies tend to select and maintain relations with customers who cost the least to serve. It could be argued that this is a more democratic relationship between customers and businesses than was the case in traditional businesses which spend disproportionate resources to communicate with and placate few vociferous complainers who absorb company resources and time which can be better directed towards improving the service to the majority of the company's customer base. If the company deems that a customer is a complainer and is 'not always right' then they would be excluded to the benefit of the majority.

2. DEFINING CUSTOMER COMPLIANCE AND EXCLUSION

Businesses have always excluded customers through various means, usually based on segmentation. Most traditional practices designed at generating additional profits were hidden and customers were not aware of the strategies used to generate profits and commissions let alone understand them. The new 'Customer Compliance' businesses often make their charges and commissions very transparent and thus have opened themselves up to analysis and criticism. However, the picture of this new model of customer-provider relations is considerably more complex and nuanced. The use of language such as 'companies extracting value', 'preying on customers', and of customers developing 'pent-up hostility', as found in McGovern and Moon and similar writings, demonstrates a misunderstanding of what is actually happening in practice. The 'compliance', 'disciplining' and 'exclusion' that we describe provide as much if not more advantage to the customer than to the company. It is only through offering good customer value and service that these companies have been able to grow and expand, often at the expense of traditional so-called 'Customer Centric' businesses.

The companies that we describe adopt a ‘take it or leave it’ approach, usually led by entrepreneurs who have little respect for what the press, academics or the establishment think. They focus their company’s resources and efforts on providing novel, lowest cost services and products to customers and involve their services at a phenomenal rate because it is relatively simple to change back-office software. Low-cost airlines for instance openly ‘train’ their customers and the general public to adhere to their rules in return for which the customer benefits from low price, good and sometimes novel service. Similar applications of regimented procedures are found in IKEA’s store layout which forces the customers to follow a specific path through the store. Online banking and financial service providers require that customers input the correct (and complete) information before they are able to proceed with a transaction.

Such regimented procedures are enabled partly by the de-personalisation of the interactions between providers and customers. Exchanges and ‘relations’ these days are with computers and databases, and less so with the staff of providers. Direct lines have computerised telephone systems which take the calling customer to a computerised answering machine where much of the information they need can be obtained automatically. Only in extreme cases is the customer ‘allowed’ to get through to a call centre operative. Call centres are one common device that such companies use in order to apply regimented interactions, especially in the area of managing customer complaints. Unwanted calls are screened out, as typically practiced by online insurance and financial service providers. Most call centres operate a policy of not allowing a complaining customer to escalate a complaint by asking to speak to a manager.

Another factor which observers and academics appear to have failed to notice is that these new businesses generate considerable value to customers by providing customers with multiple opportunities to actively engage in ‘co-production’, ‘customisation’ and do-it-yourself marketing. However, this involvement of the customer is constricted within parameters pre-defined by the company which, nonetheless, provides good service and may generate loyalty. Examples include easyJet ‘allowing’ their customers to design their own service by optionally booking priority boarding. The take-up of this option has turned into an important revenue generator, suggesting that it is clearly of value to many customers – an example of generating additional profit while addressing the idiosyncratic needs of individual clients. Similarly, IKEA encourages the customer to carry out part of the service themselves, by selecting, loading and transporting self-assembly furniture themselves – activities that traditional stores would have carried out by employing warehouse staff. The savings are passed on to the company’s customers in the form of lower costs.

There is also a certain degree of ‘dis-intermediation’ practised by ‘Customer Compliance’ companies which encourage customers to talk to each other and thus create virtual communities and chat forums. Customer recommendations are utilised by Amazon in online retail and by eBay in e-auctions. It is particularly important on holiday, hotel and travel booking sites.

‘Compliance Companies’ appear ready not only to pay little attention to the demands of serial complainers but also abandon customers whom they perceive as troublesome and of little value to the company, both with respect to direct (payment, volume, quality, safeguarding) and indirect value-creation (innovation, information, access, motivation). They have abandoned the ‘customer is all was right’ ethos. Such relationships are not wanted as they are of little value. Alternatively, they may develop into unwanted relationships, over time, as the initial expectation of potential may never be realised.

How this works to the benefit of the majority of customers and to the company is illustrated in the way that Ryanair 'shows no mercy if you're late' (McGovern 2008)[2]. We also agree with McGovern's comment that 'That's terrible for you. But is it so terrible for the 200 people on the plane who were on time? If Ryanair waited for you, they'd make you very happy. But there'd be 200 people who'd be somewhat unhappy'.

3. INGREDIENTS OF COMPLIANCE AND EXCLUSION MARKETING

The first major ingredient of compliance and exclusion marketing is the unwillingness of such companies to follow the ethos of 'the customer is always right' by listening to complaining customers and especially to serial complainers, typically by getting rid of 'bad' customers or by ignoring their complaints. This is often achieved by the customer eliminating themselves because they will not comply with the systems, rather than the company having to take positive action to remove them. Such successful companies have considerably redesigned service recovery and customer complaint management so that to exclude unwanted customers.

Companies practicing compliance and exclusion marketing do not view the feedback of complainers as an invaluable form of market and marketing research, thus clearly breaking with standard assumptions in the marketing literature. Instead, most seem to use online systems which provide research and intelligence gathering in real time, for instance through the response obtained from the pattern of the sales of their products and services. While marketing texts habitually remind their readers that complainers are a valuable source of information and help companies with intelligence gathering, contacting and talking to complainers is actually very costly and is therefore a poor ROI. What these companies have realised is that in order to placate one complainer they have to disadvantage the majority of good customers or to add to the cost of their service provision.

The companies studied here do not necessarily view complaints as legitimate. This may be explained by the effect that new technologies have had on modes, intensity and types of complaints. For instance, it appears that people are more likely to complain online than by other means, with research showing that 43 percent of U.S.-based Web users feel less inhibited online. 'Customer Compliance' companies may thus expect a greater number of complaints and also complaints of higher intensity because most do their business on-line. There is also the question of serial complainers setting up incidents to claim compensation, largely facilitated by advice available on the internet. This has prompted companies practicing compliance and exclusion marketing such as Thompson TUI travel to prevent serial or fraudulent complainers from rebooking.

The effect to regular, 'good' customers of pandering to complainers would be negative. Listening to and satisfying complaints and especially serial complaints which customers expect to get escalated may increase the cost of products or of service provision to all customers. This may result in substandard, expensive or otherwise poorer service across the board and for every customer. The example of holding a plane for one late passenger while 180 other passengers sit in the plane, with the plane possibly losing its take-off slot, is one example. In order to avoid such costs of dealing with 'poor', 'unreasonable', 'difficult' and 'demanding' customers, low-cost airlines maximise aircraft operational time and arduously force passengers to be on time by closing the checking desk 40 minutes before takeoff time. This benefits the vast majority of passengers and further reduces costs. Not surprisingly, such companies are often assessed positively in terms of their service provision. In 2007, low cost airline Ryanair was voted ‘best airline in Europe’ across indicators such as flight cancellation, punctuality and lost luggage. It appears that full cost airlines cannot compete with such companies either on price or on key aspects of customer service expected from such carriers.

Compliance and exclusion marketing is also marked by a certain transparency and openness of its nature, aims and the ramifications (benefits) both for the companies practicing it and their customers. The principles of such marketing are meant to be highly visible and are deliberately publicised by the companies practicing it. Companies take advantage of every opportunity to teach existing and potential customers as well as the general public about their procedures and processes, their requirements of customers when partnering with the company, in order to achieve high levels of service at minimal cost. The ‘Airport’ series which appeared on UK TV in the mid 2000s is an example of such clear, transparent communication.

Such openness is important. The strategic credibility of such companies is being positively affected by transparency of rules, including the rules of exclusion. This also impacts on the image and brand of the company in the eyes of its various stakeholders and audiences. We suggest that transparency is key to relating to one’s customers. Therefore, customers (and staff who become empowered by the application of rigid procedures) are expected to know and understand the objectives of such practices as well as the strategy and business philosophy informing them. The companies also clearly communicate the ‘outputs’ of compliance and exclusion marketing and how they benefit them as customers. Such company strategies reliant upon transparency have had a profound effect on their corporate image, partly by opening them to criticism that their rules are unfair even though they are probably considerably more transparent than the rules of traditional businesses which are hidden and arbitrary.

4. DRIVERS OF COMPLIANCE AND EXCLUSION MARKETING

Customers are becoming more cynical about the practices of traditional businesses and appear to be less willing to enter into relations with companies based on loyalty to the business. For instance, in a weblog, Gerry McGovern maintains that ‘some customers are not worth caring about’ and goes on to say that success is linked as much to ‘figuring out who is *not* your customer … as anything else’[2].

An additional, equally potent driver is the advent, growing sophistication and application of new technologies which have facilitated the development of this new set of companies which have dis-intermediated marketing channel relations and use database technologies to offer a new type of relationship with customers which is advantageous for both and which is based on the clear understanding that the company offer is superior but if ‘things go wrong’ the company is unwilling to engage in costly recovery procedures.

5. THE E-CUSTOMERS OF E-COMLIANCE BUSINESSES

The practices discussed above are based on ‘minimalism’, but their model of operation has its attractiveness to a wide range of customers. We define the characteristics of such customers and identify the attitudes of these customers. In the process of doing, an answer to a question with important management implications is sought: What drives these customers to consume the products and services of companies practicing compliance and exclusion marketing?

Customer comments posted on blogs show that the customers' expectations are actually managed very effectively by such companies. Bloggers understand that 'people … don't expect much and they really shouldn't'. Companies as the ones described by us here have turned previously inaccessible or unavailable products and services widely accessible and available, with 'customers [becoming] more forgiving (or less demanding)'.

Empirical findings from an empirical research carried out by the authors, first, in 2009 by interviewing 235 respondents in the UK, and second, in 2010 by surveying a panel of 1,243 consumers representative of the general UK population confirm such attitudes of customers. For instance, the semi-structured interviews asked respondents to comment on the service provision, satisfaction and dissatisfaction with, complaint behaviour towards, and purchase intentions towards one low-cost airline which is probably the most representative in the UK of the practices outlined by us here. The empirical findings revealed that the customers' perceptions and attitudes towards businesses practicing compliance and exclusion marketing were positive. Far from McGovern and Moon's argument, customers did not hate these providers, irrespective of negative stories of others' poor experiences[1]. Even those customers who knew someone with a poor experience did not seem discouraged by such stories. The customers also gave mostly positive reviews of the airline in question and seemed to practice positive word-of-mouth and word-of-mouse when communicating with others on the Internet and when relating to colleagues, friends and family members. Respondents either enjoyed using such services or at least 'did not mind', in the words of one interviewee. Media coverage did not have a significant impact on perceptions. Rather, the interviewees focused on their own experiences which were rather unproblematic and largely satisfying. Importantly, these customers also knew the 'compliance' and 'exclusion' rules of such companies.

Similar are the findings from the 2010 survey research. In spite of the high level of compliance, disciplining and exclusion incidents practiced by companies, customers appear these practices, with a high percentage of respondents reporting company constricting and controlling service provision but who have not complained (Table 1) and with a high percentage of respondents reporting company constricting and controlling but positive future behavioural intentions towards the service provider (Table 1).

Table 1. Customers' reaction to compliance and exclusion efforts of businesses

Issue Studied	Customer response measured	Sector				
		Airlines	Comms and telecomms	Finance & banking	Electronic retail	Travel
Extent of customers' acceptance of disciplining (1)	% of reporting respondents who have not complained	63%	35.5%	45%	39%	44.5%
	% of reporting respondents who have not complained but who will (or may) use the company's services in the future	75.5%	75%	79%	79%	66.5%
	% of reporting respondents, who have complained but who will (or may) use the company's services in the future	51.5%	55%	72.5%	77%	43.5%

6. IMPLICATIONS FOR E-MARKETING, E-STRATEGY AND 21ST CENTURY CHINA

In writing this paper, we wanted to draw attention to concepts which we believe have supplemented or even replaced earlier marketing and marketing strategy concepts such as 'Customer Centricity'. The notion of the customer 'NOT always being right', excluding unwanted, unprofitable, unpromising and problematic customers such as complainers and especially serial complainers is backed by empirical examples of the practices of a set of highly successful companies. We also drew attention to the emphasis placed by exclusion-practicing-companies on removing bad payers, small order contracts, customers who cherry pick from the company's range, customers outside the geographic area serviced or too far from the delivery routes, and even customers who do not use the automated ordering systems properly and as expected by the company. This is a very different approach to that based on traditional exclusion through segmentation of homogenous sets of customer groups. Here compliance and exclusion can be practiced with respect to individual customers and from the very start of communicating with them.

The literature which analyses terminating relations between companies and their customers is not voluminous. Commentators have noted the propensity of marketing scholars to investigate the start, building up and development of relations, but such issues teach us little if anything about the sources, drivers, nature, processes and outcomes of relationship termination. The little that has been written on these issues is largely limited to the analysis of relations terminated by the customer, whereas we are interested in the growing phenomenon of successful companies practicing compliance and exclusion by terminating or not starting at all a relation with individual customers and less so with whole customer segments.

Our research indicates that the picture is much more complex than simply a question of 'the customer always being right', or 'the customer NOT being right'. It does appear that though 'Customer Compliance' businesses force customers to comply with company systems, they also enjoy customer satisfaction and a certain level of behavioural loyalty. What marketers originally thought the customer wanted appear to be somewhat misguided. In the airline business, for example, it seems that customers prefer low price, on time flights with minimal lost bags and simple checking procedures to executive lounges, little trays of packaged food, along with eyeshades and footrests, and the special treatment of difficult and complaining customers.

As noted earlier, excluding customers and making them compliant is not a new phenomenon and is part of traditional business operations. However, it has traditionally been achieved through segmentation. For example, customers who did not have the characteristics 'desired' by the marketer, such as social status or sufficient income, were excluded from many retail premises, banks, transport systems, hotels and restaurants.. Traditionally companies have also put in place various conditions barring certain customers from interacting with their organisation. However, this model of marketing and management also presupposed the existence of approved agents, dealers and distributors each adding on a margin and preventing customers from buying directly and at a low price. For example, insurance companies, banks and other financial institutions would have traditionally excluded customers by using very complex and detailed application forms and, on the basis of these, rejected unwanted customers. Another example is that of education establishments which would have excluded pupils and students of certain backgrounds, thus practicing demographic and psychographic segmentation. The type of compliance and exclusion currently practiced that we analysed here has come about following the breakdown of the traditional supply chain distribution systems through use of the Internet which allows organisations to make sales directly to the end customer, to cut out the middlemen and gatekeepers, and to remove existing and potentially troublesome customers.

REFERENCES

[1] McGovern, G. & Moon, Y. (2007). Companies and the customers who hate them. *Harvard Business Review*, June, 78-84.

[2] McGovern, G. (2008). Some customers are not worth caring about. http://www.gerrymcgovern.com/nt/2008/nt-2008-02-18-focus.htm.