

CHAPTER 5: RECOMMENDATION & CONCLUSION

5.0 Introduction

This chapter intends to put forward recommendations to the company under study, based on the analysis and findings in Chapter 4.

The section below summarizes the characteristics of the four customer segments. It is developed based on variables CLV against Duration of Relationship.

5.1 Proposed Marketing Strategy

Based on the feedbacks obtained from the interview with randomly selected customers, various opinions and suggestions are being brought forward. With this information, a comprehensive and relevant marketing effort is formulated. Since the products that offered by the firm is not highly distinguished from other competitors as well as all of them operating in the same pools of market, a Market Penetration Strategy is adopted as suggested by Ansoff's Product-Market Expansion Grid (Kotler, 2003), based on the 4Ps, i.e. Product, Price, Place and Promotion.

a. Products

The current market that the firm is operating in is very competitive with limited capability to differentiate their products with others industry player as the products and services are highly homogenous. Thus, the best option for the firm in order to have the competitive advantage is by adopting product innovation strategies for their offering. As supported by Alderson (1965), company should put more effort to create a unique characteristic in order to differentiate themselves from the others from the perspective of the

consumer. He further highlighted that this can be achieved via products innovation and improvement, cost leaderships and others. In the stiff competition market, firms must be more innovative and entrepreneurial in their overall strategy and not just relying on prices reduction or improving existing products.

I. Features Improvement

Currently, the firm offers two types of account plans, which are Post-Paid and Pre-Paid. At the same time, the firm also offers another card product, i.e. loyalty card, with a point-collection-capability. It is sometimes seemed as redundant card as it will be more efficient if both Pre-Paid and Post-Paid fleet card to incorporate loyalty features. This will eliminate the necessity of having to carry two cards. An integrated card such as the Malaysian Identification Card which can be accepted to do various transactions is much desired. This is to make thing easy for the customers without having the trouble to remind oneself to bring along both cards at anytime. On top of this, this sends the message to the customers that the firm is understanding and always find ways to make thing easy and convenient for their valuable customers. Thus, by doing so, it will help in meeting or go beyond the customer-value expectations which ultimately creating customer satisfaction that will strengthen the relationship (Robert & Gregory, 1997). Besides, it is also proposed that the firm to come up with a system that ease the purchase of the firm's products. One of the best examples is the Speedpass offered by Esso Singapore. It is an advanced cashless and cardless payment system. It is quick and easy to use – just point the Speedpass key tag at the pump, fuel up and go. The customers can also

purchase convenience store items with Speedpass by pointing it at the sensor, at the cashier counter. By simply linking the Speedpass account to customer preferred card, any purchases done will be charged to that nominated card account, fast and easy. As purchases are made easier, the perception and brand loyalty of the customer will increase proportionately ("An advanced cashless", accessed on Sep 20th, 2010).

II. Services Capability

After-sales service is one of the important components in the service industry where an organization should not take it for granted as it represents the image of the company, as well as the sincerity of the company involving in business relationship with its customers. Customer complains for many reasons, examples are to obtain restitution or compensation, to express their anger, to help firm improving their service and also for altruistic reasons. Whatever the reason is, once dissatisfaction is expressed, customer expected it to be dealt swiftly and sincerely. Research by TARP, Consumer Complaint Handling in America has shown that the loyalty and retention of customer are at the highest when the problem is solved quickly or on the spot. Hence, firm must see complaint handling as a profit center, not cost center as previously perceived. There are various ways that a firm can adopt to improve their service recovery performance. One of it is via well-planned recovery procedure such as contingency plan especially for those that might occur regularly and beyond the control of the firm. (Christian & Andreas, 2005). The firm also must set a proper training module with the objective in mind to equip their staff, especially at the customer service department in order for them to respond to issues/problem and inquiries from the customer more effectively

and accurately. This is to build confidence and competency among the staffs to enable them to convert distress into delight. (Ron & Chip, 2000). A part from that, the firm must provide a channel to make it easy for the customers to express their dissatisfaction. Calls must be answered and this should be part of the Key Performance Indicator (KPI) for both departmental and also staff manning the call center. Employees who are involved in the complaints handling must be empowered with certain level of authority and guideline on what they can do just to ensure the shortest resolution time. This will made the customer felt appreciated and important to issues that they are presenting.

Besides training on the in-house customer relationship personnel, analysis on the sales personnel efficiency revealed an immediate need for the firm to develop a comprehensive training module for the sales personnel as well on how to handle the rebate given to the customers. Conclusively, the study shows that customers are offered rebate without taking into customer profitability into consideration. Currently the firm only concentrates on the volume of sales obtained as well as the numbers of customers that they successfully secured as part of the sales force KPI. The rebate is given as a means to attract the customers without analyzing whether these particular customers are worth it to be given certain rebate. It is proposed that the firm modifies the KPI of their sales personnel so that purchase volume will not be the one and only factor. Instead, the firm need to base the KPI on the margin of the individual customer as it will give a clearer picture on the actual profitability to the firm. They must be trained with the mindset that high volume purchase might not necessary result in high profitability. Thus, each time when the sales person engages with the customers, be it old or new, they will

be more careful and alert on the revenue versus cost of each and every customer. With this, the rebate will not be simply given to the customer as it will affect the overall margin of the customers to the firm. This will help in making sure only those customers that are really yielding high margin will enjoy higher rebate rates.

III. Monitoring Capability

A part from that, it is proposed that the firm to leverage on the capability of information system that is already part of the daily life. The firm provides monthly statement to the participating companies in order for them to monitor and control their fleet of vehicle. However, this information is historical in nature. Instead, the firm should use real time transaction information management by integrating with GPS technology to track and monitor the customer's vehicle and its fuel usage. It will prompt the customer whenever there is fraud or misconduct taken place. The companies can take immediate and effective actions to curb further misuses and abuses.

IV. Data Management Capability

At the moment, customers only know their credit limits have been exceeded when they want to pump their vehicle. This sometime is too late and will affect their business operations. It is suggested that the firm to print the credit balance on transaction receipt. Besides, the firm can also consider using SMS alert system to prompt the customer when the credit balance falls below certain threshold so that payment can be arranged and made to prevent any service interruption.

V. System Reliability

System down and system unavailability are the situations that can hurt the image and perception that a customer has on the firm. It is made worsen especially when the customers are urgently or desperately required the product/services offered by the firm. The firm under the study is also not spared from this dilemma. From the interview conducted, majority of the respondents mentioned about the card system reliability where they found themselves unable to refuel their vehicles when they most needed it. It may be an isolated case or unavoidable scenario, but the implication of this problem may hurt the reputation of the firm in totality. Hence, it is crucial for the firm to select and to make sure that the service provider for their card system has the capability and expertise to provide flawless and prompt services to their customer. Firm should review the performance of their existing service provider. A control and monitoring mechanism such as monthly performance review and KPI may be introduced to ensure the standard of service are up to par and constantly improved. Constant feedbacks from the end user can also help in this case where the first hand information can be obtained to improve the service level performance. This will in turn enhance the level of satisfaction of the customers thus promote loyalty to the firm as customer satisfaction and loyalty are highly correlated (Athanasopoulos et al., 2001; Hallowell, 1996; Silvestro & Cross, 2000),

VI. Security Capability

One of the serious problems faced by the business is fraudulent transactions due to abuse and clone cards. This should not be taken lightly; the firm must

upgrade the safety features of the cards from time to time to be on par with the advancement of technology. To date, the firm is using PIN to verify every transaction made by the customer at the petrol station as a security measure. However, this is deemed insufficient with the increase of losses reported. More should be done in line with the evolution of the market place technology. For instance, in South Africa, Caltex introduces a new system named ACCESS where it is the advanced solution for efficient fuel control and management that integrates an electronically controlled vehicle refuelling system with a web-based reporting system. It is a secure end-to-end solution that provides both heightened control over access to fuel and enhanced monitoring and reporting of fuel usage and vehicle fuel consumption. The refuelling system authorizes controls and monitors refuelling of vehicles round-the-clock (<http://www.caltex.com/sa/en/starcad.asp>). Regardless of the fleet and type of vehicles, ACCESS has the capabilities of:

- Prevent unauthorized fuelling which will translate into substantial savings
- Automatic collection of fuelling transactions, which means greater efficiency in the use of time and human resources
- Assurance that fuel will always end up in authorized vehicles
- Better control and monitoring with online updates on fleets and sites
- An increase in overall operation efficiency

With this system, only those authorized personnel can use the card for refuelling. This surely will reduce the risk of any unfortunate cases from happening which might cost the organization substantially.

b. Price

Since the firm is operating in a highly regulated environment, the retail prices of the range of products from petrol to diesel are fixed and regulated by the government. In this context, there are little that the firm can do in this aspect to attract, attain and develop the target market by just leveraging on the price discrimination strategy.

Having said that, the firm should continue to seek for operational efficiency so that it can continue to maintain or reduce the operating cost. This can be achieved by outsourcing the backend low value activities. Besides, the firm should start looking into creating new revenue streams so that it can cross subsidize the volume rebate scheme. With this, it can maintain its low cost leadership strategy via its volume rebate scheme.

Also, since rebate is the means for the firm to attract and retain its customers, this competitive advantage must be used with care. The firm can re-evaluate the rebate structure given to the customer's base by assessing the segments obtained from the study. For those customers that fall in the lower range of profitability and loyalty, their rebate given must be reduced accordingly.

c. Place

The firm's petrol kiosks are well known for its wide station coverage. Majority of the feedbacks obtained from interview also concurred with this fact that one of the compelling reasons for using and choosing the brand is because its availability and accessibility. Coverage has become one of the firm

competitive advantages. It is recommended that the firm continues to use this strategy in order to better serve and make their presence felt throughout the nation.

A competitive advantage might not always be a sustainable competitive advantage. Thus the firm should strive for continuous improvement and find ways of ensuring their advantage will not go exhausted (Thompson, Strickland & Gamble, 2010). Due to these reason and also in view of the increasing land price and operating cost, it is suggested that the firm to embark on mobile station. It is a proven concept in Denmark where a local oil company named Rompetrol, also introduces a mobile setup which is called Rompetrol Express as appendix 6. It is also developed to serve the people in the rural areas as well as to have a better brand visibility in the home country ("Rompetrol launch the", 2006). Another example is at South Africa, PetrolQuip, an engineering company specialized in supplying pump and valves for local oil company, has introduced this setup to local players in order to assist them in having more coverage especially in the rural areas where building a permanent station is financially not feasible as it normally requires a huge capital investment of almost USD 800,000 per station. By having this mobile setup, the initial cost is only a fraction of the cost of building a conventional station, which translates into only around USD 110,000. Also, less time is required from the construction to the operation of the station (African Business, 2004).

This kind of setup recorded a significant reduction in capital investment and at the same time having the capability to penetrate more into the market and create a better brand awareness. It provides flexibility, these mobile stations

can be anywhere, they can move from one place to another depending on the demand. With mobile setup, the firm can fulfill their social responsibility to the nation as well as their responsibility to the shareholders in term of reduction in capital investment and increase in revenue.

In addition, the firm may consider adding the convenient store to its mobile station for people surrounding or passerby to buy products offered in their normal stores. If this is implemented strategically, it can become an instant competitive advantage for the firm as the first firm to introduce such concept in this country.

Besides, the firm may consider forming strategic alliance to enable its card acceptance at multiple networks, i.e. at other petrol stations or at other merchants and vice versa. With this arrangement, SPCSB can withdraw from the areas which it does not find it economically to operate in or it does not have presence, yet its customers can still be served satisfactorily besides serving a wider market.

d. Promotion

Promotional activity in term of fuel price discount is not allowed in the regulated market in Malaysia. However, promotion for brand awareness and educational purposes are allowed to be conducted by the fuel companies. The interview conducted provides a glimpse of a potential problem faced by the firm, i.e. lack of product knowledge about fleet card. It is noticed that most of the time the firm's sales representative approaches and presents to the

customer's management to introduce the product offerings. However, the product information such as the benefits, features, characteristics are only make known to the management. The management in turn, may not cascade the information to the ultimate end user who will be using the cards in their day-to-day work. There is a communication breakdown between the firm which issues the card and the end user themselves. By not getting a full picture of the product, loyalty cannot be established where the end user will just use the card for the sake of using it or they use it just because the company told them so. The end user would not spread good remarks through word-of-mouth; their employer may just switch the brand easily when approached by the competing brand's sales representative.

Due to the above, there is an urgent need for the firm to contemplate a strategy and plan to educate the customer up to their drivers. This is to create greater awareness and loyalty among them thus making the switching cost indirectly high for the employer. Firm can setup information counter at various location such as at their stations to make sure the information reaches the target group effectively and as maximum as possible. Ultimately, by doing so, the firm can achieve most marketers' objective, i.e. putting some information into the customer's mind that will change their behavior and in the end prompts them to act (Kotler, 2003).

For long term promotional effort, the firm can assess their brand positioning and also value proposition. This is important as apart from product innovation as the source of differentiation, the firm can also leverage on their brand image to set them apart from the herd. The firm must carefully selected the

image and communicating the positioning message across the customer base. Example is that the firm should project the image that they do care for the environment, people and also the future generations. They are here not just to generate profit and increase shareholder value, but also to give it back to the society. As green marketing has become a current trend for some of the company, the firm should also look into this aspect and put more effort to help rejuvenating and restoring some of the damages and pollution as a result of exploration activities. A very good example is Volvo car maker. Volvo is so successful in their brand image positioning that whenever a person mentioned about car that care for the safety of the family member, they will immediately associate it with Volvo. This is the kind of effect the firm should achieve as it will create a loyalty barrier from the stiff competition and also indirectly making the switching cost higher due to the perception and image that the firm is projecting. Thus, most of the top brand from various products and service categories are to be able to attaining their market leadership due to they have successfully created and maintained a strong position or identity in the mind of customers (Celeste, 2005).

In summary, the proposed marketing strategies are summarized as per following table.

Table 23: Proposed marketing strategy summary

Marketing Mix	Criteria	Current	To-be
Products	Features	-Loyalty card and fuel card are separated in two different cards	-To merge the functionality of loyalty card and fuel card into one single card

-To introduce system that eases products usage, e.g.

			SpeedPass
	Services Capability	<ul style="list-style-type: none"> -Complaints are not attended to promptly -Lack of service recovery training -KPIs for sales personnel are based on sales volume 	<ul style="list-style-type: none"> -To revise a better monitoring and tracking system to ensure all complaints are attended to promptly and satisfactory -To conduct proper and systematic training module for service failure recovery -To grant certain level of authority for shorter resolution time -To develop new KPI based on margin/CLV
	Monitoring	-Historical data using monthly statement or usage report	-To integrate transaction data with GPS technology
	Data Management	-No low credit alert system, customers can check account balance only	-To have interactive SMS to alert customers on low credit up to card level and to print out receipts with current credit balance
	System Reliability	-System down problem without proper monitoring and resolution	<ul style="list-style-type: none"> -To revise maintenance contract to include monthly performance review on service provider -To introduce chip card to allow offline transaction authorization
	Security Capability	-PIN is the only mean	-To introduce more advance system to prevent fraudulent activities, e.g. using ACCESS system
Price	Rebate Structure	-Volume rebate is based on volume committed by a customer	<ul style="list-style-type: none"> -To include profitability into consideration when offering rebate - To convert low profitable postpaid customers to prepaid plan -To convert high profitable prepaid customers to

			postpaid plan
Place	Coverage	-Wide coverage with high operating cost, but not all stations are convenient for big trucks	-To introduce mobile station concept -To enable multi network card acceptance with strategic partner
Promotion	Awareness	-Product information only reach management level	-To provide product training to the end users in order to create greater awareness and higher switching cost

5.2 Limitations of the Study

Limitations of the study details the areas, situations, circumstances or conditions which the study failed to consider. Failure to consider certain circumstances may result in inaccuracy of research results.

This case study does not cover the following areas:

- The exact company name cannot be revealed due to ethical and privacy concerns
- The above CLV calculation considers the revenue and volume rebate. It does not take into consideration risk factors. Among others, it does not recognize risks associated with cyclical downturn which is economical in nature and competitive changes, such as entrance of new competitors to the market.
- The CLV is calculated for fuel purchases only. Non fuel purchases are not included.
- WACC is fixed throughout the CLV calculation. The only time when WACC is fixed is when there is no change to debt and equity values

as well as its weightings. Actual customer relationship is very dynamic where new customers may be secured everyday together with customer attrition. When a new customer is recruited, the customer portfolio changes immediately to reflect a different risk level. The same is noted when a customer left. Hence, WACC is not fixed. However, the above CLV calculation method does not take this aspect into consideration.

- Discount rate used is a companywide WACC, actual WACC for the business could be lower. The WACC for the closest competitor is 2.91%.
- The CLV computation is forward looking in nature to calculate the lifetime value of existing customers based on their historical transaction. However, it cannot be used to predict CLV for potential or new customers.

5.3 Suggestion for future research

The below section summarized the future research pertaining to the CLV for fleet card business, among others,

- a. To test more variables such as CLV against sales person experience in CLV segmentation analysis.
- b. To include other factors such as product returned, risk, customer behaviour and competition as the variables in CLV calculation.

- c. To calculate customer retention rate based on probability model as this is a more statistical approach
- d. To further develop the CLV model to include predictive capability to calculate CLV for an informed customer acquisition decision
- e. To develop framework for resource reallocation strategy based on CLV
- f. To test and verify the CLV calculation used in fleet card business in other context, e.g. other retail businesses in the same or different industries
- g. To test in other context of customer database such as other industry or companies

5.4 Conclusion

Customer no doubt is the best asset that a firm can which ultimately promise the profitability and as well the sustainability of the company. It is not surprised to discover that currently majority of the organizations have shifted their focus towards satisfying their customers base the best they can with the scarce resources. Also, due to the fact that there are no customers that are the same in their preferences and demands, a more reliable profit analysis of present, past and potential profitability has become more and more important where it will without a doubt give a better view of the customer's base value. The evolution of more customer-centric approach to assess the customer's profitability analysis is fuelled by the availability of huge pools customer

databases that consist of a past purchase transactions (Blattberg & Deighton, 1991).

However, most of the companies are very reluctant in sparing some time to carry out a comprehensive and accurate customer valuation which most of the time they will be astonished at the results (Duncan, Gordon & David, 1997). In recent years, CLV have become increasingly important among academia and practice as a marketing metrics where a company such as IBM is routinely using CLV as a tool to manage and measure the success of their business. A customer lifetime valuation is all about how much the revenue that a particular customer capable of generating as well as the cost in maintaining the relationship (Berger & Nasr, 1998). So, by knowing the exact worth of the customers, it can create a better understanding of customers, where in the end help in contemplating a more suitable marketing strategy (Dibb et al., 2002).

Furthermore, by merely relying on the highest value of the customer without looking deeper into the associate cost will lead to measurement errors (Kamakura & Novak, 1992). This notion is proven by our case study where majority of the firm's customer CLV are at the lower threshold. Failure to address this will result in inability to increase their profitability. Basically CLV can be used to segment the customer base, such as using CLV and duration of relationship that offers a clearer view of which customer is more profitable to be allocated more resources and effort; also it provides a platform to review and strategize for bringing lower profitable customers to higher profitable ones. This is supported by Duncan, Gordon and David (1997) where they have found out that value-based segmentation has been successfully being

adopted in various industries such as banking industry where they gear different product and service packages to different value-based customer segments.

By segmenting customer based on the value of customer segments, it assists in generating a more appropriate and effective marketing and sales strategies to satisfy the behaviours and needs of those customers which in turn yield the greatest lifetime value to the company, thus maximizing revenue and profit growth.

In the future, it is hoped that the CLV model can be improved to provide the predictive capability better predicting the profitability of a customer.

5.5 Research Schedule

Task	Nov-10				Dec-10				Jan-11				Feb-11				Mar-11				Apr-11				May-11				Jun-11				Jul-11																					
	w1	w2	w3	w4	w1	w2	w3	w4	w1	w2	w3	w4	w1	w2	w3	w4	w1	w2	w3	w4	w1	w2	w3	w4	w1	w2	w3	w4	w1	w2	w3	w4																						
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Submission of Final Draft																																																						