



Institute of Human Resource Advancement (IHRA)
University of Colombo, Sri Lanka

Master of Science in Service Management Course No.05
3rd Trimester Examination

(Held in January, 2020)

MSM 5333 – Customer Relationship Management

Instructions to the Candidates

- (1) This paper consists five (05) questions and three (03) pages.
- (2) Answer only for four (04) question including question No. one (01).
- (3) Write your Index Number on all pages of answer scripts.
- (4) Time allocated for the examination is Three (03) hours.
- (5) Tie up all answer sheets at the end of the examination.
- (6) If a page or a part of this question paper is not printed, please inform the Supervisor immediately.

Question 01.

The Vanguard Group is a growth leader in the mutual fund industry that built its \$3 trillion in managed assets by 2015 by painstakingly targeting the right customers for its business model. Its share of new sales, which was around 25%, reflected its share of assets or market share. However, it had a far lower share of redemptions (Customer defections in the fund context), which gave it a market share of a net cash flows of 55% (new sales minus redemptions), and this made it the fastest-growing mutual fund in its industry.

How did Vanguard achieve such low redemption rates? The secret was in its careful acquisition, and its product and pricing strategies, which encouraged the acquisition of the "right" customers.

John Bogle, Vanguard's founder, believed in the superiority of index funds and that their lower management fees would lead to higher returns over the long run. He offered Vanguard's client unparalleled low management fees through a policy of not trading (its index funds hold the market they are designed to track), not having a sales force, and only spending a fraction of what its competitors did on advertising. Another essential part of keeping its costs low was its aim to discourage the acquisition of customers who were not long-term index holders.

Bogle attributes the high customer loyalty Vanguard has achieved a great deal of focus on customer redemptions. "I watched them like a hawk," he explained, and he analyzed them more carefully than new sales to ensure that Vanguard's customer acquisition strategy was on course. Low redemption rates meant that the firm was attracting the right kind of loyal, long-term investors. The inherent stability of its loyal customer base has been key to Vanguard's cost advantage. Bogle's pickiness became legendary. He scrutinized individual redemptions with a fine-tooth comb to see who let the wrong kind of customers on board. When an institutional investor redeemed \$25 million from an index fund bought only nine months earlier, he regarded the acquisition of this customer as a failure of the system. He explained, "We don't want short-term investors. They muck up the game at the expense of the long-term investor." At the end of his chairman's letter to the Vanguard index Trust, Bogle repeated, "We urge them [short-term investors] to look elsewhere for their investment opportunities."

This care and attention to acquiring the right customers are famous. For example, Vanguard once turned away an institutional investor who wanted to invest 40 million because the firm suspected that the customer would churn the investment within the next few weeks, creating extra costs for existing customers. The potential customer complained to Vanguard's CEO, which in turn not only supported the decision but also used it as an opportunity to reinforce to his teams why they needed to be selective about the customers they accept.

Furthermore, Vanguard introduced several changes to industry practices that discouraged active traders from buying its funds. For example, Vanguard did not allow telephone transfers for index funds, redemption fees were added to some funds, and the standard practice of subsidizing new accounts at the expense of existing customers was rejected because the method was considered as disloyal to its core investor base. These product and pricing policies in effect turned away heavy traders but made the fund extremely attractive for long-term investors.

Finally, Vanguard's pricing was set up to reward loyal customers. For many of its funds, investors pay a one-time fee upfront, which goes into the funds themselves (and not to Vanguard) to make up to all current investors for the administrative costs of selling new units. In essence, this fee subsidizes long-term investors and penalizes short-term investors. Another novel pricing approach was the creation of its Admiral shares for loyal investors, which carried a lower expense fee than ordinary shares (0.15% instead of 0.18% per year).

- A. Identify and explain the Customer Relationship Management (CRM) strategies followed by the Vanguard Group and give your comments on those strategies.
- B. Propose different types of existing customers and potential customers those whom the company can target. Justify your answer.
- C. Identify the customer loyalty strategies which could apply by Vanguard Group
- D. Give your suggestions which the company could follow; to improve the customer relationships and improve the market share in a highly competitive business environment.

(10 Marks x 04 = 40 Marks)

Question 02.

'Consumers dispose of more ways to inform themselves, interact, and buy when, where, and how they want. You don't need studies to notice today's customer is empowered. People still ask for advice but they know better what they want than ever before because digital channels, social connections and content allow them to inform themselves (and buy). Customer empowerment is a given and increasingly will be. Time to turn it into action'.

- A. Explain the value of the empowered customer to a business
- B. Explain "the wheel of loyalty", emphasizing the relationship between the loyal customer and the Customer Relationship Management (CRM).

(10 Marks)

(10 Marks)

(Total 20 Marks)

Question 03.

"Customer Relationship Management (CRM) is the core business strategy that integrates internal processes and functions, and external networks, to create and deliver value to a target customer at a profit. It is grounded on high-quality customer data and information technology". Explain the role of CRM in modern competitive service organizations, emphasizing the objectives of CRM and challenges faced by the managers when implementing CRM. Use appropriate examples where necessary.

(20 Marks)

Question 04.

The GE Answer Centre

GE's Answer Centre is widely regarded as one of the best in the world. In setting up this call center in the 1980s, GE sought to 'personalize GE to consumers and to personalize the consumer to GE.' Unlike most manufacturers, who avoided any contact with the final consumer, GE did an unusual thing and gave its phone number to customers. The Answer Centre has now evolved over two decades into an increasingly important CRM capability where the current network of five call centers receives millions of calls each year. Management consultants Robert Wayland and Paul Cole have outlined how GE's Answer Centre has contributed to increased customer relationship value in three key areas:

'First, resolving immediate problems results in a probability-of- repurchase rate of 80 percent for the previously dissatisfied customer, as compared to 10 percent for the dissatisfied but uncomplaining customer and 27 percent for an average customer. In other words, by making it easier to reach the company and by responding effectively, GE gets more opportunities to convert dissatisfied customers and to strengthen relationships. Second, contact with the center significantly increases customers' awareness of the GE appliance line and their consideration level. Finally, the knowledge that is generated through customer interactions provides valuable input to the sales, marketing and new product development processes.'

- A. Based on the above information, explain how GE' Answer Centre's customer relationship values? Write your judgments on the strategies mentioned above.

(10 Marks)

- B. Identify the drivers which could affect the customers to switch away from the GE. Answer Centre

(10 Marks)

(Total 20 Marks)

Question 05

- A Explain the concept of Customer Experience Management (CEM) and discuss the importance of CEM in modern business organizations.

(10 Marks)

- B. Explain how Customer Experience Management related to Customer Relationship Management

(10 Marks)

(Total 20 Marks)
