# Changing the game

*A different approach on customer marketing at KLM Royal Dutch Airlines*

**Master thesis**

Business Administration

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# Management summary

The airline industry has reached the crossroads. Today's fiercely competitive and efficiency focused economic environment ensures that airlines are struggling to gain market share and sustain profitability. This is partly due to the global turmoil, the economic slowdown in the European region, the volatile demand of air traffic, the increasing number and strength of (lower priced) competitors, fluctuating fuel costs and more diverse and specific passenger needs. As a result, airlines have come to know that cost containment and financial strength are more important than ever. This forces airlines to develop new manners to manage their customer relationships better in order to optimize customer loyalty and revenues. As proven in the past, airlines' immediate focus is often on cost reductions in achieving more efficient operations. This reality mainly stems from the fact that fixed costs are enormous in the airline industry. Unfortunately, as is with many airlines, most have failed to recognize that their customers and the relationships they maintain with their organizations, are at the core of their business strategies and KLM Royal Dutch Airlines (KLM from now on) is no exception.

The main problem that KLM faces is that they have a limited view of who their customers truly are. The reason is that customer relationships have so far been primarily of a transactional nature. E.g. A customer searches for a ticket, makes the booking, takes the flight, and once the flight is over, the relationship basically ends. Unless, the customer is member of the frequent flyer program 'Flying Blue', but the fact remains that there is no guarantee that KLM will ever see this customer again. Partly due to the lack of relevant customer information and poorly integrated information systems, it is difficult for KLM to allocate marketing resources effectively and make more personalized product or service offerings from a customer's perspective.

Currently, new technologies and The Internet provide customers easy access to huge amounts of information. The customers have been taking advantage of that and are using these technologies to find and compare competing products. Most importantly, customers started to communicate with each other via review sites, blogs, social media, and etcetera. These customers are increasingly avoiding pushy marketers and revert to other customers for information to help them in making their purchase decisions. In this new era of customer engagement, organizations must do more outside their own traditional organizational boundaries. Whether organizations like it or not, customer power is growing. Customers have increased access to information, more alternatives, more simplified and direct transaction, control over contacts and most importantly, increased communication with other customers.

Therefore, this researcher argues that KLM should adopt and implement a different customer strategy, aiming to build mutually beneficial relationships with its customers, based on trust, transparency and openness. As relatively old strategies, customer centricity and customer advocacy can lead KLM to achieve this. These strategies are based on the realization that the path to success and profitability, is helping customers make the best decisions in their purchase decisions. If the organizations truly helps the customer, they will learn about their needs and interests, and can provide honest, open and transparent advice, even if this means to recommend competitive products (e.g. the Auto Choice Advisor of General Motors). In this sense, the organization truly *advocates* for its customers. In turn, the customers will *advocate* on the organizations behalf, stimulating customer trust, loyalty, repurchases and most important, positive word of mouth towards other customers. As a result, the organization may enjoy a larger customer base, more satisfied, truly committed and more buying customers. In line with this reasoning, this research aims to identify and evaluate ways that will help KLM on its possibilities to become more customer centric and turn their customers into advocates. To address the research problem, the general research question is as follows:

*Can KLM Royal Dutch Airlines migrate from a product oriented towards a customer oriented organization and develop a customer advocacy strategy?*

Given the explorative nature of this research question, several different qualitative research methods were used in order to answer this question; a literature review, semi-structured interviews and a focus group discussion. The literature review consists of an elaborate analysis of the aspects and elements that underpin customer centricity and advocacy. To develop the understanding of these concepts even further and in order to compare theory with practice, 12 semi-structured interviews were held amongst employees and managers of KLM. Subsequently, a focus group discussion was organized in order to generate ideas and new insights on why, what and how customer centricity and customer advocacy may contribute to the success of KLM. In sum, the main research findings were as follows.

- KLM is a highly product oriented, focused or driven organization. Priority number one is the safety and maintenance of the fleet and the second is that of its operations, which is obviously a logical choice. The passenger is but the third priority.
- KLM has mountains of customer data, but little information. This data largely exists in a network of poorly connected systems, e.g. flight and booking systems, their Flying Blue database, customer service and revenue management systems. Customer information that is present, is often limited to an aggregated level. As a result, it is difficult for KLM to reach the right customers and make specific, personalized and relevant offerings from a customer's perspective. Customer marketing as performed by KLM is traditional, reactive and is often focused towards its known customers, that is, its Flying Blue members. Customer centric initiatives are being developed (e.g. social media campaigns of KLM), but an overall vision and strategy on customer service, care or marketing is lacking. Managers and executives of KLM are too busy with revenue numbers, yields and meeting their (budget) targets.
- There is no consensus or clear statement at KLM about the customer value proposition.
- There is a very bureaucratic and cost focused approach to problems dealing with customer service.

Based on these research findings, this research argues that KLM should change its customer strategy in order to manage their customers more effectively across all aspects of service. In line with the main elements of customer centricity and customer advocacy, KLM should change its customer strategy in a number of ways:

- KLM should fully embrace a customer centric mindset, explicitly choose a value discipline, its customers and narrow its focus. This should start with bringing a change into the mindset of employees, which must be enforced by true leadership commitment and intense management communication.
- KLM should overcome its organizational barriers, which deter its organization from becoming customer centric. Therefore, KLM needs to restructure its culture, structure, processes and (financial) metrics towards the customer centric paradigm.
- The value of a customer should be expressed differently, instead of purely be focused on flown miles or yielded revenue.
- KLM should step inside the shoes of its customers, and design the desired experience or journey from their perspective onwards.

In line with the main elements of customer advocacy, this research proposes several ideas of how KLM could develop this in practice. This research concludes that KLM has to make a choice, because it finds itself at a crossroads. The current, traditional business models and marketing methods are lagging, unable to cope with new business dynamics and the ever changing customer demands. Whereas KLM often focused on operational improvements to reduce costs during the past decades, the customer is often ignored and therefore needs to become the center of attention in KLM's philosophy for the future (again).

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# Preface

Writing this thesis was a real challenge, both personally as well as professionally. This research took up to 16 months because I did not spend full time on my research and writing this thesis. My internship at KLM was twofold. One the one hand, I was given the opportunity to conduct my research and write my master thesis at KLM, on the other hand, I was expected and given the possibility to be really included into the department of 'Product and revenue management' of KLM The Netherlands, as a part-time equivalent. My function was that of a 'revenue analyst' for the regions of Europe, Africa and the Middle-east.

I still remember my first day very well, thinking '*How difficult can it be to prevent about 180 airplanes from falling down the sky, and make some profit out of their operations?*' Today, I realize how incredibly difficult, interrelated and dynamical this actually is. Obviously, it is always easier to comment or criticize on the business of an organization than to actually manage it yourself. Despite my annoyances and the difficulties which I encountered during my internship, I can sincerely and proudly state that KLM made me part of their family, turned my heart a little more '*blue*' and as the symbol of KLM itself represents, is the crownpiece on my study. Hopefully, this research proves itself valuable to KLM in the coming future.

I did not perform this research and wrote this thesis on my own. If it was not for my academic supervisors, Hans Heerkens and Efthymios Constantinides and that of KLM, Marco van Vliet, my colleagues, especially Jos Knevel and Jerry Versluys, my friends and family, this thesis would not lay here before you. Therefore, my sincere gratitude goes out to all who directly or indirectly contributed to this thesis.

Enschede, September 2013

Thomas Pot

# 1. Introduction

This master research is commissioned by KLM Royal Dutch Airlines. KLM was founded on 7 October, 1919 to serve the Netherlands and its colonies. KLM has been part of the Air France-KLM group since the merger in 2004. Given the turbulent and dynamic environment of organizations active in the aviation industry, being innovative is of strategic importance for all in this industry. Currently, for many legacy carriers operating the European and International skies, margins and profits are under huge pressure. Just recently (3th of May 2013), Air France-KLM announced losses of 630 million Euros in the first three months of 2013.

Given the strive and pursuit of KLM to stay a (world) leader in the airline industry, KLM is searching for opportunities to strengthen its (financial) position in the European and International airline industry. Due to the ever changing economic situation, the increase of heterogeneity of customer needs and demands, rising fuel prices, and developments in the IT industry, KLM feels the urgency to adapt and change accordingly. All too common are press releases such as '*KLM experiences a decrease in revenues, and an increase in fuel prices*'. Since 2012, the 'Transform 2015' program is initiated. The objective of this program is to restore profitability by pursuing the Group's investment strategy which consists of investing in products, reinforcing its presence in growing markets, stepping up its cooperation with its American and Chinese partners and securing agreements with new partners within the SkyTeam alliance supported by its fundamental strengths (Shareholders newsletter, *Action Air*, Air France-KLM, 2012). Transform 2015 responds to the three priorities set by the Board of Directors, namely 1) restoring the organization's competitiveness implying a reduction in costs, 2) restructuring the short- and medium-haul operations and 3) rapidly reducing debt. These priorities are mainly focused on internal processes, and cost savings. However, in all of the above mentioned, not once the word 'customer' or 'passenger' is mentioned. Among other reasons, this research states that the customer needs to become the main focus of attention (again).

The main subject of this research concerns a different approach on the customer strategy of KLM Royal Dutch Airlines, namely that of '*customer advocacy*'. This type of strategy is highly related with customer centricity and customer intimacy in general. These concepts will therefore also be elaborated and discussed thoroughly. The general research question is as follows:

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*Can KLM Royal Dutch Airlines migrate from a product oriented towards a customer oriented organization and develop a customer advocacy strategy?*

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## 1.1 Research outline

The figure as presented here below, is a schematic representation of the table of contents. This figure provides a complete overview of this research, indicating what topics will be addressed and where. It aims to provide the reader a quick and easy manner of reminding where to locate different chapters and corresponding sections. At the start of each chapter, this figure will return, denoting only the sections of that particular chapter.

**1 Introduction**
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The first chapter 'Introduction' will elaborate on the research objectives and serve as the introduction of this research. A brief description of the organization and the key facts and figures will be presented. The sections thereafter will describe the research itself, by which is meant: the motivation for this research, its justification and the general problem statement. Subsequently, the research questions and the focus of this research will be discussed.

The second chapter 'methodology', will describe in what manner this research is conducted and thereby elaborating on the chosen research methods. Also, the manner in which data are analyzed and the justification for the research and methods in terms of reliability and validity will follow in the section thereafter.

Thirdly, the chapter 'literature review', aims to build a theoretical foundation upon which this research is build. Therefore, relevant literature will be studied in order to identify research issues and opportunities in relation to the main topic of this research.

Chapter four 'analysis of data' will present the findings and (patterns of) results, which follow from the empirical data collection.

Chapter five will discuss the research findings as presented in the previous section, draw conclusions, provide recommendations and give answer to the research questions.

Lastly, this theses will conclude with a discussion concerning the limitations of this research and suggest possibilities for future research.

## 1.2 History of KLM Royal Dutch Airlines

KLM Royal Dutch Airlines was founded on 7 October, 1919. It is the oldest airline still operating under its original name. The first flight was carried out by Pilot Jerry Shaw, flying in a leased DeHavilland DH-16 from Amsterdam to London, which route is still operated today. KLM's first intercontinental route operated between Amsterdam and Batavia in 1924. The first Atlantic route flew from Amsterdam to Curacao in 1934 (Website KLM.COM, '*About KLM*', 2013).

The joint venture between KLM and Northwest Airlines (at present Delta), in 1993 and the merger with Air-France in 2004 are the most important strategic developments in the history of KLM. Wholly-owned subsidiaries of KLM are KLM Cityhopper, Martinair and Transavia.com. KLM's headquarters is located near its hub and home base 'Schiphol Airport', in Amstelveen.



KLM counts approximately 32.000 employees, active in one of the three main divisions of KLM. Together with Air France, KLM is one of the biggest airlines in the European airline industry and the seventh biggest in the world, based on the number of passengers carried yearly. With a fleet consisting of 159 aircraft, wide body and narrow body, KLM flies to European (EUR) and Intercontinental (ICA) destinations. A difference can be made between point-to-point (direct) traffic, and transfer (indirect) traffic. Direct as well as indirect traffic is carried out via so called 'hubs', large airports geographically dispersed but most important to the operations of large network carriers such as KLM. Schiphol Airport is the hub of KLM, whereas Charles de Gaulle is the hub of Air-France. The next section will provide a few of the key facts and numbers of KLM Royal Dutch Airlines.

## 1.3 Key facts and figures of KLM Royal Dutch Airlines

In the financial year 2011, the KLM Group carried 25.2 million passengers and 484.100 tons of freight. The income in this year was 6.985 million Euros.

The KLM Group fleet comprises 159 aircraft (complete overview of the fleet, see Appendix A).

With the expansion and certain adjustments, the number of direct routes offered by KLM from Amsterdam counts 123 destinations, intercontinental and European. Including indirect routes, 179 routes may be counted.

Including partners, KLM flew directly to 152 destinations from Amsterdam, 73 of which were long haul and 79 medium haul. Together, Air France and KLM serve 236 destinations in 106 countries.

Home base and global hub is Amsterdam Airport Schiphol.

Financial interests:

- Transavia.com (100%)
- Martinair (100%)
- KLM Cityhopper (100%)
- Kenya Airways (26%)
- Alitalia (25%)

Air France and KLM are members of the SkyTeam alliance. SkyTeam is a global airline alliance. Through one of the world's most extensive hub networks, SkyTeam offers its 384 million annual passengers a worldwide system of more than 14,500 daily flights to 958 destinations in 173 countries. See the overview here below for all members of the SkyTeam alliance. (Website KLM.COM, '*Cooperation*', 2012)



This research is commissioned by the product and revenue department of KLM The Netherlands, part of the commercial division which is in turn part of the main passenger division. Therefore, the next section will provide the organizational chart of KLM, to have a better understanding of the organizational hierarchy and linkages between departments.

## 1.4 Organization chart of KLM and focus on the Netherlands

KLM is organized around three main divisions; Cargo, Passenger and Engineering & Maintenance (E&M from now on) (see Figure 1). The cargo division is responsible for business related air traffic of products and goods, whereas the passenger division is concerned with all businesses related to moving passengers from one destination to the other. E&M is the technical division of KLM, responsible for repairs, inspections and the engineering of the fleet whether this concerns cargo or passenger aircraft. The departments 'commercial' and 'MRN', are part of the main passenger division. The 'operations', 'in-flight 'and' flight ops' departments are supportive to the cargo as well as the passenger division.
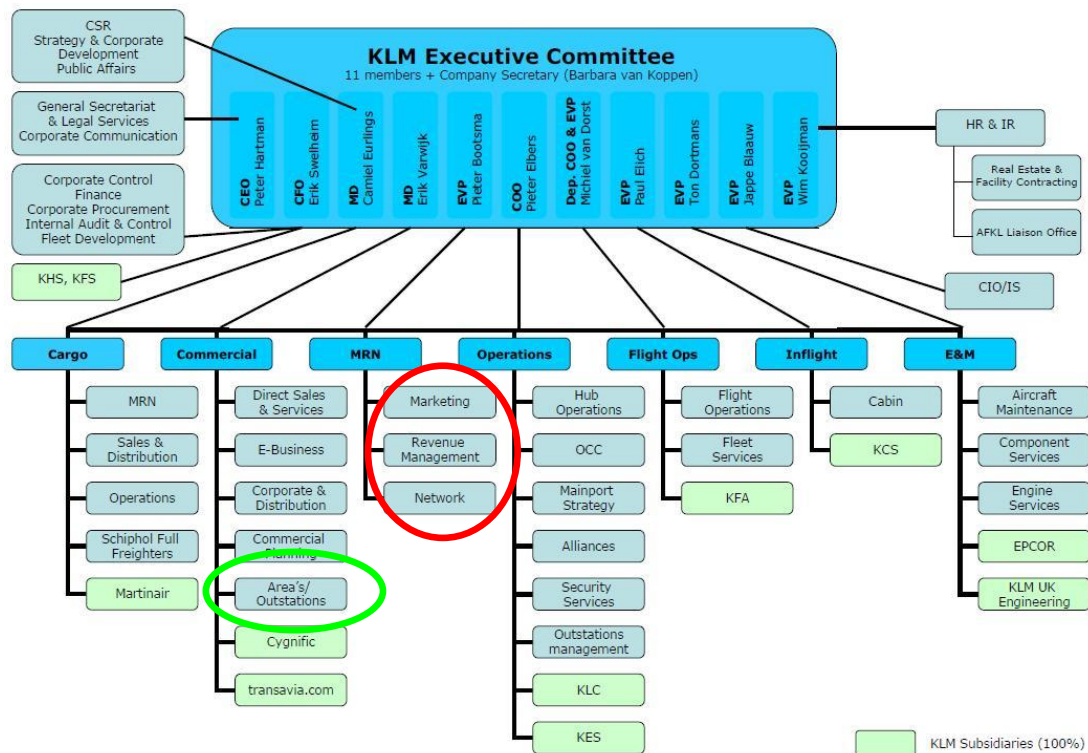


Figure 1: Organizational chart of KLM Royal Dutch Airlines. Source: internal KLM document

Most relevant departments to this research are the red and green circled. The red circled departments act at a corporate level, and therefore their activities affect many other departments within the organization. The 'revenue management' department is mainly concerned with filling airplanes with the most profitable passengers. Revenue management or yield management, is a process of understanding, anticipating and influencing consumer behavior by making use of price elasticity in order to maximize yields or profits from a perishable good. The 'marketing' department is responsible for all marketing and sales activities and the 'network' department is responsible for the optimal allocation of the fleet and the development of a profitable network fleet plan and an effective flight schedule. Furthermore, the green circled department, 'area's/outstations', represents the demographic distribution of point of sales of KLM in different regions all over the world. A point of sale is responsible for all sales and marketing activities in a certain market. Because KLM is a Dutch organization, the Netherlands is its biggest and most important market. This point of sale is called 'KLM The Netherlands. All point of sales may be viewed as profit centers. The revenue management department tries to manage the total of these points of sales in order to price tickets, manage inventory and steer businesses in the best possible manner. KLM serves approximately 25 million passengers in total on a yearly basis and KLM the Netherlands is accountable for approximately 18% of flown passengers which represent about 20% of flown revenues.

This research will mainly focus on KLM The Netherlands. However, the corporate headquarters of KLM and KLM The Netherlands are inseparable, yet their organizational focus is different. Maybe a nice example to explain this point, is by referring to a birthday cake. At corporate level, the 'cake' is divided into several parts and is given to the various points of sales (mainly depending on the size of a certain point of sale in terms of tickets sold and thus revenue). This 'piece of cake' mainly represents the financial resources and access/availability of seats on flights. In turn, a certain point of sale has to use these resources optimally and needs to make as much revenue as possible in its market. The difficulty however, is that the cake is not divided at the beginning of a certain year, but can be different each month. This makes it difficult for a point of sale to sale tickets or perform marketing campaigns for certain destinations, because it remains to be seen how much resources, access/availability they will receive the coming months.  This being said, this research tries to focus on KLM The Netherlands, but will sometimes keep an eye on the operations and decisions made at a corporate level.

## 1.5 Background of the research

The last fifteen years were rough years for European airlines. Due to the global turmoil and economic slowdown in the European region, airlines have come to know that cost containment, financial strength and efficiency are more important than ever. The volatile demand of air traffic, the increasing number and strength of (lower priced) competitors, unstable fuel costs and more diverse and specific passenger needs, force airlines to expect the unexpected (International Air Transport Association (IATA), 2012).

Beside the variance in the demand for air traffic, fluctuations of the economy and the competition, airlines were also confronted with calamities such as 9/11, SARS, Bird flu and the Icelandic volcano eruption in 2010. These calamities increased e.g. security restrictions even further, just when airlines were attempting to regain passenger confidence and trust. As the last decade progressed, fuel prices began to increase dramatically. The price of fuel raises more than 200 percent from 2000 to 2008. To illustrate this story, Figure 2 shows the fluctuations in the average operating margins of airlines in relation to the variations in global GDP growth, to illustrate the impact of the aforementioned.
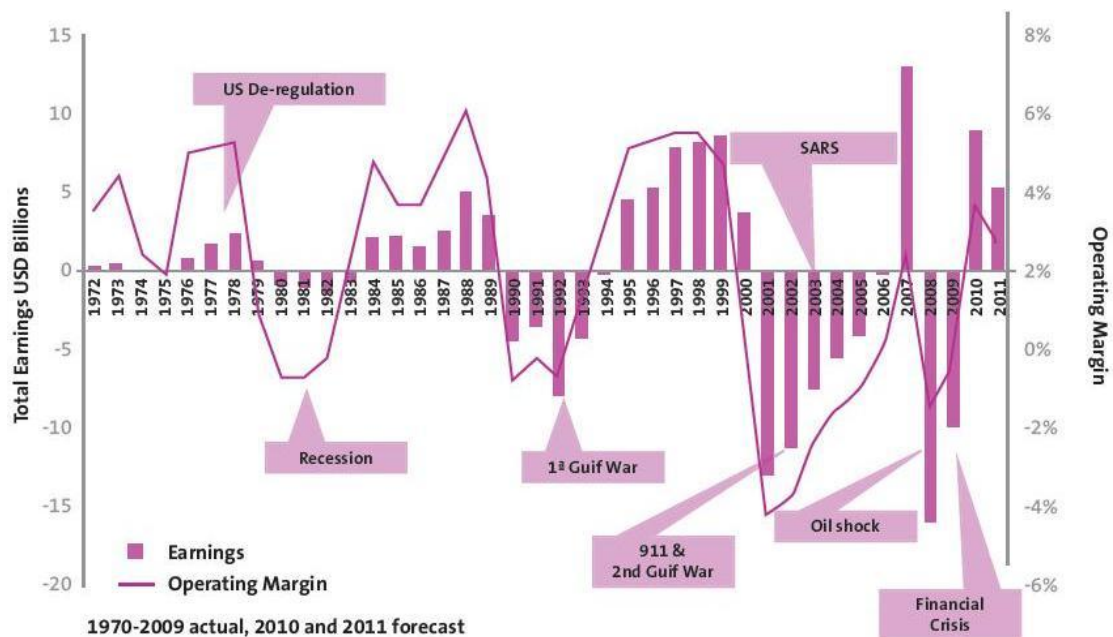


Figure 2: Global GDP growth in relation to average operations margins. Source: IATA, 2009

For most of these fluctuations, their impact can be related to:

1. Input costs.

These costs are mostly related to the fuel, passenger service taxes and airport fees. Currently, these costs account for more than 50% of an airline expenses. E.g. since 2003, the costs of airline fuel have increased more than 5 times, and continue to increase even further.

2. Demand-supply mismatch.

This relates to the cyclical nature of (customer) demand, the balance between capacity vs. demand and the load factors. Currently, customers are becoming increasingly more aware of low(er) priced competitors. Also, the internet provides numerous advantages for the customer to easily choose between airlines. Legacy carriers find it more and more difficult to manage business due to these market changes and are often bound to their aircraft (capacities).

3. Intense competition.

This relates mostly to the operations of low cost carriers, the customer churn rates, the increased customer choice options and the low brand/experience differentiation. As more  low

priced competitors emerge and develop, the older legacy airlines are trying to differentiate themselves from the competition. This results in a highly fragmented and competitive market.

4. Operational efficiencies.
This relates to the deployment of the fleet in relation to the (partner) network and flight connections, the management of inventory and the on-time performance and load factors. A big fleet offers numerous advantages, but also limits the airline to quickly adapt to changes in the market and/or cancel and change routes. This may harm the operational efficiency of an airline.

5. Changing customer expectations
This relates to the price sensitive customers, the demand for better and more tailored products and the preferred peer recommendation of customers. Often, the issue is that airlines cannot cope with the changing expectations due to their current IT systems, aging fleet, and etcetera.

Unfortunately, nobody has all the answers or a crystal ball to see the future. However, it can be viewed that the skies are still cloudy for many legacy carriers and (financial) forecasts are not showing desirable results. Quick economic recovery is not to be expected, whereas low priced competitors gain high profits and market shares and fuel prices are rising. Nonetheless, the IATA (International Air Transport Association) predicted a growth for 2012 of 4.4 per cent in total worldwide passenger numbers (previous year: 5.7 per cent) and of 5.2 per cent for international passenger traffic (previous year: 6.5 per cent). This trend is expected to continue in 2013. Average growth in international traffic is predicted to go up to 5.8 per cent p.a. by 2015, which would put it slightly above the long-term mean. Airlines are expecting to break the barrier of 3 billion passengers worldwide in 2013 (Lufthansa, 'Annual report', 2011). However, airlines that wish to thrive and excel in the coming years or decades, will have to do more than just to stay ahead of the competition. Particularly, airlines will have to strategically rethink or even redesign their business models and processes in order to meet the needs of a globalizing world. Given the aforementioned, the next section will elaborate in more detail what motives this research.

**1.6 Motivation for this research**
According to Boland, Morrison and O'Neill (2002), the airline industry has reached the crossroads. The current, traditional airline business models and marketing methods are lagging, unable to cope with new business dynamics and the ever changing customer demands. Whereas many airlines focus on operational improvements to reduce costs, the customer is often ignored. The one country-one flag carrier model is still practiced, but no longer achievable, especially for small countries, due to the low origin and destination demand (Jarach, 2004). This is important for KLM, because it is a flag carrier and operates within such a market. Currently, more than 20 medium sized carriers, and more than 50 regional carriers are operational in Europe. This results in a highly fragmented market.

KLM is and always has been a pioneer and market leader in the airline industry. However, KLM feels the urgency to continuously adapt and change to the ever changing world and its customers. KLM wants to be the first choice for their customers, for its employees to be a reliable and attractive employer and for its stakeholders a growing and profitable organization. KLM wants to develop its relationships with their customers even further. This can be illustrated best according to Figure 3. This figure illustrates the change from a weak to a strong customer relationship, based on the changing marketing strategies. As Chen and Popovich (2003) argue, customer relationship marketing was developed on the basis that customer differ in their needs, preferences, buying behavior and so on. Therefore, by understanding customer drivers and customer profitability, organizations can better tailor their offerings to maximize the overall value of their customer portfolio. Furthermore, by implementing truly customer-centric approaches to relationship management, organizations will be better positioned to acquire, develop and retain high valued customers. This information can be used not only to differentiate service levels based on customer value, but also drive operational decisions.
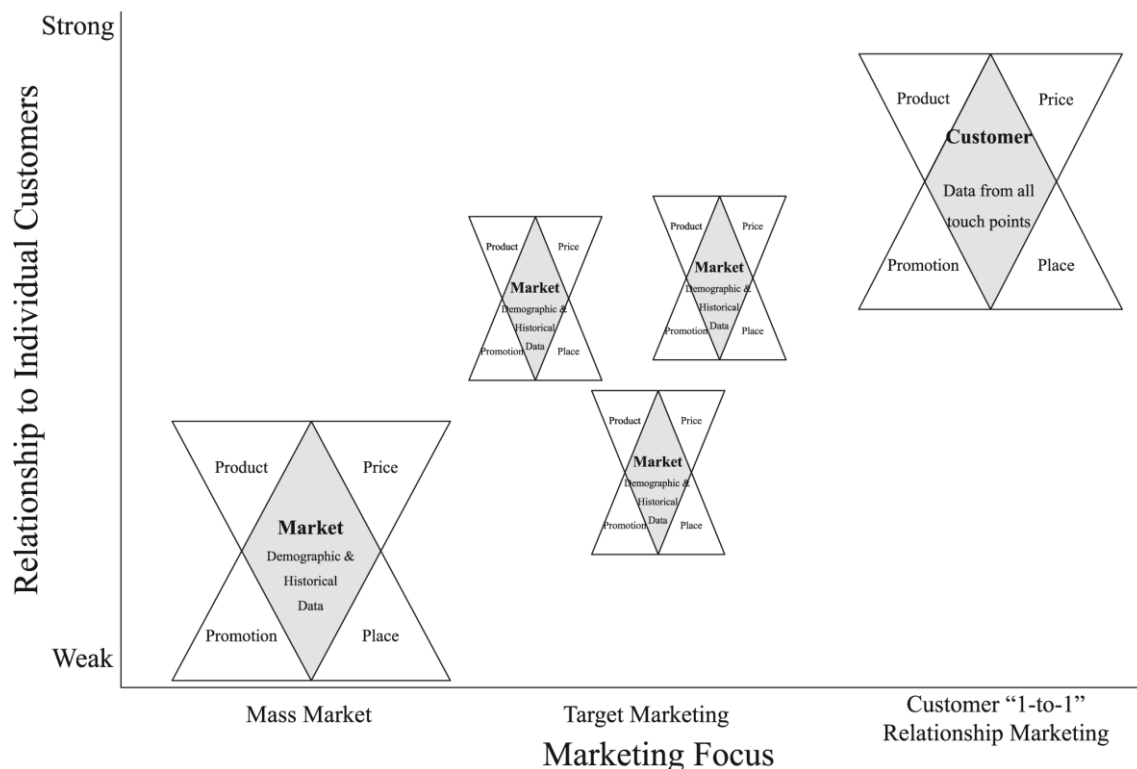
Figure 3: Changing marketing strategies. Source: Chen and Popovich, 2003

Currently, all employees of an organizations are in fact marketers. Engaging customers requires commitment from the entire organization and thus a redefined marketing organization. During the past decade, the new era of customer engagement has arrived and marketers have been adjusting to it. They did so by performing social media management and altering processes in order to better integrate advertising campaigns; online, on the radio, television, and in print, all to manage digital customer data. However, for building and sustaining profitable customer loyalty in the 21th century, that is not enough. In order to truly engage customers, for whom the traditional 'push' marketing paradigm is becoming increasingly outdated, organizations must do more outside their traditional, organizational boundaries. In the end, customers will no longer separate marketing from the product, because marketing is the product. There will no longer be a separation between marketing and their online purchase or in-flight experience, it is the experience. In the new era of customer engagement, marketing is the organization.

The need for a different customer (marketing) strategy usually stems from the reality that many employees within the organization affect the customer experience. E.g. a physically disabled person has made a booking via the airlines call center, clearly indicating his situation and need for support at the airport for which he paid extensively. However, when reaching the airport, nothing has been arranged by the airline. No wheelchair, no priority boarding, or assistance whatsoever. He calls the airlines service center and explains the situation, but all he gets as a response: '*I am extremely sorry mister, but from my position, there is nothing I can do for you. I will give you another telephone number you can try, and make some additional calls myself, but for now, please be patient. I will contact you as soon as I have more information*'.

The main problem is that the very focal points that made the traditional, push marketing strategies effective; tight, centralized control operations over a well-defined set of channels and touch points, are holding organizations back in the new era of customer engagement. Many of these touch points, e.g. the customer service center or interactions between the check-in counter and customers, are placed outside of the traditional marketing organizations, which have little

or no authorization to reach into other business functions or departments. Organizations have traditionally divided responsibility for touch points among different functions. However, a comprehensive customer (marketing) strategy to engage customers across all touch points is often lacking, and if one is present, there is often no system for execution or measuring its performance. Often, managers are faced with the challenge of how to balance between marketing exploiting strategies (utilizing value from what is already know) and marketing exploration strategies (utilizing value from new sources) (Logman, 2013). This is also the case at KLM.  E.g. should they invest in more (online) advertising, invest in their Flying Blue program, improve service quality, or just conduct business as usual? Such strategic decisions are often left to the judgment of marketing executives and their management teams, but these executives and managers have often little to base their decisions on, rather than their own experience, knowledge and gut feeling.

For many years, KLM had a rather limited view of who their customers truly are. This is mainly because of current techniques and practices in use, are primarily of a transactional nature. A passenger searches for a ticket, makes the booking, and once the flight is over and the passenger leaves the airplane, the relationship basically ends. KLM has numerous sources and amounts of customer data. This data mainly consists of booking, flight and travel data stored in various IT systems. These systems all serve their purpose but the real issue and therefore challenge, is that this data is poorly linked with the various information systems, resulting in incomplete information on a strategic level. Furthermore, when KLM tries to study its market or segment its customer database, the frequent flyer program is the only database on which they can truly rely. However, this database provides only a partial view of the total customer base. This is because only a small amount of the total customer base is active or enrolled in a frequent flyer program. One may compare this with the iceberg metaphor, in which airlines only see the tip (known to KLM: light blue) of the iceberg, but fail to see or recognize what is below the water surface, that is, the main part of the iceberg (unknown to KLM: darker blue), see Figure 4.
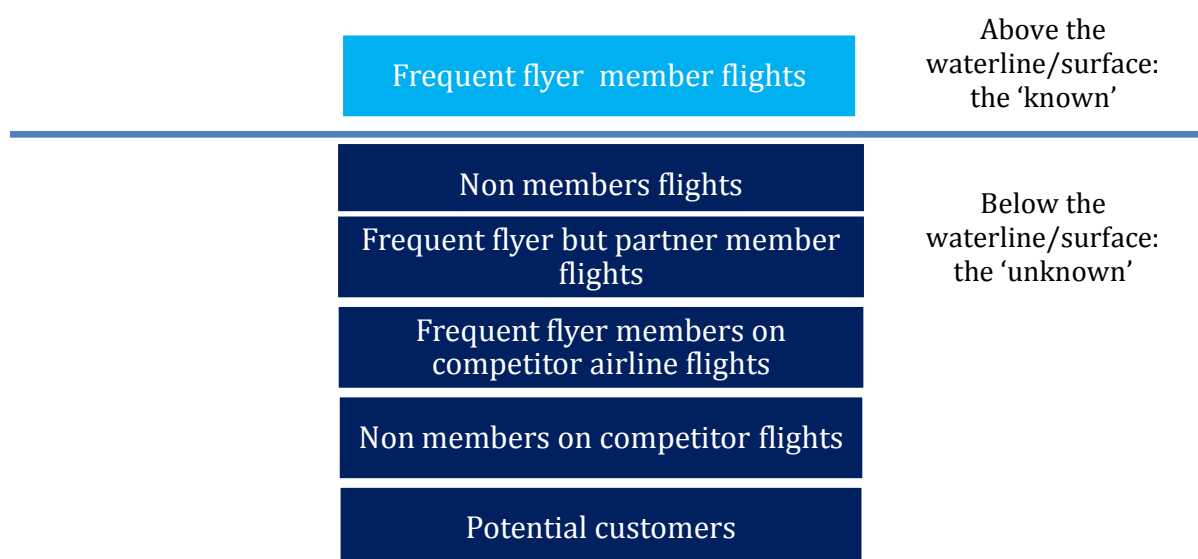


Figure 4: The iceberg metaphor; What airlines really know about their customers. Source: CCAirways Blog, 2010

Perhaps a nice example is that of one of KLM's Cargo's largest corporate clients. He and his family were denied boarding due to overbooking on their holiday flight in the summer of 2010. Due to the lack of customer knowledge and integration of data, a frontline staff member of KLM had to decide who to be denied boarding and who to be allowed boarding. This employee had simply no idea that the customer was, and his importance to KLM. Later, the client filed a

complaint, which heavily impacted the mindset of many within the organization of KLM.

Another reason for the need for a new marketing approach is the changing nature of the modern customer . Whether KLM likes it or not, customer power is growing. Customers have easier access to tremendous amount of information, products and services through e.g. the use of The Internet. Smart shoppers have emerged, using all sorts of sources and technologies to gather information, find competing products and talk to other customers. The five proven sources of increased customer power are:

1. Increased access to information
2. Increased access to more alternatives
3. More simplified and direct transactions
4. Increased communication between customers
5. Increased control over contacts
(Urban, 2003)

The next section will describe the research objectives which derive from the topics discussed in this section.

### 1.7 Problem statement and research goal

Most legacy airlines are currently more and more focusing on all their customers and KLM is no exception. Managing customer relationships through the use of various customer relationship management (CRM) initiatives in order to optimize loyalty and revenue are becoming central in the day to day operations of airlines (Boland, Morrison and O'Neill, 2002). At the moment, KLM is aiming to increase customer loyalty, customer knowledge, and tries to understand what drives them, and how to serve them accordingly. However, KLM experiences problems in giving concrete meanings to these ambitions.

From a managerial perspective, this research assumes that KLM is a highly product oriented organization, driven by a focus on revenue, yield and minimizing costs. Currently, KLM has not the right capabilities or meets the requirements to truly enhance and develop their customer relations. As stated in the previous section, KLM has a limited view of who their customers truly are. There is no system, policy or process in use in order to identify, recognize and acknowledge specific customers effectively in order to meet their needs and interests. E.g. the primary aim of current techniques and practices is driven by the question: what does the competition do, is our price competitive, and if so, how do we optimize our revenues? And not by the question; what do our customers actually like or need, what can we do to accommodate and when will they recommend us to others and/or become loyal, repurchasing customers? Therefore, the problem statement from a managerial perspective can be stated as follows:

> ➢ *KLM has a limited view of who their customers truly are. At the moment, KLM is unable to systematically identify, recognize and/or classify passengers on the basis of their personal characteristics, preferences, needs and/or interests and give form to effective marketing initiatives.*

Given the aforementioned, this research assumes that the current product oriented focus of KLM can potentially adversely affect the effect on passenger's perceptions of KLM and thereby destroying their loyalty, repurchase, satisfaction and word of mouth intentions. Much research has already been performed at KLM concerning more effective marketing campaigns, revenue management techniques and cost savings programs, and KLM continues to explore its abilities to develop its customer marketing. Therefore, this research tries to move away from the current practices in use, and explore different and/or new approaches. To illustrate this story, Figure 5 is used. This research argues that the traditional 'push' marketing paradigm is becoming increasingly outdated and organizations must do more outside their traditional organizational

boundaries. As trust-based marketing becomes more important, organizations must find a balance between push and trust marketing. It is not necessarily the case that a full trust marketing strategy is the best. However, organizations should choose a balance between the different strategies. This balance is dependent on the corporate strategy, the industry and the characteristics of the products/services of an organization. At the moment, KLM may be plotted at about the middle left (red circled). However, as KLM is keen on improving its services and products offerings, they want to focus more on their customers and respond more directly to their needs and interests (green circled).
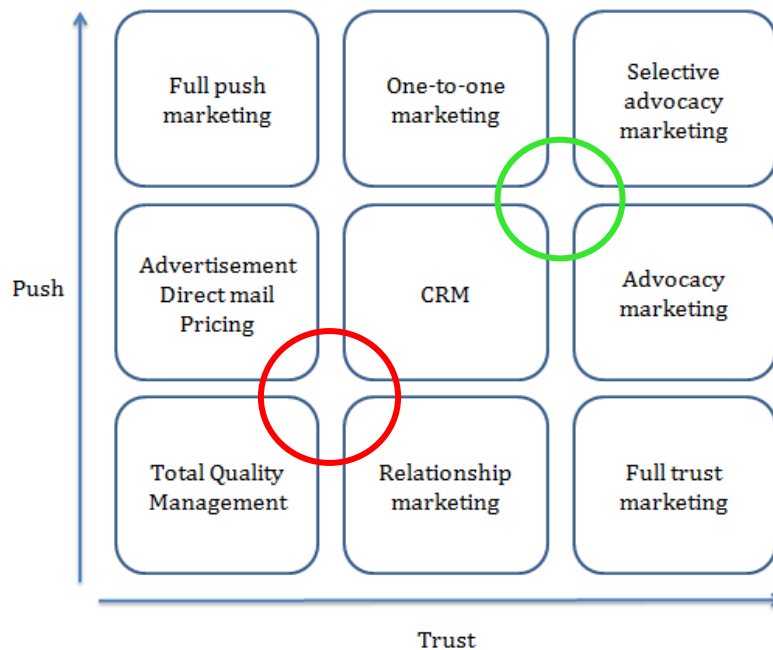


Figure 5: Push-trust framework. Source: Yamakoa, 2004

Some definitions of the concepts in the figure:

*Relationship marketing*: marketing activities aimed to develop, enhance and manage long-term relationships with customers (Bolton and Tarasi, 2006)

*One-to-One marketing*: Form of marketing and direct promotion in which a sales of business representative maintains a relationship with a targeted of interested customer on an individual basis and communicates directly with hem or her (Peppers, Rogers and Dorf, 1999).

*Advocacy marketing*: A form of marketing in which the organization takes a customer centric viewpoint on marketing and offers products and information based on the individual customers needs and interests, even if this means offering competitive offerings (Urban, 2003)

*Selective advocacy marketing*: Same as advocacy marketing except that the focus is not only on the individual customers, but on the specifically targeted and/or interested customer (Urban, 2003).

Concluding, KLM is willing and determined to explore its abilities and opportunities to better understand customer drivers and become more customer centric. KLM aims to enhance customer service, by increasing the quality of customer relations and truly listening to what their customers have to say. Ultimately, KLM is aiming to increase customer loyalty, knowledge, and understand what drives them, and how to serve them accordingly. Therefore, the goal of this research is as follows: *To identify and evaluate ways that will help KLM Royal Dutch Airlines on its possibilities to become more customer centric and turn their customers into advocates.*

## 1.8 Central research questions

Considering the aforementioned, the general research question is as follows:

1. *Can KLM Royal Dutch Airlines migrate from a product oriented towards a customer oriented organization and develop a customer advocacy strategy?*

In order to answer the general research question, this research is organized into two different parts. The first part focuses on the 'larger problem area' and is characterized by an organizational focus. It incorporates academic literature that elaborates on product and customer centricity, the requirements to migrate towards customer centricity and the concept of customer advocacy. This is important because, changing or introducing a new or different strategy, means changing the focus of the organization. It requires the transformation of the current customer experience ideals from the blackboard to the real life operations. Therefore, the first sub research question read:

2. *What is customer advocacy and what are its characteristics?*

3. *Which organizational and procedural requirements are required in order to migrate from a product oriented towards a customer oriented organization?*

The second part focuses on a more 'specific problem area' and is characterized by a business focus. It uses the insights gained by studying the larger problem area, and applies this in practice and further empirical research. Therefore, the last two sub research questions read:

4. *Is KLM Royal Dutch Airlines ready for adopting a customer advocacy strategy?*

5. *In what manner can a customer advocacy strategy be developed for KLM Royal Dutch Airlines and how should this be implemented?*

The figure below provides a framework of the different research areas, and corresponding sub research questions.



Figure 6: Framed research questions.

# 2. Methodology
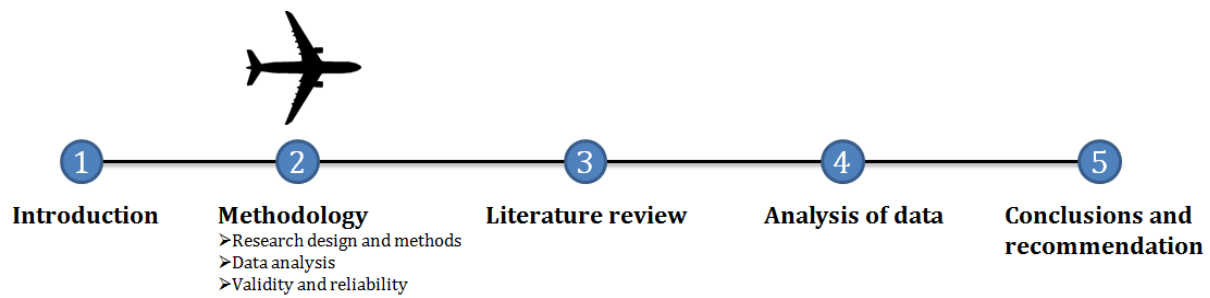


The previous chapter presented the central research questions as well as the research goal, which reads: *To identify and evaluate ways that will help KLM Royal Dutch Airlines on its possibilities to become more customer centric and turn their customers into advocates.* As this research aims to achieve this by formulating an academic, yet practical advice, this chapter will describe the research design and methodology used.

The first section of this chapter will elaborate on the research design and on the chosen research methods. The following section explains how data will be analyzed in order to present results and draw conclusions regarding the findings. The last section will focus on why these research methods have been chosen and thereby discussing the quality, validity and reliability of this research.

## 2.1 Research design and methods

Given the explorative nature of this research, several different qualitative research methods will be used; a literature review, semi-structured interviews and a focus group discussion. Because of the complexity of the topic and the lack of available and relevant customer information at KLM, this manner of doing research was more appropriate than a quantitative research approach. In sum, the literature review is constructed to formulate the basis for this research and answering the first two sub research questions. The semi-structured interviews are used to discuss the findings as provided by the literature review. The findings from the interviews can be compared to what the literature review states and provide answer to the third sub research question. Lastly, the focus group discussion intends by means of collaborative dialogue, to discuss the subject of 'customer advocacy' and highlight the subject from the different (function) perspectives of the attendees. As a result, the session intends to generate ideas and new insights on 1) why, 2) what and 3) how customer advocacy can contribute to the success of KLM Royal Dutch Airlines and thus give answer to the last sub research question. (see figure below).
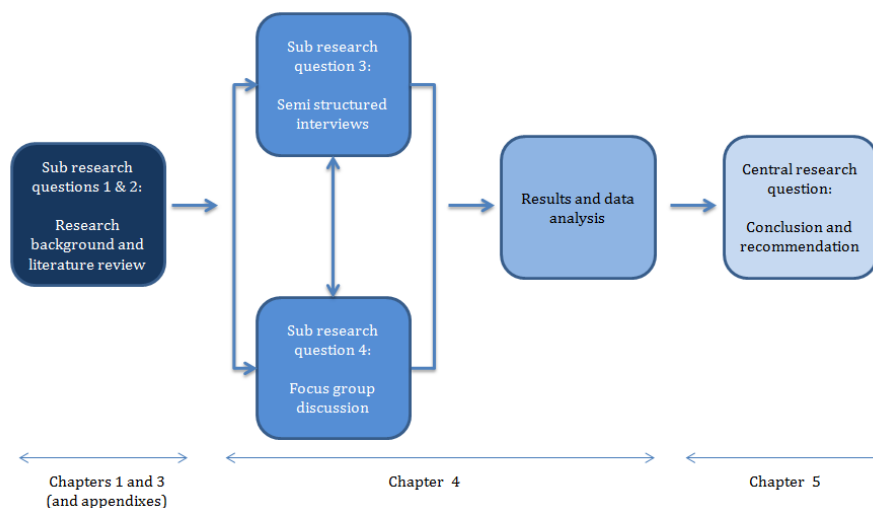


Figure 7: Research design.

**Literature review**

First, a systematic literature review will be conducted. Therefore, academic literature will be consulted in order to find relevant information and research towards the topics of this research. This review results in the theoretical framework (see next chapter). The literature review will be conducted by use of the online library of the University of Twente, several books and readers/handouts concerning e.g. e-marketing and CRM. Mainly the online catalogue from the University of Twente and Google Scholar will be used to search for articles, books and (online) journals. To quickly find journals and articles with many citations and references, the '*snowball*' method will be used. This method picks one leading article concerning e.g. customer centricity, and in turn, then uses its references and citations of others to search for more articles on the topic. Different search terms and key words will be used to collect a large set of academic literature.

Some of the keywords: *Customer advocacy, advocacy behavior, customer centricity, product centricity, customer segmentation, customer marketing strategy, CRM, e-CRM, airline marketing, trust, perceived value, service quality, customer loyalty, satisfaction, product differentiation, generic value strategy.*

The theoretical framework will only partly provide an answer to the first two sub research questions; it provides a theoretical foundation, but must be validated and checked by additional empirical research. Therefore, after reviewing literature and constructing a theoretical framework, semi-structured interviews will be used to check how and why KLM is currently organized the way it is. Most important is that these interviews aim to discover how different employees of KLM view their functions and how and what they think of customer centricity or customer advocacy. Later, the findings of these interviews can be compared to what theory states, from which conclusions can be drawn.

**Semi-structured interviews**

The interviews will be held amongst KLM employees (in total, 12 persons). The interviews will be constructed on the basis of the literature review. The interviews aim to find out what the function of the interviewee involves and how this relates to other functions and departments. Furthermore, during the interviews, relevant findings from the literature review will be discussed. One may see these interviews as a 'pilot study', in advance to the main research method (the focus group discussion). The interviews will be held amongst employees and managers which function is somehow directly focused towards the customer. E.g. the employees and managers of marketing, sales, customer care and the customer insights department. Examples of the discussed subjects during the interviews:

- Marketing strategy of KLM; how does customer marketing and research currently take place at KLM? Who is responsible? Does KLM make use of external parties to conduct research?
- What does KLM know about its customers and how is this measured?
- What does KLM not know about its customers? What would they want to know? How come they are currently not able to collect or acquire this information?
- What are the main KPI's, how is work structured and organized of the department of the interviewee? How does this department relate to others?
- Customer segmentation, flight behavior, customer satisfaction and customer loyalty.
- CRM programs within KLM, Flying Blue, customer experience management.

During the beginning of a semi structured interview, a brief description of the goal of this research will be described, after which a short explanation of customer centricity and customer advocacy according to theory. This is done in order to provide the interviewee some insights on the studied academic literature. During the interviews, current practices, issues and challenges are discussed in relation to the function and department of the interviewee as well as their perspective on customer centricity and customer advocacy. At the end of each interview,

implications for KLM and its employees, as well as the required resources, changes and/or actions will be discussed. The interviews will conclude with asking each interviewee if he/she has something to add or missed during the interview. For an example of the semi structured interview, see Appendix B.

**Focus group discussion**
As a last research method, a focus group discussion or expert session will be used. Employees and managers of KLM will be invited for a meeting, accompanied by two assistant professors of the University of Twente. The respective functions of these employees and managers need to be somehow directly focused on the customer. The goal of the session is, by means of collaborative dialogue, discussing the subject of 'customer advocacy' and highlight the subject from the different (function) perspectives of the attendees. As a result, the session intends to generate ideas and new insights on 1) why, 2) what and 3) how customer advocacy can contribute to the success of KLM Royal Dutch Airlines. This focus group discussion is similar to the in-depth interview (techniques). This is because topics, questions, and etcetera, are already chosen and constructed, which give form to the focus group discussion. Instead of one on one conversations, these topics and questions are proposed to the group, after which a discussion of each topic ensues. During the discussion, interaction amongst the attendees may produce (mutual) stimulation of ideas and thoughts, and appeal to their feelings and experiences. In this manner, a focus group discussion has the potential to provide useful insights and information from various experts and professionals on how they view the topics being discussed.

First, a short presentation concerning customer centricity and customer advocacy will be given by the researcher. This is to highlight important subjects and elements of these respective concepts. Subsequently, three main discussion topics are proposed. In order to ensure a certain level of academic and practical relevance, the researcher is supported by the assistant professors of the University of Twente. All attendees will be invited personally or per email, and are send the discussion topics in advance. For a full list of both interviewees and attendants of the discussion and their respective functions, see appendix C. For the discussion topics, see Appendix D.

**2.2 Data analysis**
The results of the semi-structured interviews and focus group discussion will reveal how current activities with regards to the central topics of this research is performed at KLM. In broader context, it will also reveal how employees within the organization of KLM think and feel about KLM, their functions and of customer centricity and customer advocacy.

The semi-structured interviews will not be audio or video recorded. As research states, it is often recommended to make audio recordings (but not necessary), in order to transcribe and later code the responses. However, directly after each interview, it will be summarized, transcribed and send back to the interviewee, in order to check for correctness, missing topics, or to supplement. The semi structured interviews are seen as a precursor to the main research method, the focus group discussion.

The focus group discussion will not be audio and/or video recorded. Also, the researcher himself will not make notes due to his role of the moderator and because he will be assisted by another intern who will take notes for him. Directly after the focus group discussion, the discussion is transcribed, summarized and send back to the assistant professors in order to order to check for correctness, missing topics, or to supplement. Later, the (combined) results of the interviews and focus group discussion can be used as the research data.

The next section will reflect on the quality of these matters and thereby discussing the validity and reliability.

## 2.3 Validity and reliability

According to Guba and Lincoln (1981), all research must have 'trust value, 'neutrality', 'consistency' and 'applicability'. However, the nature of knowledge within quantitative research is somewhat different from the qualitative research. As a result, each type of research yields certain criteria for addressing the quality of the research, and thereby the 'rigor' or 'trustworthiness' (Morse et al., 2008). Quantitative research is most often qualified by criteria such as the internal validity, external validity, reliability and objectivity. Qualitative research is most often qualified by criteria such as credibility, transferability, dependability, and conformability (Guba and Lincoln, 1981). In terms of qualitative research, the consistency of the means of data collection is largely irrelevant, because it does not seek to be consistent or to gain consistent results. Qualitative research rather seeks to elicit the responses of a participant or researcher at a specific time and place and in a specific interpersonal context. Lincoln and Guba (1985) recommended that specific strategies can be used to attain the trustworthiness such as negative cases, peer debriefing, prolonged engagement and persistent observation, audit trails and member checks. Lastly, these authors state that is also important that the researcher must be responsive and adaptable to changing circumstances, take a holistic view of the situation, has a certain amount of sensitivity and begin able to clarify and summarize.

Furthermore, validity is often referred to as the degree to which the research truly measures what it what meant or intended to measure (Golafshani, 2003). The difficulty with this definition of validity is that is assumed that the studied phenomenon possesses a certain type of reality, in an undisputed, objective sense. Therefore, most qualitative researchers view this as inappropriate. Instead of assuming that there is one single, objective reality to which all findings must respond, these researchers ask another question instead; whose reality is the research addressing? (Finlay, 2006). Qualitative research is by definition biased due to the subjective interpretations of the researchers and/or participants of the research. If it is accepted that its interpretation cannot be excluded from the research process itself, it must be concluded that the analysis of qualitative research is only a '*tentative statement opening upon a limitless field of possible interpretations*' (Churchill, 2000, p.164). Given the aforementioned, the reliability and validity of the chosen research methods will now be discussed in the remaining part of this section.

A semi structured interview is primary data gathering instrument and is one of the most commonly used research methods in qualitative research. A list of predetermined questions is prepared, but the interview may unfold in a conversational manner, offering the researcher and interviewee the chance to discuss issues they find important. In that case, semi structured interviews offers the flexibility to approach various interviewees differently, while still covering the same topics and areas of data collection (Noor, 2008). The main reason why was chosen to use semi structured interviews, is the uncharted territory of customer advocacy and because there is suspected there may be unknown yet important issues to examine, and discover useful leads from the interviewees. Also, it provides a thorough reconnaissance before designing the focus group discussion. In terms of reliability and validity of semi-structured interviews it is often argued to make use of audio recordings. The advantage of doing so, is that the researcher can fully focus on the interaction, instead of feeling pressure to capture each word/response of the interviewee. During this research, only written notes were made, which thus could led to biased results and lower validity. However, reliability was improved by the use of a standard interview protocol, in which the same (sequence of) topics and questions were asked. Directly after each interview, it was transcribed and send back to the interviewee, in order to check for correctness or missing topics.

Lastly, the focus group discussion. According to Longhurst (2003) a focus group is a group of people, usually between 6 and 12, who meet in an informal setting to discuss a particular topic which has been set but the researcher. The facilitator keeps the group on the topic but is otherwise non-directive, allowing the group to explore the subject from as many angles as they

please. The main benefit of the focus group is that it may produce data and insights that otherwise would not or less be achievable without interaction in such a group setting. Focus groups are most useful when trying to explore, discuss or acquire feedback regarding (newly) proposed initiatives (Longhurst , 2003). Furthermore, according to Morgan (1996) focus groups may stimulate synergy, and thereby invoke on the knowledge and expertise of each individual. This is mainly because during focus group discussions, the attendees have to explain themselves to each other. In terms of validity and reliability, there are two main drawbacks concerning focus group discussions. The first one is that analysis and processing of the results of a focus group discussion can take place at an individual or group level. When is chosen for the latter, it might be that conclusions are drawn based on a consensus, when not all attendees have spoken. Another drawback of focus groups is that of observer dependency or experimenter bias. In that case, the researcher may communicate its expectations or opinion towards the topic and therefore causing other attendees to alter theirs in order to conform.

# 3. Literature review
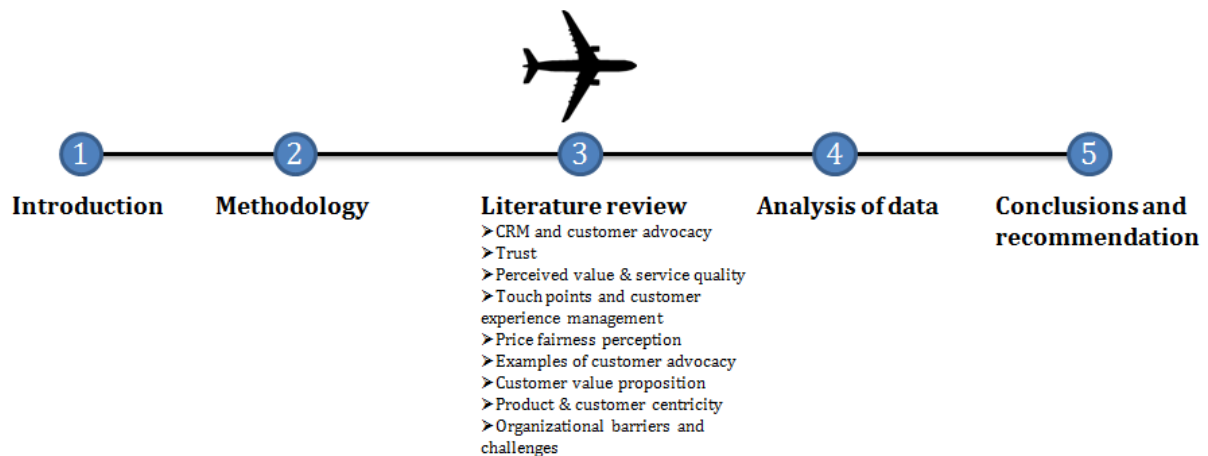


This chapter serves as the theoretical framework for this research, consisting of several different sections. The first six sections of this chapter will discuss the subject of customer advocacy as a type of customer centric strategy. Therefore, the practice of CRM, its most important elements and how this relates to customer advocacy will be discussed. This is important, because it highlights the underlying assumptions of relationship marketing on which this research builds. The concepts of trust, perceived value, service quality, price fairness and examples of a customer advocacy strategy will be discussed. Thereby, these sections will provide answer to the first sub research question: *What is customer advocacy and what are its characteristics?*

Secondly, the remaining three sections of this chapter will focus on the organizational and procedural requirements in order for an organization to become customer centric. These sections will elaborate on the subjects of customer value discipline, and product and customer centricity in general. What is product and customer centricity? What are the fundamental issues and challenges in order to become customer centric? Thereby, these sections will provide answer to the second sub research question: *Which organizational and procedural requirements are required in order to migrate from a product oriented towards a customer oriented organization?*

## 3.1 CRM and customer advocacy

Customer relationship management practices state that organizations should pursue long term relationships with customers instead of adopting a short term transaction oriented approach (Jayachandran et al., 2005). In this manner, customer relationships are likely to lower costs because organizations can allocate marketing resources more effectively. Also customer satisfaction may increase, due to the better tailored products and services, which ultimately is assumed to lead to increased revenues. The strength of these relationships allows companies to response more directly and better tailored instead of occasional and sub-optimal responses. Not only the organization benefits from the long term relationship, but also the customers since they are more familiar with the products, services and ways of delivery by the organization (Parvatiyar and Sheth, 2001).

According to Parvatiyar and Sheth (2001), CRM may be defined as '*a comprehensive strategy and process of acquiring, retaining, and partnering with selective customers to create superior value for the organization and the customer. It involves the integration of marketing, sales, customer service, and the supply-chain functions of the organization to achieve greater efficiencies and effectiveness in delivering customer value'.* However, many airlines have failed to recognize CRM as a holistic strategy and instead viewing it simultaneously with their frequent flyer programs (Boland, Morrison and O'Neill, 2002). Thus, the traditional product-oriented view, 'design-build-sell', must be replaced by an one-to-one, and thus more customer oriented view: 'sell-build-redesign' (Rygielski, Wang and Yen, 2002). Instead of reaching more customers and expand the

customer base by the use of massive advertisement campaigns, it makes more sense to conduct business with the current and (potential) high valued customers in a more direct and personalized manner. Value in this sense may be expressed in many different ways, not only the annual amount of revenue they may yield. In focusing more on these passengers, the act of marketing shifts from the breadth of the customers base towards the depth of the customers' needs.

Building on the notion of CRM, '*customer advocacy*' is the highest level of customer relationship marketing and finds is foundation in Total Quality Management and satisfied customers (See figure below). Total Quality Management focuses on building specifically, better and of a higher quality products and then emphasizing customer service, by constantly trying to improve business (processes) performance to meet the customers demand and corporate strategy. Customer advocacy is supported even further by the notion of customer relationship marketing, but CRM is used differently in this phase. Initially, CRM is used to target promotions and ease organization-customer contacts, but later CRM will provide the customer with open and balanced information. Therefore, instead of speaking of customer relationship management, one may say '*customer advocacy management*' or '*advocacy relationship development*' (Urban, 2005). The notion of customer advocacy can be compared with the differences between theories X and Y on the management of employees. Whereas theory X states that customers are passive who need to be coerced into buying, theory Y states that customers are intelligent individuals, seeking to make informed decisions about their purchases.
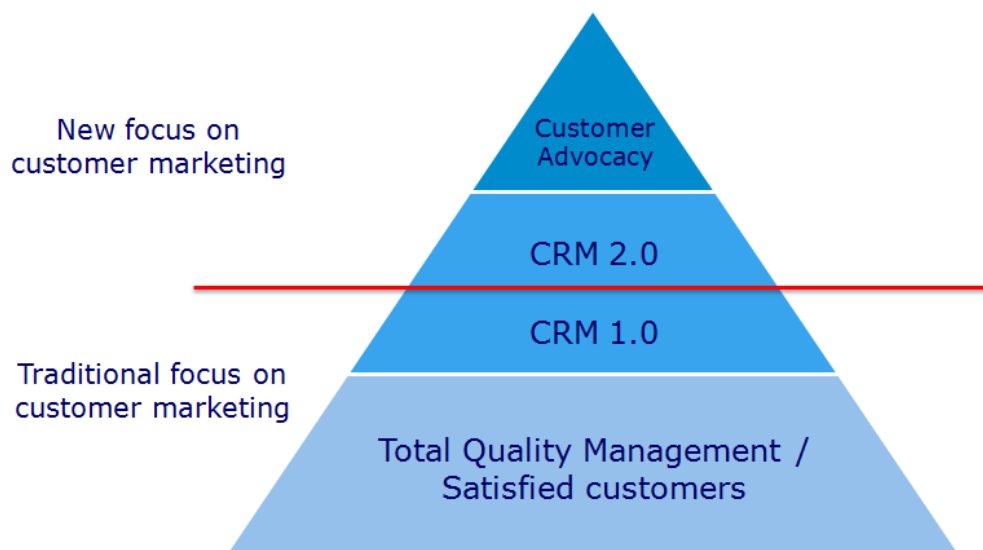


Figure 8: The customer advocacy pyramid. Source: Urban, 2004

Customer advocacy is essentially concerned with providing customers with open, honest and complete information, based on the customer needs and interests and providing them products or services, even if these come from competitors (Urban, 2003). In this sense, the organization truly advocates for their customer interests. Customer advocacy is *not* a manner of reaching your customers, it is rather a mutual dialogue and a form of partnership that assumes that if a organization truly represents the best interest of its customers, they will reciprocate with their trust, enduring loyalty and (future) purchases. Instead of focusing solely on selling product and/or services, customer advocacy is also concerned with the support and assistance of customers in making the best decision regarding their (potential) purchases. Customer advocacy aims to maximize the interests of customers, with the ability and skills of the organization to do so.

From an organizational viewpoint, the ultimate aim of customer advocacy is that customers may

tell others such as their friends and family, about the organization and its relationship (building efforts) with its customers. Thus, customer advocacy has a duality, characterized by a mutual and reciprocal relationship (Urban, 2005) and is often referred to as giving a negative of positive recommendation to other customers (Urban, 2003).  This is also known as word-of-mouth marketing. The customers tell other about the benefits of the partnership, which is assumed to result in declining acquisition costs, and increased revenues from the organization's viewpoint. In turn, preference for the products and services of the organization increases from the customer's viewpoint. Thus, the partnership benefits both parties; the organization advocates for the customers interests, and the customers advocate for the organization (see figure below).



Figure 9: Customer advocacy, a mutual and reciprocal relationship. Source: Urban, 2005

There is proof that customer advocacy works, and the concept has been studied throughout various academic lenses. E.g. R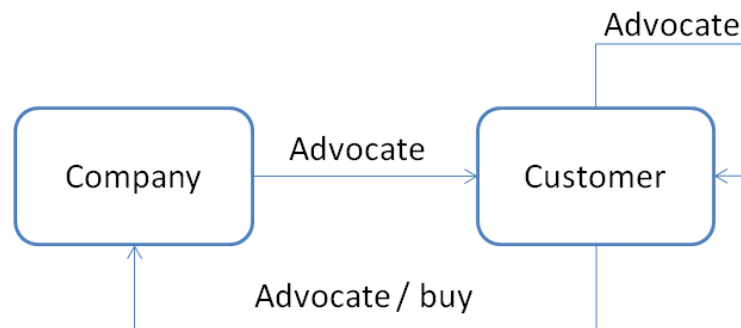einartz and Kumar (2002) discussed the link between customer loyalty and profits and found that there is no one right way to make loyalty profitable. They performed research at three different organizations and found correlation coefficients varying between 0.45 and 0.29. Despite the weakness of the overall correlation between loyalty and profitability, the authors tested three claims concerning customer loyalty and found remarkable results. They state that no organizations should ever take for granted that managing loyalty is the same as managing profits.  Others such as Kumar, Petersen and Leone (2007) discussed the value of word of mouth. They developed a technique to segment customers into four types, based on Customer Referral Value (CRV) and Customer Lifetime Value (CLV). They tested the value of their classification scheme by launching three one-year marketing campaings. At the end of each year, it became clear that each campaing had a significant impact on the customers and organizations financial performance. Furthemore, Anderson, Fornell and Lehmann (1994) studied relation between customer satisfaction, market share and profitability. Although  they did not provide guidance for optimizing product or service quality, it does provide motivation for continuing research efforts on the topics of customer retention, satisfaction, loyalty, etcetera. They found that organizations that actually receive high customer satisfaction, loyalty and commitment also enjoyed superior economic returns. Lasly, according to a study of IBM (2006), the customer experience is becoming a central driver of customer loyalty and advocacy behavior. This study revealed that the average unsatisfied customer will tell three other people to avoid the company responsible for the dissatisfaction. In other words, the offending company stands not only to lose the customer lifetime value (CLV) of one unhappy customer, but (at least potentially) the CLV of three others as well. In contrast, customers who are happy enough to recommend a product or service to others brand advocates, contribute an astonishing 25 times their CLV to the top line (IBM, 2006).

In academic research, few studies have appeared to use multiple item indicators to examine word-of-mouth marketing. Some researchers used single item Likert type scale indicators, and e.g. asked '*did you tell mostly positive or negative things about our products?*' (Swan & Oliver, 1989). Others studied the effect and impact of word-of-mouth marketing by measuring the likelihood of recommending, or as a response to (dis)satisfaction towards a product or service (Richins, 1983). Others define customer advocacy behavior of customers or word-of-mouth as

'*informal, person-to-person communication between a perceived noncommercial communicator and a receiver regarding a brand, a product, an organization, or a service*' (Harrison-Walker, 2001). According to Harrison-Walker (2001) word of mouth marketing can be measured according to the enthusiasm (frequency: how often does one engage in word-of-mouth marketing), the amount of word-of-mouth (how much does one say) and the appraisal of products and services (the favorableness). Thus, customer advocacy behavior may be conceptualized and measured by loyalty, repurchase intentions and satisfaction with the products, services and/or brand of the organization, and giving a positive word-of-mouth recommendation to others (Lacey and Morgan, 2008; Fullerton, 2003). Loyalty in this sense refers to the customer attitude and behavior towards a organization. A loyal attitude consists of commitment, resistance to switching to a competitor and willingness to pay a premium price for instance (Bowen and Chen, 2001). Loyal behavior consists of actual repeat purchases (more and different products/services) and reflecting a long-term choice probability for the organization. Thus, loyalty is an expressed, intended behavior related to the products or services of a organization (Akbar and Parvez, 2009). Satisfaction with the products or services of a organization refers to the positive evaluations of these by the customers. As Anderson (1998) found, delighted customer were more willing and likely to spread a positive word of mouth, than customer who had more neutral evaluations of satisfaction.

However, a small side note has to be made. Despite that the concept of customer advocacy is not a new topic, yet academic research is scarce on this topic, the first step in developing a customer advocacy strategy is that of customer segmentation (Bailey and Jensen, 2006). This stems from the reality that not all customers are equal in terms of value towards the organization and that every customer deserves a certain, but not the same, level of support and help. E.g. a customer who purchases for €10.000 annually, but is not committed to the organization, might be less valuable than a customer who only purchases for €1.000 annually, but is a fanatic supporter of the organization on social media for instance. Therefore, segmentation of the market or customer base is highly important, especially for an airline, because it crucial for any product strategy to be sustainable. The managers of network carriers must know whether its products, hitherto tailored to economy and/or business passengers, need to be redesigned as a consequence of increased heterogeneity in the passengers preferences. According to previous studies, the inappropriateness of traditional segmentation methods to come to grips with stronger heterogeneity has been indicated in the past (Mason, 2003).

Furthermore, according to Constantinides (2008), developing customer advocacy can be a complex and lengthy process. The author states that the Internet is an essential element of this process since it has become part of the daily life and main source of information for the majority of consumers worldwide. Besides the fact that the world wide web is used by many all over the world, it is the most effective channel whether for the distribution of information and or selling services and/or products, which customers have come to appreciate. This is because the web offers many possibilities in order for companies to offer personalized, one-to-one communication possibilities which are fast and fairly easily to create and implement.

Lastly, according to Fullerton (2011), customer advocacy behavior is performed by customers who are actively and attitudinal loyal to the organization for which they advocate. They endorse the organization because they feel comfortable recommending the products, brand or services to others which they care about. So, the question arises; how does an organization create customers which truly care for their organizations, and start to act as advocates? According to Urban (2003) the main premise for customer advocacy (strategy) to be successful and effective, is that the organization is, or becomes trustworthy in the eyes of its customers. If the customers do not perceive that the organization is truly committed to their needs, and tries to act in a way which benefits their interests, why would customers show or demonstrate (voluntarily) advocacy behavior? Therefore, the next section will describe the concept of trust.

**3.2 Trust**
According to many researchers, the key element of any attempt to develop customer advocacy is trust (Fullerton, 2011; Urban, Amyx and Lorenzon, 2009). Trust as a concept or research topic has been widely viewed through various academic and disciplinary lenses and filters: e.g. economic, social, institutional, behavioral/psychological, managerial/organizational and technological (Fullerton, 2011; Urban, 2003, 2005; Awad and Krishnan, 2006). In an electronic or digital context, trust is often regarded towards transactional processes. This is because it is often partly anonymous, blind, borderless and can occur 7 days a week, and 24h a day in contrast to that of traditional transactions involving brick-and-mortar stores where trust tends to be focused on face-to-face personal relationships. Wilson (1995) states that trust is a '*fundamental relationship model building block and as such is included in most relationship models*'. As Morgan and Hunt (1994) argue, trust is a key mediating variable that is central to any relational exchange and only exists when one party has confidence in an exchange partner's reliability and integrity. Lastly, Fullerton (2011) states that trust is a cognitive evaluation of actions performed by a relational partner, by which it can be described as the willingness to rely on a partner, when the other party is confident in the actions of that party. Grewal, Hardesty and Iyer (2004) found that trust considerations may be greatly amplified only for products and services that customers perceive to be the same and for which the firm's communication is unclear. They found that customer were less likely to trust firms that appear to be using customer identity information solely for their own profits, despite stated intentions of benefiting the customer. Thus, customers are less likely to trust firms using the buyer identification strategy, ceteris paribus, unless there is other evidence or actions that assures customers that such strategy benefits them as well.

According to many research and different perspectives on the concept of trust, it can be best explained according to three dimensions: 1) benevolence, 2) competence/credibility and 3) integrity (Sirdeshmukh, Singh and Sabol, 2002; Fullerton, 2011; Geffen, 2002). Benevolence trust may be defined as '*the customer's perceptions and evaluations of the firm's willingness to act in a way that benefits the customer*' (Singh & Sirdeshmukh, 2000). Competence or credibility trust may be explained as the extent to which a customer's perceives that the organization is able to fulfill its role in the relationship. It reflects confidence in a partner's ability to fulfill an agreed upon obligation, and it reduces the perceived risk of inadequate performance by a partner (Lui and Ngo, 2004). As customers view an organization as dependable and helpful, the more likely these customers will trust the organization. Integrity trust relates to the customers perception of honesty, truthfulness, sincerity, and keeping commitments (reliability and/or dependability) (McKnight, Choudhury and Kacmar, 2002). It cannot be stated which of these types of trust is more important, since the (combination of these) types all contribute to the overall trust perception towards a organization. In developing a customer advocacy strategy, firms could consider the following requirements in order to become more trustworthy (Urban, 2003):

*1. Transparency*
Simplicity and different options are the keywords. Customers need to easily compare between products of the organization and its competitors in an easy manner.

*2. Quality of products and services*
The products and/or services of a organization must be of superior quality. If for instance, if the food on the flight or the amount of technical failures is higher than those of competitors, an airline will never be trustworthiness in the eyes of its customers even if the organization offers the lowest prices or fares on the market.

*3. Product comparison*
One size does not fit all, and all sizes do not fit one. A organization must acknowledge the fact that even with excellent and highly differentiated products, these will likely not be the best

choice for every possible customer. Thus, in order to accommodate every possible customer, a organization must be willing to consider competitor offerings.

*4. Alignment of incentives*
The relationship between a customer and the organization must be mutually rewarding and long lasting. If customers are suspicious about any incentives the organization might have, again trust becomes an issue. The customer must not get the impression that the organization solely cares for them in order to gain revenues.

*5. Partnering*
A organization can partner with its customers. In this sense, the organization helps to customer to help themselves. Instead of a consultative selling function, the organization takes a purely consultative function in which it helps the customer even in areas outside of the boundaries of its product lines.

*6. Cooperative design*
If a organization truly listens to its customers, rely on the valuable information they provide, cooperative design can occur. A organization can stimulate this by providing customers the tools to share their ideas and information. A web based platform, in which customers share their travel experiences to foreign countries is a good example.

*7. Supply chain*
A organization must align its sales and distribution channels. These must all represent the customer advocacy approach which a organization pursues.

*8. Comprehensiveness*
In line with the alignment of a organization's supply chain, the whole organization must be aware of the new customer centric approach. From a customer's perspective, it might seem that only the front line staff will do their utmost to help them meet their needs. However, customer advocacy requires participation from the entire organization. Thus, the values of a organization must be reflected by its approach on customer advocacy, and need to be understood and in the mind of all its stakeholders. If the employees of a organization do not trust their organization, why should their customers?

Concluding, trust is a major or even the most important concept in relationship building and can be measured according to three dimensions: 1) benevolence, 2) competence and 3) integrity (Sirdeshmukh, Singh and Sabol, 2002). In developing a customer advocacy strategy, companies may incorporate trust building activities or practices in order to become more trustworthy. Organizations must be transparent, provide excellent quality of their products and services and offer abilities to compare these with those of competitors. Moreover, an organization must clearly indicate its intentions towards its relationship building efforts. That is, advocating for the needs and interest of its customers. This can be further enhanced by involving customers in the service and product design of an organization. By truly listening to the customers, and providing information and products based on their needs and interests, customers may increase their perception and valuation of an organization, its products and services and start to act as an advocate on behalf of the organization.

Besides the concept of trust, the manner in which customers assess the value and quality of an organizations services and products is also of high importance. According Sirdeshmukh, Singh and Sabol (2002), customer value regulates '*behavioral intentions of loyalty toward the service provider as long as such relational exchanges provide superior value*'. According to their study, perceived value was identified as a major determinant of customer loyalty and voluntarily advocacy behavior. Furthermore, Chang and Wildt (1994) found that customer perceived value

was a major contributor to the customers purchase intention. Therefore, the next section will discuss the concepts of perceived value and service quality.

## 3.3 Perceived value and service quality

Most airlines measure customer satisfaction in relation to the services they offer, in order to understand the organization's performance levels. Satisfaction is measured in relation to e.g. price, cabin crew, punctuality, flight schedule, clean washrooms, good check-in service, etcetera (Cheng and Chang, 2005; Park, Robertson and Wu, 2004). The issue is that most of this research does not focus on the customers' *expectations* regarding these services (Chen and Chang, 2005). Because of this, many airlines are unaware of the actual customers drivers and antecedents of their purchase or possible advocacy behavior. The difficulty is that there is no single answer to the question why passengers choose an airline and the underlying dimensions which influenced their choice. Thus, it is imperative for airlines to continually study, examine and try to understand what their customers want and do not want, in order to allocate resources and determine strategies (Zeithaml, Rust and Lemon, 2000). Therefore, it seems wisely not to determine if the customers value or are satisfied with the products and or services of the organization, but to determine what or how the customers perceive value or are satisfied with the products and services of a organization.

Perceived value has been identified as one of the most important concepts in gaining competitive advantage as well as customer repurchase intentions (Grewal, Hardesty and Iyer, 2004). According to Zeithaml (1988), perceived value may be defined as '*the customer's overall assessment of the utility of a product (or service) based on perceptions of what is received and what is given'*. It can also be explained as a tradeoff between perceived benefits and perceived costs (Lovelock, 2000). Thus, there may be concluded that customers are more likely to stay in a relationship in which they perceive the benefits to exceed the costs. However, the definition of Zeithaml (1988) implies that perceived value is a simplified construct that can be measured simply by asking respondents to rate the value that they received in making their purchases (Sánchez-Fernández and Iniesta-Bonillo, 2007). However, other authors suggest that the conceptualized of '*value*' is far more complex, and multi-dimensional and need deeper examination. Perceived value in an airline context is often explained amongst service quality (Zins, 2001). Service quality may be defined as '*the customers' overall evaluation concerning a firm's excellence or superiority'* (Bolton and Drew, 1991; Parasuraman et al., 1988). Thus, service quality may be described as the gap between the expected and the perceived. Parasurman et al. (1985) call this '*disconfirmation*'. When customers form their expectations, they often rely on their past experiences (e.g. with competitors) to determine what the organization should deliver. The amount of disconfirmation could distinguish passenger willing to advocate for a organization from those who will not. Moreover, if companies differentiate on the basis of their service quality customers might tend to elicit voluntarily behavior such as advocacy (Liu & Payne, 2007).

Furthermore, if service quality is described as the comparison between the expected and the perceived, perceived value is a different process of comparison, in which output (the received) and input (the given) are compared. There are many definitions and description of the concept of '*value*', but the following commonalities among these definitions stand out: (1) perceived value is inherent in or linked through the use to some product, service or object, (2) perceived value is something perceived by customers rather than objectively determined, and (3) perceptions of value typically involve a tradeoff between what the customer receives and what he or she gives up to acquire and use a product or service (Woodruff, 1997). The difficulty of the concept of perceived value, is that it is a comprehensive measure in which social, functional, conditional, emotional and epistemic are valued by the customer (Sheth et al., 1991).

Sánchez-Fernández and Iniesta-Bonillo (2007) have performed a review in order to systematically review the research which has been conducted towards the conceptualization of

perceived value. They found that these types of value evaluations are relative by virtue due to their comparative, personal and situational nature. They also found that value is preferential, perceptual and cognitive-affective by nature. Thus, perceived value is a multi-dimensional and complex process by which perceived value can thus be measured along e.g.: 1) a functional, 2) an emotional and 3) a social dimension. Functional value refers to the utilitarian or physical purpose of the product/service. Functional value may be split up into quality and price, because some customers may perceive value as a low price, whereas other customers may perceive value when quality and priced are balanced. As a result, quality and price as may have different effect on the perceived functional value. Social value refers to the social image the customer wishes to project, which is often determined by a customer's social environment; friends and family. Emotional value refers to various affective states, which can be positive or negative. This approach overcomes some of the more traditional views on perceived value and incorporates new theoretical developments, referring to the role played by emotions, feelings and the social context of customers.

There are two essential conceptions as regard to perceived value. The first is that perceived value is a result from the customers' pre-purchase perception (expectation), evaluation during the transaction (expectation versus received), and post-purchase (after-use) assessment (expectation versus received) (Li & Green, 2011). The pre-purchase perceptions are highly important, because the customer has not yet experienced the product or service but is capable of expressing expectations of the use of the product or service. Expectations are often based on previous experiences and opinions of others and are likely to drive behavior and intensions. The second is that perceived value is thus a difference, gap or divergence between benefits received and sacrifices given (Yang & Peterson, 2004). Benefits may be explained as the desired customers value, e.g. on time flight information, preferred seat allocation, etcetera. Sacrifices may include the loss of privacy, time, effort, and monetary considerations. The monetary sacrifices refer to the price customer have to pay. Customer usually rate the price subjectively instead of objectively and encode it as 'cheap' or 'expensive'. Non-monetary sacrifices towards the mentally and physically costs customer have to make such as time and effort. The psychological costs enhance the mental stress or emotional labor during the product or service acquiring/delivering process. In this sense, time and efforts relate more to non-emotional investments, whereas psychological costs relate to emotional investments. The benefits can be of a functional nature, or non-functional. Functional benefits enhance whether customer achieve their goals with a minimum of investments in time and effort. Lastly, the non-functional benefits relate to the emotional and epistemic value a customer may place on the product or service. In this sense, customer are more likely to be concerned with enjoyment and entertainment. (see table here below).

| Sacrifices | | Benefits | |
|---|---|---|---|
| Monetary | Non-monetary | Functional/ Utilitarian | Non-functional/Hedonic |
| Perceived price | Time and effort | Product quality | Enjoyment, pleasure and surprise |
| | Psychological costs (risk, anxiety, stress, frustration) | Service quality | |

Table 1: Dimensions of perceived value. Source: Sweeny and Soutar, 2001

Concluding, perceived value and service quality are highly important in a customer's perception and evaluation of the services of a organization. There is a difference between the expectation, and the received, which can be explained as 'disconfirmation'. Customers differ in their value perceptions which can be measured along several dimensions; e.g. functional, emotional and social. From a customer's viewpoint, value is created for the customer in the service received. The difficulty in terms of airlines, that the service which airlines offer, is basically a *chain* of

services in which the entire service delivery is divided into a series of processes (Cheng and Chang, 2005). From a customer's perspective, this series of processes may be referred to as the customer journey. When organizations map their products or services according to a customer journey, they walk in the customers shoes. This enables organizations to identify the needs, interests and expectations of individual customers. Therefore, the next section will discuss the concepts of touch points and the customer experience.

## 3.4 Touch points and customer experience management

According to Zeithaml (1988), customers differ in their evaluation of value between services and products, but also in their evaluation of the same service and product. Parasurman (1997) found that the determinants and nature of perceived value may change over the various customer cycle stages and during the service delivery process. Thus, the components or antecedents of perceived value may have different impact on the customer evaluation of the types of value at different points within the service delivery process. These different points within the service delivery process may be called '*touch points'* and occur whenever a customer 'touches' the organization across multiple channels and at various points in time (Zomerdijk & Voss, 2010). A touch point is e.g. a customer visiting the website of an organization, speaking with an employee of the customer care or service department, or receiving a beverage in the waiting room.

In line with this reasoning, it is important to state that the service which airlines offer, is basically a seat on an airplane for a limited time, in which the passenger is transported from one destination to the other, is a chain of services in which the entire service delivery is divided into a series of processes (Cheng and Chang, 2005). The passengers expectation of service quality may vary across the different stages in the service process, which is often referred to as the '*customer journey'*. All the touch points and experiences gained during these touch points, make up the customer journey. Ultimately, the total of these services and experiences, contribute to the overall evaluation of the perceived value and the service quality.

A customer journey involves all events and activities related to the delivery of a service from a customer's perspective (Zomerdijk & Voss, 2010). Table 2 provides the different phases in the customer journey according to the CRM program of Air France-KLM (Air France-KLM, Internal document: *CRM Program*, 2011). For convenience, the customer journey is shortened at the right side of the table.

Before, during and/or after each of these different phases, customers may encounter problems, issues or raise certain questions regarding the flight and/or anything else associated with their travel purpose. If an organization is able to track individual customers, and acquires information on how, why and what their customers feel, think and experience during each of these phases, they can really start to be relevant to these customers, satisfy their needs, and ultimately start to act as advocates.

| Customer journey according to CRM program KLM | Shortened customer journey |
|---|---|
| 1. Orientation | 1. Orientation and search for flight/destination |
| 2. Booking | 2. Booking (choice of sales/booking channel and make reservation, payment, registration) |
| 3. Registration | |
| 4. Airport landside | 3. Prepare for travel purpose and depart for airport |
| 5. Security | |
| 6. Airport airside | 4. Pre-flight (Parking, check-in, baggage, security, customs, lounge, use of airport facilities, boarding) |
| 7. Lounge | |
| 8. Boarding | |
| 9. In-flight | 5. In-flight (seating, food and beverages, in-flight entertainment, in-flight staff) |
| 10. Arrival | 6. Post-flight (Alighting, security, customs, baggage, airport |

| 11. Transfer | facilities, rent car/hotel, etcetera) |
|---|---|
| 12. Baggage | |
| 13. Customer care | 7. Start travel purpose |
| 14. Activation | |
| 15. Loyalty programs | |
| 16. Communities | |

Table 2: Phases of the customer journey. Source: CRM program KLM (internal document) (2011)

In line with this reasoning, customer experience management (CEM) may provide a solution in mapping and tracking the customer, its needs and interests throughout their customer journey. According to SETU (2003), CEM  may be defined as '*the perception formed owing to all the interactions a customer has with a organization or brand. Every time a direct or an indirect interaction takes place, there is an experience formed and it holds true at all touch-points. One single negative experience of all the interactions that a customer has with the brand or organization is enough to leave the customer dissatisfied, making him vulnerable to switch*.'

According to Mosley (2007), the ultimate aim of brand management has always been to deliver a consistent and distinctive customer experience. This has been particularly difficult for service brands, due to the complexity in managing the service experience. Furthermore, according to Frow and Payne (2007), customer experience management and customer advocacy will play a major role in the coming decades. This is mainly because competing brands are so similar, that the main difference can only be the customer experience*.* In line with this reasoning, Meyer and Schwager (2007) state that customer experience management encompasses every aspect of the organizations offering. It is not merely the quality of the customer care department, but also the advertising, service features, ease of doing business with and the reliability of products/services. Although few organization have truly focused on the customer experience, many have tried to measure customer satisfaction e.g. in relation to the price, choice of services, etcetera. Although there is much data, the difficulty is not measuring satisfaction, but understanding *why* and *how* satisfaction is actually formed. As stated earlier, satisfaction but also perceived value and service quality is essentially a culmination of a series of experiences (Meyer and Schwager, 2007). It occurs when the gap between expectations and subsequently the experiences is closed. To understand this gap, organizations must deconstruct it into its component experiences. For an example of customer experience management, and tracking customers throughout their customer journey, see the figure here below .
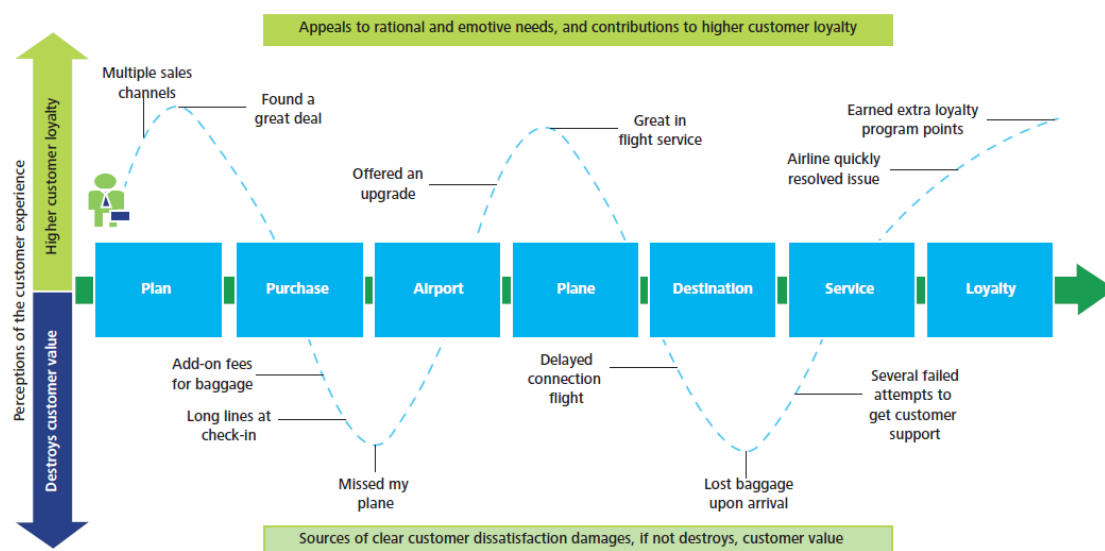


Figure 10: Example of customer experience interactions. Source: Deloitte, 2012

However, the price is in any case also an important aspect when analyzing customers choice, purchase and/or as an antecedent of customer advocacy behavior. It is necessary to note that '*importance*' of these objects is not an objective quality, but a subjective perception formed by the customers. Therefore, the next section will elaborate on the concept of price fairness.

**3.5 Price fairness perception**
Price fairness relates to the customers perception or subjective judgment whether a price is acceptable, reasonable or justifiable (Bolton, Warlop and Alba, 2003). Academic literature on this subject states that the customers purchases are not only dependent on relative price levels, but also on the perceived reasonableness of justifiableness. The price a organization charges in relation to competitors has always affected the perceived price fairness, but this fairness was also found to be attributed to cost differences or profit motives of a organization itself. Bolton, Warlop and Alba (2003) found that customers would perceive higher prices as fair in relation to higher costs, but not if they attributed this to higher profits of a organization. Thus, a customer's cost or profit judgment of a organization has a profound effect on its perceived price fairness.

According to Grewal, Hardesty and Iyer (2004), perceived price fairness as well as customer perceptions of trust are important issues whenever an organization charges different prices to different customers. The authors found that customers are less likely to perceive the price as fair, or to trust organizations which use customer information only for their own profit purposes, despite certain benefits communicated to their customers. However, charging different prices based on tactics as consonant with industry norms, is likely to be viewed as more fair. Thus, fairness and trust may be greatly amplified for products and services, which customers perceive to be the same and for which an organization's communication is unclear. Charging different prices based on the customer usage, different types/levels of benefits, ancillary services, or other *rational* principles of differentiation, may therefore not yield the same amount of negative reactions of trust and price fairness (Grewal, Hardesty and Iyer, 2004). Furthermore, Bolton, Warlop and Alba (2003) found that customers use certain references in order to determine the fairness of prices. In common parlance, price fairness may be defined as '*a reference profit that, from the customer's perspective, may refer to some reasonable amount above costs*'. However, this description is ambiguous as no statement is being made about what is reasonable and what is not.

In line with the aforementioned, customers assess price fairness by 1) looking back at the organization: consult, rethink and devise past prices (experience), 2) looking around the organization: compare prices amongst competitors and, 3) looking within the organization: evaluate a price based on the position of the organization (Grewal, Hardesty and Iyer, 2004). E.g. higher prices charged during peak times may be viewed as above reference price or this price may already have been shifted downwards, due to lower prices charged during non-peak times. Either way, the perceived price may be view as less far than before the high peak times. However, Grewal, Hardesty and Iyer (2004) also found that customers have poor understanding of inflation and subsequently under-or overestimate inflationary trends, which in turn affect the overestimation of a sellers profit and the perception of unfair pricing. This argument may therefore possibly also hold for the increase of airline ticket prices, e.g. in relation to the rising fuel costs and taxes.

Srikanjanarak, Omar and Ramayah (2009) developed a measure of price fairness perception by extending price fairness conceptualization to a multi-scale measure, thereby capturing its complexity in a mass service context. The authors state that price fairness can be best conceptualized and measured as the emotional assessment of customers, based on (the lack of) differences in price structure and prices including between a organization and its competitors in terms of flexibility, reasonableness, acceptability and superiority (Bolton, Warlop & Alba, 2004; Bolton & Lemon, 1999; Varki and Colgate 2001; Xia et al., 2004). Flexibility refers to the flexibility of prices and different types of products and services in order to meet the customers'

needs. Reasonableness refers to whether a customer perceives the price to be reasonable. Acceptability refers to the best possible prices and products and services which that can meet the customers' needs. Lastly, superiority refers to the difference between prices of a organization, its competitors, and others that offer the best choice.



Concluding, the price fairness perception of customers relates to the customers perception or subjective judgment whether a price is acceptable, reasonable or justifiable. customers are less likely perceive the price as fair, or to trust firms which use customer information solely for their own profit purposes, despite certain benefits communicated to their customers. Price fairness is greatly amplified for products and services, which customers perceive to be the same and for which an organization's communication is unclear. Customers evaluate price fairness by looking back at the organization: which prices did they paid in the past? Looking around the organization: how is the price compared to those of competitors and looking within the organization: do customer perceive the price they have to pay to be related to more profit for the organization, or to cover the costs of the organization? Furthermore, customer also asses prices by comparing the flexibility, reasonableness, acceptability and superiority of the price they have to pay for the products and services of a organization. These subjects intend to capture the customer's perception of price fairness, which focuses on a price structure that both satisfies customer needs and that compares favorably with its competitors.

The following section will present some examples and tools which enhance the concept of customer advocacy and show how this could look like in practice.

### 3.6 Customer advocacy tools
Marsden, Samson and Upton (2005) found that word of mouth advocacy drives growth. Companies which pursued an customer advocacy approach, and thus attempted to create customer advocates, enjoyed higher growth rates in terms of revenues and the customer base than companies which did not. Furthermore, the authors conducted a literature review of 30 published business books dealing with word of mouth, looking for proven advocacy optimization solutions. They differentiated eight advocacy tools that have proven to be effective:

*1. Referral programs*
These programs intend to reward (existing) costumers for recommending their products to potentially new customer. This is typically associated with subscription services.

*2. Tryversiting*
Instead of providing trials and free samples for the whole market, a organization can offer

selective and exclusive sampling to lead users, before these products or services become widely available to the market. By doing so, not only the lead users will feel rewarded, exclusive and privileged but they may become highly committed to the organization and showcase their experience with a organization to others.

*3. Empowered involvement*
This tool makes use of the Hawthorne effect. By empowering customers to criticize a product or service, companies may learn what these customers like, dislike, need or want.

*4. Brand ambassador programs*
By giving highly valued, satisfied customers special privileges not only for themselves but also for their friends and relatives, these customers might become brand ambassadors. The goal is to provide them with tools and/or materials in order to promote the product, service or brand.

*5. Causal campaigns*
This makes use of the adopting of a 'good' cause as a strategic positioning and marketing tool. In other words, this tool aims to give customers a reason to recommend. Think of efforts to become more sustainable, care for the world, reducing greenhouse gases, and etcetera.

*6. Influencer outreach*
Instead of focusing on the mass, a organization could focus on influencing the influencers. An influencer in this sense, in someone who is seen as an opinion leader. These in turn, may influence the mass by their word of mouth.

*7. Advocacy tracking*
When companies measure their advocacy levels through various customer feedback programs, they can identify what they are doing right and where there is room for improvement. In other words, if a sales department is selling much products compared to another, they can focus on the high selling department and learn their tactics.

*8. Innovation*
In the end, customers will only advocate for a organization, if it is worth advocating for. This seems very obvious, but quite the opposite is true. The key of this approach is the deliver a product or service with such a high perceived value by the customers, because customers tend to talk about things that exceed their expectations.

The previous sections have discussed important elements in developing a customer advocacy strategy: trust, perceived value, service quality, touch points, customer experience management, the price fairness perception. The remaining three sections of this chapter will focus on the organizational and procedural requirements in order for an organization to become customer centric. This is important, because it is the foundation for any customer advocacy initiative to be effective.

## 3.7 Customer value proposition
Before changing or (re)structuring the way of doing business, organizations must (re)think and choose  what they essentially want to deliver the customer. They have to think about why, how and what, their customers would even consider to conduct business with them. According to Teece (2010) this is highly important because whenever an organization is established, it implicityly or explicitly, employes a certain business model and strategy which describes the manner of value generation, its delivery to the customer and capture mechanisms. The essence is defining the manner in which the organization delivers value to the customers, entice the customers to pay for this value, and ultimately turn the payments into profits. Thus, it reflects the management hypothesis concerning what customers want, how they want it, and how the organization can best meet those needs, getting paid and make a profit (Teece, 2010).

According to Kaplan and Norton (2000), the core of any business strategy is the customer value proposition. This proposition desciribes the mix of product and service attributes, customer relations and the corporate image. It is used to define how the organization will differentiate itself from others in order to attract, retain and develop relationships with its customers. This value proposition is highly crucial because it supports the organization to link its internal processes to certain outcomes with its customers. Often, the value propostion is chosen from among the three main value disciplines; operational excellence, product differentiation or customer intimacy (see Figure 11). Operational excellence means customer transactions are hassle free. Often, in order to achieve 'hassle free', the operations of an organization are based on standardization and efficiency. Customer intimacy means customer get exactly what they need. In order to achieve this, the focus is on customer service and relations. Lastly, product differentiation means offering customer the best product available. Often, this leads to a main focus on R&D, innovation and product development. Organizations strive to excel in one of these strategies, while maintaining treshold stardards in the other two (Kaplan and Norton, 2000).



Figure 11: Customer intimacy and other value disciplines. Source: Treacy and Wiersema, 1993

By identifying its customer value proposition, an organization will subsequently find out what types of customers to target. In this sense, each customer is equal, but not each customer is valuable. This is because servicing all customers and marketing to them, involve too high cost implications. Therefore, organizations could start to perform careful and calculated selection processes, to choose the right customers, at the right time, at the right message, taking as well revenue impact as well as customer impact into account. According to the article of Kaplan and Norton (2000), although a clear definition of the value proposition is the single most important step in developing a strategy, most exective teams do not have concensus about their organizations value proposition. Thus, the question rises: what does an airline want to deliver to its customers? Do they want to deliver the best product, the best price, or the best total solution? E.g. in the case of Easy Jet or RyanAir, which clearly demonstrate a cost leadership strategy, business processes are organized in terms of efficiency, no-fuss and ease for the customer. The price is leading, and therefore these airlines are entitled 'low cost carriers'. In the case of Emirates, the focus is much on the superiority of their products. E.g. their 'first class' cabin in their Airbus A380, which means that a customer gets a private room, shower and classic walnut and marble design to fine linens.

According to Versteeg and Bouwman (2006) customer centricity and advocacy are based on the value proposition of customer intimacy. Despite the fact that the concept of customer centricity is anything but new, many organizations are still struggling to truly align themselves to the

customer centric paradigm. Therefore, the next sections will discuss issues and challenges in order to become (more) customer centric.

## 3.8 Product centricity vs. customer centricity

Statements such as '*the customer is king*' and '*We focus on the individual behind the customer, because we acknowledge that each customer is different and unique*', are common on websites or brochures of most organizations. If one searches in academic libraries and type in the words 'customer needs' or 'product design', he will find hundreds of articles, dating back to 1960. E.g. Drucker (1954) states that '*it is the customer who determines what a business is, what it produces, and whether it will prosper'.* Others such as Cowell (1980) wrote that organizations should not solely focus on the selling of products, but more on fulfilling customers' needs.

In former times, organizations have tend to be supply driven or product centric. Central to their operations were economies of scale, due to the fact that profits reflected market share. According to Levitt (1960) this resulted in a focus on internal processes, manufacturing superior products rather than focusing on customers or end users. Product efficiencies were the main priority. As the decades progressed, the developments in IT offered organizations many possibilities in collecting, storing and analyzing numerous sources and amounts of data. Organizations began to understand the value of IT, and invested huge amounts of money in CRM (alike) systems. These organizations were stimulated by the possibility to improve customer dialogue, through all customer touch points, and offer (more) personalized products to (most valuable) customers. Unfortunately, CRM became a buzzword, and most organizations fundamentally lacked the basics and requirements of customer centricity to truly realize the benefits of CRM (Payne and Frow, 2005). Currently, some organizations are trying to improve their businesses by developing customer centricity as a strategy. According to Seth, Sisodia, and Sharma (2000), there are five trends which reinforce their need of doing so: 1) intensifying pressures to improve marketing productivity, 2) increasing market diversity, 3) intensifying competition, 4) demanding and well-informed customers and customers, and 5) accelerating advances in technology.

At the moment most organizations will state that they are customer centric and that the customer is the main focus of their attention. However, these same organizations are (still) struggling to give concrete meaning to these statements, and take too few steps to develop true customer centric business models and strategies. This is often mainly because these organization are highly focuses on internal processes, cost reductions, making processes more efficient and therefore, are product centric. Maybe the most important and therefore key distinction between a product and customer centric organization is that one is organized to push products and brands, whereas the other aims to serve customers and customer segments (Rust, Moorman & Bhalla, 2010). To illustrate this story more elaborately, the main differences between a product and customer centric organization are presented in Table 3.

|  | Product centric | Customer centric |
|---|---|---|
| Basic philosophy | Sell as many products to whoever will buy | Serve customers, all decisions start with the customer and opportunities for advantage |
| Goal | Best product for the customer | Best solution for the customer |
| Business orientation | Transaction oriented | Relationship oriented |
| Product positioning | Highlight product features and advantages | Highlight product benefits in terms of meeting individual customer needs |
| Organizational structure | Product managers, sales managers, product/profit centers | Customer segment centers, customer relations managers, |

| | | customer segment sales team |
|---|---|---|
| Organizational focus | Internal focus, (new) product & account development, market share growth, customer relations concern only the marketing department | External focus, customer relation development, profits through customer loyalty, customer advocates |
| KPI's | Number of (new) products, profitability per product, market share | Share of wallet, customer satisfaction, CLV, customer equity and advocacy |
| Management criteria | Portfolio of products | Portfolio of customers |
| Selling approach | How many customers can we sell this product to? | How many products can we sell to this customer? |
| Most important customer | Most advanced customer | Most loyal customer |
| Customer knowledge | Customer data are a control mechanism | Customer knowledge is most valuable asset |

Table 3: Product centricity vs. customer centricity. Source: Shah et al., 2006; Gummesson, 2008

## 3.9 Organizational barriers and challenges

To elaborate on the main organizational barriers to shift from a product oriented towards a more customer oriented organization, Figure 12 is used. This figure illustrates these broadly defined, yet interrelated barriers, in order to become more customer oriented.
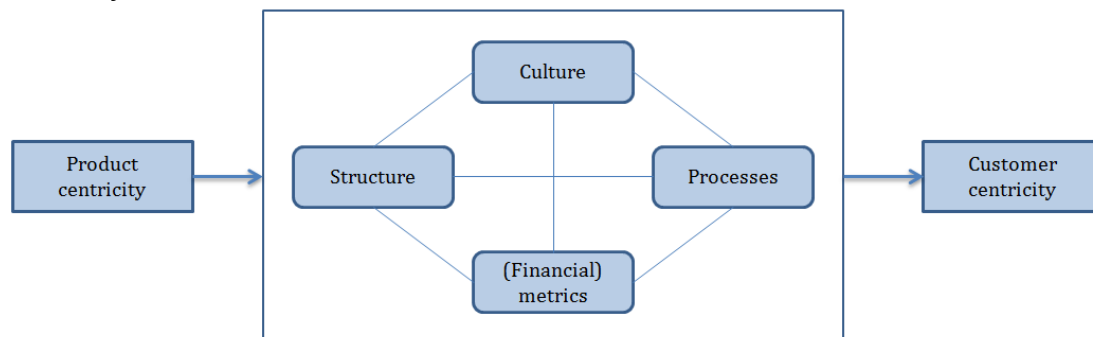


Figure 12: Potential roadblocks on the path to customer centricity. Source: Shah et al., 2006

As stated by Shah et al. (2006), there are four fundamental organizational barriers which organization must change or overcome, in order to become more customer centric. These are the 1) culture, 2) structure, 3) processes and 4) (financial) metrics of an organization. These concepts serve as a nice mainstay for elaborating the major barriers and challenges which organizations typically face, when trying to migrate from a product to a customer centric orientation. These will now be discussed in the following sub sections.

## Culture

An organizations culture may consists of many different layers and levels, embedded in the mindset of employees working within the organization, which is therefore difficult and highly resistant to change (Schneider, Brief and Guzzo, 1996). At the core, a culture consists of values (the enduring preferences), which are reflecting upon an organizational norms (the shared beliefs), which in turn, result in the mental models and beliefs. According to Shah et al. (2006), cultural change follows behavioral change, thus in order to change the culture, one must change the behavior of an organization. There are three inevitable impediments in order to do so: 1) executive and senior management commitment, 2) persistence and 3) intense communication. This executive and senior management commitment is also mentioned by Kumar, Lemon & Parasuraman (2006). These authors state that in order to stimulate a change in an organizational culture, leadership commitment is of the utmost importance. If the executives or

management does not support a customer centric mindset or strategy development, why would the employees embrace such a new way of thinking? A nice example is that of Day (1999), which states that senior management can signal commitment by e.g. three actions:

1) *An enthusiastic emphasis on superior quality of service and customer relations, with occasional direct interventions to help solve a customer's problems.*
E.g. Steve Jobs regularly used YouTube to send special announcements as well to his staff as to the Apple customers. He did not only provided more successful and engaging messages, he also created a much more truly committed and personal approach to customer centricity.

2) *Time spent visiting customers and listening aggressively for their point of view and an insistence that all senior managers spend time with these customers.*
In the case of KLM, e.g. Peter Hartman could book a ticket himself, use the renewed self check in counters, try to add additional luggage to his ticket, and be seated in economy class as most of his customers. By doing so, Peter Hartman truly experiences the service/product which his organization delivers, and experiences this from the customers point of view.

3) *An emphasis on customer and market issues, trends, needs, requirements, opportunities for advantage during strategy reviews. This needs to be supported with a willingness to invest resources in the deeper understanding of customers.*
A nice example is the so called 'coffee machine conversation'. During such a conversation, executives and managers truly listen to their (frontline) employees, which deliviver the actual customer experience, and show awareness from the top of what is happening at the frontline. Not only may these type of conversation boost motivation and inspiration for the (frontline) employees, but also the strategy reviews may be foccuses on the real customer issues instead of all the revenue and sales figures/facts.

According to a study of Delloite (2012), organizations cannot be customer centric if the customer experience is not an executive priority. An accountable customer focused leadership, dictates what customer centricity means to the business of an organization and how this looks likes in practice (Galbraith, 2002). Instead of making someone responsible for the customer experience, being truly foccussed and committed to customers, implies building the business from initial customer contact to final resolution. In the development of such a customer centric culture, employees need to be accountable for the customer experience, throughout all the touchpoints between an organization and the customer and throughout the whole customer journey. Enabling this change is fundamental to drive the right customer centric behaviors (Delloite, 2012).

Concluding, the commitment of executives or top management is an essential element for ensuring a customer centric mindset, and thus culture within an organization. This commitment however, is much more than a CEO or manager giving his signature for e.g. a certain CRM project. It requires a true and umabigous vision, for which each employee needs to understand the purpose and changes that will arive. Redesigning business models to customer centric models, requires a cange in culture and appeals on the active participation of most, or even all employees within an organization. Obviously, this will lead to resistance, and some employees may see their job change significantly, or even loose their job. However, such a change is a requisite for organizations which truly want to become customer centric. Executives and top management may enhance the skills of the employees by training, education and ensure job evaluations, rewards, and compensation on a basis which facilitatates and stimulates customer orientation. However, the odds of success are much improved if there is also sense of urgency and a compelling strategic rationale. Then it is possible to justify a change in the organization culture, and subsequently, the structure, processes and base the incentives on customer-centric metrics.

**Structure**

The perfect customer centric organization has integrated and aligned all functional activities in order to deliver superior customer value (Payne and Frow, 2006). In contrast, the traditional product oriented organization is often organized around functional silos, and is defined by product types or categories. As a result, the organizational resources and structure will be aimed on the type and selling of certain products. This might be not very constructive, since product and sales managers may be pushing the many different product offerings towards the customer, instead of identifying what it is what customer actually value (Rust, Moorman & Bhalla, 2010). Thus how can an organization break down these functional silos and be more focused on the customer's needs? The main challenge arises from the fact that the traditional functional differences are deeply rooted in incentives, backgrounds and interests, time scales, and task priorities of an organization. Thus, the difficulty in order to become more customer centric is often because of the status quo of an organization; many processes and departments are organized based on product based (financial) metrics such as products sold or revenue yielded and not on customer based metrics and KPI's such as customer satisfaction, loyalty or recommendation. As Rust, Moorman and Bhalla (2010) argue, the most dramatic change is a reinvention of the marketing department as a 'customer department'. Therefore, the traditional Chief Marketing Officer (CMO) must be replaced with a new type of leader; a Chief Customer Officer (CCO). This new role must be a powerful operational function, and is responsible for the design and execution of the organizations customer relationship strategy and overseeing customer facing functions. He also promotes a customer centric culture and removes organizational barriers to the flow of customer information throughout the organization. As stated in the previous section, the commitment to customer centricity can be enforced by getting managers and leaders of the organization to engage with customers. Not only employees will experience how serious management is in relation to customer interaction, it helps these employees to understand customer concerns (Rust, Moorman and Bhalla, 2010).

In order to become more customer centric, it is imperative for an organization to understand who its customer are and their likely behavior, in order to tailor the customer experience based on what is known about these customers (Gee, Coates & Nicholson, 2008). As managers change their focus on the customer and customer information becomes central in decision making, the traditional organizational structures must give way. Despite large investments in current (information) systems, organizations often underutilize what they know. Information is often stored in loosely coupled (IT) systems, and is not being used or shared effectively due to a lack of trust between departments, the grasp of organizational resources and the often present 'silo mentality'. Therefore, customer information need to become an integral part of all customer focused initiatives. This customer information can be generated by various departments and/or processes, in order to better understand them. However, many organizations have not yet fully addressed the importance of a marketing department when trying to achieve customer centricity (Peppers, Rogers & Dorf, 1999).

In terms of organizational structure, customer centricity requires sharing customer information organizational wide. Often this requires a shift in the organizational culture when it comes to sharing information, knowledge and being focused on the customer. This is most important for traditional, product oriented organizations where often separate (yet interralated) goals and objectives are found for various departments and business functions. For these type of organizations, top management plays a critical role in their change efforts. The often present 'silo mentality'of focusing on the product and internal processes, must be replaced by a collaborative focus on the customers in which the different departments and business functions work together. This can be visualized according to Figure 13.
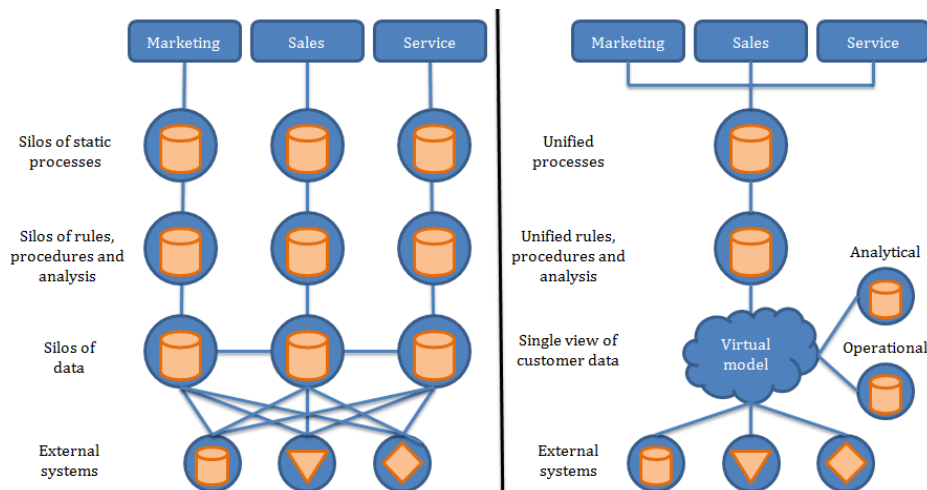
Figure 13: Traditional vs. desired architecture. Source: Viaene & Cumps, 2005

It is therefore not unthinkable that to start a shift towards customer centricity, the marketing department takes the lead. As Moorman and Rust (1999) state, the function of the marketing department plays a critical role in managing several important connections between the customer and main organizational elements, including connecting the customer to 1) the product, 2) service delivery and 3) financial accountability. A way of achieving this, might be to change vertical organizational strucutures to more horizontal organizational structures, in which hierarchy is decreased, and communication between departments and function is stimulated and therefore increased. The difficulty might be that organizations which have been traditionally, vertically organized, have problems in order to change to more horizontally organized. However, a hybrid structure can provide a solution because different departments/functions could provide mechanisms for allocating resources and coordinating core processes.

**Processes**
An importance difference must be made between processes aimed to develop and sustain customer relationships, from those aimed at the execution of efficient customer transactions. Most organizations have traditionally aimed to increase the number (and ease) of distribution and sales channels, yet many have failed to (simultaneously) develop customer relationships (Foss, Stone & Ekinci, 2008). This happens mainly because difficulties which these new distribution and sales channels yield. Therefore, according to the article of Payne and Frow (2005), five generic processes are essential in order to streamline customer centric processes:

1) The strategy-development process that includes not only a business strategy but also a customer strategy
2) The dual value creation process that is at the heart of the exchange process
3) The multichannel integration process that encompasses all the customer touch points
4) The information-management process that includes the data collection and data analysis functions
5) The performance-assessment process that ties the firm's actions to firm performance.

However, yet another fundamental challenge when trying to develop customer centric activities, is the ability to connect the customer's needs with the right products and/or services. This is can be enforced when business and process analysis is aimed at an individual customer level, in order to fully address the issue of customer heterogeneity. According to Fleischmann, Hall, & Pyke (2004), organizations can take advantage of customer heterogeneity by careful attention to 1) customer segmentation, 2) measuring customer value, 3) capturing the value created by pricing and 4) continual reassessment of the product's perceived value in the relevant market. All the more an organization is able to segment its customer market on the basis of the

customer's needs, all the more the organization is able to serve the heterogeneity within their customer market. Currently, developments within the IT industry offer organizations numerous possibilities to deliver specific, personalized customer solutions or to collect customer information. However, organization must be careful when automating their customer processes in order to manage customer relations. This is because the focus on the customer might be lost due to the aim on making (transaction) processes faster and more (cost) efficient (Payne and Frow, 2006). Customer centric processes also need a renewed focus on marketing metrics. Currently, most marketing metrics are based on revenue whereas these should be more focused on e.g. customer equity, satisfaction, and loyalty. In this sense, not the amount of ticket sold yields revenue, but excellent service yields revenue.

The main reason why organization lack the ability to shift to customer centricity, is often due to the organizational complexity (Galbraith, 2005). In line with aforementioned, in terms of processes, a more horizontal approach is required (Shah et al., 2006). This is to ensure to include all relevant acitivities which contribute towards value creation for the customer. Often, organizational processes are supported by many different, yet interrelated, well or poorly linked, IT systems. In order to achieve customer centricity, it is important that centralized databases are constructed and used. These databases need to provide a single, clear, yet comprehensive view of (inidividual) customers. For most organizations, this means a huge investment in IT, whether new systems, processes or the linking of existing ones. However, this is highly important because only then can customer information be collected, trakced and integrated to the individual customer level.

As Jayachandran et al. (2005) state, several systems related activities may allow organizations to successfully build relationship with their customers and achieve customer centricity. In this sense, Jayachandran et al. (2005) refer to relational information processes which may be defined as '*encompassing the specific routines employed by an organization to manage customer information to establish long-term relationships with customers'* (Jayachandran et al., 2005). Thus, exploring these processes could help to better understand the role of IT and CRM in businesses. Relational information processes however, are crucial to any pursuit of customer relationship building, and yield a direct and positive effect or the performance or customer relationships, despite of how it is used. This is because in order to maintain and develop customer relationship, it is imperative that organizations use information in order to share appropriate responses to customer needs. Relational information processes may be conceptualized according to five aspects:

1. *Information flow*
A key dimension in the relation between an organization and its customer is reciprocity. Whereas collaborative communication helps to create a solid basis of mutual support among relationship partners, reciprocal communication is therefore significant in the context or customer relationships. It is unlikely that trust and commitment are to develop in the absence of sharing information. Thus, organizations must establish this communication, because otherwise customers would not be able to communicate their needs and problems. On the other hand, if organizations are not able to communicate with their customers, its efforts to build and maintain relationships will be a real struggle.

2. *Information capture*
The information that customers may provide, provide insight for a organization in order to develop tools and strategies to maintain and sustain relationships. Therefore, detailed information is needed concerning all customer interactions and contact points with the firm.

3. *Information integration*
Given the fact that customers can interact with the organization in many different ways, this information needs to be bundled or integrated. If not, it can result in miscommunication and lack

of efficiency.

4. *Information access*

Again, customers can interact with the organization in many different ways. Thus, employees should be provided access to the integrated and updated customer information in order to be able to serve and build relationships with customers.

5. *Information use*

Organizations should deploy the acquired customer information in a manner, which is consistent with the philosophy of customer relationship management. This means that companies should use the information to understand the needs and wishes of their customers, and develop customer specific products and services.

Thus, the flow of information between a organization and a customer must be reciprocal and is critical to effectively execute a relationship marketing strategy. Companies should focus on the capturing of information from all the interactions (all the sources and channels) which a customer may have with a organization. Companies should not only capture, but also integrate this information in order to be useful in the firm-customer interactions. Information access should be considered more accurately descriptive of the information process required to sustain customer relationships. Lastly, companies should use the customer information to understand the needs and wishes of their customers, and develop customer specific products and services (Jayachandran et al., 2005).

**(Financial) metrics**

(Financial) metrics within organizations are often based on revenue or the financial output of a project or process and managers and employees try to reach these metrics by any means. In order to still yield positive results in poorer times, organizations have often started to cut costs, increase production and/or downside the workforce in terms of employees/FTE's. In the annual report this looks great, because it delivers a short term cost relief. However, when downsizing the workforce, fewer employees have e.g. the possibility to work on customer centric activities. Most important however, is that downsizing the workforce might give other employees a negative signal. They might become less motivated, stressful, which results in the vicious cycle in which customer satisfaction, loyalty, and etcetera are of the least importance (Shah et al., 2006).

If organizations have shifted towards cultivating customers instead of traditional 'push' marketing and products, new metrics are needed to gauge the customer centric strategy (Rust, Moorman & Bhalla, 2010). Firstly, organizations must let go of metrics such as 'product profitability', and focus more on 'customer profitability'. Secondly, organizations must focus less on current sales, and focus more on metrics such as Customer Lifetime Value (CLV) or Customer Equity for example. These metrics have found to be a good proxy for the value of a organization, and thereby increasing the relevance of marketing toward shareholder value.

How concepts such as CLV and customer equity are measured is an ongoing field of study, appears to be difficult and results are mixed. However, according to Galbraith (2005), organizations willing to achieve customer centricity, must incorporate several of these customer centric measures. Another important issue, is to link these measures with the performance of departments and/or employees. E.g. is customer satisfaction is measured as 'low', who is responsible? Did the marketing department offered the wrong propositions? Did sales use inconsistent pricing tactics, or did customer care fail to solve complaints in time? Most current metrics (e.g. customer satisfaction, purchase behavior, etcetera) are backward looking instead of forward looking. However, many scholars and organizations are keen on being somehow able to predict future contributions or behavior of customers (Kumar, Lemon & Parasuraman, 2006). In terms of customer centricity, more forward looking metrics are needed, such as CLV. This is because these forward looking metrics could help organizations to anticipate on customers

changes and behavior before they occur, and thereby serving customers even better.
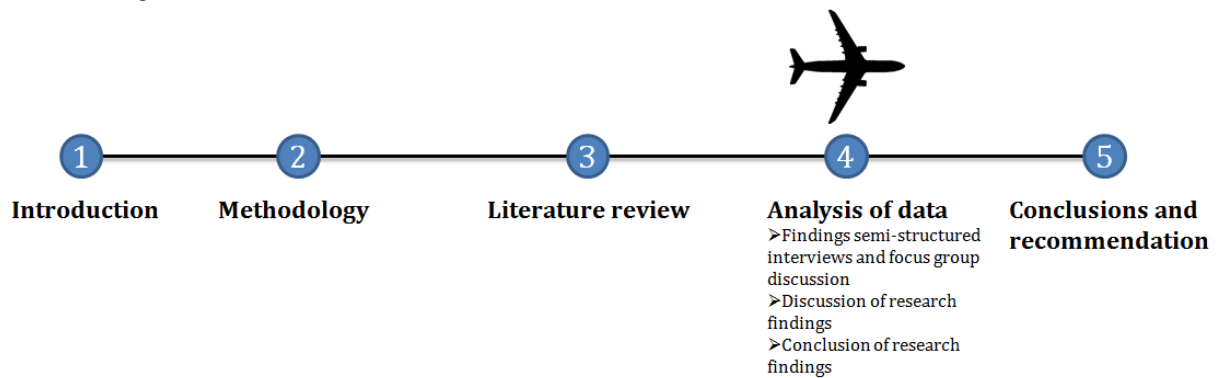
## 3.10 Conclusion of literature review

The discussion of the topics in this chapter provided a broad overview of the general elements in order to achieve customer advocacy and customer centricity.  The transition to adopt a customer advocacy strategy or customer centricity in general, requires organizations to adopt relationship building strategies based on trust and transparency. Most likely, this would imply a huge change in the mindset of organizations and the manner in which they deal with their customers. Customer advocacy is only possible if organizations establish mutual beneficial dialogues and relationships with their customers. Customer knowledge is central to any organization attempting to develop its customer relationships further. As this literature framework revealed, effective customer advocacy is only possible when a customer centric strategy and alignment of business processes to this strategy precedes the customer advocacy initiative. Unless this foundation is in place, customer advocacy initiatives have little likelihood of delivering sustained and profitable value to the customer and the organization of KLM.

Section 3.1 discussed the act of CRM, its most important elements and how this relates to customer advocacy. Section 3.2 through 3.5 discussed the main concepts of customer advocacy; trust, perceived value, service quality, the customer experience, touch points and customer experience management. Section 3.6 presented concrete  examples of how customer advocacy could look like in practice.

The remaining sections of this chapter discussed the organizational and procedural requirements for organizations to be able to make the transition towards customer centricity. Section 3.7 discussed the concept of customer value proposition, which stated that organization have to choose what it is, they want to deliver to their customers. Section 3.8 highlighted the important characteristics of a customer centric organization in contract to a product centric organization. Section 3.9 discussed the organizational barriers and therefore challenges which organizations must overcome in order to become more customer centric; the culture, structure, processes and (financial) metrics.

# 4. Analysis of data



| 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|
| **Introduction** | **Methodology** | **Literature review** | **Analysis of data**<br>➢Findings semi-structured interviews and focus group discussion<br>➢Discussion of research findings<br>➢Conclusion of research findings | **Conclusions and recommendation** |

This chapter presents the results of the semi structured interviews and the focus group discussion. As stated earlier, on the basis of the topics discussed and insights gained by the literature review, the semi structured interviews and focus group discussion were conducted. The main reason why is chosen to use semi structured interviews for this research, is the uncharted territory of customer advocacy (in the airline industry) and because there is suspected there may be unknown yet important organizational issues to discuss, and to discover useful leads from the interviewees. The interviews are used in order to find out what their function of the interviewees involves and how this relates to other functions and departments. During the interviews, relevant findings from the literature review will be discussed. Also, it provides a thorough reconnaissance before designing the focus group discussion and agenda. Subsequently, the goal of the focus group discussion is by means of collaborative dialogue, discussing the subject of 'customer advocacy' and highlight the subject from the different (function) perspectives of the attendees. As a result, the session intends to generate ideas and new insights on 1) why, 2) what and 3) how customer advocacy can contribute to the success of KLM Royal Dutch Airlines.

The first section will describe the most important findings as regarding to the semi-structured interviews, whereas the second section will present the most important findings regarding the focus group discussion. The corresponding paragraphs of each section will start with a certain proposition concerning these findings.

## 4.1 Findings semi-structured interviews

In sum, the main findings from the semi structured interviews can be formulated as: KLM focuses much on its products, not so much on its customers. KLM is a highly product oriented organization, not customer oriented. KLM knows  much about their customers, but customer information is limited to an aggregated level. As a result, it is difficult for KLM to reach the right customer(s) and make specific and targeted product or service offerings. Lastly, customer marketing as performed by KLM is traditional, reactive and is often focused towards known customers. The following paragraphs will elaborate on these findings and propositions.

### *'KLM focuses on its products, not so much on its customers'*

Perhaps a good start of this section is by referring to the ever mentioned value chain of Porter (2001). One may view the value chain as a series of processes, which start with raw materials, or input, being processed or transformed, which result in a certain outcome or output for the customer. In an airlines context, raw materials or input may be seen to as the aircraft, the fuel, the pilots, cabin crew and food and beverages for instance. During the processing or transformation, customers are flown from one destination to the other, and the output is arriving at the destination as scheduled. However, this chain is product-centric. It focuses on lowering costs, optimizing efficiency and reducing overhead costs, mainly because the fixed costs are enormous in the airline industry. In line with this reasoning, it seems logical to place the customer at the end of the value chain, which is the receiver of the outcome of all processes.

What is so important of this description, is that it clearly depicts how KLM views its customers. The customers are at the end of the value chain, only supposing to purchase tickets and use them. This is mainly because of current procedures and practices in use, are primarily of a transactional nature. A customer searches for a ticket, makes the booking and purchases the ticket, and once the flight is over and he leave the plane, the relationship basically ends. KLM has numerous sources and amounts of customer data. This data mainly consists of booking, flight and travel data stored in various IT systems. These systems all serve their purpose but the real issue and therefore challenge, is that this data is poorly coupled, resulting in incomplete information on a strategic level. Furthermore, when KLM tries to study its market or segment its customer database, the frequent flyer program is the only database on which they can truly rely. This is because these are the only passengers of which KLM has gathered relevant information, because these passengers have agreed to share their contact, flight, and similar types of information via the program. However, this database provides only a partial view of the total customer base. This is because only a small amount of the total customer base is active or enrolled in a frequent flyer program. In this sense, KLM is a master of transport economics, but not of customer experiences. Since the actual product or service of an airline is a perishable good, airlines have always heavily relied on variable pricing in order to exploit the maximum price which customer are willing to pay. This seems very logical, since revenue and profits are obviously needed to drive and continue the business. However, what is forgotten over time, is that when treating customers as controllable objects, as rational customers, you will "force" these customers to think and act rational customers.

### *'KLM knows much about its customers, but at an aggregate level'*
During the interviews it became very clear that all interviewees recognized and acknowledged the stated problem. That is: KLM focuses on their products, and not so much on their customers. However, what kind of effect did this yield on the performance of marketing activities and how did the problem then reveal itself? A remarkable result were the different responses from the marketing managers and marketing employees. E.g. one of the managers stated that KLM knows much about its customers; who they are, where they fly to, when they book and how much they paid for a certain ticket. When was asked; *what then do we actually know in terms of who they are, what do you mean? Do we know their name, their age, their respective business functions and organization, vacation preferences, marital/family status, online/offline booking preferences*? The answer was '*yes*'. When the same question was asked to marketing employees (read; *not* managers), the response was quite different and some employees stated that KLM knows very little about its customers. Thus, the views of top management on CRM issues are quite different from the front line staff dealing with such issues on the everyday practice. This reality might be caused because the managers have no clear sight on the operations and performance of various customer departments, and mainly look at financial numbers and figures. E.g. an interviewee told that KLM has various IT systems to keep track of their customers and can indeed track where they fly to, how much they have paid for a ticket, etcetera, but does not know who they are. E.g. the Flying Blue program only focuses on actual flight behavior, that is; KLM can track from where to where a customer has flown, but not at which distribution channels this customer made the booking for this flight, for which organizations this customer works, etcetera. He added that the Flying Blue program only intended to keep track of flight behavior, and little else. The email address is often the only sort of contact information which KLM has over these customers. Another interviewee stated that KLM is able to track whether a customer has booked online or offline, but to be more specific in terms of at which online channel (e.g. cheaptickets.nl, vliegwinkel.nl, expedia.com) was far more difficult. This leads to the conclusion that it is not per se that this data is not being collected or available, but integrating, combining and thus linking the various information sources together is the real challenge.

A last example is that of the '*SCORE*' questionnaire. This is a questionnaire which KLM hands out to its customers during their flight and will soon also be distributed online. Annually, about 600.000 questionnaires are filled in. The questionnaire provides deep insights how customers

value the services of KLM. Remarkably, few marketing employees within the organization of KLM The Netherlands made use of this information, whereas others stated that they needed additional information to be coupled with the information that the 'SCORE' questionnaire provided. The reason why they needed this was to decide on why and how marketing resources could be used more effectively. Besides these results, another questions were opted during the interviews: *Does KLM know what it wants to know about its customers, or is information lagging or not (yet) available? If so, why should and how could this information be acquired*? During the interviews, it became apparent that none of the interviewees could provide a clear answer. Therefore, this paragraph concludes that KLM knows much about its passengers, but at an aggregate level. Due to different IT systems and procedures, relevant information is not easily accessible or useable. As one of the interviewees stated nicely; '*Unfortunately, it is not yet possible to insert a single skewer through all different systems, and obtain a single view on the customer*'.

### 'Reaching the right customers and making them specific, targeted product/service offerings is difficult'

Another important topic discussed was that of customer segmentation . When was asked how customer segmentation is performed at KLM, two distinct answers were given. On the one hand and according to the managers at the headquarters of KLM, thus on a <u>strategic</u> level, KLM has segmented its customers based on attitudes (needs) and behavior (values) of all travelers traveling within the global airline industry daily. The result of this segmentation is a typology of seven types of '*persona's*', helping KLM to understand their customers in order to optimize service and product offerings. This segmentation is intended as a tool for marketing, coordination of strategies, development and innovation and can be split up, and therefore be focused on a specific point of sale. On the other hand, according to marketing/sales employees, thus on a <u>tactical</u> or even <u>operational</u> level, these persona's are of limited use. According to an interviewee, this is mainly because the persona's do not provide insights in terms of their contributing revenues, their living habits, their email addresses, their preferences regarding online/offline information of KLM, hobby's, marital status, etcetera. E.g. an interviewee stated the following: '*How am I supposed to know where to find and reach a certain persona in an online or offline context, and make a certain type of product/marketing offer? I have no insights in how much of a certain type of persona likes to fly to South-America, or which type of persona often has more than 3 kids?*' Thus, segmenting the market on a strategic level is not so much the issue, but identifying and acknowledging customers in the actual operations is. As stated in the previous sub section, KLM is able the tag a certain passenger as a certain persona, based on his type of flight, his frequent flyer status, his flight frequency, and so on. But the tricky part is how to be able to identify and acknowledge a certain passenger when he travels and starts his journey at Schiphol or when he visits the website for instance. The main reason why the marketing employees were keen on knowing the customers better in terms of their contributing revenues, their living habits, their email addresses, etcetera, was that they (thought) they would be able to make better decisions, enhancing their abilities to communicate and connect better with them. Therefore, this paragraph concludes that KLM has created a very potential segmentation method at a strategic level, but which at a tactical or operational level is not so useful due to the lack of relevant (additional) customer information concerning the customers.

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'*Have you ever seen and heard Peter Hartman or Jean-Cyril Spinetta during an annual press conference? They present the results, discussing the economic situation, and complaining about the rising fuel prices. During their two hour during conference not once, not even once, they mention the word 'passenger' or 'customer'.*
Quote of interviewee

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**'Customer marketing at KLM is reactive, traditional and focuses mostly on known customers'**

KLM focuses much on its existing and known customers, preferably if they are enrolled in the frequent flyer program or enjoy a corporate agreement. According to an interviewee, these are the only customers of which KLM has relevant information, can track their flight behavior specifically and may contact directly for marketing purposes. An interviewee stated that KLM had constructed and made use of a promising, customer focused IT systems, named 'customer directory'. This directory is a tool, used by the front line staff on the airport, intended to serve customer faster, more targeted and more personal. E.g. each customer gets a number, and all sorts of information is coupled to this number; his full name, his recent flights, upcoming flights, recent complaints, contact persons within the organization of KLM, etcetera. This information was presented on a nice dashboard and therefore, the frontline staff could easily request and view relevant information to help the customer. However, this tool was only focused on know customers; Flying Blue customers and moreover, only those with the status 'Gold' or 'Platinum'. Furthermore, the interviewee stated that 2/3 of the total customers choice KLM solely for the flight schedule and/or price, the remaining 1/3 otherwise. He stated that KLM focuses much on known customers because they fly more often and yield more revenue. Leisure travelers were more difficult to find, attract or retain because they use other criteria in their decision making and purchase behavior. His main remark was that personalization of the product and services of KLM was difficult. The interviewee stated: '*The big question is, how can we make an in essence homogenous product, relevant for our heterogeneous customers? In my perspective, we have to be relevant at the moments of truth. This is the difference between which KLM offers to the customer, and how the customer experiences this offer. If we are able to be relevant for different customers, at different moment of truth, and monitor their responses, we can formulate our 'next best action'. That is the type of CRM I am aiming for.*' He added that the use of certain communities might be useful for KLM. This is because it gives KLM the opportunity and a reason to contact certain customers. In this sense, he referred to communities such as 'KLM Golf' or 'De Wereldveroveraars'.

Furthermore, the current awarding system of the Flying Blue program is rather reactive, instead of proactive. Passengers are awarded for something they have done in the past, instead of stimulating passengers to do something in the future. Also, the customer marketing department mainly uses email (marketing) to reach the customers. A customer which enrolled in the frequent flyer program Flying Blue, or has indicated that he or she would like to receive information concerning a certain flight or destination, is emailed over and over again, with more or less the same message: Do you want to book a ticket? Another example of the traditional 'push' marketing though combined with new IT technology, is when a passenger searches the web for a vacation in Indonesia. E.g. if one types in Google the word 'vacation in Bali' or 'sky scanner', 'travelling to Indonesia', the banner as presented here below is seen all over in the advertisement space on various other websites. Again, the message is the same: 'book now'.



Source: NU.nl, 2013

When was asked: '*Is active customer research being performed, and by active I mean, making use of external research companies, universities or studies for instance?*' the reaction was that customer research only takes place at headquarters, and is performed often in collaboration with Air-France. KLM makes use of external parties, but these projects are stand-alone and very specifically focused. There are possibilities to focus customer research on a specific point of sale, but when doing so, generalisability may become an issue due to the small amount of relevant

passengers (often only the Flying Blue members). Subsequently asking how marketing campaigns, (new or different) product offerings, or customer segmentation is performed, an interviewee said that this was mostly done on the basis of the Flying Blue program and the tier levels of customers within this program. Tier levels (e.g. iron, silver or platinum), are determined by the number of Level Miles a passenger has earned, or qualifying flights a passenger has made.

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*KLM has a mindset of 'selling tickets is revenue'. This is obviously true, but not entirely. What KLM has come to forget, is that selling the ticket is just the start of the journey for us as well as the customer. Therefore, I would like to propose a different mindset; ' excellent service is revenue'.* Quote of interviewee

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According to another interviewee, it is very difficult to measure the ROI of a certain marketing campaign. This is because there could be numerous other variables leading to the increase or decrease in bookings and thus revenue (e.g. worker strike of Lufthansa) or just simply because current systems do not measure or capture relevant customer information. To measure the ROI of marketing campaigns remains a real headache for most employees and departments within KLM. The interviewee stated that KLM does not fully embrace CRM as a strategy, because they see it solely as an instrument to retain customers. E.g. KLM is currently busy with the development of 'the iPad on board'. During a flight, passengers are lent an iPad, at which they can view all sorts of information, but more importantly, at which they can fill in questionnaires, give feedback concerning their flight and/or experience with KLM. However, these iPad are only offered to most paying customers, and thus Flying Blue members with a high status. The use of own, personal iPads is (yet) not possible. However, these passengers yield about 20% of the total revenue, whereas almost 60% of the revenue is yielded by passengers of which KLM has no idea of who they are, where they come from, which corporate they represent, etcetera. The other 20% comes from corporate contracts. Thus, KLM's CRM is primarily focused on its known customers, that is; customers who are member of the Flying Blue program. However, since the last couple of years, all new e-products and e-services are tested for their usability, by means of asking passengers to test the new products/services and reflect on their usage. However, KLM has used CRM primarily as a catch up rather than a manner of differentiation themselves from the competition.

## 4.2 Findings focus group discussion

In sum, the main findings from the focus group discussion can be formulated as: There is no consensus at KLM about the customer value proposition. There is a rather bureaucratic and cost focused approach to problems dealing with customer service. Lastly, the idea of customer centricity or advocacy must be endorsed by management. They have to bring a mindset into the employees within the organization of KLM: a renewed focus on gaining customer trust. The following paragraphs will elaborate on these propositions.

### *'There is no consensus at KLM about the customer value proposition'*

In line with the earlier discussed value proposition and the finding that KLM focuses much on its products, rather than its customers, the following question was proposed during the focus group discussion: *What shapes the customer experience of KLM*? Remarkably, some attendees could not formulate a suitable answer or agree with one another. As a response, another attendee alleged that the product or service which KLM offers to its customers, could be seen as a '*journey*' or as an '*experience*'. It was argued that flying is not just booking a flight or acquiring a ticket, or traveling from one's residence, to the airport, to the destination. It could also be seen as a '*necessary evil*' because customers are forced to fly because no other means of transport is available. All attendees agreed on these statements, but still, did not provide concrete meaning on a main, single focus or vision on the 'customer experience' of KLM. Secondly, the question was proposed: *Why would customers consider to fly KLM?* One of the attendees pointed out that a difference need to be made between people travelling for leisure or for business purposes. This

is because their needs and thus attitude differs for each of these purposes. E.g. a business man traveling to and from London for a corporate meeting will most likely choose KLM for its flight schedule, its loyalty program, and its products, whereas a leisure passengers will most likely to focus on the price. Another attendee stated the same, but added that passengers might also choose KLM for its service and highly trained personnel. Lastly, an attendee pointed out that it might be the case that customers choose KLM because it is the first airline which comes to mind when thinking of vacation or flying. He also stated that customers could consider KLM because customer might be familiar with the digital online booking channel, or simply like or even love to fly KLM for some reason. Remarkably, most of these responses concern benefits from a product oriented view, that is: why customer should or could choose KLM from a organization's viewpoint; schedule, fare classes, food & beverages, online check-in, etcetera. This in contrast to a customer oriented viewpoint: nice and helpful personnel, consideration when a passenger has fear of flying, free upgrade when a passenger is taller than 6 feet (if seats are available), awarding reward miles even during a no-show, etcetera.

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*'Our call center is seen as a cost-center. So much for customer service don't you think?'*
Quote of interviewee

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Therefore, this paragraph concludes by stating that KLM has not explicitly chosen a customer value proposition. Despite the fact that all attendants of the discussion agreed on the need for action and willingness to develop more customer centric activities, it only remains in words and not actions. It seemed that from a variety of management levels, little commitment, priority, time and or money was made available in order to develop customer centric initiatives. This stems mainly from the reality that the safety and maintenance of the fleet, the supply of fuel and operational efficiencies are the main priorities, because these make up for more than 70 % of the total costs of KLM.

### *'There is a rather bureaucratic and cost focused approach to problems dealing with customer service'*

Furthermore, when starting third discussion topic concerning the subject of customer advocacy, whilst all attendees agreed on its description, no attendee had a clear idea or vision how to get there or how to formulate a service initiative in this mindset. But is KLM service and customer oriented? Of course it is. Every attendee of the meeting agreed it is a good thing, and can claim that its function, department or role is customer centric to some degree. The big issue however, is that being service and customer oriented is such a vague expression. There was no concrete meaning given to how this would look in practice (the same with 'customer experience'), and how this would appeal to the knowledge and skills of employees and departments, especially when these would need work together and share information.

Maybe a nice case example is that of Efthymios Constantinides. He booked a ticket to Istanbul for a business conference, but due to the riot and protests currently (±15th of June 2013) happening, he cancelled his flight. He bought the most cheaply and therefore non-refundable and/or changeable ticket. However, since Efthymios is a member of the Flying Blue program, he called KLM and asked whether he would still receive his flying blue miles. Since KLM was able to sell the same seat again, and thus could make double profit on the same seat, he argued that this would cost KLM nothing more. However, he did not receive his award miles, because in the regulation of KLM states: no flying means no flying blue awards miles.

However, one of the attendees provided a nice example of General Motors and their 'AutoChoiceAdvisor. The AutoChoiceAdvisor intends to help customers in selecting motor vehicles, tailored to their specific and personal needs. The advisor requests customers to answer several questions such as which car brands they prefer, what amount of money they want to spend and etcetera and in turn provides several recommendations in terms of car models (not only those of GM). He argued that the advisor benefited General Motors as well as the customer,

because General Motors acts as an advocate by providing objective and transparent information based on the customers' needs. In turn, General Motors also learns about the preferences, trends and gains great customer knowledge in product innovation and development. There was pointed out that KLM could also develop such an advisor, e.g. 'the trip advisor'; customers could fill in their preferences regarding e.g. their type of vacation, destination, with or without hotel, etcetera. Helping and learning from the passenger simultaneously. However, when suggesting such an idea, the main reaction was '*No, it can't be achieved because it would take a lot of time, money, effort, and most important; the management does not support or is committed to develop such initiatives.*'

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'*KLM mainly focuses on safety, and by safety I mean the maintenance of our fleet. Obviously, this is the single and most logical priority since nobody wants to have even the slightest idea that there has been compromised on safety. Secondly, KLM wants its fleet to be operational, and by that I mean; the fleet has to be fuelled. These two priorities: safety and the actual operations, make up for almost 70% of our total expenses. In other words, KLM has only 30% left to spend on IT investments, CRM programs, development of social media campaigns, marketing, and etcetera. The simple conclusion is that there are too few resources left available or to develop and organize customer centric initiatives.*'
Quote of interviewee

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Furthermore, another possibility in terms of customer advocacy was suggested; more transparency in terms of airline ticket pricing. An attendee suggested to make the realization of airline ticket prices (a bit more) transparent, by perhaps trying to explain how these prices come about. This was mainly because he believed that inconsistent (at least from the customers perspective) pricing could lead to questions regarding price perceptions and whereby lower quality services could be the reason. However, when suggesting possible manners of doing so, the main reaction of the attendees was mainly '*No, it is far too difficult*' or '*We would like to keep it a bit cloudy how we make our revenues, because it is our prime source of income*'. In line with this reasoning, the attendee stated that the price fairness perception might not be solely linked with the price itself. In this sense, customers want value for money. Subsequently asking what KLM wants its customers to perceive in terms of value or their offerings, no attendee had a suitable answer.

This section concludes that there is a rather bureaucratic and cost focused approach to solving problems having to do with customer service. In that respect, a change must be brought into the mindset of employees within the organization of KLM. This change however, must be endorsed by management and true leadership, committed and dedicated to attunement to customer needs and interest.

### '*The idea of customer centricity or advocacy must be endorsed by management,; a renewed focus on gaining customer trust*'
The transition to move from a supply oriented, product driven organization to a customer centric organization requires a transformation of the culture and the business, which is highly unlikely. But still, the question remains; what obstacles prevent KLM from the transition from 'business as we know it', to innovative and well organized 'customer centricity'?

On a high, strategic/aggregated level, KLM knows much about its customers. At a more tactical or operation level, KLM knows less about its customers. Again, the Flying Blue program offers only insights into the actual flight behavior (and thus no individual characteristics), whereas other (e.g. IT or CRM) systems are not or loosely coupled. As a result, it is very difficult to track, identify, recognize or segment customers accordingly. Still, in order to achieve customer centricity, is it essential to know your customers thoroughly and serve them based on their needs and interests. However, customer centricity does not imply giving every single customer what he or she wants. In other words: all customers are equal, but not all customers are equal in

terms of their value. Therefore, the following question was raised during the discussion '*When is a customer defined as loyal to KLM?*'. The reaction was that customer loyalty is currently defined as the purchase frequency and the purchase quantity in terms of finance. Subsequently, the following question arose '*Why does KLM only focus on purchase frequency and purchase quantity? Would it not be smart to take a closer look at the passenger and e.g. consider the size of his social network?* The reaction from most of the attendees was that KLM currently does not have the possibilities to do so, because it would imply a cross functional IT infrastructure, in which multiple sources of customer information needed to be coupled and linked. To identify and acknowledge customers at an individual level, whether in an online or offline context seemed almost impossible.

*I have absolutely no idea how much of the 25 million passengers were fly each year, are unique. In the past, we conducted an elaborate research, combining multiple sources of information, in order to estimate how much of our passengers are really unique. Out of the 25 million, we came up to about 8 million people. However, this research was conducted in 2007, and our research was a onetime only exercise, because we did not get the commitment of our management to continue our research for the coming years.*
Quote of attendant of focus group discussion

During the meeting, there was agreement that customer centricity and customer advocacy would require a transformation in the mindset: e.g. leadership, commitment, culture, traditional business models, organizational structure and KPI's. This would be highly unlikely if not almost impossible. Nonetheless, one of the attendants denoted that she and her department were currently exploring the possibility to provide more personalized customer service. Her department is named customer care, which is responsible for the handling and managing of customer compliments and complaints by telephone. Every day, KLM receives many compliments and complaints of various types of customers. Based on the tone of voice of these customers in formal letters, or during a telephone call, she wanted to use a certain procedure on how to react and speak to these passengers. This transition to become more 'customer-centric' is obviously a step in the right direction, led and driven by employees who are not restrained by traditional and legacy thinking of the organization.

### 4.3 Discussion of research findings
Given the findings as described in the previous sections, the question arises 'Did the perspective of customer centricity or advocacy shed new light on customer marketing of KLM and/or did it provide practical follow up?'

The simple answer is no. But before elaborating on this statement, it is important to mention that it would not have made much difference if the central topic of the discussion would be focused on customer centricity, customer equity or even customer intimacy in general. This mainly stems from the reality that these types of strategies or methods have in common that e.g. they can help the organization to turn customers into advocates, optimize customer interactions and touch points to ensure positive impressions of the organization, and most important; stimulating loyalty and trust across the customer base. Each customer centric strategy or method, whether it is named customer centricity, customer intimacy or customer advocacy, gives its specific interpretation to the customer relationship. However, what is so unique about customer advocacy in particular, is the fact that this strategy does not only focus on knowing the customer better, and selling products and services based on the customer needs and interest. Customer advocacy aims to do what is best for the customer, even if this means offering products or services of competitors. Instead of a mindset 'selling products is revenue', customer advocacy pleads for a mindset of 'excellent customer service is revenue', as one of the attendants articulated so clearly during the discussion.

Unfortunately, during the session, not much was spoken about the possible form, shape or conceptual/procedural directions towards the development of a customer advocacy strategy. It

became apparent that all agreed on the fact that KLM had to become more customer centric, align departments and processes, and etcetera, but still experiencing the 'elephant in the room'. Most of the answers are formulated as '*Yes, but...*'or '*No, that cannot be achieved because...*'. Having stated the aforementioned, these results did thus not deliver many concrete ideas or insights but did offered enough material for opening a discussion within KLM concerning the issue of customer centricity, and customer advocacy on a strategic level.



"Someone calling themselves a customer says they want something called service."

Furthermore, another question arose after the focus group discussion: 'did the semi-structured interviews or the focus group discussion provide useful insights in what manner KLM may gain competitive advantage, and if so, what needs to be done?' Again, the answer is no. However, this research can argue and prove on the basis of academic literature that a customer advocacy strategy can be useful. The concept of customer advocacy might be simple: 'Advocate for your customers, in return they will advocate for you', but how to achieve that is obviously much more complicated. If KLM is 'product oriented' or 'internally focused', KLM will provide a customer experience which is also 'product centric'. Most literature concerning customer relationships state that it is of the utmost importance to know your customer. Who are they? What do they want to be offered? How and when do they want the offer to be delivered or make the purchase? With what tone of voice or message? How can we develop and manage customer experiences which fit with that of what the customer expect or that even exceeds their expectations? It are these type of questions which KLM must asks itself in any attempt to develop a more customer centric approach on their activities and operations.

**4.4 Main conclusion concerning research findings**
The interviews and the discussion had the potential to produce many new ideas, insights and concrete conceptual and/or procedural directions towards the development of customer centricity in the form of a customer advocacy strategy. The discussion was well organized and structured, enhancing relevant discussion topics towards customer advocacy. Moreover, managers of customer care, customer service, customer insights and direct sales were amongst the attendees and interviewees, reflecting a high degree of expertise and knowledge within the organization of KLM. However, it did not reach its initial goal: providing new ideas or insights towards the development of a customer advocacy strategy for KLM. In relation to the semi-structured interviews, the focus group discussion served as an acknowledgement. The findings of the focus group did not differ from those of the semi structured interviews. In sum, these results can be formulated as: KLM is a highly product oriented, focused or driven organization.

Priority number one is the safety and maintenance of the fleet and the second is that of its operations, which is obviously a logical choice. The passenger is but the third priority. Customer centric initiatives are being developed, but an overall vision and strategy on customer service, care or marketing is lacking. Managers and executives of KLM are too busy with revenue numbers, yields and meeting their (budget) targets. Some innovative customer centric initiatives prove to be very successful (e.g. social media campaigns of KLM), but in relation to other initiatives these are not or poorly integrated with one another. Customer information is present, but this remains at an aggregated level, often stored in different IT systems. Therefore, making strategic choices concerning tactical and operational marketing campaigns or projects is difficult. As a result, the ultimate aim of KLM is missed; provide a better, more seamless or personalized customer experience, journey or service for its customers.

Perhaps a reason why the focus group discussion did not reach its initial goal was because the attendants were not prepared (enough) to discuss concrete steps towards customer advocacy. As became apparent during the interviews and the discussion, employees of KLM have a rather bureaucratic and cost-focused approach when it comes to problems having to deal with customer service as stated earlier. Thus, it might be the case that the attendants of the discussion were not the right audience, and perhaps a younger or a bit more creative audience would yield other results. However, given the management function and expertise of the attendees, they could be the designated persons to enforce and lead the change towards customer centricity and advocacy. The discussion demonstrated that all attendants agreed on the idea that KLM has to become more customer centric. They felt the urgency given the dynamic and changing environment in which KLM operates, and even have some ideas of how to get there, but fail to propose concrete actions and follow up. It appeared that different levels of management offered and gave very little commitment, time, financial resources or priority to the managers and their employees in order to develop truly customer centric initiatives.

# 5. Conclusion and recommendation
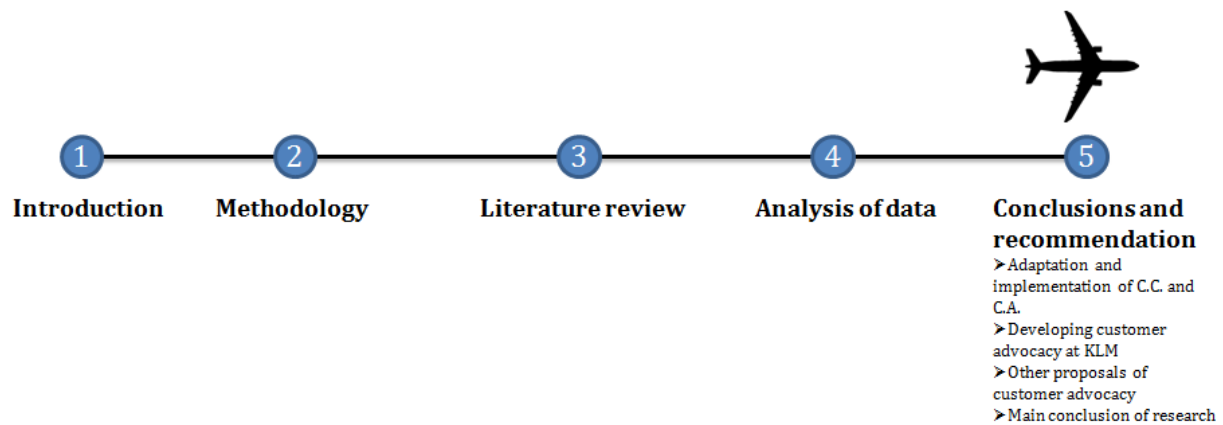


This research attempted to offer both a theoretical contribution as well as a practical advice to KLM on how to migrate towards a customer centricity and develop a customer advocacy strategy. First, academic literature on these topics was reviewed. This resulted in the literature review: initial guidelines and requirements to achieve customer centricity and advocacy from a theoretical and academic perspective. Subsequently, by means of interviews and collaborative dialogue with employees and managers of KLM, this research tried to construct procedural or even conceptual directions on how to achieve customer centricity and advocacy. This chapter will further elaborate on the research findings as presented in the previous chapter and draw conclusions and give answers to the research questions. This chapter is organized as follows.

The first section will present conclusions, a recommendation and thereby trying to answer the third sub research question: *Is KLM Royal Dutch Airlines ready for adopting a customer advocacy strategy?*

The following two sections will present conclusions, a recommendations and thereby trying to answer the fourth sub research question: *In what manner can a customer advocacy strategy be developed for KLM Royal Dutch Airlines and how should this be implemented?*

The remaining section of this chapter will provide an overall conclusion, recommendation and thereby trying to give answer to the main research question: *Can KLM Royal Dutch Airlines migrate from a product oriented towards a customer oriented organization and develop a customer advocacy strategy?*

In line with the previous chapter, the corresponding subsection will start with a proposition.

**5.1 Adaptation and implementation of customer centricity and customer advocacy**
One of the main benefits of customer centricity, is that it enables organizations to create high levels of loyalty and satisfaction amongst its customers. The transition towards customer centricity will most likely involve many departments and all areas of the organization of KLM. This change will not be easy and is only possible when all departments participate and act as a whole. Customer centricity is a mindset, which the organization of KLM has to embrace fully. It concerns the reorientation of the entire business model, focused on the customers, aiming to increase customer satisfaction and loyalty.

As stated earlier, the idea is fairly simple: *put your customers first*. This means that KLM has to change their way of doing business towards what their customers tells them and what else they know about their customers. Despite the many sincere customer centric activities being performed or which are under development by KLM, they did so without a clear customer strategy in mind. It's one thing to train personnel, present gifts to departing passengers or develop a social media campaign such as Meet & Seat, it's quite another to identify, track,

interact with an individual customer and subsequently, offer personalized information, products or services to possibly meet their true needs and interests. So, is KLM Royal Dutch Airlines ready for customer centricity or advocacy? The answer is no(t yet). In relation to the findings from the interviews and focus group discussion, KLM lacks the central requirements in order to truly become customer centric and develop any type of customer focused strategy. This statement will now be elaborated more thoroughly.

***'KLM should explicitly choose a value discipline, its customers and narrow its focus'***
Succeeding as an organization by selling value is not new. What is new, is how customer define and perceive value, most certainly since the customer experiences and their needs are ever changing. In the past, customers have tend to judge this value by choosing or balancing between quality and price. Presently, customers are far more demanding and make their decisions not only based on low prices but e.g. the ease or convenience of their purchase, their emotions and feeling towards the brand or the word of mouth of others. It is not a necessity to meet *all* the (different) customer needs or to serve *all* the customers, but it is a necessity for organizations to choose why and how some of these customers and their needs will be met. In terms of the three main value disciplines, and taking a closer look at KLM, it is difficult to state which value discipline is being pursued. This mainly because KLM wants to serve many types of customers; young, old, corporate, entrepreneurs, groups, students, internationals, leisure, non-profit travelers, etcetera. They want to fly to many destinations worldwide, preferably directly from Amsterdam, with many types of aircraft, departing during the most convenient times each day. But the choice of doing so, put much pressure on the operations and comes with certain consequences. KLM may state that making more explicit choices will not apply to them, because they are good at all three disciplines. The reality however is that KLM maintained threshold levels of performance in each level and has not (yet) created breakthroughs in any dimension in order to reach new performance levels. If KLM does not really stand out amongst the competition, and offers more or less the same product and services as its competitors, often higher priced, why would customers choose KLM? Therefore, this research argues that if KLM decides to play the average game, not explicitly choosing directions and continues to play in all areas, they will not become a market leader (again). In relation to other airlines, e.g. Emirates and Etihad which clearly demonstrate a product differentiation leadership strategy, or e.g. RyanAir and Easyjet which clearly demonstrate an operational excellence strategy, KLM should also choose and aim more explicitly towards a certain value discipline and be committed to its goal and main features.

When focusing on KLM's current products and services, the value discipline of customer intimacy seems most wisely. This is because most of their current processes and activities are already somehow directed towards a customer intimacy strategy. E.g. KLM does not offer a standardized product, nor does it offer the most advanced and luxurious product. KLM does not offer the lowest prices, nor do they offer the highest of the market. Thus, KLM should further enhance their efforts to achieve customer intimacy by an increased focus on the relationship with their customers based on customer trust and satisfaction. As stated earlier, the transition towards customer centricity will not an easy job, nor is there a single guideline on how to achieve this. However, a central premise in becoming customer centric is by knowing your customers, not only in terms of their flight or booking behavior. As discussed in the literature review, and as revealed by the results of the research, this is not so much the case at KLM. Therefore, the idea of customer centricity must be fuller embraced by management and a renewed focus on gaining customer trust must be enforced. This starts with bringing a change into the mindset of employees within the organization by true leadership commitment towards the chosen organizational strategy and intense management communication.

*'KLM should overcome its organizational barriers, which deter the organization from becoming customer centric'*

As stated earlier in the literature review, Shah et al. (2006) wrote that there are four main interrelated impediments in the path to become customer centric: the organizational culture, structure, processes and financial metrics. As the research findings revealed, KLM is highly product oriented, and has not yet aligned its structure and processes towards customer centricity. The current view of KLM on its customers may be characterized by a reactive, transaction yet cost saving, and revenue oriented view by which different departments often work on (the same/individual) customer issues. During the past few years, many departments largely developed their own business rules and procedures, resulting in different types own databases and processes to support their activities. Much of existing customer data is being duplicated, which gives rise to data quality issues. Despite the well meant intentions, KLM's managers still have difficulty to address customer issues and marketing projects in a more effective manner. It is not the case that KLM does not collect customer information, it is rather the case that the different sources of customer information are poorly integrated, linked and/or coupled. Often, corporate customer data and information is not integrated with individual customer data. E.g. in relation to the previously mentioned '*personas*',  and the Flying Blue program, data on monetary value is poorly available, because this is managed by the accounting department. It is therefore difficult to recognize and acknowledge a single customer, throughout different IT systems. As many types and sorts of customer information are basically needed to be integrated to achieve a single view of the customer, KLM needs to restructure their customer marketing function. The architecture of this new function should consist of a single view on customer data, and subsequently, unified business rules and processes for e.g. the marketing, sales and customer care department. Obviously, issues of ownership and accountability should be addressed to be able to control these processes. In time, all of the relevant touch points need to be linked into the customer data. Ultimately, the customer data may grow in value due to  by helping to enrich with external and/or other quantitative data, and to make use of this information effectively.

Firstly, the managers and executives of KLM need to display sincere commitment for ensuring a customer centric mindset. This commitment however, is much more than a CEO or manager giving his signature for e.g. a certain CRM, customer care or social media project. It requires a true and umabigous vision, for which each employee needs to understand the purpose and changes that will arive. Redesigning business models to customer centricity, requires a change in the organizations culture and appeals on the active participation of most, or even all employees within an organization. As proven in the past, the odds of success are much improved if there is also sense of urgency and a compelling strategic rationale. In terms of organizational structure, customer centricity requires sharing customer information organizational wide. It is therefore not unthinkeble that to start a shift towards customer centricity, the marketing department takes the lead. A way of achieving this, might be to change vertical organizational strucutures to more horizontal organizational structures, in which hierarchy is decreased, and communication between departments and function is stimulated and therefore increased. The difficulty might be that KLM which has been traditionally, vertically organized, has problems in order to change to more horizontally organized. However, a hybrid structure can provide a solution because different departments/functions could provide mechanisms for allocating resources and coordinating core processes. KLM could start to focus on acquiring information from all the interactions (all the sources and channels) which a customer may have with a organization, the touch points. Furthermore, it is by far not sufficient to construct a solid customer strategy. As argues in the literature review, different (financial) metrics and KPI's need to be conceived. This is because KLM needs to understand whether its strategy is working, and how this affect the customer. Most of the current metrics are based on past behavior, patterns or trends to predict possible future contributions from customers. These metrics might be easy to understand and use, but are of limited use in today's new business environment. As such, metrics such as Customer Equity (CE), Customer Lifetime Value (CLV), Customer Referral Value (CRV) and sort

like need to become the new (financial) metrics used by KLM . Although many academic research has been performed regarding these metrics, there is still much in this domain that needs to be further investigated. The key challenge is thus to identify possible metrics and manners to anticipate on customer behavior before it occurs, enabling KLM to build and maximize customer relationships. It cannot clearly be stated what or how to examine, study or construct new processes in which these metrics are used, but it can be stated that if KLM wants to achieve sustainable growth and profitability in the future, now is the time to begin building this future.

## 5.2 Developing customer advocacy at KLM

Customer advocacy aims to maximize the interests of customers, with the ability and skills of the organization to do so. Maximizing the interests of customers can possibly be achieved in many ways, and thus a customer advocacy strategy can be developed in many ways. However, truly understanding customers, as best as KLM can, is at the core of a sustainable customer advocacy strategy. KLM must first become the advocate for its customers, before they will become theirs.

### *'KLM needs to change its focus on its customers, and marketing paradigm accordingly'*

Currently, customers are seen as valuable when they fly often and bring large amounts of revenue and customer of KLM are rewarded on this basis. This type of awarding is based on behavioral loyalty, and cannot be a measure of '*true*' customer loyalty as stated in the literature review. This is because not all loyal customers yield revenue, and not all revenue yielding customers are loyal. Traditionally, marketing and revenue management, have been seen as two distinct activities at KLM. Whereas the revenue management department is responsible for retrieving as much revenue from the customer base, the marketing department is responsible for the commercialization, finding and sending the product/service message to the relevant customer base/segments. However, when a marketing strategy aims to move to a more customer based level, these traditional boundaries start to fade. This is being enforced by the changing customer demand which calls for more personalized, digitalized and therefore more customized products and services, niche brands and other ancillary services to ensure that the customer feels unique and appreciated.

So, how could KLM look at its customers in the 21th century and assess their value towards its organization? They can start to express the value of a customer differently. As stated in the literature review, organizations can asses and stimulate this value by building (and enhancing) behavioral loyalty, cultivating attitudinal loyalty and linking this to profitability. For any organization, behavioral loyalty only becomes meaningful when it translates into purchase behavior. It generates direct and tangible returns, opposed to attitudinal loyalty which may be defined as commitment or trust towards the organization. In the end, both types of loyalty are needed in order to create a fruitful customer base. Therefore, a new or different interface needs to be developed between marketing and revenue management (and preferably also the departments of customer care, sales, etcetera), in order to establish a new type of customer marketing strategy. This interface does not necessarily need to be radical in terms of its design, it does however need to adapt to the current customer and business environment. In line with this reasoning, this research argues for a focus on the customer experience, in which the experience is expressed as a customer journey. This will be further discussed in the following subsection.

### *'KLM should step inside the shoes of its customers, and design the desired experience or journey from their perspective'*

Businesses can differentiate on 1) price, 2) core product or service or the 3) customer experience and the ongoing relationship. The first two are nearly impossible to do today (Porter, 2011). Often, best practice organizations view the products or services that they offer through the eyes of its customers. On the basis of their customer touch points, they try to anticipate on the potential problems, needs and interests which their customer may encounter during

different phases of the product of service experience. In line with the main elements of customer centricity and advocacy, this research argues that KLM has to do just that. As stated earlier, '*KLM must explicitly choose a value discipline, its customers and narrow its focus'*. If KLM tries to be all things to all customers, they will rarely end up fully satisfying anyone. That is why this research argues that it is so important for KLM to truly understand their customers in order to serve their needs. So, the proposition of this subsection '*KLM should step inside the shoes of its customers, and design the desired experience or journey from their perspective*' really means, '*take a walk in the customers shoes*'.

Firstly, KLM should identify customer personas. As discussed earlier, they have already done this by constructing the 'personas', so this could be a good basis. However, the personas should be enriched by additional information, because these prove only to be useful at an agregatted level. Therefore, KLM could start to perform detailed research, preferably by customer segment/persona, into the customers perceptions of their service experience and try to identify opportunities for improvement. E.g. in-depth questionnaires or surveys to (special) selected customers and ask how they would rate the quality of their experiences.

Secondly, KLM could start to identify different phases in the journey, from the customers perspective and for each persona. The outcomes should be explaining the different phases of their customer journey, e.g. the orientation phase, check-in and in-flight phase. KLM should however, not solely examine the functional part of the experience, but also emotional and psychological part. In line with this reasoning, different customers/persona's could perceive value in different manners, and form opinions concerning the service quality thus differently. Using the personas or segments, KLM can then identify steps in their journey and map all touch points of interest to these personas/segments in the journey. Thereafter, KLM could determine the relative importance of each touch point to a persona/segment and the overall importance of each phase of the journey in relation to their (financial) importance of a certain persona/segment. For each persona, and for each phase in the customer journey, different elements can possibly be identified. E.g. customers could be concerned about items relating to the check-in phase. How long does my passport needs to be valid? Where can I locate the service counter of my airline? Is it possible to bring an additional bag along, and where can I arrange this? Within each phase, KLM could consider the different types of interaction that the different personas may encounter with its organization, e.g. the direct contact with frontline staff, by telephone via the customer care department, its website, or via its social media channels. Having possibly identified how and for what reasons different personas/segment experience certain steps in their journey, KLM may try to adapt to these experiences.

Thirdly, once KLM is able to recognize the different needs and expectations of each persona for each phase in the customer journey, it is critical to align those with KLM's brand and value proposition. However, it is also important to assign value to each segment/persona (preferably to an individual customer level). As stated earlier, all customers are equal but not all customers are equal in terms of their value towards the organization. Therefore, KLM could start to determine customer value by e.g. measuring the likelihood of recommend or size of the customers social network. As stated in the previous subsection, metrics such as CRV could provide insights towards this value. In the end, walking in the customer shoes, offers KLM the ability to truly focus on the touch points, phases of the customer journey and its relevance from the customers perspective. In this manner, it enables KLM to determine where it can act as an advocate for its customers.

Another possibility is that KLM could start to let customers actively participate in designing a superior customer experience. In line with the main elements on which customer advocacy builds; trust, transparency, honesty and openness, the customers may start to appreciate KLM more. However, KLM must be careful to think that once the experience is designed, the work is finished. Customer demand and expectations change continually. If KLM is able to exceed

expectations, customers may start to like KLM. If KLM is able to exceed the expectations in a systematic manner, customers may start to love KLM. Again, all touch points must be addressed, and KLM must define a clear and coordinated design of the experience. The challenge is to ensure that during all touch points, the customer experience exceeds its expectation. This can be enhanced by analyzing the manners in which the customer is served, map all process aspects and subsequently, choose technology that enables this interaction. Lastly, KLM could start to ensure a consistent experience within and across multiple sales, distribution, and therefore contact and thus touch points. In this sense, all marketing communications, service deliveries and manners of dealing with customers, have to be performed consistent with the customer advocacy mindset. Manners in which KLM could give form to a customer advocacy strategy in line with the main elements and concepts as presented in the literature review, will be discussed in the following section.

## 5.3 Other proposals of customer advocacy for KLM

This section will propose several specific steps on how the process towards customer advocacy within KLM can be framed and how it could possibly take form, before discussing about concrete results and policies.

In the case of KLM, it seems wise to start at 'KLM The Netherlands', KLM's most important and biggest point of sale in terms of passengers. Also, this research takes it as a given fact that the pricing, as well as the products and services of KLM itself, does not need to change immediately. E.g. there is no need for new economy seats or a radical change in the pricing policy. But foremost, in the development towards a customer advocacy strategy, it is important that KLM clearly communicates its intention towards its customers. Therefore, the strategy is based on the main elements of customer advocacy: openness and transparency, aiming to build customer trust and satisfaction. This must be communicated clearly and explicitly in any expression and message surrounding this strategy, in order for customers to understand the strive of KLM towards building mutually beneficial relationships. The aim of these proposals is focused on truly helping, trying to (re)solve customer issues and meeting their needs instead of selling (more) products or services.

In light of the earlier mentioned 'Auto Choice Advisor' of General Motors, KLM could also design an e.g. 'Trip Advisor'. Therefore, KLM could build a new website, that helps customers to find and select products and services of KLM (maybe even those of competitors) best suited to their needs. The tool should ask (potential) customers a series of questions, e.g. what is their travel purpose, how much do they want to spend and what on-ground and/or in-flight features they would like. Perhaps, some customers might want features that KLM does not offer (yet), but a special option is available in the tool for suggesting ideas and giving feedback. When combining all the given input from the customer, the tool suggest several options in terms of flights, hotels, car rentals and ancillary services. However, the tool not solely presents results regarding the products and services of KLM, but also those of competitors. Currently, there are a few truly objective meta search engines which already do this. One may think of Kayak.com and Skyscanner.com, and in the coming future: Google Flights. These tools attempt to make the purchase process of flights more convenient, transparent and open, instead of solely trying to sell certain tickets. It might be the case that customers choose to fly another airline then KLM, but it might be the case that (potential) customers may start to appreciate KLM more for their sincere helpfulness, and think of KLM firstly as the starting point when they search for flights in the future.

Another proposal of customer advocacy for KLM, is the so called 'Travel Companion*'. This is also an online tool to be designed for and used on mobile devices equipped with WiFi , 3G, GPS and other wireless connections. It aims to support and accompany (potential) customers on their journey, with regard to obtaining travel information, performing actions such as check-in, and making choices, for example between different forms of pre-and post-transport. In relation

to the earlier mentioned customer journey, the 'Travel Companion' can be used as soon as customers have made a booking. Customers fill in the address from which they intend to leave for the airport, their flight number and flight date, and the 'Travel Companion' takes over. The customer can consult the 'Travel Companion' during any phase and time of their journey, via an interactive interface and request information concerning facilities at airports, departures, transfer possibilities concerning pre and post flight transport and sort like. This information is updated automatically or on demand. If the customer searches for a location or service (toilet, luggage trolley or personal assistance of the airline), the 'Travel Companion' offers one or more options, based on the location of the customer and information regarding the airport. Also, the tool provides suggested actions on predetermined times. E.g. if the time has come to leave for the gate, the customers gets warned. This warning is generated automatically and dependent on the distance to be covered to the gate, the number of other customers at the gate, and the security checks. The presentation of information can take textual form, or maps such as Google Maps, spoken text, or photographs of restaurants, selection menus and etcetera. Currently, there are a few other tools currently available such as the Schiphol app, but still, they only capture a small phase of the customer journey. As mentioned earlier, flying is only a part of a journey, and not the journey itself, and it is this mindset that KLM could take in developing this tool.

A third proposal that of the personalized travelogue. Currently, most people make use of smart phones and sort like devices. Also, these people often use social media such as Facebook, Twitter and Google+ to share their experiences and be connected with others. The personalized travelogue is a digital (online) tool to be used on mobile devices and sort like. Customers can write a diary about their journey, vacation or trip, by which accompanying texts, photographs and videos within the pages they are writing. The tool offers standardized KLM formats, or options for personalization if desired. This diary can be shared instantly on social media with friends and others, or completed once the journey is over for personal use. For a small contribution, KLM can offer this diary in colored print, or for free if the customer is a loyal customer. If customers agree, KLM can use their diaries to inspire and show this to other customers traveling to a certain destination. Their diaries can be shown on the in-flight entertainment systems, providing a nice example of how other customers spend their time. In line with this proposal, another option for KLM is that of a customer generated content program. For attractiveness, this is named 'The Blue Family'. Customers can write down their experiences during their vacation, trips and journeys just as in the previous example, and other customers may view this in preparation of their travels. KLM can stimulate their customers to contribute to this program by using 'gamification'. Gamification is the use of game thinking and game design in a non-game context, to engage customers to (re)solve issues. It strives to appeal towards the natural desire for competition, status and achievement. E.g. customers can be rewarded with virtual points, badges and sort like, and thereby becoming important players of 'The Blue Family'. Their contribution to this program can be rewarded with ancillary services, discounts or other privileges which KLM has to offer.

Another proposal in terms of customer advocacy in order to give openness and transparency about the operations of KLM, is that of an informative and interactive information website/tool. This tool intends to inform and show the customer, what it takes to be able to take him on the flight. It presents the customer journey behind the scenes by e.g. explaining how airline ticket prices are so fluctuating (often a real turnoff and irritation for customers), how baggage handling is performed, and how pilots and the cabin crew prepare their flight. This tool can be viewed online at home, but also in-flight for example. The tool aims to present the customer a view of how complex and dynamic the operations of airlines are, hopefully creating some understanding when errors or delays occur during the operations, and asking for feedback from a customer's perspective. For customers willing to view and use these tools or to give feedback, there are currently multiple possibilities to track their activities online. E.g. the SalesForce offers CRM software which can track how often, and what certain (potential) customers of KLM, post and write online about their organization. KLM can use this information to contact these

customers, reward them for their efforts, and possibly creating brand ambassadors.

However, customer advocacy does not necessarily needs to be radical or completely new in terms of product or service design. For instance, KLM could start to offer free WiFi to all its customers (not only it Elite Flying Blue members) at their gates or other locations on the airport. They could also provide free childcare at the airport. Another possibility, but which requires a change in the product of KLM, is making free USB ports available throughout its aircraft. Currently, most customers make use of their own mobile devices to listen to music or to watch movies. Therefore, KLM could abandon their traditional in-flight entertainment systems, and instead offer their customers the possibility to view and listen to their own media.

Concluding this section, a customer advocacy strategy can take many forms, and there is no single guideline on how to achieve it. The proposals as presented in this section are but a few ideas on how customer advocacy could look like in practice for KLM. Further (empirical) research is necessary to test their feasibility, attractiveness and added value from a customer's perspective. Despite these proposals, KLM must do more than just developing sort like ideas. They can only be of value and relevance towards their customers, if they know what their customers value and find relevant. That is why this research continues to argue, why it is so important for KLM to know its customers thoroughly.

* The initial idea of the 'Travel Companion' was opted by Dr. Hans Heerkens. Assistant professor of the University of Twente.

## 5.4 Main conclusion of research

Given the aforementioned, this section attempts to answer the main research question: *Can KLM Royal Dutch Airlines migrate from a product oriented towards a customer oriented organization and develop a customer advocacy strategy?*

This research argues and concludes that KLM has to make a choice, because it finds itself at a crossroad. The current, traditional business models and marketing methods are lagging, unable to cope with new business dynamics and the ever changing customer demands. Whereas KLM often focused on operational improvements to reduce costs during the past decades, the customer is often ignored and therefore needs to become the center of attention in KLM's philosophy for the future (again).

The answer is to the main research question is twofold. One the one hand, the answer is no. In this sense, KLM could continue to perform 'business as usual', the easy way. Marketing projects and sort like, will still be developed within the current policies and practices, but never really develop towards a seamless and innovative customer experience, service or product. ROI of marketing investments will keep difficult to measure and customer knowledge will remain limited to aggregated levels. Most important is that the focus of KLM on its customers will not change. It is all about selling products and services, instead of helping and meeting customer needs and interests.

On the other hand, the answer is yes, but this is entirely dependent on the strategic direction to which the executives and managers of KLM aim. If KLM wants to become truly customer centric, and become its customers advocate, they will need to change their corporate culture, structure, processes and financial metrics as discussed throughout this research. This is the hard way because transforming the organizational culture and its structure requires a huge investment, not only in time and money. This seems obvious or bluntly stated, but is at the core of their ambition and the current problem which KLM faces with regard to its customer. This change must start with a clear, unambiguous and explicitly stated vision from the executives and managers of KLM. It seems wise to set almost impossible goals to reach customer centricity. This is because employees will most likely not (accept to) change, if change is only incremental. The

conclusions and propositions concerning the customer experience, customer journey or touch points as discussed earlier are just several elements that may help KLM to construct a proper customer centric strategy.

# 6. Limitations and further research

The research as presented in this thesis obviously has some limitations due to e.g. the research methods that were chosen, and the limited resources (made) available by KLM. This will be described in the following sections.

## 6.1 Main limitations

Firstly, the concept of customer centricity is not new and has been elaborated extensively in academic literature and its body of knowledge is very large. Although this body of knowledge, academics cannot exactly state what is required to achieve customer centricity. This is mainly because of the complexity and specific situations in which organizations sometimes find themselves. For some organizations, making the transition towards customer centricity simply means being prepared to launch a certain initiative. Benefits might be gained by taking steps, small of larger ones, towards one-to-one marketing in specific functional areas for instance. For other organizations, such as KLM, making the transition towards customer centricity implies the repositioning of an organizational wise program. Therefore, a single, comprehensive answer to the third and fourth research question cannot be given explicitly. Also, regarding the concept of customer advocacy, much less has been written or published. Therefore, it is difficult to construct a solid, theoretical basis and relate this to practice. However, the most important elements of a customer centric or advocacy strategy were discussed in this research, and therefore may provide useful insights to the managers of KLM.

Secondly, the research methods. Although the interview and focus group are the most common, and widely accepted to be used in qualitative research, the main drawback and therefore limitation was the application of these methods in this research. This was due to the fact that there was not made use of audio or video recordings. As literature states, it is often recommended to do this, because it gives the researcher the opportunity to focus entirely on the conversation or discussion, in order to later transcribe, code and process the results. However, a small remark has to be made. Unfortunately, because of the limited resources (made) available by KLM in terms of customer information and time of employees, the interviews were not intended to be used as data input for this research. Lastly, the main limitation of the focus group discussion was perhaps because the attendants were not prepared (enough) to discuss concrete steps towards customer advocacy. As became apparent during the interviews and discussion, employees of KLM have a very bureaucratic and cost-focused approach relating to problems relating to customer service as stated earlier. Thus, it might be the case that the attendants of the discussion were not the right audience, and perhaps a younger or a bit more creative audience would yield other results. Because of this, not much was spoken about customer advocacy, whereas this was the main topic of the discussion. However, it would most likely not have mattered if another topic concerning customer marketing was chosen. This was mainly because the attendees had a deep-rooted bureaucratic and cost saving approach as when it comes to dealing with customers.

Thirdly, this research may have suffered from experimenter or researcher induced bias. This is mainly because the researcher has been employed by KLM for over twelve months, which might resulted in a less neutral view on the operations of KLM. However, this could also be an advantage. Due to the experience gained during the internship, whether directly or indirectly related to the topics of this research, the researcher got a broad view of the organization.

Fourthly, this research was highly qualitative. Although much literature is consulted and interviews and other forms of data were collected, these were not supported quantitative. However, given the scarce amount of literature on the concept of customer advocacy, this approach was more suitable than a quantitative approach.

At last, and in retrospect to this research, it became clear that it was in principle a diagnostic research rather than a research focused on the identification of specific steps on operational or even a strategic level. The views of management on customer issues, were found to be quite different from the employees within various department, dealing with such issues during their everyday practice. Therefore, some concrete steps on how the process towards the achievement of customer centricity and advocacy were presented in the previous chapter. However, these advices or proposals need to be further investigated and tested for feasibility.

Given the abovementioned, there may be concluded that despite not many concrete ideas, discussions or insights are the result of the interviews and focus group discussion, it did open enough material for opening a new discussion within the organization of KLM concerning the main topics of this research.

## 6.2 Suggestions for further research

In the coming future, KLM will develop and evolve one way or the other as innovations and advances in technology will introduce new, and more efficient manner to collect, store and analyze customer data. The question is not so much, what customer information will be collected or how, but why and in what manner this information will be used to be able to serve the customers better.  The preceding chapters only provided a broad discussion concerning e.g. the organizational culture, structure, and the topic of customer advocacy. A suggestion for further research could be to conduct more in-depth research focusing on some of the pertaining topics or issues to each of the those mentioned in this research. E.g. a relevant research question could be if it matters which value discipline is being pursued in relation to customer advocacy. Or, if customer advocacy is still relevant and suitable in the airline industry, given the trend that product and services are being commoditized and tend to be homogenous. Another option for future research, is the development of a true customer advocacy initiative. How do customer respond? What are their attitudes and opinions about the initiative? Lastly, given the already achieved successes and ambition of KLM to develop its social media activities, a suggestion for research could be in what manner social media as a core function or department, could lead the change towards customer centricity, and because they are also at the forefront when it comes to dealing with customers, what and how information should flow to other departments and be treated.

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# Appendices

A. Fleet of KLM Royal Dutch Airlines in numbers

| Narrow bodies | |
|---|---|
| Aircraft type | Number |
| Boeing 737-700 | 18 |
| Boeing 737-800 | 23 |
| Boeing 737-900 | 5 |
| Embraer 190 | 22 |
| Fokker 70 | 26 |
| Sub total | 94 |
| | |
| Wide bodies | |
| Aircraft type | Number |
| Boeing 747-400 | 7 |
| Boeing 747-400 Combi | 15 |
| Boeing 777-200ER | 15 |
| Boeing 777-300ER | 7 |
| McDonnell Douglas MD11 | 9 |
| Airbus A330-200 | 11 |
| Airbus A330-300 | 3 |
| Sub total | 67 |
| | |
| Total | 161 |
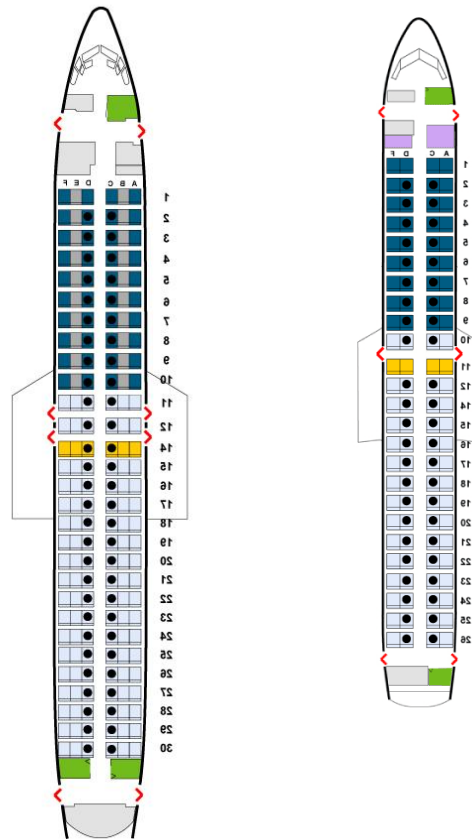
B. Semi structured interview questions

1. How long have you been employed by KLM?
2. What function do you perform and/or have you performed in the past at KLM?
3. To whom do you report?
4. Can you describe your function/department briefly?
5. What are your main/weekly business activities?
6. Do you or does your department make use of certain business models, techniques, information systems and/or otherwise?
7. Do you make use of certain business tools, analytics, methods which are supportive to your activities, and can you name these?
8. Do you work directly at PoS NL, or how is your function otherwise and possibly correlated with e.g. PoS NL? More specifically, what input does your function/department deliver to other departments (which?) and/or PoS NL?
9. What are the main sources of information which you use as input for your function/department activities, and are these of critical importance? Is their integration between different sources of (customer) data/information?
10. Can you name a number of problems, issues, difficulties which you encounter in performing your function? What would you like to see differently?
11. How would you define customer loyalty?
12. How does (customer) segmentation takes place at the moment?
13. What does KLM know about its (potential)/ (un)known customers?
14. Is there relevant customer information available or is information missing?
15. Why would customer consider to fly KLM?

16. What does KLM offer to its customers from your viewpoint?
17. When is a customer seen as valuable towards KLM?
18. Are you familiar with the personas, and do you or does your department makes use of these?
19. What perspective does your function/department/KLM take in viewing its customers?
20. On which level is it possible and/or desirable to acquire, processes or use customer information? 21. Is it possible to track passenger on an individual level?
22. What is your opinion about KLM's focus on their customers?
23. What would you like to see different in terms of customer marketing, research of service and care?

## C. List of interviewees and attendees of focus group discussion

|  | Name | Function | Department | Division | Interview? | Focus group? |
|---|---|---|---|---|---|---|
| 1 | Coriene Inia | Head of Customer Relations | Customer Care & Service | KLM The Netherlands | X | X |
| 2 | Hans Zijlstra | Director Customers Insights | Customer Insights | KLM Corporate | X | X |
| 3 | Pim Neijenhuizen | Manager Legal Issues | Customer Insights/KLM Legal | KLM Corporate | X | |
| 4 | Gerard-Pieter de Haas | Head of Customer Relationship Management | Customer Management | KLM Corporate | X | |
| 5 | Pepijn de Kort | Head of Customer Marketing | Customer Marketing | KLM The Netherlands | X | |
| 6 | Diederik Oelrich-Winkelaar | Head of Direct Sales & e-Commerce | Direct Sales & e-Commerce | KLM The Netherlands | X | |
| 7 | Wietse Mulder | Manager Direct Sales and B2B | Direct Sales & e-Commerce | KLM The Netherlands | X | X |
| 8 | Iris Cremers | Manager Digital Experience | e-Commerce/Customer Insights | KLM Corporate | X | |
| 9 | Maaike van der Horn | Manager E-Services | e-Commerce/Customer Insights | KLM Corporate | X | |
| 10 | Roy Scheerder | Former Vice-President Marketing | Managing Director KLM | KLM The Netherlands | | |
| 11 | Bastiaan Hoogendoorn | Vice-President Marketing | Marketing Communication | KLM The Netherlands | X | |
| 12 | Marco van Vliet | Head of Product & Revenue management | Product & Revenue management | KLM The Netherlands | X | X |
| 13 | Madeleine van Wilderen | Product Manager | Product & Revenue management | KLM The Netherlands | X | |
| 14 | Jerry Versluys | Sr. Pricing Manager | Product & Revenue management | KLM The Netherlands | | |
| 15 | Jos Knevel | Sr. Revenue Analyst | Product & Revenue management | KLM The Netherlands | | |
| 16 | Paul de Raad | Former head of Product & Revenue management | Product & Revenue management | KLM The Netherlands | | |

## D. Focus group discussion topics

### 1. Why would customers consider to fly KLM?
This discussion topic intended to open the discussion. From a customer's perspective; there might be many reasons to fly. Based on these reasons, it appears that there are different needs and interests amongst different (types of) customers. Thus, why would customers choose KLM on the basis of their needs and interests?

### 2. What propositions could KLM offer their customers in terms of customer advocacy?
It is expected that the given answers to the previous discussion topic are product oriented. That is, the answers are explained from an inside out perspective. This discussion topic intends to give answer to the previous discussion topic, but now from an customer oriented, outside in perspective. E.g. is flying stressful, magical, or just a necessary evil? What can customers better do in-flight than on the ground? In what manner(s) can KLM make flying (more) attractive?

### 3. How can KLM design its products, services and its marketing in terms of customer advocacy?
In relation to the main elements of customer advocacy; trust, openness, transperancy and being relevant for customers, this topic intends to discuss possible steps and designs of a customer advocacy strategy for KLM. What is the role of social media, is customer advocacy proactive or reactive, or manners to increase customer satisfaction and loyalty.

### 4. From KLM's perspective: How can they measure the ROI of customer advocacy?
Assuming that KLM start to develop initiatives and a strategy towards customer advocacy, how can KLM measure its performance? What are suitable KPI's? What customer information is needed? How about benchmarking or advocacy tracking?

**5. In what manner can KLM stimulate a 'customer advocacy mindset' amongst its employees?**

Lastly, this topic intends to discuss how the employees of KLM should focus and direct their work towards customer advocacy. As mentioned during the introduction of this presentation, each employee directly or indirectly contributes to the customer experience. But who is responsible or accountable? Which departments or business function play a crucial role?

# Additional information

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