INTERNATIONALBUSINESS
MASTER THESIS NO 2000:46

DESTINATION LOYALTY

TCM DATA WAREHOUSE ENHANCES CUSTOMER'S LOYALTY IN A FREQUENT-FLYER PROGRAM ON A COMMERCIAL AIRLINE

A case study of Scandinavian Airlines Systems (SAS)

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ABSTRACT

As many companies attempt to sustain competitive advantage by obtaining loyalty from its customers through a customer loyalty programs. There is one concept that has gained profound awareness, to be exact The Customer Relationship Management. This thesis tries to present how commercial airlines are capable of creating and sustaining a competitive advantage. This is theoretically demonstrated in the model, which discloses different key issues to increase the strength of customer loyalty, mainly with the proper use of the company' customer data warehouse. At the same time, strive to demonstrate the importance of efficient and effective interaction between the analysts and the marketing department of the company, to create more effective marketing activities.

I have used Scandinavian Airlines as a case company for my thesis, the company's frequent-flyer program is a great example to study since it is one of the most common marketing strategies used by commercial airlines.

Key words: **Relationship marketing, sustain competitive advantage, target customer process, customer data warehouse**

ACKNOWLEDGEMENTS

To start with, I would like to thanks those that were interviewed at SAS, for their knowledge and guidance, especially Camilla Wallinder (Sweden Marketing Director) who took time out of her busy schedule to present me with the information necessary to make the thesis possible. Even though I wrote this thesis by myself I am very grateful to the generous and valuable advice from some of my classmates which made the long journey less painful.

I would also like to thank Professor Hans Jansson for his infinite patience during the extensive months it took to conclude this thesis. Without a doubt, he played an important part in this thesis by forcing me to face up to my perception and undertakes the problems from a different perspective.

Finally, I wish to thank my family and friends for their encouragement and patience.

Pedro Carlo Becerra

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1. Background & Problem Definition

1.1 Introduction

Recent deregulations in the commercial airlines' industry have lead to fierce competition between airlines, which in turn has resulted in pressures to lower flight prices and decrease margins. However, airlines are at the same time trying to fulfill the needs and wants of their customers – having one and the same carrier reach more destinations so that they can collect more bonus points. Therefore, airlines find themselves in a position where strengthening and tying closer relationships become of outmost importance. In an attempt to get closer and stronger ties with their customers, airlines have aggressively promoted frequent-flyer loyalty programs to increase customers' satisfaction. The main idea is that relationships, as intangible entities, are difficult, if not impossible, to copy. It is in this setting that I would like to introduce the concept of Customer Relationship Management (CRM). For example, (Berry and Parasuraman, 1991) argue that to sustain a relationship one needs benefits that are important to customers and at the same time difficult for competitors to duplicate.

Marketing research estimates that CRM will be worth $ 16.8 billion a year by 2003, with an annual growth rate of 49 per cent.[1] Nowadays, CRM is a popular theme with many meanings. A technical aspect of CRM is that this concept focuses on the consumer database; as a result CRM can be seen as the driver for major investment in data warehouse systems.

1.2 Purpose of the thesis

The main purpose of this thesis is to create a model that illustrates how a commercial airline can build and sustain a competitive advantage through an efficient and effective Customer Relationship Management, by taking better advantage of their customer bank in order to have more effective marketing campaigns. In addition, another principal feature of this thesis will be linked to how Scandinavian Airlines can more effectively utilize their TCM data warehouse. The thesis will mainly be based on members of the *EuroBonus* frequent-flyer program and on how this loyalty program can affect the marketing strategy of the company. A case study of Scandinavian Airlines System (SAS) will be carried out.

1.3 Problem background & definition

Scandinavian Airlines, as most other airlines, offers loyalty programs such as frequent-flyer plans (*EuroBonus*) to their customers. The principal mission being to enhance their overall customer loyalty and create higher revenues, SAS would benefit by maximizing its marketing investment through target campaigning, e.g. Target Customer Management**.** In order to do so, SAS has initiated a major strategic project, where data-warehouses and subsequent techniques are visualize for this project, which will be referred to as the TCM data warehouse. Thus, in order to grasp the fundamental wants and desires of customers it is critical to understand the facts in the customer database so those customers can be offered what they really want. Hence, it is important to evaluate what kind of data is useful within the TCM data warehouse. The data need then to be analyzed and based on key information in the database; strategies can be developed for improving CRM practices with the members of the *EuroBonus* program.

[1] FT. understanding CRM (spring 2000).

1.3.1 Main Problem

How can a commercial airline make better use of its loyal frequent-flyer program and subsequent TCM process to upgrade its Customer Relationship Marketing?

The main problem has further been divided into two sub-problems:

1. What Type of Information Does the Database Consist of?
This area will identify and describe the nature of data stored in the warehouse. For example, it will discuss the sufficiency and magnitude of the data, two cornerstones for the future marketing campaigns targeting SAS *EuroBonus* members.

2. How can a commercial airline use the information obtained from its TCM data warehouse to segment and target its customers in a more effective way?
The second research problem mainly concerns the case company's ability to transform the data into useful information. For example, correctly used data can provide SAS with valuable information as to the identification of customer changes.

1.3.2 SAS as a Company Case

I have decided to select Scandinavian Airlines System (SAS) for a few reasons. Firstly, the company provided its customers with a frequent-flyer-program called the *EuroBonus* program. I found this frequent-flyer-program to be a great example as they used their customer database in order to obtain and strengthen loyalty from its customer, which is aligned with the main problem of my thesis. Secondly, I chose this company because I had easy accessibility to gather information as SAS headquarters are located in Stockholm.

1.3.3 Delimitations

The following are the delimitation of the thesis:

- The cargo service business unit of Scandinavian Airlines System will not be included in thesis, as there is no such program in place for this business unit. In addition, the cargo service unit is primarily a business-to-business operation.
- The Scandinavian Airlines hotel business (Radisson SAS) will only be included to the extent when it is a part of the airline's customer care and the benefits afforded its *EuroBonus* members, i.e. the non-*EuroBonus* segment of the Radisson Hotel clientele is not applicable.
- As the thesis is mainly focused on Customer Services and Customer Relationship Marketing, Star Alliance and travel agents will be discussed only in their relation to SAS and their exchange points.
- A case study of Scandinavian Airlines will be conducted due to limited resources there will not be a comparative analysis between Scandinavian Airlines and its major competitors.
- The intention is to examine and illustrate the marketing activities of Scandinavian Airlines. As a result, the financial aspects of SAS will not be argued or analyzed.

1.3.4 Main Source of Information

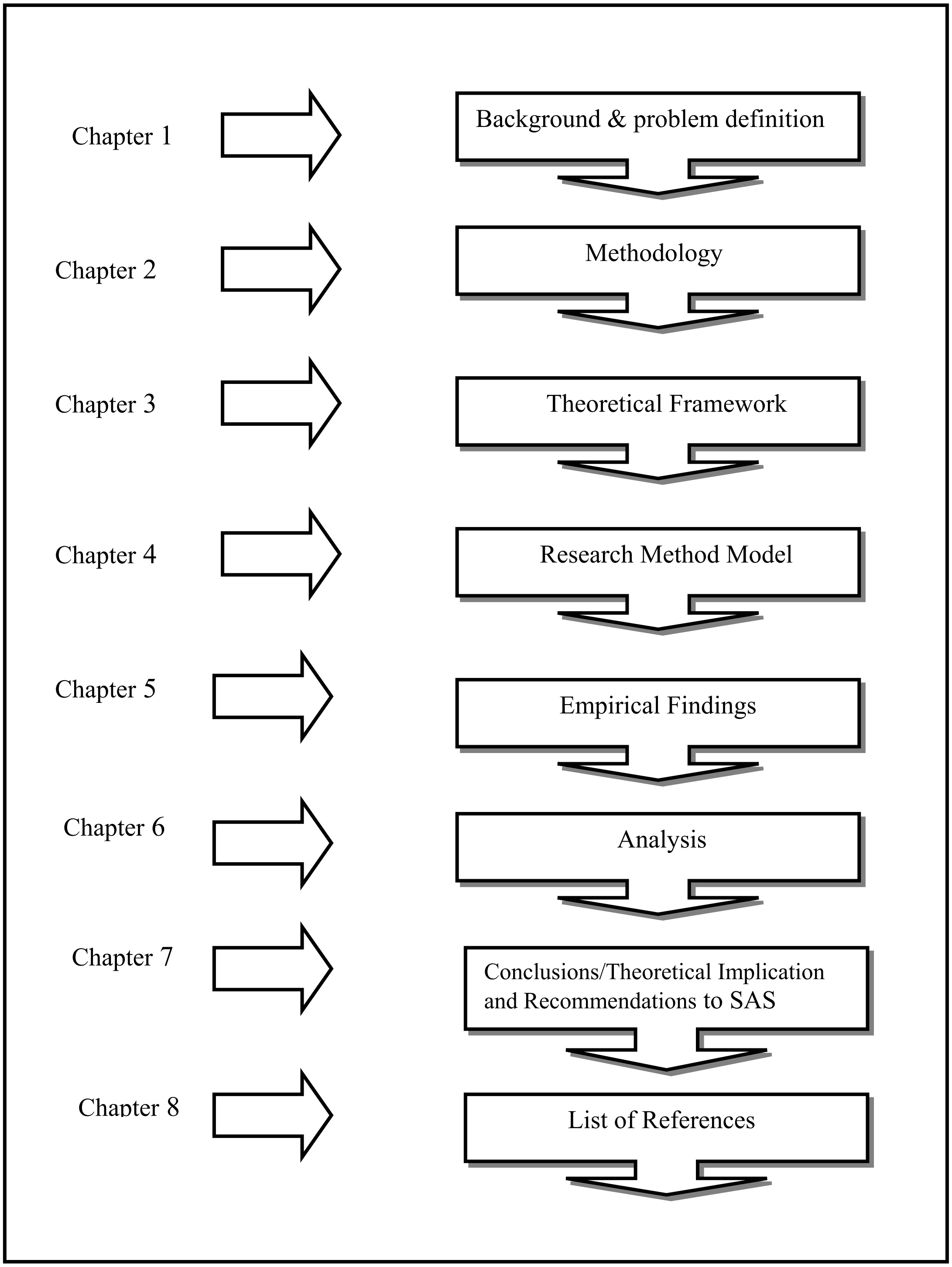
The thesis was conducted with the aim to provide SAS with information on how they can make better use of their database. In order to do so, I have chosen to combine current academic literature with the empirical findings obtained from my interviews (and visits) at SAS. The primary material (interviews, business reports, and their consulting reports) I have gathered at SAS is my main source of information. However, the interfaces of current academic literature and business articles have also provided me with crucial and vital information in order to answer the thesis problem.

1.4 Outline of the thesis

The introduction of this thesis (Chapter 1) presents the topic area such as the background, main purpose and problem definition. Lastly, the delimitation and main source of information are brought up. My research strategy will be presented in the Methodology section (Chapter 2), where I describe and explain my research approach, e.g. how the data were collected and analyzed.
Chapter 3 begins with the theoretical framework, introducing key theories and models that are going to serve as a base for several concepts that directly relate to Customer Relationship Management (CRM) and Services Marketing.

In this chapter 4 I illustrate the research model used in this thesis. Chapter 5 is a brief introduction and historical aspect of the case company, SAS. Further, this chapter gathers the empirical findings, where the theories mentioned in the theoretical framework will be applied. In chapter 6 the analyses of my findings are present. Further, in chapter 7, I present the conclusion of my analysis as well as my recommendation to SAS and finally the theoretical implications in where I present my own model (Implementing CRM strategies).

Figure 1: Thesis Outline



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2. Methodology

The purpose of this chapter is to explain the research method used in the thesis: type of research strategy and design, data collection, sampling selection, validity and reliability.

2.1 Research Strategy

There are many different research strategies to select from when writing a thesis. However, the choice of the strategy should be based on the question asked. Even here different strategies exist and are still dependent on the question (Yin, 1994, p 5). For example: is it an experiment, archival analysis, history, or a case study? Each type of study has its advantages and limitations and depending on what the researcher wants to investigate, the choice of study may differ. Merriam (1998, p. 41) argues that a case study is an investigation of complex units of many important and multiple variables. Therefore, it can be said that the research of this thesis is a case study, as it is an investigation to retain the holistic and meaningful characteristics of real life events (Yin, 1994, p.3). For my thesis, I have chosen to undertake a case study in Scandinavian Airlines.

2.1.1 Case Study Selection

A case study as a research strategy is "an empirical enquiry that investigates a contemporary phenomenon within its real life context, especially when the boundaries between phenomenon and context are not clearly evident" (Yin, 1994). In the case of SAS, its *EuroBonus* program, TCM process and RM, there is little or limited previous information that directly can answer my thesis problem. Thus, I have been able to fence in the area of research I will study and investigate. Further an advantage of a case study is that it allows the researcher to maintain a holistic view while examining real life events.

The thesis progressed with an exploration of the subject of CRM in today's business world, as it is a relatively new concept. As the study proceeded, I then wanted to clarify the subject by describing it in the SAS' business context by collecting relevant empirical findings. As the subject matter existed before I set out to conduct my research, I had little, or at least limited, control over the real-life events. Though, this experience is common among researchers using the case study approach (Yin, 1994). It is for these reasons that I argue that selecting a case study would be the best method to help solve the problem stated.

2.2 Purpose Sampling

The two basic types of sampling are *probability* and *non-probability* sampling. The former allows the researcher to generalize results of the study from the sample of the population, from which the sample was drawn. However, since generalization in a statistical sense is not a goal of qualitative research, non-probability sampling is the method of choice for most qualitative research. The most common form of non-probabilistic sampling is called *purposive* and is based on the assumption that the investigator wants to discover, understand, and gain insight, and therefore must select a sample from which the most can be learned. In qualitative case studies, two levels of sampling are usually necessary. The researcher must select both "the case" to be studied and further, some sort of sampling within the case, due to time- and resource limitations (Merriam, 1998).

2.3 Scientific Research

Yin identifies three main research strategies using a case study approach:
Exploratory research means gathering information within a certain area and the researcher hopes to develop hypotheses and propositions for future inquiry (Yin, 1994, p. 3). As I did not have a broad knowledge in the area of customer databases (data warehouse) within the commercial airline industry, I started my study in an exploratory way by gathering as much information as possible within the scope of the thesis.

The second type is *non-experimental or descriptive research*, which is used when you are striving for a description or details rather than predictions based on cause and effect. The non-experimental or descriptive research approach can be used when it is not possible to manipulate the potential causes for action or when the variables are hard to identify. Descriptive studies are normally inductive in their character and it is impossible to receive all-important variables in advance (Merriam, 1988, p. 22).

Explanatory research, meaning that the person doing the research uses variety of existing theories as well as empirical findings, attempts to explain the relationship between different factors and actors. In this particular case I try to explain the interrelation between customers (member of the *EuroBonus* program) and factors such as the SAS data collection and this company marketing strategies. This corresponds to the analysis of my findings; the analysis was argued with the goal to answer the main problem of this thesis.

2.4 Theory Selection

There are three main propositions on which theories to use: *deductive, inductive* and *abductive.* Indeed, it is the last one, which relates to this study.

Deductive, this type of approach is used when the researcher is to prove and come up with conclusions from existing theories. Typically, the researcher prepares the case study by studying literature about a particular subject and theories that might be applied onto the problem; i.e. the theories are applied in the real world.

Inductive, the inductive approach is when the researcher formulates a theory directly from reality. The researcher is able to build theories based on the empirical findings.

Abductive, is a combination of the inductive and deductive theory design. This means that the case builds on newly developed theories as well as on mature ones. Here the researcher is trying to extend existing theory by, for example, examinations of new areas, where the abductive cases need to be confirmed through new studies (Alvesson, 1994, p. 42).

2.5 Case Study Design

The purpose of having a design is to avoid failing to address the initial research questions. (Yin 1994, p. 18) means that the research design is the logic that links the data to be collected with the initial questions of a study. The author in this case separates between four different types of research designs, categorized in pairs. The first pair consists of single-case and multiple-case designs, while the second pair is based on the unit of analysis covered. In turn, the second pair is also divided into holistic and embedded designs. A preferred term to define this study can be a single case study with enclosed units of analysis.

2.6 Data Collection

As mentioned in Merriam (1998, p. 137), collecting data in a case study the researcher most often involves several strategies for information gathering, such as interviews and analysis of documents. According to Halvorsen, (1989, p. 72), there are two types of information: primary and secondary. Often a combination of the two is used, as it is sometimes necessary to study a case in more detail to be able to proceed with your research. Using these sources of information can be useful, if the researcher believes that a single source of information is not enough. Hence, I needed to gather more data from interviews and documented information. Below I will give a brief concept of the primary and secondary data collected for this thesis. The data collection was done and followed by the research model presented in chapter 4. The following table presents the major actors (study points) as well as a presentation of the data collected.

2.6.1 Primary Data

Primary data consist of information gathered from personal interviews conducted with people working in the field or with knowledge of it. For example, in the beginning I decided to do my thesis in the chosen area and have Scandinavian Airlines as case company. I perceived that the best way to obtain valuable and reliable information was to conduct interviews targeting the employees of the company. As a result, I went to Stockholm where the Scandinavian Airlines headquarters office is located. Due to financial limitations and time constrains I conducted four interviews, of which two of the people interviewed worked in the *EuroBonus* department, a third was SAS Marketing Director in Sweden. Lastly I interviewed an employee of “Super Office”, a Norwegian based company that provides CRM solutions.

2.6.2 Interview Guide

There are different categories of personal interviews: structured interviews, semi-structured interviews and unstructured interviews (Merriam, 1988, p. 87). The interviews conducted were crucial for the development of this thesis, even though some of them do not have direct contact with customer passengers. The types of interviews conducted were identical for the two employees working in the *EuroBonus* department. The others two were more focused on some particular aspects due to their knowledge in that area.

2.6.3 Secondary Data

I have gathered an extensive amount of secondary valuable data from the company to get a better view of area. Further I also read some literature on relationship marking, Relationship Marketing in the services area, and Customer Relationship Management. In addition I collected data come from articles on magazine, newspaper (Financial Times) Customer Management Journal, economics magazines, and the Internet.

2.6.4 Using the Data Gathered

After the data was gathered it was time to organize it in a proper way. I used the data in accordance with the research model and it is in chapter 5 I have chosen to present all the findings collected. However, I have presented data gathered from interviews mixed in different sectors of this thesis such as the *EuroBonus* program, traditional marketing set up vs. target customer management set up, and target customer management data warehouse.

2.7 Quality of Research

2.7.1 Internal Validity

Merriam (1988, p. 177) means that internal validity concerns the question of whether your theoretical framework is in accordance with reality or not. On the other hand Yin (1994, p. 35) argues internal validity from two perspectives. First, he means that internal validity concerns only explanatory research, meaning that the researcher in this case tries to see if one event leads to another event. This means that there will be some degree of interpretation and conclusion from the researcher's side, which could risk the internal validity. In addition, Yin argues that concern for internal validity might lead to the broader problem of making conclusions. Furthermore, Yin also argues about the *Triangulation* process, which combines findings from multiple sources to reach conclusion.
Yin (1994) mentioned that there are four types of triangulation:

- Data triangulation
- Investor triangulation
- Theory triangulation
- Methodological triangulation

I will use data triangulation to ensure the accuracy by interviewing several sources at different levels in the company (SAS). Moreover I will use multiple sources of secondary data as foundation for my theories.

2.7. 2 External Validity

External validity means to what extent the results from one investigation could be used beyond the case study, that is, the degree of generalization you can make (Merriam, 1988, p. 183). To be externally valid, a case study must first meet the requirements for internal validity. Yin (1994, p. 36) means that a result must be tested or proved also in other research, in order to be able to generalize to a larger extent. Critics differ as to whether a single case can be used as the basis for broader generalizations as certain factors are case specific. However, that depends on what it is that will be generalized. I believe that my findings can be generalized to other commercial airline carriers as the organizational structure looks fairly similar and almost all carriers to some degree have a global approach to marketing.

2.7.3 Reliability

This means that another researcher following the same procedure of my study can replicate the findings. According to Merriam (1998), the results derived from the data collected should make sense to outsiders, rather than lead to exactly the same result as accounted for in a specific study. In addition to this the goal is to minimize errors and biases of the study.

The use of multiple sources of data has increased the reliability in this study. During the interviews, notes were taken and also, tape-recorded, to ensure that no important facts were lost.

2.8 Sources of Errors

There are two types of errors possible in any thesis. Systematic error is the most serious error as it means that the researcher has used the wrong method, which of course will affect the validity of the research. The second error, which might affect reliability is interpretation followed by the researcher in where the correct procedure but misinterpretations may lead to inaccurate results. During the research I have been aware of the possibility of errors and obviously tried to eliminate them to the extent possible.

Throughout the personal interviews I was trying to be sure that the interviewee had a clear understanding of the question, due to the fact that the interviews were conducted in English, which was not the first language for the people interviewed (neither for myself). However, there is always a risk that the questions where misunderstood or that I misinterpreted the answers.

Another possible error is the bias of the researcher. Actually, before the interview I had a certain idea about the industry in general. As a single person wrote the thesis there is the possibility of affecting the interpretations of the answers too individually. However, as I mentioned before, this fact cautioned me to be extra careful during the interpretation of the data.

3. Theoretical Framework

This chapter will present different theories within Service Relationship Marketing, as well as in CRM. Expectantly, these theories will lead to several concepts that have the capability to link the issues of building or creating a more effective CRM. However, first I would like to discuss the notion of sustained advantage and its linkage to CRM. Finally, I will close the chapter with an attempt to justify my reasoning behind the use of presented theories.

3.1 Sustainable Advantage

It is outside the scope of this thesis to define and discuss the different methods of competitive advantage. Instead, I will discuss the context in which a company, in this case SAS, has utilized the strategies of CRM in order to defend and uphold its position in the fiercely competitive commercial airline industry.

The terms sustained advantage and sustained competitive advantage could be interpreted and used interchangeably (Barney, 1991, and Grant, 1991). Sustainability does not refer to a particular period of calendar time, nor does it imply that advantages can be preserved indefinitely, but rather that they depend on the possibility and degree of competitions' ability to duplicate (G. Mcgrath, 1995). It can be said that a firm has sustained competitive advantage when it employs and executes a value-creating strategy that has not been implemented by any current or potential competitor.

In effect, the idea behind a sustained competitive advantage is to build up a strategy that cannot easily be duplicated. While relationships are difficult to establish and cannot be constructed according to certain specifications, they are particularly difficult for competitors to copy. It is in this context that I would like to introduce the concepts of relationship marketing (RM) and customer relationship management (CRM) as means to sustain advantages.

3.2 Relationship Marketing

Nowadays, the concept of RM has become one of the most important, as well as demanding, aspects of any business climate. There is no exact definition of the RM concept, but I have chosen to explain it using the two following excerpts:

"Relationship Marketing is the ongoing process of identifying and creating new values with individual customers and then sharing the benefits from this over a life time"(Gordon, 1998, p. 9).

"Relationship Marketing is a Marketing philosophy whereby a firm gives equal or greater emphasis to the maintenance and strengthening of its relationship with its existing customer as it does to the necessary search for new customer"(Shaw, 1999, p. 199).

The two concepts above mentioned provide the reader with an idea of the phenomenon in today's business called Relationship Marketing. Yet, I would like to mention that both concepts are mainly referring to relationship marketing within a firm producing tangible goods such as agriculture or manufacturing. In reality, however, more and more people earn a living from producing services than making manufactured goods. Therefore, the growth of the services sector has presented many apparent contradictions in terms. I believe the principal reason for such apparent paradoxes is that service benefits can only be defined in the customer's minds.

Hence, the idea behind the concept of RM is to try to strengthen the bond between the provider and consumer rather than to increase the number of transactions between them (Gordon, 1998, p. 10). It is this line of reasoning that has directed me to the next point in case, where I present the major objectives of RM.

3.2.1 Objectives of Relationship Marketing

- To seek new value creation for the customer and then share the value created between producer and consumer.
- To employ the values that create mutual benefits for both the provider and the consumer so that the value is created *with* the consumer, not just for the consumer.
- To focus, design and align its business processes through the use of its information technology to support the value wanted by each individual customer.
- To recognize the lifetime value of distinct customer purchases rather than as the multiples of separate purchase transactions an individual customer makes.

Since I am writing my thesis on RM and CRM in the commercial airline industry, I find it vital to present RM in the service area more in depth.

3.3 Relationship Marketing in Services

In 1980, relationship marketing was developing within the context of services in both Scandinavia and the U.S. (Gummesson et al, 1997). In service marketing literature, services are generally exemplified to have the following characteristics: intangibility, inseparability of consumption from production (simultaneity), variability and perishability (the inability to keep services in stock). Marketing activities and delivery of a service are also partly carried out in direct interaction with the customer (Gummesson 1987). In fact, most services are the result of social acts that take place in direct contacts between the customer and the representatives of the service providers (Normann, 1984).

A contemporary concept of service written by Kotler, Anstrong, Saunders and Wong (1996) have provided a contemporary definition of 'service' RM context:

A service is any activity benefit that one party can offer to another, which is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product".

Still to this day there does not exist a consistent definition of what constitutes services. Funch (1968), for example, excludes transport and communications, citing that they are formed as an integral part of goods. On the other hand, Stanton (1981) includes activities such as entertainment and tourism but excludes activities such as delivery services and credit facilities.

However, some argue that there are many important common elements to goods, which make service marketing a totally different discipline. In contrast, authors such as Grönroos (1978), Lovelock (1981), Shostack (1977), Berry (1980) and Rathmell (1974) point out the difference that exists between goods and services, meaning that the marketing tools used for goods are not possible to use in service marketing. I believe this can partly be explained by the fact that many goods manufacturers view or implement services as a part of a marketing effort. Further, the interaction between service and consumption must, however, include marketing into the production process as a whole, not just as an intangible wrapping.

3.3.1 Loyalty as a Main Goal

Loyalty in service marketing is represented by those activities that are carried out by the organization for the development of a long-term relationship with its customers (Kandapully, 1998). As a result, the organization's success will to a larger extent be dependent and determined by its ability to offer service to fulfill customers' present needs, to anticipate their future needs and enhance the ongoing relationship (Freid/Freid, 1995). The concept of loyalty can be define as*:*

> *" Loyalty is the reflection of the customer subconscious emotional and physiological need to find .constant source of value satisfaction and identity"(Jenkinson, 1995, p. 116).*

M. Stone (2000) presents a different point of view to the loyalty concept, where she describes loyalty as a matter of geographic convenience than anything else and few customers are prepared to change well-established buying habits in response to efficient marketing system.

Due to the high degree of competition that exists in any given industry, it is the value-added services that will make customers prone to remain loyal. After all, researches have shown that keeping previous customers through value-added services is less costly than trying to gain new ones (Andersson and Fornell, 1994).

Returning to my thesis area, the commercial airline industry, it is important to remember how airlines nowadays are trying to build an effective relationship with their customers. Hence, it is crucial to provide the reader with an adequate understanding of the concept of the *loyalty program*.

Furthermore, it is fundamental to mention the impact brought by the introduction of loyalty programs in the commercial airline in the earliest 1980's. The introduction of loyalty programs was due to struggle to gain loyalty from customer in the tough competitive environment. The ultimate goal, of course, was to tie your customers closer to you and in that way increase the stream of revenue.

3.3.1.1 Loyalty Programs and Profitability

From the provider's point of view, the principal aim of any loyalty program is to fulfill the customer perception of the service, so that they will remain loyal to the provider. Normally, there are nascent benefits of being the first company to offer a loyalty program. Even though the first movers gain some additional advantage over competitors, buyers can expect to find more loyalty programs in the sector in the future as competition stiffens (Gilbert and Karabebeyekian 1995). Indeed some studies show that some loyalty cards or programs do not promote brand loyalty. For example:

> "The special deals or discounts offered by a supermarket to a particular person might not influence this person loyalty. As the person might be loyal to the supermarket for others reasons such geographically convenience".

Hence, these cards are not effective when the loyalty has already been established. (Jenkinson, 1995).

3.3.2 The Five Major Characteristics of service

Defining concepts without finite limits can give rise to many interpretations. For that reason, there is no common opinion on how to define service. A manufactured product, for example, has a clear beginning and a clear end, i.e. the features and product specifications are fixed once the product has left the production line. With services, however, it is difficult to make any such observation, as it can be seen as a product 'in-the-making' and it is not clear where and when the process begins or ends. However, it is not my ambition or objective to list all the different types of services but instead to give the reader the nature of service, or the characteristics of service. The principal reasoning behind is that one can understand the nature of a concept without being able to clearly define it. The characteristics I have chosen to describe are as follows: intangibility, inseparability, variability, perishability and, ownership.

3.3.2.1 Intangibility

Every time a product is purchased it is possible to examine the physical attributes of that product, such as the aesthetic appearance, taste, smell etc. More often than not, a service does not have these properties. The intangible process characteristics that define services, e.g. reliability, personal care, attentiveness of the staff, etc. can be only verified once the service has been consumed. As an example, taking a commercial flight is commonly considered an intangible service, though the aircraft itself is highly tangible.

3.3.2.2 Inseparability

Manufacturers have traditionally produced tangible goods in one place and then transported them to a place where customers can purchase them. However, the consumption of a service is inseparable from its production. For example, a passenger consumes a seat in an aircraft simultaneously as the pilot produces it. Hence, there is a dynamic participation of the customer in the production process (A. Palmer, 1998, p. 13). This interaction during the production process give rise to the opportunity (and necessity) for marketing the services by creating positive *"moments of truth"* whereby the customer is encouraged to purchase again from the same provider (Gummesson, 1987).

3.3.2.3 Variability

Variability stems from the limited or no overlap in time between the service provider and customer interaction. Because of human nature, the higher the degrees of customer contact the higher the degrees of performance variability; high performance variability impedes the continuity of quality. The inconsistency in the service is probably one of the major problems for services compared with goods. It can be difficult to carry out monitoring and control to ensure consistent standards in the service. There are two dimensions of variability: 1) the inconsistent production standard that exist in terms of outcomes and of production process. Of the greatest concern in service organizations lays the variability in which customers are very much involved in the production process: 2) the delivery variations of service to meet specific individual's customer needs. There are some services that allow a greater level of quality control, such as machine-based services (dry cleaning).

The levels in which a service can be customized depend to certain extent on the production methods employed. Services that are produced for a large number of customers simultaneously may not offer a high level of customization.

3.3.2.4 Perishability

Thus another major characteristic of the service area is that they cannot be stored. This particular aspect of services is closely related to the degree of intangibility and simultaneity (inseparability). Once an aircraft has left the ground, the empty seats are lost and cannot be stored for another flight. Likewise a restaurant cannot store their guests' visits. It is only possible to have an effect on the service influence through operation capacity management. In addition, service marketing management needs to pay attention to the scheduling of service production rather than optimizing inventories, which is a common problem area in manufacturing.

3.3.2.5 Ownership

Ownership relates to the fact that when purchasing a product the buyer gains title to such product. In services, no ownership has been transferred between the seller and the buyer; rather, the buyer is mainly buying the right to a service process. Both of these examples can again be exemplified with airline passengers. In addition, it is important to point out that some times the buyer can acquire the right to have the service carried out in the future. The following table presents how service marketers are able to apply some marketing activities from the goods sector and vice-versa.

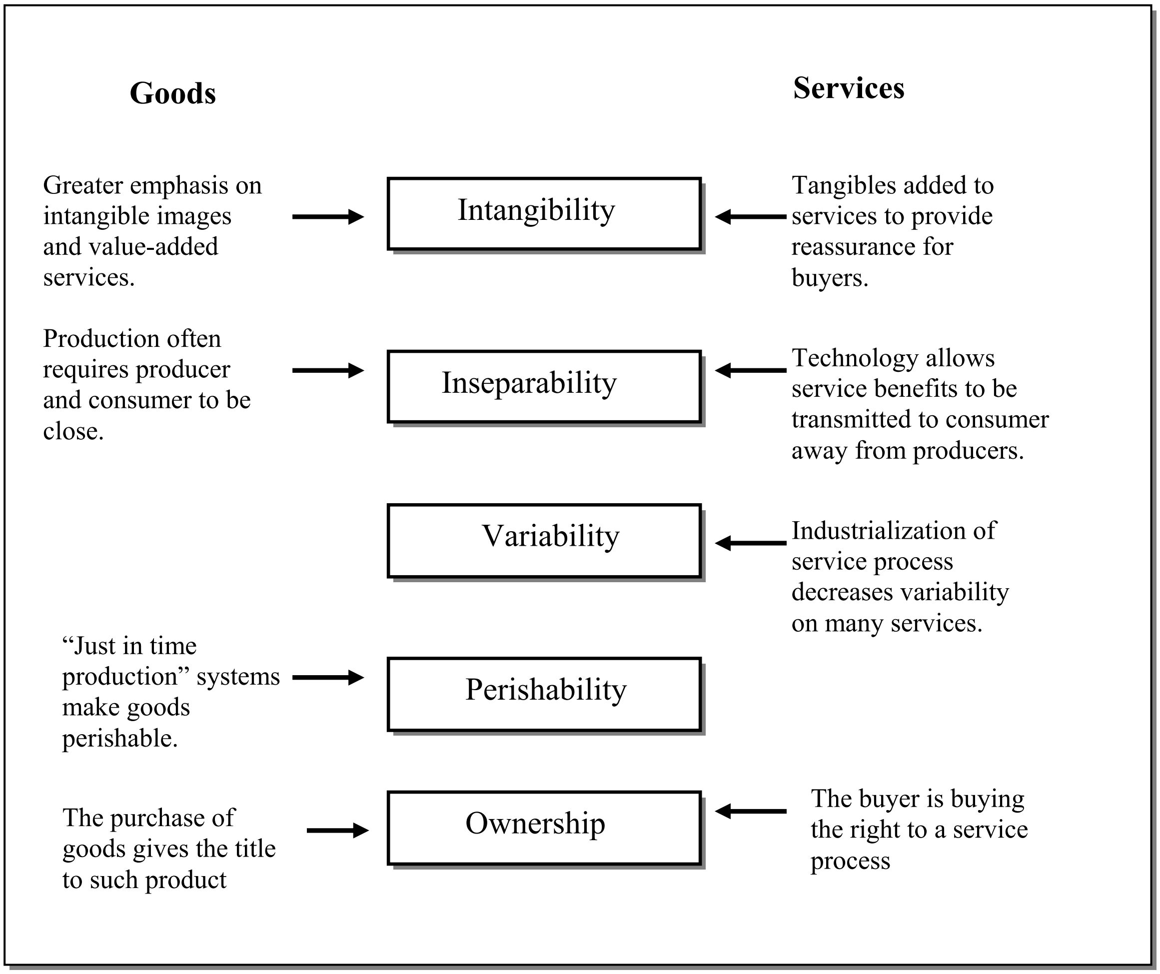


Figure 2: Service characteristics (A. Palmer, 1999)

Now that I have presented the major characteristics of service there is yet another element that is of utmost importance when defining a service offer: service quality.

3.4 Service Quality

Crosby (1984) has defined one of the basic concepts of quality as "conforming to requirements." This means that companies need to establish its quality goals based on the requirements (needs) of the customers in order to achieve customer satisfaction and to improve the customer's perception of the service quality (Juran, 1982). Grönroos (1984) has identified service quality as a concept with two dimensions, in which the technicality and functionality are the two major components upon which the customers make their judgment of the quality of the service.

3.4.1 Technical Quality

The customers and suppliers form an important basis for judging service by means of technical quality. Some examples of technical qualities are the waiting time in the bank and the reliability of the bus service. Yet, another element that makes up perceived service quality is the fact that service directly involves the customers and *how* this technical quality is delivered to it. According to Grönroos it can also be considered the functional quality, which directs me to next point.

3.4.2 Functional Quality

Commonly speaking, functional quality is the manner in or by which means the service is delivered. Thus, another dimension of service quality needs to be taken into consideration, one that cannot be easily measured by suppliers and customers, as is the situation with technical quality. In this case, the line in the bank can exemplify the functional quality, where it is influenced by factors such the bank's staff as well as their attitude. Hence, the staff delivers the service and at the same time such an aspect of the service cannot be measured. An anecdote here can be the role for a service firm's *corporate image* in setting up the customer perception of quality, which is based on both technical and functional quality.

3.4.3 Service Expectation

Nowadays, companies are truly concerned with providing their customers with excellent service quality. Unfortunately, some of them cannot accomplish this goal due to the fact that they do not have an accurate understanding of what the customers expect from the company. Marketing research can provide the company with customers' expectations and perception of the service. Asking the following questions could be useful for service organizations (Palmer, p. 155):

- What important service features do customers consider?
- What level of these features do they expect?
- How do customers perceive the service?

There are many methods for researching customer expectations. Zeithaml, et al (1996), argue that some of the principal and most effective means for measuring service quality are the following:

- **Varied.** This method combines qualitative and quantitative research techniques.
- **Ongoing.** Customer's expectations and perceptions are constantly as well as the way in which the service is provided. Hence is important that the service research process can be seen has an ongoing or continuous process, hence changes can be quickly discovered and actions can be taken.
- **Undertaken with employees.** Due to the staff are normally in contact with customers, the customer have the possibility to ask questions about the service, possible improvements or personal motivations.
- **Shared with employees.** Improvements can be made for the employees regarding to the delivering of service quality if they are aware of the results of the studies of customer expectations.

The following figure illustrates the major elements within the service quality and the interaction among them:

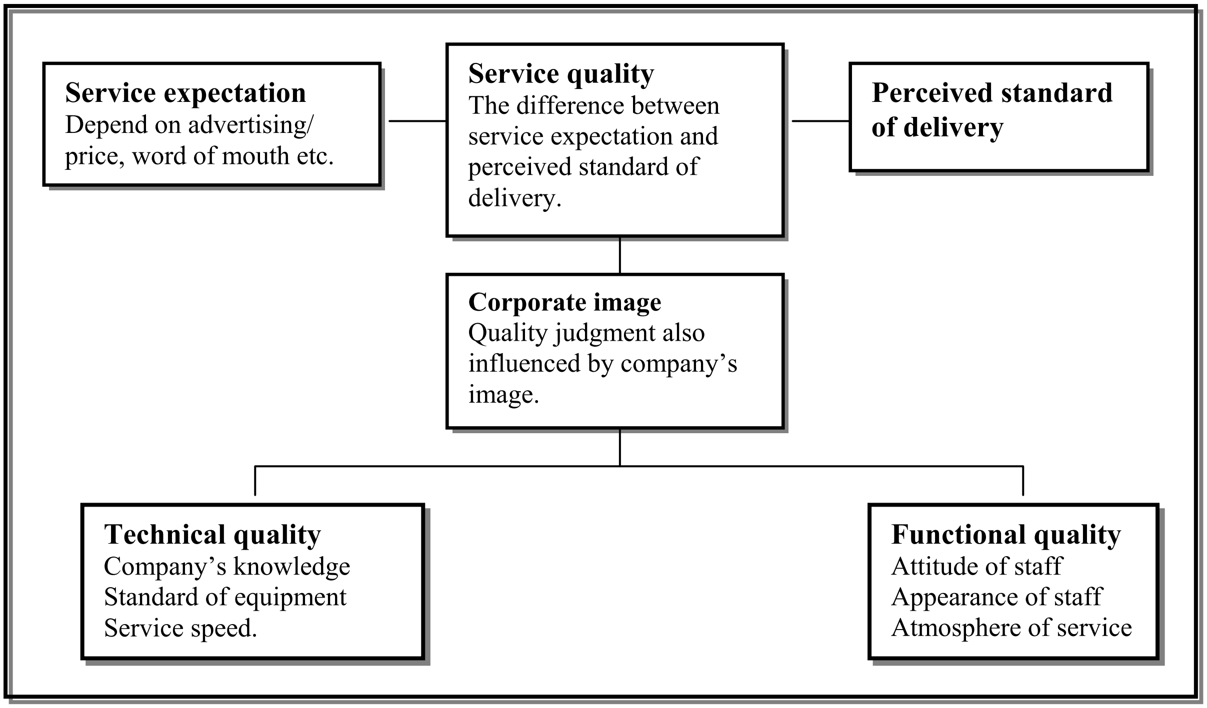


Figure 3: Service quality model based on Grönroos (1984)

3.5 Relationship Marketing as a Strategy

The next point that I will discuss is how businesses within the service area are able to develop and use relationship marketing as their main strategy. A marketing strategy has usually dealt with the notion that the firm is trying to develop or create potentials for new market segments. Allocating financial and other resources according to a certain marketing mix to serve each segment is therefore vitally important. The traditional definition of the marketing mix composition (product, price, promotion and place) can be appropriate in the case when the marketing department of the company is trying to focus on a specific market segment.

Nonetheless, when the segment narrows down to a single person or company, the goal is to build and share that value with a particular customer. There are different tools a company can apply and exploit in order to reach this goal. As the cornerstones of all relationships start with people in the first place, it is only natural to include them as a primary resource, or capability. The next step is by which means, or processes, do people start relationships? A process is the progression and method that can initiate relationships. Further on, once the process has started, it becomes necessary to know and understand how the process actually works, which in turn brings in the knowledge element. Last, but not least, an infrastructure of some sort is needed so that all the others elements can be easily distributed and circulated for optimal use.

I will present the model of *Resources and capabilities of relationship marketing,* created by I. Gordon, author of several known Relationship Marketing literatures. The model consists of these four capabilities of RM and how they are interrelated with each other. The main reason for using this model is that each of these capabilities has a few points so that the reader can obtain a more extensive and proper background to the main problem of the thesis (Gordon, 1998, p. 25).

- People
- Process
- Knowledge and insight
- Information, technology

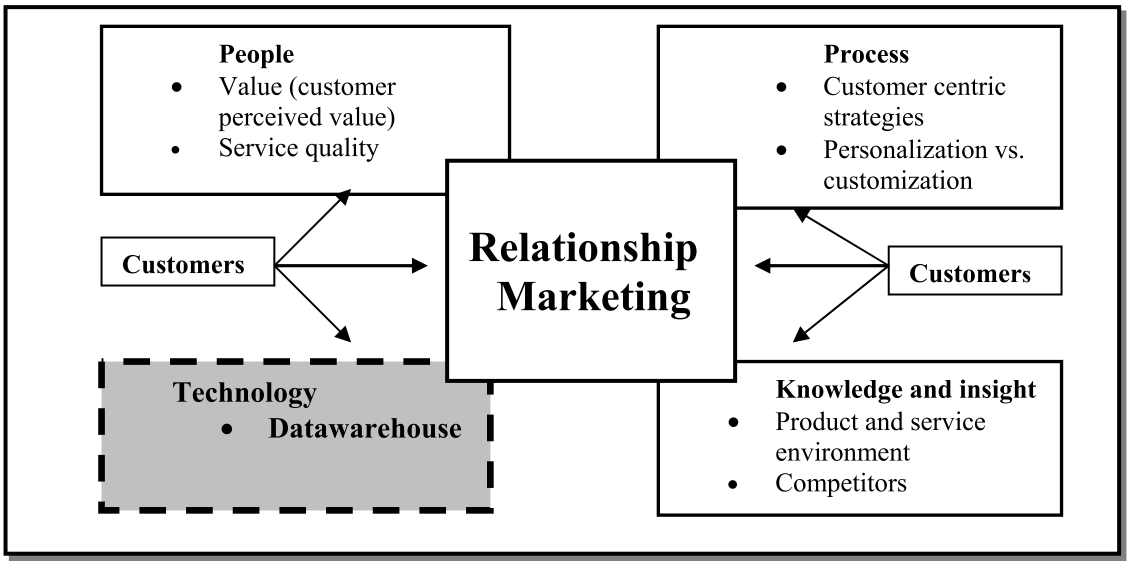


Figure 4: Gordon's model

3.6 People as a Capability of RM

People are at the center of any relationship; in relationship marketing *people* manage the technology and the process and create value with- and delivers it to the customer (Gordon, 1998, p. 59). I would like to present the importance of values in marketing, as well as the concepts related to the topic. I have also included the element of *service quality* as one important factor in this capability, as people, in this case the employees of the service provider, play an important role in how the customers perceive the quality of the service delivered. Nevertheless, I will start by presenting the importance of values in marketing.

3.6.1 Importance of Values in Marketing

It is important for business to have a profound understanding of the ranges of values, which inspire customers who are members of loyalty programs, e.g. hotels, restaurants and frequent-flyer programs. The understanding of the values is for the most part with the goal to have a segmentation of the customer by their values and at the same time with the provider. Much of the construct value research in marketing has been made by Rokeah (1968, 1973), who defines "value" as:

> *"An enduring belief that a specific mode of conduct or end-state of existence is personally and socially preferable to alternative modes of conduct or end existence."*

Rokeah argues that value guides actions, attitudes, judgments, and comparisons across specific objects and situations, as value is a determinant of both attitude and behavior. It is also argued that individuals possess many fewer values than attitudes. Using this value concept is a prudent way of describing and explaining the similarities and differences among individuals and groups.

However, many other studies have put the concept of "value" in the context of expectancy-value-analysis, (eg. Fishbein, 1963), and (Rosemberg, 1965). The expectancy value models focus mainly on the evaluation of the product and attributes in relation to brand preferences. Even though this is useful research in predicting brand choices, it does not explain why customers prefer one brand to another (Vinson, 1977).

3.6.2 Customer Perceived Value

Ravald & Grönroos, (1996 p. 21), Lapierre, (2000) describe customer perceived value as the ratio between the customer perceived benefits and customer perceived sacrifice (see figure below). The perceived value benefit is the mixture of physical attributes, such as technical and service support regarding the product as well as the purchase price.

The perceived sacrifice takes into account all the costs the buyer faces when making a purchase: purchasing price, acquisition cost, transportation, installation, repairs, poor performance and risk of failure.

$$\text{Customer Perceived Value} = \frac{\text{Customer Perceive benefits}}{\text{Customer Perceive sacrifice}}$$

Figure 5: Consumer perception of technical and functional quality (Grönroos, 1984).

There are two options to improve the customer perceived value. The first one is reducing the customer perceived sacrifice and second, increasing the perceived benefits by improving or adding new services. Another issue is cost sacrifice that can be indirect and psychological. Further, the psychological costs are related to the cognitive efforts, such as concerns or worries about suppliers for instance. By means of putting emphasis on quality and service, the company will try to minimize customer perceived sacrifice. In other words, the company needs to focus in minimizing the indirect and psychological cost. This consistency of value delivery may reduce the psychological cost and enhance the relationship between buyers and sellers.

It is important to have a good understanding of the dominant values of the target audience. For example, the link between a product and customer’s value system is critical for positioning (Reynolds, 1995). It also becomes imperative to realize the strong influence of personal values in the customer decision-making process. Therefore, it will enhance the awareness of the customer regarding an attribute of a product that earlier may not have been considered significant (Vinson, 1977). Indeed, the motivation underlying the consumption of many products and services may depend upon consumption values and it is commonly believed that effective marketing communications must recognize the relationship between customer values and their motives (Kahle, 1985).

3.7 Process as a Capability of RM

RM suggests that the company should organize around chosen customers. Thus, management needs to focus on bringing customers into the process of building a long-term relationship and aim to create mutual value together. There are two major points that are going to dictate the success of the RM of the company: customer-centric business strategies and customization vs. personalization.

3.7.1 Customer Centric Strategies

It is important to understand customer relationship planning and how it is done as well as recognizing three significant differences from traditional marketing planning:

- The company should plan around the customers' wants, not around the company's goals.
- The company should focus on listening to customers rather than forcing to them to listen to the company
- The company should refer promotional marketing communication including database marketing, e-database and e-marketing to a secondary role operating in the shadow of informal dialogue with customers. (www.crmguru.com).

3.7.2 Customization vs. Personalization

According to Gordon (1998, p. 225), it is crucial not to confuse these two terms. *Customization* allows the customer as well as the company to develop the products, services or communications that the customer wants. *Personalization* in this case is the process that enables services or products to illustrate the name of the customer, adding value to the customers as they position themselves with others. In addition, the right combination between personalization and customization can be the company's key to make the customer "ready" to actually consume the product or the service.

The three options of customization that the firm faces are:

1. Standard product, standard service, customized communication.
2. Standard product, customized service, customized communication.
3 Customized product, customized service, customized communication.

The commercial airline industry can be considered as a combination of the two firsts groups. First of all, *standard products* in this case can be seen as the core product, which represent the basic need to transport people from one place to another. Secondly, the service that an airline offers can be considered as a mixture of a standard service and customized service. Airlines try to treat each customer the same way as long they belong to the same segment.

For businesses, to satisfy its customers, customize their services. An airline is able to offer different services such as different routes for its different segments of customers. For example, passengers flying in the economy class are not able to enjoy certain services that are only available for the passenger flying in the business class, this is a simple example of how the airline offers standard products but customized service.

3.8 Knowledge & Insight as Capabilities of RM

The success of any business is to a certain extent connected to the knowledge and insight that the company has gained and used to customer advantage. Nowadays, there has been a shift from focus on knowledge in research for new products or applications to putting more focus in development and production processes. Knowledge and insight within Relationship Marketing has much to do with the data of the customer interactions, transactions and manifested behavior.

This means that the capability of knowledge development is very much related to the basic technology that can help develop customer knowledge in particular cases such as data warehousing, data mining and predicting models for customer behaviors (Gordon 1998, p. 75*)*. One aspect that is crucial in today's business life, regardless of the type of industry, is the knowledge that a company needs to access on its customer, but also on the products, service environment and competitors. Below I will discuss the importance of these two issues.

3.8.1 Product and Service Environment

The knowledge and insight that a company created is mostly to develop its relationship with customers and the information they can obtain from them. Therefore, the knowledge gathered on customers will provide the company with the critical means to develop and create new products (services) *with* the customers. At the same time it allows the company to find out more about the trend in the service environment in general, as well as in that particular industry. (Gordon 1998, p. 75).

3.8.2 Competitors

Another aspect related to the knowledge and insight of a company is the matter of finding information about competitors such as new products or services. For instance, in the commercial airline can obtain information about a new route that the competitor is opening, or the development of a booking system. By acquiring this valuable knowledge on the competitors and their strategies, firms are able to adopt their current strategies if necessary.

3.9 Information Technology as a Capability of RM

A lot has been said about the impact of technology, especially in helping to create new value on the relationship with the customers. Hence, this can be achieved by the constant flow of information with the following two characteristics.

- To provide information as an input to the planning of marketing activities.
- To monitor the implementation of marketing programs and allow for corrections when performance diverges from the target.

Marketing information cannot itself produce decisions. It simply provides data, which has to be interpreted by marketing managers. Marketing information draws data from all functional areas of the company, which actually use data in order to meet customer needs more effectively. So, information technology allows firms to deal with theirs customers on a one-to-one basis. For example, marketing managers of frequent flyer programs in the commercial airlines with the support of the data warehouse are able to interpret changes in the flying patter of a certain customer segment. Furthermore, as information of the members of this particular segment is stored in the data-warehouse it is easier for the marketers to deal with them on one-to-one bases.

The use of information has been identified as a source of a firm's marketing orientation that permits the company to gain sustainable competitive advantage (Kohli and Jaworski 1990).

Information technology has been defined by Kotler as a system that:

...consists of people equipment and producers to gather, sort ,analyze, evaluate and distribute needed timely and accurate information to marketing decisions-makers (Kotler, 1997).

The companies that have implemented a marketing information system drop a number of factors that will determine their effectiveness:

- *The right accuracy on defining the organization's needs*. It can be difficult to identify needs. Hence, it is important to identify the boundaries of the firm's environment and to separate the relevance to the irrelevance within the context of the organization' needs
- *The comprehensiveness of the search for information*. It is important to find a balance between the need of information and the cost of collecting it. Thus, it is necessary to identify the cost of collecting relevant information against the cost of obtaining non-relevant information, which would result from an inaccurate guess.
- *The appropriateness of the sources of information*. Information can be obtained from many different sources for example using quantitative and qualitative measures.

Since the 1990s a whole new industry has developed based on the managing customer information with the support of database. Nowadays, the term Direct Marketing Response (DRM) is used to encompass marketing activities that enhance direct responses from mail order, direct mail, direct response advertising and telemarketing.

3.9.1 Direct Response Marketing

As previously mentioned, direct response marketing includes activities such as direct mail, mail order, telemarketing, and direct response advertising. The database of a company is likely to be constructed from a number of sources including its own trading records or bought-in list and database services from specialized service providers.

Many services can be offered to clients from a company's database**.** For instance, a client may require a mailing list to increase its penetration of a market. Hence, by supplying data about the current customer, the company is capable to establish the profile of the most profitable customers (A. Palmer, p. 131). The next point describes the way in which the service provider and the customer develop their feedback throughout distribution channels or touch point.

3.9.2 Distribution Channels or Touch Points

There are many different types of distribution channels. Some companies may opt for the direct way, in where the producer makes direct contact with the final customer for its product, without any intermediaries involved at all. These channels normally exist in the industrial marketing.

Direct channel has the advantage that no commissions have to be paid to channel intermediaries. They also allow producers to keep complete control of their marketing activities. However, the difficulty in this case is that they may make it complicated for the producer to achieve sufficient geographical coverage.

In terms of travel agency it is the dominant distribution channel for the commercial airlines. The trend until recent years has been increasing, with the forces of regulations allowing the travel agency industry to reinforce its position as the industry's dominant distribution channel (S. Shaw p. 163).
Moreover, there are many different ways in which a company can to get in touch with a supplier of services such as via the phone, fax, e-mail, and call centers. The last type of these services (call centers) has become a major service provider in its own right, along with banks, airlines, insurance companies and telephone companies. These call-centers can handle incoming calls efficiently using the latest technology.

It is not a secret that marketing research activities are critical for service organizations. Christopher Lovelock (1991) has identified some of the major factors that characterized successful service business. This will lead me to my next point, where I discuss the major services research activities.

3.9.3 Major Services Research Activities

Some of the most important marketing research activities are the following:

- *Research into customer needs.* This research is conducted with the purpose to learn what underlying needs individuals seek to satisfy when they buy services.
- *Research into customer expectation.* It is important to distinguish different qualitative techniques used to study the standards of service that customers expect for example delays or friendly staff.
- *Customer survey.* These types of research provide information about customer perception and expectation. Customer surveys have the dual function first of all providing the information needed as well as providing public relations tools by letting the customer feel that "the company cares about their opinion."

3.10 Conclusion of the Gordon Model

I would like to conclude this part by mentioning that the resources and capabilities model of Gordon is very effective. The main reason for that is its simplicity, the reader can identify the importance of the interaction of these four elements (people, process, technology, knowledge & insight) and their interaction with customers. Further, it is this interaction what I would like to describe next under the concept of customer relationship management.

3.11 Customer Relationship Management

As the concept of Relationship Marketing has been presented, there is then the concept of Customer Relationship Management, which can be seen as an element of RM. Furthermore, CRM is focused on RM from an external customer perceptive. Thus, a company applying CRM strategies is trying to create a sustainable advantage by closing in on the relationship with its customers.

Different theories and definitions related to CRM will be presented in this chapter. They will include a range of exchange phenomena, from relationships between firms and individual consumers. CRM is one of those terms that can stand for many things for some people, hence they can be divided in to three different groups. The first one sees CRM as the art of matching a product or service offer exactly to the customer's needs to be sure of the sale. The second group sees it more into call centers and the need to create a single cohesive view of the customer. A third group focuses on the consumer database with CRM seen as the drive to invest in the data warehouse systems. In order to have a better understanding of CRM, I have chosen to present a few concepts from different authors.

- *"CRM is the implementation of Centric-Business-Strategies; which drives re-designing of functional activities; which demand-re-engineering of work process; I use this definition because it reinforces the understanding that CRM is a chain reaction triggered by new strategies initiatives rather than something you can initiate at work process, or worse yet technology level"*
  (Dick Lee, CRM Talk guru).

- *"CRM is extent the concept of selling from discrete act performance by a salesperson to a continual process involving every person in the company. It is the art/science of gathering and using information about your customer to create loyalty and increase customer value"*
  (Larry Tuck, Editor Sales on Marketing Management Magazine.

- *Customer Relationship Management is the superset of business models, process methodologies and interactive technologies for achieving and sustaining high levels of retention and referrals and identifying categories of valuable and grow able customers. (Mei Lin Fung, CRM Talk guru)*

I would like to mention that one common characteristic in all three concepts of CRM as well as Relationship Marketing in the service area is the long-term relationship and loyalty which needs to be built between the firm and the customer. Moreover, if this close long-term relationship between the firm and the customer can be achieved there is a possibility that this will lead to a continuous exchange that produces lower marketing cost per customer (Grönroos, 1990).

3.11.1 Link between CRM and the Commercial Airline Industry

Lately, as loyalty is the goal of virtually all relationships, CRM has come into view as one of the major focal business strategies in commercial airlines. Some of the principal reasons why companies are implementing such strategies are due to over-capacity within the industry, changes occurring in the travel patters of customers, and price competitions. Therefore, a common method for airlines to implement these strategies is through the use of loyalty programs such as the frequent-flyer program.

3.11.2 Frequent-Flyer Program

Frequent-flyer programs (FFP) have a long history in the airline industry. American Airlines introduced the first program in 1981 and it was an immediate success. The American Company lead was soon followed by other major airlines. Indeed, it is much easier to isolate the airlines, that do not have a program than those than do (S.Shaw 1999, p. 206).

To offers travelers upgrade and free trip, if they fly a certain numbers of miles by a given carrier, the company is able to provide customers with price incentive, along with others benefit to consolidate much or all their travels with one carrier. Consequently, one would be inclined to think that FFP was a non-controversial element in the airline marketing, but it was not the case. Nowadays, carriers are faced with the challenge to keep their programs competitive in a mature and saturated marketplace.

3.11.3 Conclusion of the Chapter

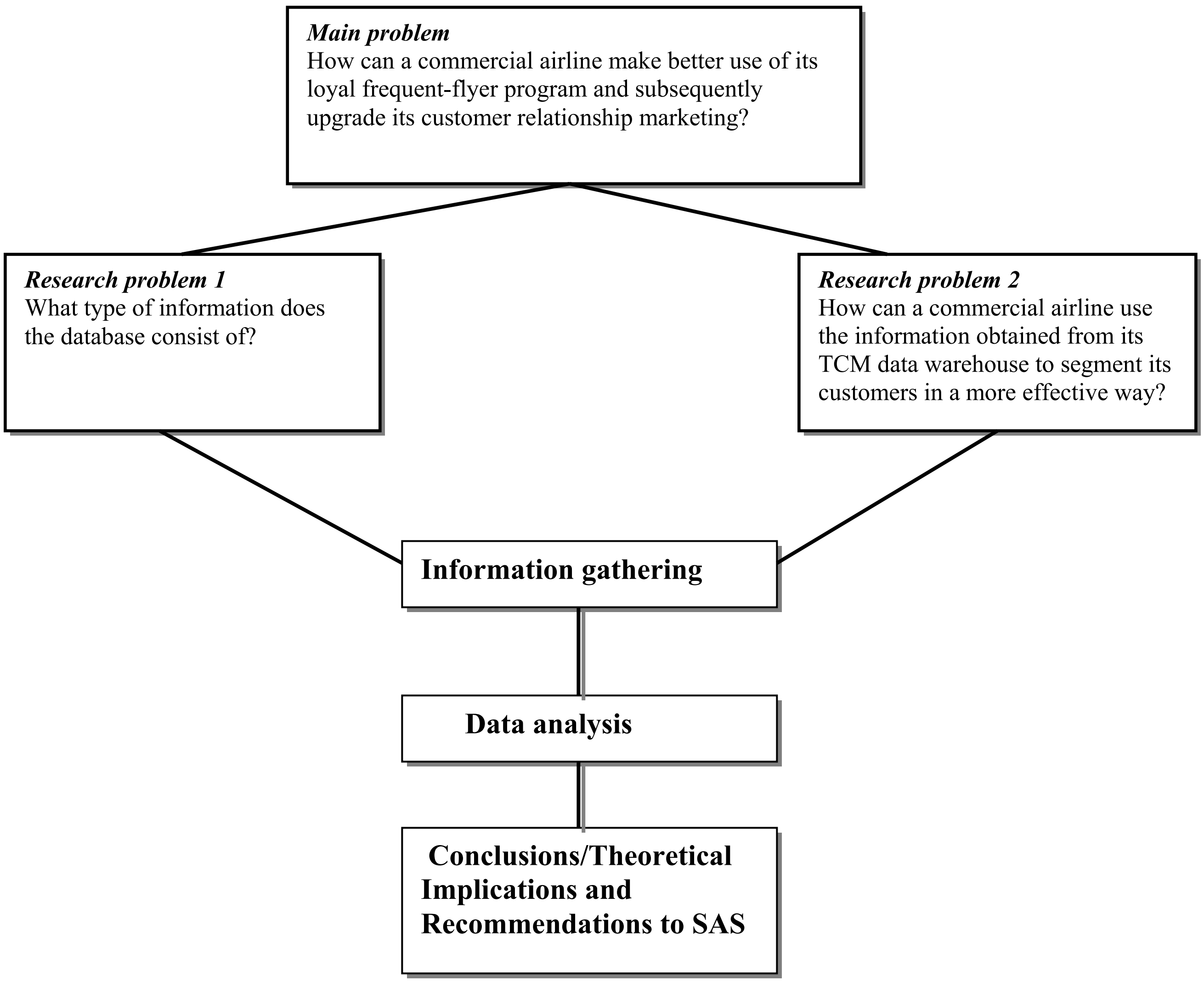
I would like to wrap up this chapter by giving a brief explanation of the reasons behind the use of the theories presented throughout this chapter. Taking into consideration the thesis's main topic, I found relationship marketing and customer relationship management suitable and fascinating areas to explore. Due to the fact that most companies in the service area witness the impact these two concepts have in their business, the goal to "build a strong relationship with its customer" becomes easy to understand.

However, in the analysis chapter I will focus mostly in technology as one of the capabilities of RM, as most, if not all, of my empirical findings relate to the TCM process and the TCM data warehouse. Seeking out empirical findings for the remaining three capabilities cannot be undertaken due to limited time and resources.

Instead they will be covered from a broader perspective giving me the opportunity to finds links between them and the commercial airline industry.

4. Research Method Model

Figure 6: Thesis research model



Source: Own, 2001

5. Empirical Findings

In this chapter I will present Scandinavian Airlines the case company, followed by its frequent-flyer customer loyalty program (EuroBonus). Following this, the TCM process will be presented and finally, how the TCM data warehouse can enable this process.

5.1 Introduction

The empirical finding area is a very important aspect of my thesis, as I provide a brief presentation on Scandinavian Airlines (SAS), which includes aspects of the company such as business concept, customer goals and their distribution channels or "touch points." With the exception of the touch points, the principal parts of these findings stem from secondary sources. The second section of this chapter contains the results from all of my visits and interviews at the SAS headquarters, as it is my main source of information, for example, the findings related to the *EuroBonus* program, the cornerstone of my thesis.

In addition, I will also present primary data gathered on the TCM process, as well as the impact of data warehouse on the TCM process. This section will also include my findings on SAS's business requirement synthesis and a summary on other relevant data warehouses to SAS. Lastly, I will conclude with the interaction between others' databases and the TCM data warehouse.

5.2 Scandinavian Airlines System

The SAS group incorporates Scandinavian airlines operations including freight transport (SAS cargo and airports) and flight sales (SAS trading). SAS also runs the International Hotels operations under the name of Radisson SAS hotel & resorts. The figure below illustrates how the SAS group is divided.

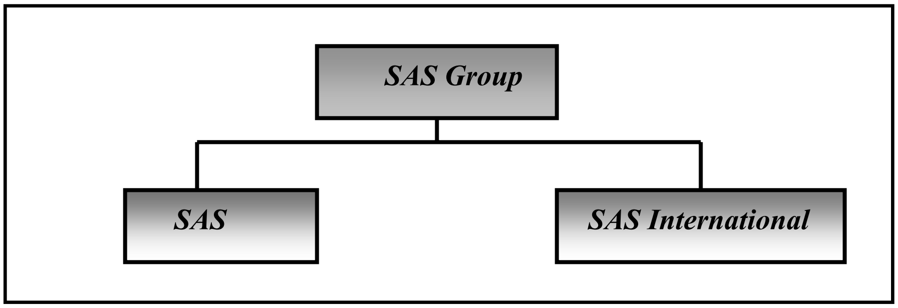


Figure 7: The SAS Group (SAS annual report)

5.2.1 Business Concept

The business concept is to serve the Scandinavian market while maintaining satisfactory profitability by offering flight services with special focus on frequent business travelers. Furthermore, business travel is the main target group for the company concentrating most of their planning services/products with the goal of having business travelers as their major target market. The private market is another important market, which is actually growing faster than the business market travelers. For this reason SAS is developing a customized private travel program as the “Pleasure program.”

5.2.2 The Overall Goals

The overall goal is that all customers should be satisfied with the airline and wish to fly with SAS again, and maintain a competitive level from a shareholder’s perspective in terms of shareholder’s value.

5.2.3 Customer Goals

The company customer goal is to offer customers a good treatment, which will enhance customer satisfaction while at the same time strengthening the company’s image. Annually, SAS measures the customer satisfaction level (index), this measuring has been rising from 75 to 81 from 1996 to 1999. This customer satisfaction method provides the company with customer feedback, which if SAS perceive to meet these expectation then they will be seen as the ideal airline. The key areas that the company tries to cover are *full safety, optimal punctuality, and personal service.* Non-stop routes are priorities for SAS, having Copenhagen as the principal hub for international traffic, due to the low demand from Oslo and Stockholm.

The following graph presents a simple model that represents the improvement by SAS relating to this issue. The model takes different issues into account this measure is from 1996-1999. Evidently, there has been a very solid improvement during that period of time. Some of the factors that collaborated for this improvement are higher investment in marketing campaigns and the development of its booking system. The theoretical maximum value of this index is 100. According to SAS, customers who appreciate the service given by the airline ought to have an index of 77. The factors that SAS takes into account for the perception customer treatment model are customer satisfaction index (CSI), indications of repurchase (customers who had flown previously with SAS and return), together with the customers' image of SAS, and finally recommendations.

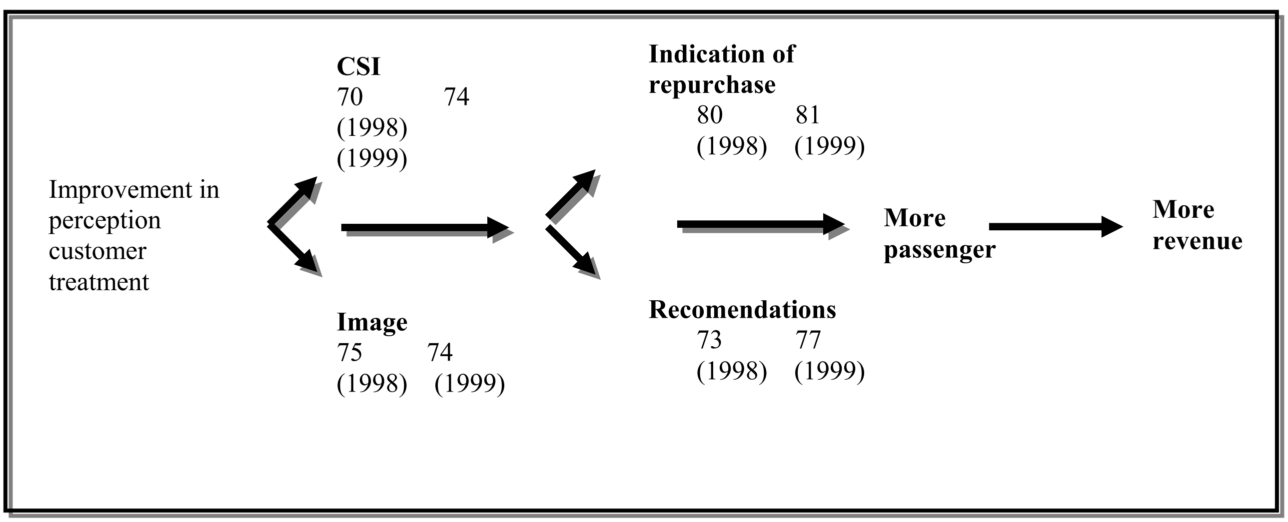


Figure 8: Modified customer service index model (SAS annual report, 2000)

5.2.4 SAS Principal Process

The customer is the major focus in the principal process, and this process affects everything from product development and in-flight-services to business planning. The purpose of this work process is to:

- Increase the level of quality and value for the customer
- Enhance productivity and decrease unit cost
- Increase employee satisfaction

The process is divided into three different levels:

- Customer services delivery process
- Management process
- Support process

These three levels cover all aspects from sales (Sell SAS product/Services) to airport function (passenger ground service delivery), aircraft handling and technical services to in-flight services (cabin safety and services). During all these three steps the customer has direct contact with SAS personnel.

This information related to SAS principal process is given with the idea to give the reader a better idea of the management process that SAS takes into consideration. I would like to mention that most of the information presented in this section is gathered from SAS annual reports.

Management process

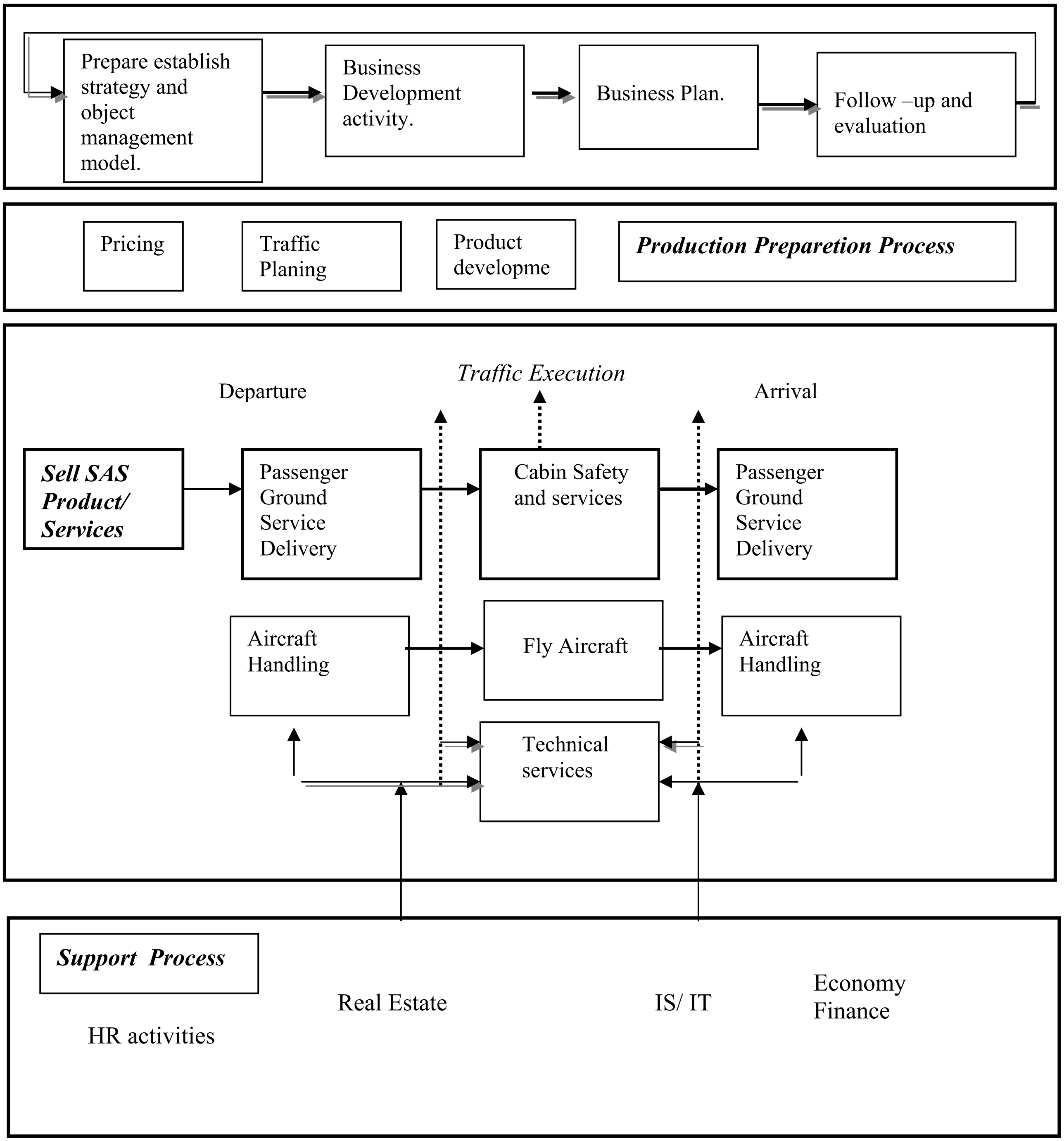


Figure 9: SAS Management Process model (SAS annual report, 2000)

5.3 SAS Distribution Channels or "Touch Points"

In this section I will present my findings achieved through personal interviews, and SAS internal business reports, etc. SAS's customers need to have full availability to the company products regardless of the method the customer chooses. However, at present the need for saving time and obtaining value for money has been the major factor that has influenced SAS to develop new distribution channels or touch points. As most of them are by electronic means SAS had set up a technical platform that may enhance the effectiveness of the distribution of these services, such as the SAS call-centers and Internet with its on-line booking service, which started in November 1999 (counting for 4% of the Scandinavian market).

During my interviews I found out that over the last few years SAS call-centers had a strong impact, due to the set up of this technical platform as well as the repairs in SAS's telephone booking offices i.e new tools in the form of telephone systems and Staffing plans.

Finally, an important issue that was mentioned was the role of the travel agencies, which still can be considered as the most important channel. According to SAS 80% of the tickets sold in Sweden are generated by the travel agencies. However, it is more profitable for SAS to sell its tickets through the Internet than travel agencies. As a final point I would like to mention that an effective control of distribution channels or touch points is one of the most important drivers of profitability in the commercial airline industry. The following figure shows the current distribution channels used by SAS.

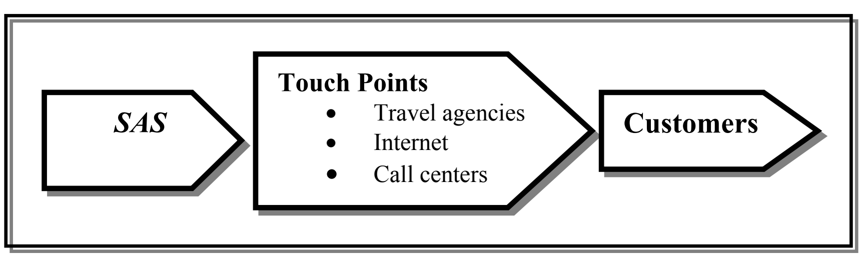


Figure 10: SAS current distribution channels *Source: Own, 2001*

5.4 SAS EuroBonus

As many other commercial airlines SAS has its own loyalty frequent-flyer programs the *EuroBonus* program. This program offers three types of memberships: Regular, Silver and, Gold membership. Each type of membership offers a different line of benefits.

During the interviews a point that caught my attention is how the reward system (given points to customer) have become an important competition tool within the commercial airlines. In fact, according to SAS the points given as a reward are uses as "hard currency."

Further, the following table can provide information about the amount of members in each Scandinavian country market, as well as the amount of international members, and the percentage of Silver and Gold memberships.

	1999	1998
Total Members	1.806,952	1.537,179
Denmark	286,658	246,939
Norway	578,072	480,641
Sweden	395,688	333,692
International	546,534	475,407
Gold membership	3,4%	3,9%
Silver Membership	9,0%	10,7%

Table 1: EuroBonus number of members (SAS annual report, 2000)

5.4.1 Earning Points in the EuroBonus Program

Nowadays, in order to make the *EuroBonus* program more competitive members are able to earn points not just flying with SAS but also with any of the members of the Star Alliance, where points have the same value (no conversion). In addition, members of the *EuroBonus* program are able to earn points not only flying, but also using non-fly services like hotels such as the Radisson SAS, Scandic hotel, and car rental companies (Avis, Hertz).

5.4.2 EuroBonus Program benefits

Throughout my interviews I found out that besides the travel-related benefits, SAS's customers can also receive non-travel related benefits such as sending invitations of special sporting events, cultural events or even offering a free weekend in a luxury resort. The following table presents most of the travel-related benefits SAS offers. However, these benefits depend on the level of membership.

	Regular member	***Silver member***	***Gold member***
Travel w/out ticket (Electronic ticket)	✓	✓	✓
Exchange points	✓	✓	✓
Special offer/Discount	✓	✓	✓
Co-Branded (Dinner Club)	✓	✓	✓
Priority Reservation	✓	✓	✓
Priority Reservation (guarantee Seat)			✓
Easy Check-In 10 extra Kg luggage (SAS)			✓
Easy Check-In 20 extra Kg luggage (SAS)		✓	✓
Hotel Discount (Radisson SAS, Scandic)		✓	✓
Exclusive Lounge facilities Copenhagen /Stockholm			✓

Table 2: EuroBonus benefits (SAS annual report, 2000)

According to the same source, one of the most valuable benefits appreciated by travelers today is the fact that members of the *EuroBonus* program are able to earn points as well as exchange them as long they are traveling with SAS or use services of one of SAS partners.

5.4.3 EuroBonus's Goals

The two major missions of the *EuroBonus* program are to enhance overall loyalty with its customers and create incremental revenues for SAS. In order for the company to achieve these goals it is essential.

- To understand the driving forces behind customer behaviors
- To know the revenue and profit potential and individual customers
- To have timely information of customers and theirs activities to assure a connection between members' activities and members' communication
- To be able to measure and follow up on performance

After a brief presentation of Scandinavian Airlines, as well as the *EuroBonus* frequent-flyer program, I would like to continue with the main part of the empirical chapter. It will provide primary data on Target Customer Management (TCM) as well as data warehouse technology and techniques that are essential for the realization of this project (TCM).

Further, one of the main features of Target Customer Management project is that customers' information can be available to all relevant departments of SAS. However, the empirical finding as well as the future analysis will exclusively be focused on *EuroBonus* members. I obtained most of this information combining Internet sources such as annual reports with material provided by SAS.

5.5 TCM Process

The target customer management process can be characterized as a very focused approach, some of the majors goals are:

- To secure maximum revenue to SAS by enhancing the purchasing power of the company's customer.
- To understand and support the customers buying process and consumption process.
- To support the company's expansion strategies through knowledge of customers in the key markets.

The TCM process is divided in seven steps, each of the steps having a specific purpose. See figure 12 p.54.

5.5.1 Determine Strategic Customer Segments & Target Customer Groups

The first step of the TCM process consists finding customers' similarities related to demographic and actual behavior (flight pattern). The flight pattern information includes the route that a passenger usually takes, passenger's origin/destination (city, region), and the number of times flying with SAS or partners (alliance members). These customers' similarities allow the TCM data warehouse to form groups of customers that can be addressed through target marketing.

Also customers need to be grouped taking into consideration other similarities such as customers worth (customer revenue value and customer lifetime value). After customers have been grouped according to the similarities SAS will develop programs targeting these chosen customers.

5.5.2 Develop Target Programs

SAS in the next step develops marketing programs based on customers' similarities identified in the previous stage of the process. These marketing programs attend to specific requirements of customers within a certain segment. For instance, targeting customers that have similar flying patterns such as staying over-night in a hotel. Hence, the marketing program rewards these customers with a free night in a Radisson hotel. This means recognition of customers not only in regards to target marketing campaigns but also identifying customers by means of special service awards.

5.5.3 Market Target Program (Implement/Act)

At this stage of the process the target programs develop by SAS in the earlier stages are launched or implemented. Hence, taking into consideration all the requirements needed for its success.

5.5.4 Measure the Success of the Target program (Follow Up/Learn)

The effectiveness of each target program needs to be measured in order to determine its success. This includes either a return on investment, or finding out any changes in the target groups' behavior and values.

5.5.5 Assess Change in the Competitive Environment

After the follow up measures are implemented it is also essential for SAS to observe how the target customer segment has been influenced by changes in the airline industry such as related to booking system or price sensitivity. Furthermore, these changes in the external environment within the commercial airlines may perhaps lead SAS to a re-evaluation of the customer segments selected at the beginning of the process.

5.5.6 Take Learning points

One feature of the TCM process is the interaction (ongoing process) that exist in each step of the process between the data warehouse and the analysts of the *EuroBonus* program. So, at this final stage SAS evaluates all the information created during each interaction in order to make possible improvements.

5.5.7 Visual Steps of the TCM Process

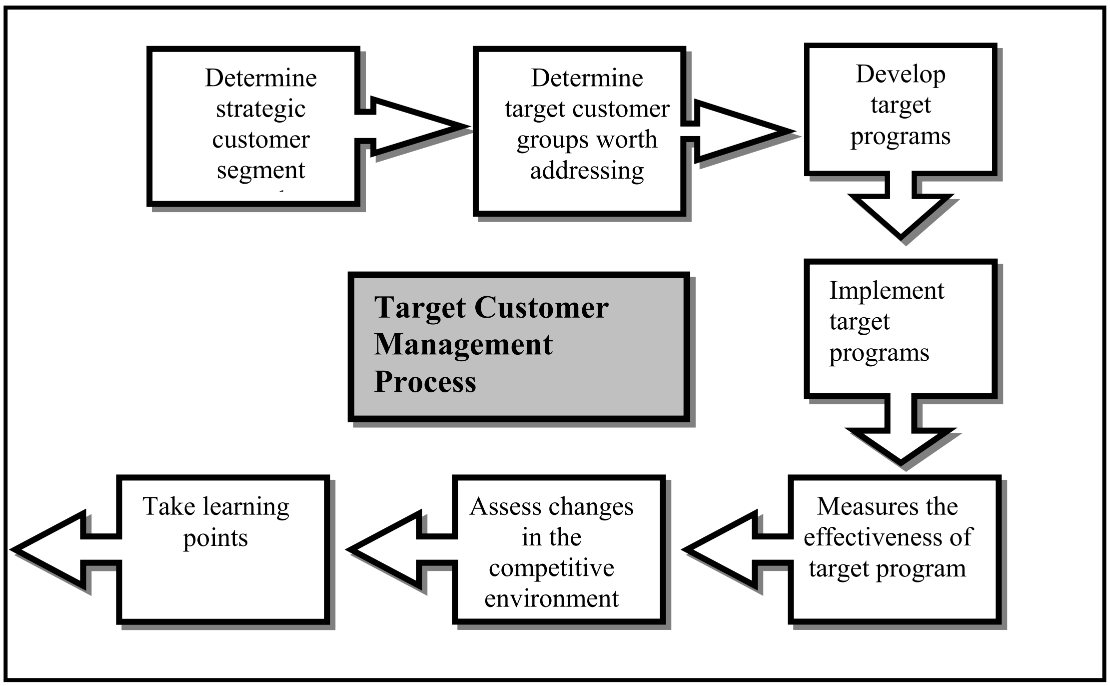


Figure 11: Steps of TCM process (material provided by SAS)

5.6 How the TCM Data Warehouse Facilitates the TCM Process

During my interviews with SAS I found out that the TCM process is possible with the support of TCM data warehouse. Further, the data warehouse enables and facilitates the process in five different types of data analysis. The following model represents each of these five types of data analysis, which I will later on describe and explain.

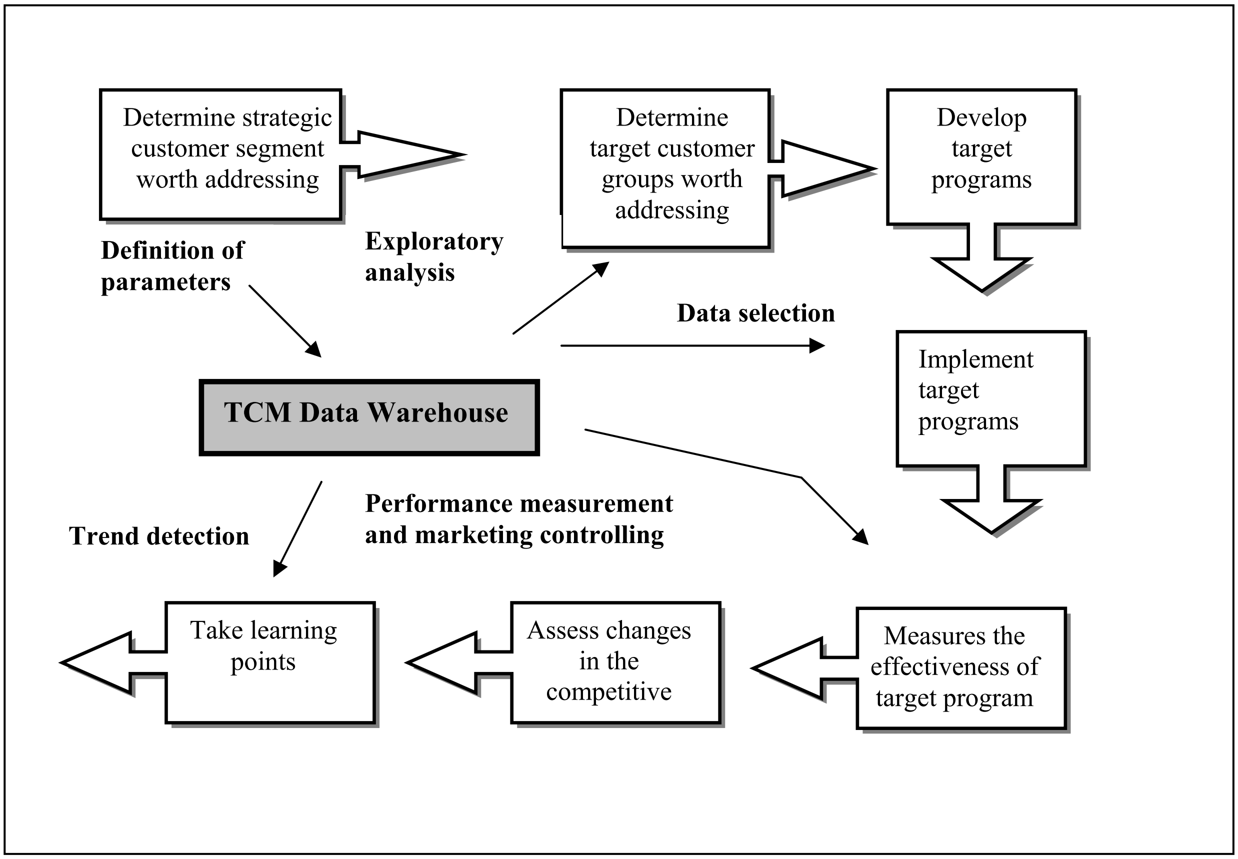


Figure 12: TCM Data warehouse enables the TCM process (material provided by SAS)

5.6.1 Definitions of Parameters

The first task of the data warehouse is to define constraints or issues that can be integrated within the data warehouse for use in subsequent analyses. As a result SAS will be able to make an effective segmentation of its customers. After constraints have been defined the next task of the data warehouse is to make an exploratory analysis of the information gathered from SAS.

5.6.2 Exploratory Analysis

In this stage the TCM data warehouse supports the exploratory or tentative analyses conducted during the early phases of the process. These analyses are conducted taking into consideration the parameters previously defined by the data warehouse. The purpose of this stage of the process is to develop customers' segmentation and the selection of target customer groups for specific marketing campaign.

5.6.3 Data Selection

After the target customer groups have been selected, taking into account the demographic and socioeconomic characteristics, as well as flying pattern of the customer the TCM data warehouse is able to provide marketers with the concrete data needed for the actual implementation of the target programs. For example, *EuroBonus* membership number, for those customers that has been chosen for a particular marketing campaign. The next point is related to how the TCM data warehouse can also be used for follow up purposes.

5.6.4 Performance Measurement and Marketing Controlling

Subsequently, after the target programs developed by SAS are implemented the TCM data warehouse is used for their follow up performance. The follow up performance can be done through standard reporting of performance measurement, which are usually quantitative variables of the business, such as value (revenue, cost, etc.) or count (number of segments flown, number of points accrued, etc).

According to what is being said in the interviews, a number of core measures are identified and selected in order to support the chosen business cases (later explained in the chapter). These performance measures are divided into the ones that can be addressed in the first release and those that are postponed until later release. As I found out in one of my interviews at SAS headquarters some of these performance measures were considered "more important or relevant than others." As seen in the table below most performance measures are needed for segmentation, targeting and follow up. Notice that the numbers of responses as well as indices (for revenue, number of segments flown and number of points acued) are needed mainly for the follow up phases of the TCM process. Notice also how, during the implementation of the target programs in the process non-performance measures are conducted.

	Performance measures for the first release	Gross revenue	Net revenue	Net net revenue	Estimated lost revenue	Estimated lost net revenue	Estimated lost net net revenue	# segment flown	# lost segment	# basic points accrued	# members	# response (activity based)	**Performance measures for later release**	# cross border sales	# cross utilization	# response
Determine customers segment		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	
Develop the target program		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	
Implement the target program																
Measures the effectiveness of the target program		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓				
Assess changes in the competitive environment		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	
Taking learning points		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	

Table 3: Performance measurement and marketing controlling (material provided by SAS)

5.6.5 Trend Detection

Finally, the data warehouse enables the TCM process monitoring the performance measures and marketing controlling. Further it provides analysts with positive or negative trends of the performance measures for example trends in customer's flying pattern. The data warehouse may also function as an early warning system for changes that take place in the competitive environment, for example customer booking behavior or customer sensitivity.

5.7 Business Cases

Business cases can be defined as business issues or problems that are measurable and actionable. So, they are used for reporting the performance measurements, which is one of the characteristics of how the TCM data warehouse enables the TCM process in its final stages. I was shown during my visit to SAS headquarters the different types of business cases that SAS use as measurement tools. These cases are in turn divided into prerequisite and high priority business cases. The primary reason behind dividing them in two categories is that SAS wants to be able to detect and identify the customers that offer more value to SAS than others.

Prior to describing and explaining each business case I have decided to present the reader with a table, which illustrates all business cases identified by SAS. Besides, the table shows the key business activity in each step of the TCM process and how SAS spots a business case depending on the step of the process.

	Determine customer segment worth addressing	**Develop the target program**	**Implement the target program**	**Measure the effectiveness of target program**	**Asses changes in the competitive environment**	**Take learning points**
Key business activity	Find similarities between customers that allow SAS to group them into target segment	Determine which marketing mix SAS needs to develop their relationship with this segment	Implement the actual marketing mix	Determine customer response to the marketing mix	Determine and evaluate changes in the external competitive environment that influence SAS' customers	Adopt knowledge
Prerequisite business cases						
Customer segmentation	✓		✓	✓		✓
Determination of customer value	✓		✓	✓		✓
TCM campaign controlling				✓		✓
High priorities business cases						
Detector & rising stars	✓		✓	✓		✓
Target marketing routes	✓		✓	✓		✓
Competitor analysis					✓	✓
Discontinuity	✓		✓	✓		✓
Flight partner analysis	✓		✓	✓		✓
Fare structure optimization	✓		✓	✓		✓

Table 4: Identified business cases (material provided by SAS)

Summarizing the findings from my visit at SAS, below I will provide the explanations for the different business cases.

5.7.1 Prerequisite Business Cases

As identified in the previous table there are three prerequisite business cases, which are essential for the TCM process. These include *customer segmentation, determination of customer value and TCM campaign controlling*. The main reason to have these prerequisite business cases is because SAS' marketing investments need to be targeted and prioritized in order to optimize the outcome of marketing expenditure. Hence, this is possible with the proper *customer segmentation.* Likewise, with the *determination of customer value* as one of the priorities business cases SAS is able to recognize the groups of customers that are most valuable as well as most likely to need and purchase a specific SAS offering. Furthermore, the *TCM campaign controlling* provides SAS with the possibility to follow up on TCM activities and determine the success of each activity.

5.7.2 High Priority Business Cases

The high priority business cases are identified as business cases that could bring important and relevant information for SAS. The following five business cases are the ones SAS takes into consideration for its performance measurement.

5.7.2.1 Detector & Rising star

SAS wants to be able to identity customers that have defected or are in danger of doing so. Hence, by identifying these customers SAS is able to target them with appropriate marketing activities with the intention to reactivate them and retaining them. And also remove those customers, which may not be reactivated.

5.7.2.2 Target Marketing of Routes

This business case is selected, as it is critical for SAS to obtain data of its customers' travel pattern. In order to analyze them and for consequent gain of valuable and additional information, which can be used for the planning and development of routes and schedules. In addition, with this information SAS is able to target market routes and flights to those customers that are most likely to be involved with these routes or flights.

5.7.2.3 Discontinuity

This business case provides SAS with data on travelers who have not completed his/her journey with SAS or a SAS' partner. Hence, there has been a missing segment or "discontinuity" in the journey. Thus, SAS would like to distinguish these customers with discontinuity in order to target them with special offers or *EuroBonus* extra points. In the longer term, the main goal of the discontinuity analysis is to support optimization of schedules and routes in order to minimize discontinuities.

For example, a passenger flies with SAS from Gothenburg to Paris with a connection in Stockholm. However, on the way back the passenger does not make the connection in Stockholm or vice-versa. The missing segment (Stockholm connection) could be considered as a discontinuity in the passenger journey.

5.7.2.4 Flight Partner Analysis

The analysis of customers' activities in relation to SAS flight partners can be used for many purposes such as to identify and target customers for example, where the missing segment is flown with partner airline. The primary purpose of the flight partner case is to identify possibilities for partner analysis and acquire partner data for the purpose of customer acquisitions.

5.7.2.5 Fare Structure Optimization

This can be considered a supra-business case, which covers a number of business cases as cross border sales, cross utilization, discontinuity and booking behavior and price sensitivity. In fact cross border sales, cross utilization and booking behavior all require extensively different data from the business cases mentioned earlier. Hence, SAS has found practical to include these business cases in the first release of the TCM data warehouse. Price sensitivity, on the other hand is similar to the TCM campaign controlling business case. Discontinuity is already included as an individual business case.

As mentioned earlier these business cases are use for SAS' performance measures. Thus, I would like to present the reader with a table that shows the applicable business cases for each performance measure.

Business cases	*Gross Revenue*	*Net revenue*	*Net revenue*	*Estimated lost gross revenue*	*Estimated lost net revenue*	*# Segment flown*	*# Lost segments*	*# Basic points accrued*	*# Extra points accrued*	*# Members*	*Indices*	*# Response (activity based)*	*# Cross Border sales*	*Responses (communication based*
Customer segmentation														
Determination of customer value														
TCM camping controlling	✓	✓	✓			✓	✓	✓	✓	✓		✓		✓
Detector rising starts	✓	✓	✓			✓	✓	✓	✓		✓			
Target marketing of routes	✓	✓	✓			✓	✓			✓				
Competitor analysis	✓	✓	✓			✓	✓			✓	✓			
Discontinuity				✓	✓		✓							
Flight partner analysis						✓		✓	✓	✓				
Fare structure optimization	✓	✓	✓			✓				✓			✓	✓

Table 5: Business cases/ performance measures (material provided by SAS)

Furthermore, I would like to mention that all throughout my interviews an issue that caught my attention was the different type of data warehouses that exist in SAS. However, due to time constraints I will not take this issue into consideration in my analysis section. Nevertheless, I was able to obtain some brief information of each of the SAS' databas

5.8 Other Databases of Immediate Relevance

5.8.1 EuroBonus Management System (EBMS)

This system contains information on the *EuroBonus* members such as the number of members, member's addresses, and points accumulated on individual flight legs. However, this data system does not provide revenue information.

5.8.2 SAS Information Warehouse (SIW)

The SIW is a centrally financed and maintained data store, which is built to facilitate access to the data which otherwise would be distributed on several databases, and it is also there to relieve the main database servers workload. Therefore, in general the SIW includes data that is potentially relevant to more than one division within SAS. Among other this is the SIW includes data from the *EuroBonus* System and the ticketing/revenue system (Impala/SPI).

5.8.3 Marketing Database (SMD)

The purpose of the SMD is to support operational campaign management, especially in relation to marketing campaigns, and cover an area of the target customer management. However, the SMD does not support the full analysis needs for segmentation and targeting. The main issue is that this data (SMD) does not contain all of the necessary data (for example customer revenue and data *EuroBonus* points), besides the SMD does not hold information regarding the mileage of the *EuroBonus* members. Another reason is that this data is designed for campaign management and not for business analysis and therefore does not maintain key analyses such as discontinuity analysis.

5.8.4 EuroBonus Follow Up System (EFU)

The principal purpose of the EFU System is the use of marketing controlling, providing reports on revenue and cost of the *EuroBonus* program. Because the data within the EFU is stored at a high level of aggregation it does not support the purposes of the TCM. Furthermore, data is not available for individual legs as flights belonging to the same companies are combined.

5.9 Interaction between the SMB and the TCM Data Warehouse

Further, in line with the interviews these two systems have an important role within the target customer management. In where the SMD will support marketing operations for instance campaign management; the TCM Data warehouse will support business analysis and marketing control. Hence the co-ordination of the two systems is critical.
The TCM Data warehouse must provide the SMB with the identification of the target customers while SMB must provide the TCM Data warehouse with campaign information like response rates for analysis and follow up. This is possible by transferring data within the SAS information network. The two different data systems and their relationship are illustrated below.

Interaction between TCM data warehouse and SMD

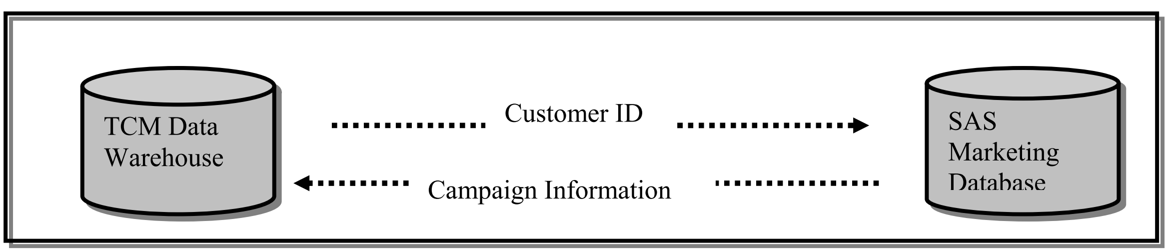


Figure13: Interaction model between TCM data warehouse and SMD (material provide by SAS

6. Analysis

In this chapter I will present the analysis of my empirical findings. I have chosen to analyze the data and separate it into the following three main topics; ***business cases****,* ***how TCM data warehouse enables the TCM process*** *and* ***SAS distribution channel or touch points.***

6.1 Introduction

The reason behind choosing each of the three issues is primarily because they comprise the majority of my empirical findings. To begin with, the analysis of the business cases will generate the information necessary in order to answer research problem number 1: What type of information does the database consist of? By analyzing business cases I will be able to find the sufficiency and magnitude of the data stored in the TCM data warehouse, as this data is critical for SAS future marketing campaigns.

Further on, this analysis chapter also covers the issues of how the TCM data warehouse enables the TCM process and SAS distribution channels or touch points. In addition, they will guide me to answer research problem number 2: How can Scandinavian Airlines use the information obtained from its TCM data warehouse to segment and target its customers in a more effective way?

Moreover, I find it significant to analyze these three issues with the support of the resources and capabilities model, previously presented in the theoretical chapter. The model shows how the resources and capabilities are represented (people, process, technology and knowledge/insight). It is through using this model that I have based the information gathered at the SAS headquarters and subsequent analysis on.

6.2 People as a Capability of RM

SAS considers people as one of its major assets. Thus, their employees are an essential factor during the process of building loyalty with its customers, at the same time having an impact on the effective relationship marketing Therefore, it main points in RM are: *customer perceived value* and *service quality.*

6.2.1 Customer Perceived Value

The concept of customer perceived value is a critical point for SAS as it is how a customer actually distinguishes the value offered by the company. In this context, it is the entire service that customers receive from SAS, starting with the passenger booking the ticket until the passenger's arrival.

An important characteristic of any FFP member that was mentioned in my interviews at SAS is the high frequency of flights that these customers take to the same destination. Therefore, in relation to the *perceived benefits* of the service*,* most *EuroBonus* members have knowledge of the service support they obtain from SAS. As a result, these passengers are more or less familiar with the benefits they receive. Hence, it is possible to think that in order to increase the perceived benefits of the service as well as gain customer loyalty, it is necessary to offer customers services not related to business. SAS is trying to gain customers' loyalty by improving its current services, which is an effective strategy due to the fact it does not take long for customers to be familiarized and influenced by improved service. SAS's constant improvement to its Internet booking system service for example, customers new features, which may also ease the booking process for travelers.

The success in the improvement of the current services depends to a large extent on in the technological support that the data warehouse offers to the company. In this case analysts are able to study stored customers' data, in order to identify special customer needs. So, by implementing strategies, in which the company is able to fulfill these customers needs, it is possible to obtain valuable information about the customers themselves. In short, building an effective relationship *with* them, not just from them.

A related notion to perceived value, ***perceived sacrifice,*** which in contrast is the negative perception that customers have towards one or several aspects of the service is the price that a customer pays for the airline ticket. However, here it is important to distinguish between corporate and independent business travelers. The price issue does not seem to be very significant for corporate travelers, as they are able to put the price of the ticket onto an expense account. Independent business travelers, on the other hand, feel to a much greater degree, that the price of the air ticket is "coming out of their own pocket." Since most members of the *Eurobonus* program are corporate business travelers, the price of the ticket is not a priority.

For the corporate business travelers the psychological aspect is therefore more important such as the worry of any possible flight delays or having luggage sent to the wrong destination. This is significant, as it has the tendency to remain in people's minds and memories. Another factor that could jeopardize the customer's loyalty is the inconsistency of the service that SAS offers to its customers. As an example, I would like to bring this up in a service aspect concerning the *EuroBonus* frequent flyer program:

A passenger (gold cardholder) checked in his/her luggage, which weighs 20-kg. in a particular airport without any inconvenience. However, a few days later the same customer tried to check in his/her luggage, which weighs 20-kg. in a different airport. Yet, that time the attendant at that airport mentioned that he/she was not allowed to check in the 20-kg. luggage as the weight restrictions were different in that particular airport.

It is this type of situation that can be seen as an irregularity in the service provided to its passengers. Hence, it may have a strong impact on the final customer service perception.

Consequently, as I mentioned before, SAS is improving existent services in order to increase the perception of the benefits. SAS's current strategies are mainly orientated towards the decreasing of the customer' psychological cost by focusing on the quality, or improving existent services. For example, SAS is able to reduce the psychological cost of its customers with the support of its improved call-center system, which gives customers faster and more reliable information about flight schedule or destinations. This leads me to my next concept, where I will focus on the quality of the service offered by SAS.

6.2.2 Service Quality

As illustrated in Grönroos's model, p. 25, service quality is the difference between ***service expectations*** and the actual ***perceived standard of delivery.*** I consider Grönroos illustration of service quality to be very realistic. A person, more often than not, has an expectation of the service before the actual service is delivered. Subsequently, this person will be either satisfied or not depending on *how* the service has been delivered to him/her.

There are three matters that compile the ***service expectation*** of a passenger: advertising, prices and word of mouth. In relation to the service expectation that a customer may gain from advertising, it depends on the marketing channel used by SAS such as television or sending direct letters via normal mail or e-mails. However, it appear that advertising the *EuroBonus* program through these marketing channels have small impact on customers' expectation of the service. The reason for that, as I mentioned before, is that these types of customers are more or less familiar with the service. Advertising special offers and rewards to certain customer segments through direct mail or e-mails seem to have more impact on customer expectations. Therefore, these customers may feel that SAS is trying to project the company, as one is concerned with their needs and striving to maintain repeat business.

The ***price*** customers' pay for the service has always been an important element, mainly in terms of the quality of the service that the airline provides to its passengers, in relation to the actual price that passengers pay for the airline ticket. However, in this particular case, as I mentioned earlier, the price of the ticket is perceived differentially between corporate business travelers and non-business travelers.

I would also like to mention that passengers expect a good quality service from the airline (service provider), regardless of the price of the ticket. The reason behind this is a consequence of the increasingly competitive industry. As a result, service quality has become one of the main competitive tools of commercial airlines in order to obtain customer loyalty.

The service expectation can also be affected in two different ways. Firstly, the perception of those members of the *EuroBonus* to SAS's tickets booking system. Certainly, nowadays, customers truly appreciate the *convenience* of the Internet booking system, where the ease of booking or even buying a ticket seems to have had a strong impact on customer service expectations. Besides, the ability to obtain information on a particular flight by contacting SAS' call-centers is extremely convenient for customers, which is definitely appreciated and reflected in their loyalty with the company.

The second matters that affect the service expectation and consequently the customer loyalty, is SAS's non-travel related partners. I consider that it is critical to realize the importance of having a large range of and to truly appreciate the non-travel related partners. The reason for this is that members of the *EuroBonus* program are able to collect a large amount of points from these other partners. In fact, according to my interviews at SAS, it is possible to find situations in which a customer is able to collect double the amount of points without flying at all, by merely collecting points from all of SAS's partners. Therefore, a large and appreciated range of non-partner related services might have a positive impact on the service expectation and in the perceived standard of delivery.

6.3 Process as a Capability of RM

By implementing the TCM process, which is divided into seven steps previously described in the empirical finding chapter, SAS is able to identify the difference between customers' expectations and what the company currently offers them. As a result, they can identify what is actually standing in the way of delivering what the customers really want.

Furthermore, in any process where the main goal is to build an effective relationship with the customers, there are two majors distinctions that, according to Gordon (1998), play an important role in building customer loyalty. These two distinctions are ***customer centric strategies and customization vs. personalization***, which were defined in the theoretical chapter.

6.3.1 Customer Centric Strategies

From my observation at SAS headquarters, it is my understanding that the company is able to identify customers' needs with the support of business cases and, consequently, by conducting performance measures of its marketing target campaigns. This does not mean it will automatically create an effective relationship between SAS and its customers. It is a matter of *how* the company based on this analysis is capable of creating a valuable relationship with its customers.

For example, one of the methods a company can use in order to implement customer centric strategies is to try to increase the frequency of interaction with customers. Moreover, every time that an interaction has been made, the company must be sure that the customer's data feedback is properly analyzed, which will provide the company with valuable information. This information can be used later with the purpose of having an even more effective segmentation of the customers, targeting these customers more successful.

Another example that is very much related to the previous one is the issue of data gathering from the company. Currently, SAS has many different data systems, which makes it difficult to gather data from individual customers. Therefore, it is critical that the data pertaining to these particular customers' needs to be integrated into one data warehouse instead of having them spread through multiple data warehouses. Above all, the purpose is to facilitate the analysis process while SAS's analysts are able to have a complete overview of the data from one source. At the same time, this process reduces the chances to leaving out any possible valuable data, which could occur with the selection and transfer of data from one data warehouse to another. More analysis of data warehousing will be taken up later on in this chapter.

6.3.2 Personalization vs. Customization

In order to reach the goal of identifying customer expectations and expanding customer relations, it is my understanding that SAS has a full comprehension of the combined concepts of customization and personalization.

For example, when launching a special offer or promotion to members of the *EuroBonus* program via e-mail or regular mail, it gives the company the opportunity to add a little *custom* content to the offering. This gives the customers the impression of receiving a *personalized* message. Thus, combining these two concepts SAS adds more value to its passengers and perhaps increases the response rate to its offers.

6.4 Knowledge and Insight as a Capability of RM

Nowadays, companies need to have knowledge not only of their customers, competitors and competitor's products but also any possible changes that may occur in the service environment. I believe the success of SAS is partially dependent on how the company can actually deal with these types of changes. During my interviews at SAS headquarters, I realized that SAS is indeed concerned with this issue. One way for the company to face this challenge is with the implementation of the TCM process and the analytical support of the TCM data warehouse, where business cases and performance measures are conducted by SAS. Hence, analysts are able to identify changes in the service environment.

6.4.1 Products and the Service Environment

After reviewing my interviews conducted at SAS, I believe that in order to provide customer satisfaction the ability to measure the effectiveness of each interaction created between SAS and its customers is a key element. This interaction is possible in many ways such as in-flight service surveys given to customers on the plane, sending questionnaires by mail or even obtaining feedback via the call centers, in order to gain information about the experience of flying with SAS. This would provide SAS with the information necessary to develop and create a product that would satisfy the customers' need. Thus, the company is able to work *with* the customers to find out their real needs.

In parallel with the support of its TCM data warehouse, SAS is able to provide market analysts with information about trends in the service environment. An important aspect of obtaining information about trends in the service sector is to have knowledge of the competitors.

6.4.2 Competitors

I consider the information a company has over its competitors, to be critical. Yet, as my thesis centers on a particular case company, the information gathered comes exclusively from findings of Scandinavian Airlines. Then again it is important to realize the meaning for SAS to have knowledge of its competitors, as SAS does not operate in a closed shell. This knowledge provides SAS with valuable information, which can be taken into consideration when planning future strategies as well as the revising of current strategies within the company. Furthermore, SAS is able to scan its competitors with the support of its flight-partner analysis, which is one of the business cases identified by SAS. I will analyze this issue later on in this chapter.

In addition, one characteristic related to this matter is the complexity in the commercial airline industry, as a result of different business strategies such as mergers, acquisitions and strategic alliances, which are taking place in the industry. In fact, I consider strategic alliances to be the most influential business

strategy in the commercial airline industry, as it leads former competitors to do business together, such as collaborating on ticketing and
baggage handling or reciprocal participation in frequent-flyer programs.
Nowadays, global alliances such as Star Alliance and Oneworld, lead by British Airways and American Airlines, are finding themselves to be the major competitors in the industry. Although alliances offer airlines bigger networks and increased efficiencies, they often create uncertainties for investment decisions, involve transaction costs, or impose other delimitation that could be overcome by the kind of full integration through mergers or acquisitions that are possible in other industries.

As I mentioned before, most of the analysis chapter will be focused on technology. The two points contained by this issue that I will argue are; ***the TCM data warehouse enables the TCM process and business cases.*** These issues will be deeply analyzed in accordance with the data presented in the empirical finding chapter. The final point I will discuss is SAS's ***distributions channel or touch point.***

6.5 Technology

Currently, technology has had a huge impact on the relationship between SAS and its customers. With the support of technology (data base systems), SAS is able to be more effective when using of customers' data.

6.5.1 The TCM Data Warehouse Enables the TCM Process

The main point of this section is to analyze the impact that the *TCM data warehouse* has over the *TCM process*. As illustrated below, the TCM process consists of seven different steps, each of them described in the empirical finding chapter. The effectiveness of the TCM process depends to a large extent, on the support that the TCM data warehouse gives to this process. This means that the TCM data warehouse makes the objective of each of the steps possible.

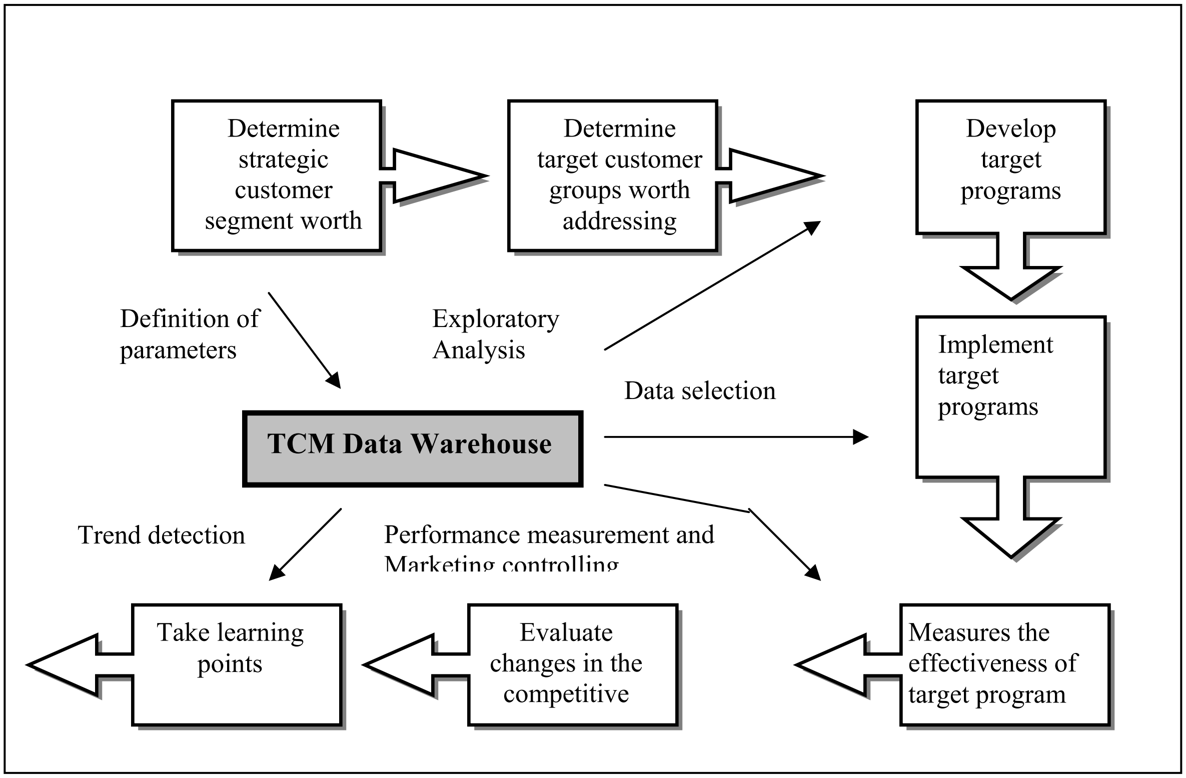


Figure 14: TCM enables the TCM process model (material provided by SAS)

6.5.1.1 Definitions of Parameters

I consider a large part of the success of the TCM process depends on the right identification of parameters or constraints integrated in the TCM data warehouse, as they are the cornerstones of the process. These considerations or restriction help SAS to have a better and more effective segmentation of customers. The current values of the segment identified as well as the current incentive level of the segment are two major restrictions that are integrated in the TCM data warehouse and consequently taken into consideration for customer segmentation.

Furthermore, the TCM data warehouse forms groups of customers according to their demographic, social-economic characteristics and customer actual behavior, which is the customers' flight pattern. I consider these to be extremely important as they provide the company with information related to the customers' similarities in the flying patterns such as destination, booking behavior, etc. At the same time it is significant to identify those customers that are capable of actually purchasing a specific offer delivered by SAS. Indeed, SAS in present times is keeping these types of customers' information up-to-date through the customers' feedback obtained from either in-flight surveys or questionnaires, which are send to the customers. These methods used by SAS appear to be efficient as they provide the company with sufficiently valuable data of its customers. This is not only a matter of simply obtaining more customers' data, but "what to do with it," as well as finding a method to collect data that is distributed to other data systems in the company. This will be analyzed later on in the chapter.

6.5.1.2 Exploratory Analysis

After the parameters were defined in the preceding stage, the TCM data warehouse supports the TCM process with an exploratory analysis of the customers' data. Subsequently, analysts of the *EuroBonus* department perform a deep analysis of such information provided by the data warehouse. In order to be able to develop strategic customer segmentation and select target groups for specific marketing campaigns.

After analyzing the interviews conducted in SAS, one point that caught my attention is that during the exploratory analysis the data warehouse is not able to define personal values of each member of the segments. As a result the TCM data warehouse is incapable of providing analysts with the motive of possible changes that may occur in the pattern behavior in a specific business case within that particular target segment. I will analyze the issue of business cases as the second major point of this analysis chapter.

6.5.1.3 Implement the Target Program / Data Selection

In order to implement target programs within the TCM process the data warehouse provides analysts with customers' data, which has been previously selected, for a particular marketing campaign. It is my understanding from my interviews that the effective customers' data selection conducted by the TCM data warehouse is the key in the success of the marketing campaign. However, at present it is possible to find valuable customers' data stored among other data systems within the company.

I consider that this is due to the fact that the technical support that the TCM data warehouse offers the TCM process is relatively new within the company. In fact it has been implemented since the middle of 1999. Therefore, it is possible to find inconsistency in the co-ordination among the different data systems. Consequently, all the different data warehouse systems (mentioned in the empirical finding chapter) are currently subject to an assessment of their data contents and their interconnections. Which is this critical in order to establish a data warehouse solution that provides as much information as possible with minimum extraction and transformation effort, as a result a more efficient data selection of customers, and more successful marketing campaigns.

6.5.1.4 Performance Measurement and Campaign Marketing Controlling

It is significant for any company, not only for a commercial airline that, after a target program had been run, the effectiveness of the program is assessment, in order to determine its success. The TCM data warehouse can fulfill this purpose through standard reporting of performance measures for each marketing program.

It is my understanding from my findings gathered in SAS that combining the two types of quantitative variables (criteria) such as revenue, cost, etc as well as the numbers of segments flown, number of lost segments, basic points accrued, etc (see table 3). SAS is able to answer questions related to the issue of performance measures in a better way. To answer such questions in an effective way it is necessary to apply certain descriptors in the performance measures such as "which, how, where, who and when" which describe or explain quantitative variables.

These quantitative variables, taken into account for the performance measures and marketing controlling, provide SAS with the information necessary to effectively follow up its target marketing program. Therefore, I believe that implementing performance measures and marketing controlling by taking into consideration the mentioned quantitative variables give SAS the possibility to design more cost effective target programs.

6.5.1.5 Evaluate Changes in the Competitive Environment/Trend Detection

After the TCM data warehouse has carried out performance measures of a target group the data warehouse is able to detect changes that might occur in that specific target customer segment. In other words it could be used as a warning system for changes in the competitive environment. These changes can be either influenced by external factors, such as changes in the commercial airline market as well as changes related to competitors' strategies. The detection of these changes is possible with the support of business cases *Fare structure optimization* and *Flight partner analysis;* these issues are covered in the ***business cases*** section.

During one of the interviews conducted in SAS, I was shown on the data computer screen how changes had been occurring in a particular target group within the fare structure optimization business case and the changes in pattern regarding factors in the booking behavior. The data warehouse had detected a strong discrepancy in the amount of passengers booking their tickets through the Internet between these two segments gold cardholders and silver cardholders. However, currently the TCM data warehouse is not capable to point out or identify the reasons of such a discrepancy variation on the flying pattern behavior of the passengers, which are represented by the high priorities business. Indeed, I will develop this matter in the business cases section later on in the chapter.

It seems to be essential to have an early detection of these changes in such competitive environments as well as the trend in the customer-flying pattern. This way SAS is able reconsider its strategies towards competitors, in parallel of reviewing the issues where the company has been witnessing changes in customers' flying behavior. By taking into consideration these changes the company is able to reconsider its customer segmentation. These changes are possible with current understanding of the business information required for the TCM data warehouse, above all, with the identification of business cases.

6.6 Business Cases

Underlying the entire concept of target customer management is the ability to determine the value of the customer to SAS and adapt SAS' offerings to customers in order to optimize (their) value. Business cases or business issues can be measurable or actionable, measurable in terms of being prioritized during the performance measures and actionable being the customers' flying patterns.

Several business cases are applicable to performance measures, a fact (see table 5) I considered essential for an effective segmentation process and target marketing activities. The reason behind is that business cases provide SAS with real business issues relating to the actual customer-flying behavior as well as presenting SAS with information that may escort SAS to optimize the value of its customers and launch more cost-effective marketing campaigns.

As previously mentioned the TCM data warehouse is able to identify changes that influence and shape customer behavior in a particular business case. For instance, with the support of the fare structure optimization as a business case, SAS can identify the changes in the customer booking behavior pattern. However, the data warehouse is not capable of pinning down and diagnosing the grounds of why these changes occur.

The interaction between SAS and its customers (through touch points or distribution channels) is extremely important as it provides information on how customers perceive the service offer tendered by SAS. Consequently, an analysis leads us to better understand the reason of the changes in a particular business case.
Moreover, as described in the empirical chapter, SAS separates business cases as prerequisite business cases and high priority cases. Sorting out business cases in such a way provides SAS with more effective and accurate performance measures. SAS has recognized three essential issues to take into consideration during its (prerequisite business) customer segmentation process: customer segmentation, determination of customer value and TCM campaign controlling. It should, however, be noted that these three issues are compulsory when considering the identification of the high priority business cases.

6.6.1. Prerequisite Business Cases

There are three business cases that are essential for the effectiveness of the target customer management, as they will serve as a platform for the rest of the business cases. Therefore, each of the prerequisites business cases will be individually analyzed.

6.6.1.1 Customer Segmentation

In order to maximize the outcome of its marketing expenditure, SAS marketing activities need to have a stronger focus on customer value. Thus, it is essential for SAS to have effective customer segmentation based on demographic and socioeconomic similarities as well as actual customer behavior-flying pattern. As a result, the company can target specific offers for customers that are *capable* (value-based) of purchasing such an offer. At the same time the behavioral support information provides SAS with the type of customers that *appreciate* (behavior-based) a specific offer, by which SAS can try to present customers with the most *suitable* offer.

It is my opinion that SAS has realized the importance of customer segmentation as one of the most important business case requirements, as well as for the success of the TCM process. The reason for it is that the company seems to have the right amalgamation between these two criteria (value-based and behavior-based), which help shape the platform to effective customer segmentation.

6.6.1.2 Determination of Customer Value

This prerequisite business case is crucial when identifying and focusing in on the most valuable customer marketing expenditures, with the purpose and aim to build and maintain the relationship with them. The determination of customer value is possible due to the performance measures conducted by SAS during the last stages of the TCM process. Issues such as customer lifetime value, number of segments flown, and points accrued, supply SAS with information about customers that hopefully will direct the company into actions regarding the ability to prioritize marketing activities and investments.

It is also my interpretation that it is important to identify not only the most valuable customers, but also the least valuable customers as it might not be worthwhile for SAS to try to strengthen loyalty between them.

6.6.1.3 TCM Campaign Controlling

The last prerequisite business case is used to optimize marketing investments in the company, which provides SAS with the opportunity to follow up on campaigns and points for possible improvements or "learning points". This is possible as the campaign controlling takes place in the last stage of the TCM process, which gives SAS the opportunity to review previous interaction with customers within each step of the process.

Furthermore, I regard it critical for SAS to identify the most effective campaign for a specific customer segment as well as the most cost-effective campaigns. I reckon it gives SAS the chance to increase revenues, while concurrently gaining customers' loyalty. I found the information that SAS takes into consideration for the TCM campaign controlling valuable; in fact, they are the same as the performance measures: gross revenue, net revenue, numbers of segments flown, etc. Therefore, it supplies SAS with facts about the marketing campaign, which are necessary to have for a reliable and successful control of a particular campaign.

6.6.2 High Priority Business Cases

The high priority business cases are necessary to identify as they provide information on issues such as the customers' flying pattern, information that is central to SAS' analysis. I also found each high priority business case relevant and sufficient as they point out critical business issues relating to the customer flying behavior, which in turn undoubtedly affects the segmentation process and as a result also customers' loyalty.

6.6.2.1 Defector & Rising Starts

In this specific business case it is vital for SAS to identify who have defected meaning that they are no longer members a of the *EuroBonus* program, as well as identifying those customers who are in danger zone of defecting. So that it is possible to reactivate these customers through marketing activities.

Based on my observation at SAS I believe the business information that SAS has gathered is imperative and sufficient with regard to the *EuroBonus* members, e.g. members' phone numbers, members' age, other FFP members' numbers and place of residence. Also flying patterns like the route (origin, destination, segment, and hubs), carrier (within the alliance) and time (year, month, and week). However, all this precious data may be worthless if there is not an effective and efficient integration between the business analysis unit and marketing efforts taken on by SAS. In other words, there ought to be an effective communication between them, whereby the analysis unit identifies what customers really value and the marketing unit turning such information into offers most suitable for subsequent customers. The effectiveness of this communication may possibly be the success key corner stone of the target program affecting customers' loyalty. After all, the purpose of identifying these business cases is to recognize the customers that need to be reactivated or retained by the company.

6.6.2.2 Target Marketing Routes

The success of target marketing on specific routes depends very much on the facts SAS has about customers travel patterns. This knowledge leads the company to gain additional information concerning the planning and development of routes and schedules. As a result, SAS is able to target routes and schedules for customers who could be interested in particular routes or schedules.

I deem it is necessary for SAS to upgrade the identification of customers that fly a particular route (departure and destination), in regards to which hub they use segments, time and day of departure/arrival, and their frequency. At this point, I found that SAS obtains ample information from its customer in order to plan or develop routes/schedules for those with a particular interest in a route or schedule. For example, a customer that has been relocated on his/her job may have a high potential involvement on a different route or schedule.

6.6.2.3 Competitor Analysis

The analysis of SAS' competitors can be viewed from two different angles. First as a reactive competitor analysis, where SAS identifies the trends in flights and customer activities, e.g. booking behavior. The definitions of trend indicators are essential to establish in the beginning of the TCM process, so that knowledge can be gained on the relationships that may exist between the customer trend activity and the marketing activities of competitors. For example, changes that SAS may observe in its Internet booking could be related to a new and easy-use Internet booking service offered by a competitor.

Secondly, it can be viewed as the proactive competitor analysis with the ambition to obtain information about competitors' marketing activities (e.g. route promotions). Indeed, such information could be used in order to create targeted "counter attacks" where SAS could try to eliminate the effects of competitors marketing activities by initiating their own activities. Conducting competitor analysis becomes key when identifying which members of the *EuroBonus* program should be targeted for "counter attacks" campaigns, as well as finding out the marketing plans of SAS' competitors.

6.6.2.4 Discontinuities

Discontinuity is when customers travel with SAS to a destination but do not travel with SAS on the way back, or vice versa. The identification of customers with discontinuities and target marketing them with, for example, price offers or *EuroBonus* points is truly important to SAS. Judging from the information I excavated at SAS headquarters, it is my view that one of the major points that SAS needs to take into consideration is the identification of the routes, which are most frequently discontinued and develop target campaigns, price offers or point offers to minimize these discontinuities. Also which customers have recorded discontinuity and target them with special deals. As a result, SAS is able to find out how much revenue is lost as a result of discontinuities.

I consider the data gathered by SAS in order to create performance measures, such as estimated lost gross revenue, estimated lost net and numbers of lost segments vital. However, I believe one aspect that is not taken into consideration in terms of the business information gathered by SAS is related to the hubs (airports) in which these discontinuities occurred. It probably does not offer passengers convenient service such as ticket counters, transfer facilities or other types of service that could be appreciate by the passengers. In my view, it has an effect on customers' decision in whether or not to make the entire journey with SAS.

6.6.2.5 Flight Partner Analysis

I found this business case to be one of the most significant for SAS, as it is not only necessary to have an understanding of the customer activities in relation to SAS flight partners but also of non-flight services such as credit card, car rental, hotel, etc. This type of analysis can provide SAS with detection of field with potential revenue increase, in where SAS has the possibility of benchmarking through *EuroBonus* related partners. In addition, the flight partner analysis gives SAS the possibility to identify customers of its partner that are worth acquiring, in this case it would be necessary to obtain partner data as well as target campaigns related to discontinuities. In addition, this analysis gives the possibility to identify if customers are using non-flying services or not traveling with SAS.

The business information identified by SAS for the creation of performance measures, the number of segment flown (by carrier/by route), numbers of basic points accrued (by carrier) and numbers of extra points (by carrier) are fundamental in order to generate a reliable and valuable analysis of SAS' partners. However, one point that caught my attention is that although SAS (and its TCM data warehouse) takes into account the numbers of extra points a passenger has collected by traveling with a SAS flying partner (Star alliance), SAS currently does not take into consideration the numbers of points a customer collect by using non-flight services. Indeed, I considered that this data could provide SAS with valuable information relating to customers' consumption pattern and how the reward system may play an important role during this consumption pattern. For example, a customer might be willing to stay a couple of days a month in a hotel (Radisson SAS) or rent a car every three months from Avis or Hertz, in order to collect certain amount of points from non-flying services. Which later on is exchanged into points, valid for a flight or a weekend in a luxury resort.

6.6.2.6 Fare Structure Optimization

Key issues in the fare structure business case that SAS may benefit from is the fact of recognizing which customer segments and cross border routes are most frequently sold by SAS. Also in which customer segments and on which routes there is frequent deviation and the reaction of customers to price changes on specific routes. The objective is to adjust fare structures such as price levels or booking rules taking into consideration the price sensitivity of a customer segment. Subsequently, targeting specific customers according to the price sensitivity of that segment.

I consider the effectiveness of the fare structure optimization as a business case to depend on the analysis made from the actionable data gathered by SAS (age, segment value, route, booking behavior and distribution channel in a specific market). This data, along with the one use for performance measures report give SAS a valuable information in terms of how SAS can indeed develop and launch fares suitable for its customers with the goal of strengthening the customer's loyalty.

I have focused most of my analysis on technology (TCM data warehouse) as a key element of the model; consequently, a great part of the empirical finding was related to this issue. However, SAS' effectiveness of relationship marketing strategies relies not only on technology, but also important is the accurate interaction between customers and SAS' resources and capabilities illustrated in the RM capability model on page 27. Certainly, I believe that customers must be linked with all these capabilities as well as the willingness to actually create or develop the relationship *with* the firm. After all, they are the main drivers in this process.

Further, certain characteristics based on each resource and capability need be taken into consideration, such as implementing customer centric strategies during the carryout stage of a process. In fact, the target customer management process that is currently implemented by SAS has played a pivotal role during the analysis of this chapter.

I believe that technology, as a resource and a capability of the company, the TCM data warehouse has to be considered an analytical tool rather than a total solution. It is the absorption of the TCM data warehouse by the business analysts, which will provide valuable information for marketers at SAS. A successful amalgamation between them can create the design and implementation of effective marketing activities.

6.7 SAS Distribution channels or touch points

According to the information I have gathered from my interviews at SAS, travel agencies still a counting for at least 80% of tickets sold in Sweden. I believe this is due to the fact that passengers appreciate personalized sales of tickets and having someone they can turn to for advice or help. Typically, travel agents are paid a commission each time they sell on behalf of a particular flying carrier. The problem, of course, is that because travel agencies are selling on behalf of many firms, they may be tempted to use their market influence by working harder to sell the products of the firms, which pay the higher commission.

Another point related to the travel agent is that the agent without doubt alleviates SAS of a great deal of costly administration associated with air travel. For example, an agent will assist the visa application and deal with passengers queries about airport check in times, baggage rules etc. If a travel agent did not undertake these activities, SAS would have to employ extra staff and resources.

It is my understanding from the interviews at SAS that most of the members of the *EuroBonus* program (corporate travelers) do not make the ticket arrangement themselves. In fact, the employer purchases the ticket through the travel agencies. However, one method for passengers to obtain information about their flight, which is becoming more popular, is the use of *call centers*. Business travelers value the convenience of being able to obtain travel details regardless of time and place. Additionally, the use of *call centers* and mobile communication can be also seen as a means for SAS to obtain feedback from its customers about their journey. The end result is being able to identify customers' flying patterns.

Another new cost-effective, direct channel used by SAS comes from the Internet, the so-called "Ticketless Travel." Internet, which is being utilized by members of the *EuroBonus* program for many reasons, e.g. to check points balance and also to see what redemption opportunities are available. Nevertheless, I believe that even though potential customers have easy access to the Internet (via-electronic) where they are able to booked and purchase their ticket, they still might not feel comfortable or "sure" about purchasing their ticket via Internet. However, customers might use the Internet to check deals or even to reserve a ticket.

Internet applications, with the arrival of "Ticketless Travel" taking the lead, has gained grounds compared with the traditional over-the-counter distribution of tickets. Just swiping a smart card or credit card through a reader gives customers a high level of convenience, especially if they have hand baggage and the passenger can proceed to board the aircraft. I think this way of traveling as well as the use of Internet booking (currently counts for only 4% in the Scandinavian market), will gain popularity among business travelers. There is no reason why a passenger using a credit card cannot make a simple journey booking, which the Internet makes possible. I believe that this is especially the case for business travelers who tend to travel frequently and often on the same route.

7.Conclusions and Theoretical Implications

This chapter provides the reader chapter. I will focus my concluding remarks on the three major points analyzed in the analysis chapter.

- *How TCM Data warehouse enables the TCM process*
- *Business cases*
- *Distribution channel or touch points*

7.1 General Conclusions

1. How TCM Data Warehouse Enables the TCM Process

Based on my analysis, it is my interpretation that the TCM data warehouse makes an effective selection of parameters concerning customers' segmentation. Nonetheless, even though there is sufficient information available on the customers, the TCM data warehouse is still incapable of providing reasons "why" possible changes may occur in customers' flying pattern and behavior. Basically, the data warehouse can merely detect the symptoms but not make a diagnosis, which seems to be the principal shortcoming of this data system.

My final interpretation is that the TCM process has tremendous support from the TCM data warehouse. The interaction between the data warehouse with analysts of the *EuroBonus* provides valuable information to the marketing department. Primarily, with the support of the business cases the data warehouse presents analysts with the type of data that can lead to information related to customer flying patterns and behavior. Consequently, this information is taken into consideration during the segmentation process. Hence, this provides marketers with information on what the customer of a particular segment really value, which may facilitate the design and increase the likelihood of a more successful target marketing campaign.

2. Business Cases

According to the previous analysis, I concluded that dividing business cases in prerequisites and high priority is the most efficient and effective way to segment customers. Hence, it makes the segmentation process more efficient, in the sense that not all measured problems that are taking into account during its performance measures have the same relevance for SAS. In addition, I found the subjects of customer segmentation, customer value and TCM campaign controlling critical and essentials to take into consideration as they provide the company with crucial and "basic" data of the customers. Furthermore, all high priorities business cases are necessary in order to have a good understanding of each customer as well as the flying pattern.

3. SAS Distribution channels or touch points

A major conclusion above was that SAS needs to keep the relationship with travel agents as efficient as possible just like today, since this relationship enhances mutual benefits from both parties. In relation to the Internet and call centers these types of distribution channels might have a bigger impact on the company in the near future, in the sense that more SAS's products may be sold this way, and also imply to get customer's feedback.

Finally, I believe the acknowledgement and effective control of distribution channels is one of the most significant drivers of profitability in the airline industry, and SAS should act to establish and sustain such control.

7.2 Recommendations to SAS

In this section I present my recommendations to Scandinavian Airlines my suggestions are based on the analysis conducted in chapter six. In addition, I give suggestions concerning how to implement the recommendations in such way that the large numbers of benefits can be derived.

- To understand what the customer really values. This is possible to accomplish with an effective interaction between SAS and its touch points or distributions channels.
- To have a consistent application of the knowledge that creates a competitive advantage in the market place. This is possible to accomplish with an assessment of the level of the service quality offered by SAS as well as the consisted and promptness on the management of the customer's data.
- To assess the role of each of the department interacting with the customers to find out if they are adding value to customers or adding cost instead. This is possible by establishing a team of key project workforce that remains consistent through the entire process. Hence, members of the team might become experts on CRM solutions.
- To maintain an effective relationships with travel agents, as well as influencing customers to purchase SAS's products via Internet.
- SAS has to verify that the data from customers previously used for particular target campaigns is actually up-date and valuable. A means in order to accomplish this is through effective interaction among SAS's different data warehouse.
- SAS should educate employees of all managerial levels dealing with the TCM data warehouse. This will enhance the process of integration between the TCM data warehouse and managers of the company.
- SAS should create an effective customer responsive strategy with travel agents as their personalized interaction with customers might create precious information from them.

7.3 Theoretical Implications

In this final section I will present the managerial implementation relating to the answer of the main problem of the thesis.

How can commercial airlines make better use of its loyal frequent-flyer program and subsequent TCM process to upgrade its Customer Relationship Marketing?

Due to market maturity, most competitive advantages are diminishing, it is becoming more difficult to develop and sustain a competitive advantage. The commercial airline industry in particular has experienced severe struggles and SAS is no exclusion. In an attempt to solve their problems, market constituents have turned to non-commodity based solutions: the implementation of CRM strategies in order to build strong and lasting relationships with their customers.

I would like to start off by illustrating my own developed model, which can be considerated as an ongoing process (cycle) for the effective implementation of CRM strategies. The model can be functional to any commercial airline carrier, it takes the need for constant improvement of the interaction that must exist between the analysts of the frequent-flyer program and the actual marketing department of the company.

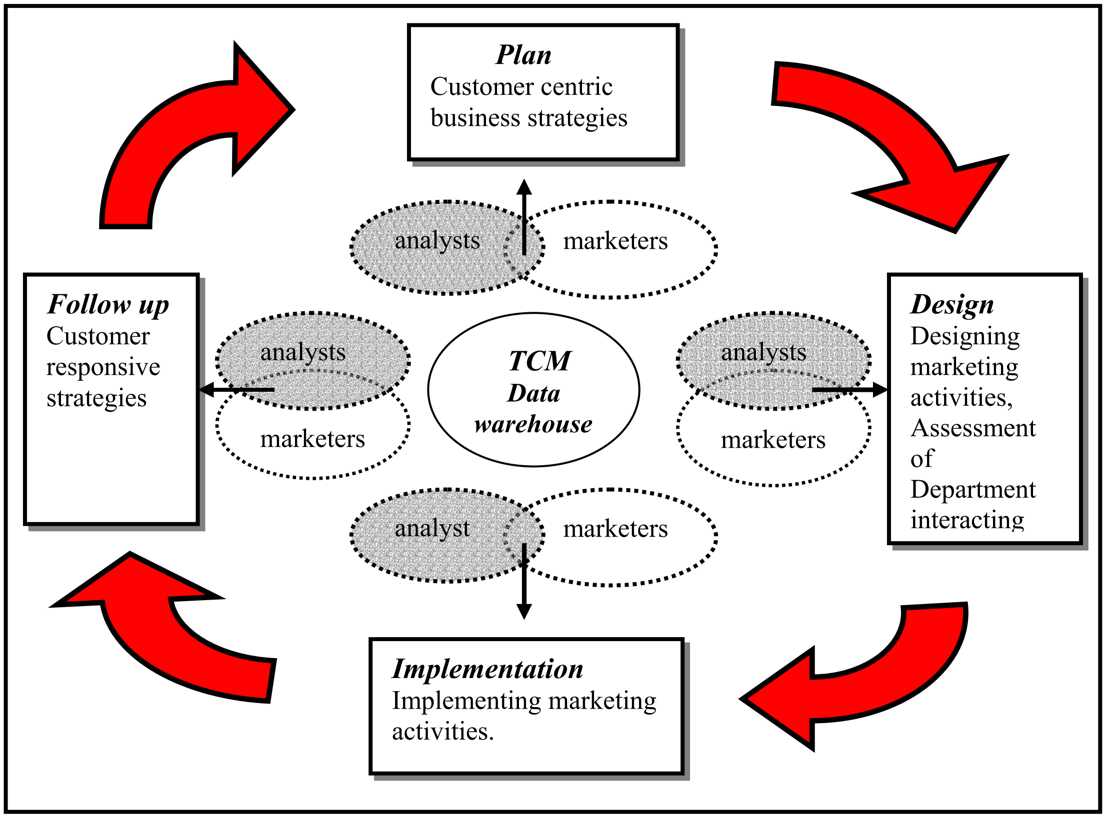


Figure 15: Managerial Implementation model for CRM **Source. Own, 2001**

The TCM data warehouse is found in the middle of the ongoing process (cycle), due to the fact that the TCM data warehouse is the cornerstone of my thesis and a large part of the empirical findings were gathered within this issue. This model exemplifies the proper execution that a commercial airline should have during the carrying out of CRM strategies. The cycle is divided into four stages: plan, design, implementation and follow up. As I have illustrated in the model, the proper interaction between the analyst of the commercial airline and the marketing department of the company plays an important role in the ongoing cycle.

However, even though the TCM data warehouse is of critical importance by being in the middle of the model, the airline cannot entirely plan its Customer Relationship Management strategies based on such a data warehouse.

The TCM data warehouse is more an analytical tool rather than providing solutions, mainly due to the fact that it supports an effective analysis of the customer data as well as the customer's feed back. This analysis is applied during the designing of marketing campaigns, being a platform for effective and successful CRM strategies.

7.3.1 Plan (Customer-Centric Business Strategies)

In the first step of the cycle, in which SAS is implementing customer centric business strategies, there are two important characteristics that must be taken into consideration.

As I found in the study, in order to enhance customer centric strategies, a commercial airline will find it advantageous ***to plan around the customer wants instead of the company's goals,*** using of the TCM data warehouse as an analytical tool within the company. Here, it is important to develop methods, in which analysts are allowed to identify "why" a particular change in flying pattern has occurred. This is accomplished if the marketing department of the company needs to be certain they that are ***listening to customers instead of listening to the company***.

7.3.2 Design

During this stage the airline ***designs marketing activities***, where the marketing department needs to understand the importance of deciding which is the most effective approach to particular customers, for example the *EuroBonus* members. In addition, the relationship between the airline and each one of the touch points or distribution channel has to be as efficient as possible. In trying to design implement customer-centric business strategies it is necessary to carefully ***assess the role of department interaction with the customers***.

7.3.3 Implementation

After the design phase is completed, the airline puts into operation marketing activities. At this point the airline needs to have a full understanding of the Target

Customer Management, in this way being able to integrate issues and areas of potential risk. This is achieved by educating and training all managerial levels dealing with the TCM as well as to implement *customer responsive strategy*. Some of the characteristics of these types of strategies are to demonstrate trustworthiness, delivering superior customer value by personalizing the interaction and trying to tighten connections with the customer.

7.3.4 Follow-up

The commercial airline at this point should see this step as tying an asset to the company, the customer being the major asset for company in this case. Therefore, this step has much to do with following the responses of the customer.

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