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Question 1:

Critically evaluate the Business Model and the Information Based Strategy of Capital One and relate this to the theories that underpin Relationship Marketing.

Capital One's business model recognizes that each customer requires a different product and service benefits from a credit card provider, and acknowledges that if customers are offered what they want and need as opposed to what banks want to offer them, they will choose the provider that gives them choice and individuality. According to Egan (2001), a business model is a method of doing business and how it is sustained. In the case of Capital One, its business is sustained with the help of its information-based strategy (IBS). In other words, the business model of Capital One is fundamentally built on its IBS – a strategy that enhances Capital One's ability to better comprehend a customer's specific and unique credit risk and potential revenue profile (i.e. how to better manage its customer base), as well as enhancing its responsiveness in unraveling customer specific requirements (i.e. understanding what values customers seek from credit card providers), via the collection and analysis of customer data.

One of the major advantages of IBS is that it provides Capital One with the ultimate platform for true 'one-to-one' marketing with its customers – the data collated (which is then analysed) allows Capital One to comprehend customers in terms of their economic importance (i.e. estimating a customer's lifetime spending potential), and then revising the marketing approach (i.e. adjusting its products to ensure that the needs of both Capital One and its customers are met), to reflect the existing and potential profitability of different customer groups (Christopher, Payne and Ballantyne, 2002). Otherwise stated, Capital One's IBS uses captured information to identify customers and prospects, which in turn allows them to establish a learning relationship with each customer or customer group, starting with the most profitable one. Furthermore, IBS has the ability to identify a customer's needs and wants before they even think of it, thus creating a first mover advantage for Capital One, which is vital in creating and sustaining its competitive advantage, predominantly in the current era of intense competition and increasing customer skepticism and sophistication.

Likewise, Peppers and Rogers (1993) stress that marketers can capitalize from the customer data accumulated to engender enduring relationships with their customers by customizing offerings that generate value for each individual customer or selected target customers. This practice of establishing enduring relationships with customers is evident in Capital One, as it exploits the customer data gathered to develop and offer products that coincides with customers' preferences (Capital One now offers more than 6,000 products to its customers). In a similar vein, Nemati and Barko (2003) contend that the generation of valuable knowledge from customer data enhances both marketing/management decisions and relationships with customers, which in turn translates into a strategic competitive advantage for the organisation. Undoubtedly, creating and achieving both a sustainable competitive advantage and enduring relationships with customers have become the most significant issue in the present business environment (O'Malley and Tynan, 2000; Porter, 1985; Rowe and Barnes, 1998), predominantly the credit card market, where the most profitable customers (i.e. transactors) are relatively price sensitive and are most likely to be tempted by competitors' aggressive pricing strategy. Therefore, Capital One's fervent commitment on creating and offering the 'best' value to customers (based on its ability to transform customer data into valuable and actionable knowledge) not only enhances customers' confident and satisfaction on its product/service proposition, but also increases customers' trust toward the organisation. Supporting this contention are Morgan and Hunt (1994) who acknowledged that trust and commitment are prerequisites in developing enduring relationships, which in turn translates into a sustainable competitive advantage for the organisation. This assertion is reinforced by Buttle (1996, p.1) who contends that "*enduring relationships with customers cannot be duplicated by competitors, and therefore provide a unique and sustained competitive advantage*".

Despite the overwhelming strengths of Capital One's IBS, it is nevertheless not without drawbacks. Though capable of capturing significant amount of customer information, the cost associated with the investment of technological support for information accumulation (e.g. cost-per-customer account) is relatively steep (Nemati and Barko, 2003) – Capital One's costs are currently higher than those of most of its competitors, which is one of the major flaws of its IBS. Although Capital One is equipped with in-house IT capability to decode massive customer data into valuable and actionable knowledge, the escalating costs associated with implementing IT indicates that Capital One lacks the additional knowledge to execute it efficiently (i.e. operating at a lower cost). In this case, it is recommended that Capital One considers outsourcing some of its IT capability as a strategy to minimize costs in the long-run (Nemati and Barko, 2003). The decline in operational costs can then be transferred to customers in terms of lower prices or a better service/product proposition, which in turn translates into enduring relationships with customers – the decline in operational costs add more value to customers and thus enhances customer relationship (Thurau and Hansen, 2001).

Likewise, the ability to develop and offer numerous products does not necessarily equate to both a sustained competitive advantage and enduring relationships with customers – this approach is highly imitable by competitors, thus presents no significant value proposition to customers. Furthermore, the new products developed were tested on genuine customers to obtain further insights into customers' needs and wants. This approach, if not handled appropriately, might 'irritate' customers with unnecessary product offers and jeopardize Capital One's existing relationships with its customers (Thurau and Hansen, 2001). For instance, offering products to customers based solely on collated data of customers' interactions with Capital One instead of customers' personal demands might portray to customers that Capital One is interested mainly on achieving sales quota rather than to develop sincere relationships with customers. Henceforth, it is imperative that Capital One strengthens its ability in information accumulation to engender enduring relationships, rather than developing and offering numerous products that they think customers might appreciate.

Question 2:

Critically evaluate Capital One's approaches to Customer Retention and Customer Termination and explain how this relates to the practice of Relationship Marketing.

The impetus for organisations to practise customer retention has been a growing awareness of the long-term financial benefits (Rosenberg and Czepiel, 1984). Otherwise stated, the organisation-wide practice of customer retention is based on two economic arguments: 1) it is less expensive to retain an existing customer than it is to acquire a new customer (Rosenberg and Czepiel, 1984); 2) the longer the association between the organisation and the customer, the more profitable the relationship for the organisation (Christopher, Payne and Ballantyne, 1991). In the case of Capital One, its retention programs segment customers according to their potential lifetime profitability, as well as their specific and unique credit risk profile (i.e. low-risk and high-risk segments), and then determine the type and frequency of marketing activity relevant for each segment/group in order to exploit and increase its existing customer base.

With regard to its low-risk customer segments (those who borrow significantly against their line of credit, but eventually pay back their balances and thus carry very low risk), Capital One analyses its information on this group to determine whether the offering of value propositions – a lower Annual Percentage Rate (APR), gifts or service product such as free travel insurance – are effective in retaining them. Capital One is keen in retaining, as well as acquiring, customers belonging to this segment as they can prove to be very profitable. Undoubtedly, the above-mentioned value propositions, in particular the offering of a lower APR, has the ability to attract and then retain customers in the short run. However, the potential always exists for competitors to replicate these short-lived value propositions, which in turn might witness increasing attrition as many price-sensitive customers defect to competitors who offer lower APR (Egan, 2001; Rosenberg and Czepiel, 1984). Furthermore, the offering of a lower APR may pose as a problem to Capital One, as the offer appears to only target new customers and those whom accounts may be at risk of dormancy. Consequently, customer dissatisfaction with Capital One may result as existing customers may feel that they are 'mistreated' or 'unimportant', which might jeopardize its well-established customer relationships, and at the same time generate negative word-of-mouth publicity, thereby reducing the prospect pool of customers for Capital One (Thurau and Hansen, 2001).

On the other hand, Capital One adopts a slightly different approach in retaining the high-risk customer segments. For instance, Capital One engages this group of customers in a program, known as the Payment Assistance function, which attempts to understand the underlying reasons why specific customers are unable to fulfill their payments and reacts to these circumstances to provide the best solution for both Capital One and the customer – the goal is to retain customers until they can pay and help them not to default, rather than to cease serving them with the sole aim of reducing the high costs incurred in their continuation to do so. This approach towards customer retention conveys to customers Capital One's sincerity in establishing and sustaining enduring relationships, which in turn might generate positive word-of-mouth publicity and increase profits – the longevity of relationships provides additional profit potential. As a result, Capital One might be able to grow through word-of-mouth referrals from highly satisfied customers – customers who benefited from Capital One's Payment Assistance function may introduce more customers to the organisation (Christopher, Payne and Ballantyne, 2002). In a similar vein, Reichheld and Sasser (1990) assert that companies who make attempts to improve their customer-retention performance (e.g. Capital One) witness a rise in their sales and profits in the long run – sales and profits per customer account rise the longer a relationship lasts; as customers become more satisfied with the service they received, they purchase more and as purchases rise, operating costs decline because companies climb the experience curve and become more efficient, thereby improving profits. Nevertheless, the uncertainty involved with this group of customers in the repayment of their bill might deplete Capital One's profits in the long run (Egan, 2001) – as evident in the case, one bad debtor can easily wipe out the benefits from 20 average customers or 4-5 good ones. Otherwise stated, the value of long-term retention must also recognise that not all customers contribute equally to the firm's profit – the loss of a non-profitable customer may actually be beneficial (Buttle, 1996).

As mentioned above, Capital One has no slight intention of terminating any of its customers, even those who belong in the high-risk segments. Furthermore, there is no apparent evidence in the case that supports any customer termination approaches undertaken by Capital One. Ryals (2002) asserts that organisations should reconsider their efforts in retaining customers who no longer contribute any value to them, particularly if the costs to retain them exceed the benefits derived from retention programmes, thereby contributing less to potential profits. This perception is echoed by Buttle (1996) who emphasized that retention strategy should not be aimed at keeping customers at any cost – Capital One must know when to 'cut-and-run'. Although the consequences of losing a customer may be significant, the losses associated with the continuation of serving unprofitable customers can, in the long run, paralyze Capital One's profitability – a termination strategy is, therefore, imperative as it facilitates the handling of unprofitable customers. Henceforth, it is recommended that Capital One reviews both its customer retention and termination approaches to avoid any negativity in their development of customer relationships.

Question 3:

Critically evaluate Capital One's approach to Internal Marketing and how this supports the Customer Service Proposition.

There is considerable support for the notion that, where transactions and exchanges take place between employees and the organisation, the employees can be considered to be internal customers, and the organisation's workforce recognised as an internal market (Berry, 1981; George and Gronroos, 1989). Piercy (1995) emphasizes that a company must be in tune with two kinds of customers: external and internal – external customers buy products, and internal customers (employees) supply products. Likewise, Mohr-Jackson (1991) argues that to effectively deliver the customer service proposition, organisations should not narrow their perspective on the needs of external customers alone, but instead be encouraged to broaden them to recognise and include employees as internal customers; internal customers generate goods and service for the end customers (external customers) and, as such, are crucial to providing customer satisfaction. Christopher, Payne and Ballantyne (2002) coined this concept as internal marketing, and stress that internal marketing strategies entail *"recognizing the importance of attracting, motivating, training and retaining quality employees through developing jobs to satisfy individual needs"* (p.112). Otherwise stated, internal marketing aims to encourage employees to behave in a manner that will attract customers to the company. This perception is echoed by Varey (1995) who proposed that the quality of relationships a company has with its customers is largely determined by how employees interact and deliver the product/service to the customer.

With regard to Capital One's approach to internal marketing, the organisation aims to develop awareness among employees of both internal and external customers, and to remove functional barriers to organisational effectiveness. Likewise, Capital One acknowledges the key role employees play in delivering customer value and considers its employee-recruitment process crucial in attracting and selecting the 'right' people to deliver its customer service proposition. According to Stone (1998), selecting the 'right' person for the task can contribute significantly to the organisation's success, due to their ability to manage customer relationships better, thereby effectively delivering the customer service proposition. However, Christopher, Payne and Ballantyne (2002) contend that recruiting the 'right' person for the task may not be sufficient to guarantee an organisation's long-term profitability and success. Rather, organisations have to provide appropriate training and development programs to familiarize and motivate employees in their tasks, and thus continually enhance product/service offerings to tailor to customer's needs and wants over time. Capital One prides itself in the provision of its on-going process of training and development programs, to all levels of employees. This approach is applauded by Egan (2001), who asserts that organisations that recognise and appreciate their employees by investing significantly in them (i.e. through training and development programs) will motivate and retain employees, as well as witnessing 'reciprocal behaviour' in terms of the delivery of an outstanding level of service to customers.

In addition, Capital One acknowledges employees' contributions by providing incentives, such as bonuses based on individual performances, promotion opportunities and the awarding of company share options, to further increase their motivation in striving for overall organisational success. The awarding of share options to employees have been argued to significantly increase both employee's performance and motivation, which in turn translates into overall organisational success (Egan, 2001). Otherwise stated, when employees realise that their performances affect the share price, it is apparent that they are likely to be more motivated in ensuring the overall well-being and success of the organisation – that is, effectively delivering its customer service proposition. Egan (2001) adds that the awarding of share options might also induce employees to pledge their loyalty to the organisation. With regard to Capital One's 'motivational' approach to enhance organisational success through bonuses and promotions opportunities, Stone (1998) argued that such approaches might 'backfire' as some employees might be too engrossed and concerned in achieving self-benefits (i.e. bonuses and promotions opportunities) that they engaged heavily in meeting and exceeding sales quota, instead of effectively serving the customers.

Furthermore, Capital One encourages collaboration among employees and departments (e.g. cooperation between Marketing & Analysis department and Operations department). Conduit and Mavondo (2001) applaud this approach and assert that it is important for employees and departments alike, who do not have contact with external customers (e.g. "support personnel" of "part-time marketers"), to be fully aware of internal customers needs and requirements, and perform in a customer-oriented manner when they serve internal customers, as the organisation does in serving its external customers. For instance, although front-line employees, who have direct contact with external customers, are responsible for increasing the quality of the final product and enhancing external customer satisfaction, their ability to execute these objectives successfully depends on the support they get from other employees and departments within the organisation. Therefore, improving internal customer orientation will lead to an improvement in the external customer orientation, and consequently, enhances the delivery of an outstanding level of service to customers (Conduit, 2000).

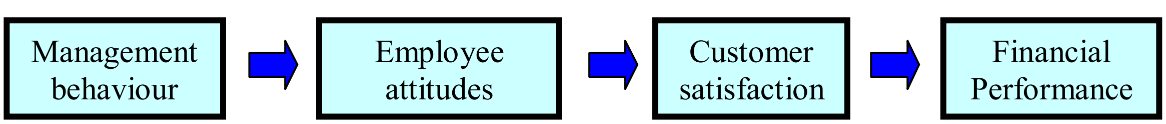
Lastly, Capital One has a culture to support empowerment; however, no apparent verification was evident in the case that empowerment was granted to front-line employees. According to Egan (2001), empowering front-line employees, particularly in service markets, have the benefit of effectively managing the non-homogeneity nature of customers, as well as speedy decision making at the customer interface. Henceforth, to further enhance the delivery of its customer service proposition, Capital One should empower front-line employees and trust them to execute intelligent decisions to avoid possible customer dissatisfaction that results from time-consuming, ‘authoritative’ managerial decisions.

Question 4:

Discuss the extent to which elements of the Service Profit Chain are evident at Capital One and debate whether this adds more value to the customer or to the organisation.

According to Heskett, Earl Sasser and Schlesinger (1997), the service profit chain establishes relationships between profitability, customer loyalty, and employee satisfaction, loyalty and productivity. The underlying concept of this model (See Figure 1) proposes that improving leadership and management behaviour positively affects employee attitudes and satisfaction. The more satisfied and motivated an employee, the more likely they are willing to pledge their loyalty to the organisation, and the better they are likely to perform their task. This positively affects customer satisfaction, which in turn translates into customer loyalty and higher sales for the company. As a result, the company benefits from increased profitability and shareholder value (Christopher, Payne and Ballantyne, 2002).

Figure 1: The Service Profit Chain Model (4 major elements of the Service Profit Chain)



Source: Christopher, M., Payne, A. and Ballantyne, D. (2002), Relationship Marketing: Creating Stakeholder Value, Butterworth Heinemann, Oxford.

As mentioned previously, an exponential relationship exists between service quality and customer satisfaction – better service quality generates greater customer satisfaction. As a result, Capital One attracts, motivates, trains and retains quality employees through developing jobs to satisfy their individual needs – Capital One believes that by acknowledging the significance of their employees' contributions to its success (e.g. presenting awards and giving recognition to employees who contribute valuable ideas) and investing heavily in training and developing their skills, employees' motivation and satisfaction will increase, which in turn translates into better service quality and greater customer satisfaction (Heskett et. al, 1997). Similarly, Capital One focuses a lot on employees' welfare, such as taking care of individual needs, and identifying the key drivers of employee satisfaction and deriving action plans on how to further improve employee satisfaction – a natural step for this to be translated into superior customer treatment. To further improve employee satisfaction, Capital One ensures that their employees are exposed to a pleasant working environment. According to Stone (1998), exposing employees to a pleasant working environment helps to bring out their individuality; as employees feel comfortable in their working environment, they tend to be more motivated to perform better.

Furthermore, Capital One aims to create a culture of involvement and buy-in for all objectives, so as to ensure that employees' attitudes and perceptions are aligned with its corporate culture, thereby eradicating any conflicting issues regarding corporate culture ambiguities from arising (Stone, 1998). Likewise, Capital One has created a culture where continuous improvement is encouraged and implemented. This is highly evident in its organisational practices as Capital One encourages healthy competition (e.g. internal benchmarking) among employees and spurs them to learn from each other successes, as well as to improve on their weaknesses. However, as evident from the case, it was revealed that Capital One focuses largely on internal benchmarking as a yardstick for its overall organisational performance. Christopher, Payne and Ballantyne (2002) assert that organisations should not limit themselves to only internal benchmarking, but should also assess perceptions of service performance against some appropriate industry benchmark (i.e. external benchmarking) to attain the 'title' of industry's best practice, and enhance overall organisational success. Last, but not least, Capital One also supports the concept of a 'flatter' organisation and a 'top-to-bottom' culture, as opposed to the conventional 'bottom-to-top' philosophy. This business philosophy (i.e. 'top-to-bottom' culture) encourages employees to engage in open communication, and to freely contribute their ideas or present feedback to top management, which in turn translate into employee satisfaction as employees feel that their opinions are being valued by the organisation (Stone, 1998).

Drawing on Figure 1, management behaviour has a significant influence on employee attitudes and satisfaction, which in turn generates higher level of customer satisfaction, thereby enhancing financial performance. As presented in the case, Capital One's employees encompass high level of satisfaction – Capital One is considered as one of UK's top employers, and employee satisfaction is extremely high: 97% of staff regard the company as a friendly place; 96% report that people are willing to give that bit extra to get the job done; and 66% (20% above the market average) believe that they are getting a fair share of the company profits. In addition, associate turnover in Capital One is extremely low, and Stone (1998) argues that there is a negative relationship between turnover rate and employee satisfaction – the lower the turnover rate, the higher the level of employee satisfaction. High employee satisfaction, as depicted in the model, positively affects customer satisfaction – Capital One's customer satisfaction was high: 94% of UK customers ranked Capital One as the credit card company that 'is as good as or better than others'. High customer satisfaction, therefore, positively affects Capital One's financial performance – Capital One's percentage of outstanding bad debt, a key performance measure in a risk-driven business, was significantly lower than that of key competitors; likewise, it delivered a yearly return on equity of more than 20%, seven times in succession. In my opinion, and backed by the evidence presented, the success of each preceding element of the service profit chain (i.e. management behaviour, employee attitudes and satisfaction, and customer satisfaction) links directly to Capital One's financial performance, which leads to a significantly healthier financial status (i.e. higher profits). Therefore, I concur that the elements of the service profit chain contributed significantly more value to the organisation than the customer.

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