

Driving towards sustainable profitability: transportation service providers and customer relationship management

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Abstract

Purpose – The paper aims to highlight the focus on short-term profitability by transportation service providers in a notoriously cyclical business, often at the expense of developing customer loyalty. It urges transportation service providers to use customer relationship management tools and customer emotions to generate long-term profitability.

Design/methodology/approach – The insights into the marketing aspects of the transportation services industry were developed based on interviews and discussions with more than 50 transportation industry specialists, representing service providers and buyers.

Findings – The transportation services industry is a cyclical business and, in the post-2001 economic recovery, carriers have focused, as in previous cycles, on short-term profitability. They are not investing in customers offering potential future growth, and are dropping currently unprofitable customers in favour of those offering the most profit per lane today. Customer relationship management techniques, especially those based on customer emotions, can be used by the transportation service providers to generate customer loyalty, allowing them to grow with their customers and smooth out the peaks and valleys of the business.

Research limitations/implications – The research was constrained by limited access to quantitative data from the carriers and buyers and limited ability to publish data due to reasons of confidentiality.

Practical implications – The paper highlights the need for transportation service providers to use customer relationship management techniques and generate and sustain customer loyalty to drive their long-term profitability.

Originality/value – Relationship-based marketing has been a neglected function for transportation service providers. This paper provides a rationale for the transportation service industry to adopt customer relationship management techniques, successfully used in financial and other services, and presents some CRM methods, especially those based on customer emotions.

Keywords Transportation, Customer relations, Customer loyalty

Paper type Viewpoint

Introduction

With the economy perking up in the USA and the growth of China and India, transportation service providers are experiencing sunny days, quite a change from the downturn a few years ago. Despite the cyclical nature of the business, a transportation service provider truly following a customer relationship management (CRM) model is a rarity. Service providers have a very simple model to determine which customers to focus their efforts on and which customers to

stray away. We have witnessed many times carriers having no hesitation in flatly telling a customer that they can no longer service the latter's needs because they are not immediately profitable. The transportation sector of the supply chain is quite cut and dried: either a carrier's customers will bring immediate profit opportunities, or the transportation resources will be redirected to other customers. Very seldom will *carriers become loyal* to customers.

The issue is whether transportation service providers, while trying to drop "lead" customers in search of "platinum" or "gold" customers, are too quick to pull the trigger on dumping customers. They have tended to take snapshots of what customers are bringing in what percentage of revenues, and have often failed to identify the customers that will benefit them in the long term. Consequently transportation firms often miss out on opportunities for future profitable business. By not delving deeper into the unknown, providers are not managing their businesses to the best of their abilities.

The current issue and full text archive of this journal is available at www.emeraldinsight.com/1359-8546.htm



Supply Chain Management: An International Journal
12/2 (2007) 85–87
© Emerald Group Publishing Limited [ISSN 1359-8546]
[DOI 10.1108/13598540710737262]

Lack of loyalty

The lack of loyalty of transportation providers is a clear example of how some organizations view CRM. In fact, in a recent Bain and Company survey of the 25 most popular management tools available, CRM was ranked near the bottom. In a follow-up study, 20 percent of the 451 senior executives polled said that their companies' CRM initiatives had failed to deliver profitable growth and had damaged long-term customer relationships. Does this mean that CRM is dead in the transportation part of the supply chain? Hardly. With a little extra effort and the right data, customer relationship management tools would be extremely useful in the transportation industry.

Short-term focus at the expense of growing with customers

Consider the following scenario one of the authors has had to deal with. A consumer products company, Conpro, has been experiencing tremendous growth and is looking to expand. Conpro is in the process of searching for transportation providers to service its growth by delivering goods to its new customers. Currently Conpro has contracted rates with ABC Trucking for shipments that originate in Ames, IA and are delivered to Miami, FL, at a price of \$1.40 per mile.

Over the past six months neither the sales representative nor the Customer Service Manager from the ABC Trucking Company has made serious efforts to inquire about Conpro and invest in further business from them. Meanwhile company Y, which ships a similar type of product as Conpro to the same areas, has requested ABC Trucking for service with a proposed contracted rate of \$1.60 per mile. Which customer will ABC Trucking Company choose to service if they only had one available resource to use? In this case ABC would choose to drop Conpro and service customer Y, since Y provides a higher rate to Miami. On the surface, ABC Trucking Company has made the higher profit on this particular lane. What ABC does not realize is the greater "profitability potential" of Conpro, whom they have chosen not to service. Unfortunately, this is standard practice for quite a few carriers. We have seen so much potential growth literally thrown out the window because the senior management at the transportation firm has failed to recognize the growth opportunities with existing customers.

CRM for transportation companies: understand your customers' emotions

Transportation companies at times fail to dig deep into the hearts and minds of their customers and fail to implement any CRM tools to make their businesses more profitable. No CRM tool is a virtual cure-all for every company; every organization and every customer is different. Commercially available CRM tools can help a company analyze and depict a customer's frequency and time of purchase, the size of orders and what the customer generally thinks of the company she is buying from. This data, while critical, is hardly sufficient to make sound business investment and service decisions. This data does not reveal much about why customers behave the way they do, think what they think and why they like your products or services. Acquiring more information requires insight and deeper interactions

with the customers to truly understand what the customers needs are and how best their needs can be serviced. If more firms took the time to get this information, customer satisfaction would skyrocket, causing a domino effect of higher profitability.

In this context, Dr Zaltman of the Harvard Business School has developed a method to extract this missing information from the customer. He describes it as "metaphor elicitation" to get the beliefs, emotions, intentions, and often unconscious attitudes that people have about a product or brand. The metaphor elicitation is an illustration of particular bundles of constructs the customer have developed based on their experiences and emotional connection with a particular brand or product. The information is gathered from an interview process with the customer as well as surveys and observations. This information is then used to create what Dr Zaltman calls a consensus map. An example Dr Zaltman has given is associated with General Motors. From the consensus map General Motors has put together, General Motors has redesigned the customer experience at the domestic dealerships due to the information it has produced. The consensus map had shown General Motors customers associated the company with quality and competitive price.

This was an expected outcome and this data came as no surprise. But in delving deeper, General Motors linked their automobiles with patriotism. "By buying GM cars, they saw themselves as not simply helping Americans keep their jobs, but as fulfilling a larger obligation that they felt toward their country". From this added customer information, General Motors altered how they market their products and reinforced these feelings to consumers. While the metaphor elicitation appears complex and time consuming, it in fact consists of simple fact-finding questions addressed to the customer to get their true feelings toward a particular brand or service.

It is very true that emotion plays an enormous impact on buying decisions, including transportation. In fact, this should be at the core of the CRM model for the transportation industry. Understanding the buyer's true emotions is absolutely critical in determining the future of business opportunities for both the buyer and seller. One of our load planners has the responsibility of assigning carriers to shipments from our Ames, IA production facility. She is given a routing guide that gives a listing of preferences on which provider to assign to a particular lane. She prefers to use a specific vendor on a vast array of lanes where, in fact, they should not be used since their pricing structure does not dictate usage of several lanes. When asked why she continually chooses to use this vendor on the lanes where they are not competitive, her answer was, "They are easy and fun to work with and they try very hard to cover all the lanes I give them". Her decision to use this particular provider is based strictly on emotion. The fact that the customer service person is fun to work with has absolutely no bearing on their services. This vendor has discovered what makes our load planner tick. In a way, they have followed the metaphor elicitation to determine what she feels about their company and how they can best use that information to their advantage. The result of that is increased volume and deeper penetration into our business.

Conclusions

Transportation companies feel that CRM programs are a measure of how a customer feels or reacts at any given time. Rarely will transportation firms focus on true CRM models and follow their recommendations. They tend to see CRM as more of a blanket statement as to how they can service the customer on the short-term basis and not the long-term. The implication is not that the transportation industry is in dire need of overhauling their CRM usage but that the industry players need to amend what models they do use and go for the human element in business. A skilled marketing manager or

customer service manager will delve into how someone feels about his or her company. It is also wise to get as much information about the competition as possible so that the carrier can take full advantage of an opportunity when the competition is not servicing the customer to the best service levels possible.

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