NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY
FACULTY OF COMMERCE
DEPARTMENT OF BUSINESS MANAGEMENT
SERVICES MARKETING – CBU 4105

SUPPLEMENTARY EXAMINATION - SEPTEMBER 2007
TIME ALLOWED 3 HOURS

INSTRUCTIONS TO CANDIDATES

- ***Answer section A and any three others from Section B.***

Section A
(Compulsory)

Case Study: Relationship Sought To Boost American Express Sagging Prestige

By the 1990's, the market for charge cards in many western countries was approaching saturation as a proliferation of new cards appeared. Visa and Mastercard had dominated the market for some time, bolstered by the growing number of affinity cards launched in collaboration with industrial companies, such as the GM card launched in collaboration with HFC Bank. Among the plethora of cards, American Express had sought to position its card as an exclusive status symbol – a card which could not be compared with the likes of Visa Mastercard.

By the early 1990s, American Express was facing a tough time in the card market. Since 1989, its arch rival Visa had been targeting AmEx instead of its traditional rival, Mastercard. Banks began to adding privileges to their cards, such as free travel accident insurance, which were once considered a privilege of holding an AmEx card. It seemed that the AmEx card was becoming a commodity item undifferentiated from its competitors, offers. By the 1990s, the card had lost much of its prestigious image, not helped by consumers' increasing consciousness of card charges and willingness to shop around for the best card. The outcome of all these factors was to reduce AmEx's worldwide market share from 20.3% in 1987 to 14.5% in 1991. By contrast, Visa's market share had increased from 44.7% to 51.0%.

Not only was AmEx loosing favour with cardholders, it was becoming increasingly derided by merchants, from whom AmEx obtained about two-thirds of its card income. In 1991, AmEx continued charging its merchants fees of between 3% and 4% of sales value, while Visa had whittled its fee down to an average of just 1.8%. Merchants knew that about 90% of all AmEx cardholders also carried a Visa card and many tried to 'suppress' the use of AmEx by encouraging customers to use Visa instead. Some merchants stopped accepting AmEx completely, a potentially dangerous strategy for any firm relying on business expense customers traveling wing corporate cards. There were numerous local rebellions against AmEx's charges, the most notable being the so-called 'Boston fee party' in the USA, where Boston restaurateurs led many other businesses throughout the country in refusing to accept AmEx cards, following the refusal of the company to lower its merchant fees.

AmEx initially underestimated its competition, but eventually sought to regain profitable business through the development of loyal relationships between the company and both its cardholders and merchants. AmEx recognized the limitations of its 1980s strategy of simply acquiring new cardholders and then taking their business for granted. Instead, it realized that it would make more financial sense to sacrifice numbers it it meant having a quality base of loyal customers. Similarly, the company recognized that it wasn't good enough to simply sign up more merchants – it would be better to have a core of merchants who were committed to working with the company to increase use of its cards.

AmEx decided to focus its attention on the 20% of its cardholder base who accounted for 80% of sales volume. For this core group of customers, the company made an effort to tailor its service to meet the specific needs of each individual, for example in the way that it allowed cardholders to receive their monthly statement on any day of their choice. It also refined its customer database so that it could send mailings for goods and services which most accurately reflected its customers' interests and lifestyle. To try and get itself seen as a partner in problem solving, AmEx offered many more services, for example, it offered to reserve tickets at concerts for its gold and platinum cardholders. In a bid to encourage a greater proportion of its cardholders' spending to be charged to its AmEx card rather than its competitors' cards, AmEx developed its Membership Miles scheme, a form of frequent flyer loyalty programme which awarded miles on selected airlines in return for charge volume.

More importantly, AmEx sought to develop closer relationships with its merchants. To try and discourage defectors, the company promised to be more attentive to merchants' concerns such as discount rates, speedy payment and marketing support. The company reassigned the duties of its merchant service representatives by requiring them to make more frequent visits to existing merchants, rather than spending most of their time looking for new ones. Where a problem had been identified, representatives were also empowered to make deals on the spot in an attempt to resolve it.

In further attempt to develop loyalty with its merchant members, AmEx agreed to be sensitive in its own direct marketing efforts, which in the past had upset many merchants by directly competing with their own goods and services. Finally, AmEx demonstrated its enthusiasm for working together with its merchants through a series of television advertisements. These focused on a specific business – usually small, rapidly growing businesses with a high level of awareness among cardholders – and promoted the business as much as the AmEx card.

AmEx had determined that in the increasingly fierce charge card market, features and benefits are no longer adequate to give its card a competitive edge. Its strategy was designed to sell much wider, quality relationships through which cardholders and merchants could receive a total service that met their specific needs. Only time will tell if merchants and cardholders are prepared to pay a premium price to reflect the value of such relationships, or indeed if similar emphasis on relationships becomes the norm for all charge cards again causing AmEx to loose its competitive advantage.

Question 1

(a) Conduct a SWOT Analysis of American Express. **[20]**

(b) Why has AmEx pursued a strategy of developing closer relationships with its cardholders and merchants? **[10]**

(c) What other services strategies can AmEx use? **[10]**

SECTION B

Question 2

The characteristics of services determine the services strategies at the disposal of the marketer. Discuss.
[20 marks]

Question 3

What do you understand by internal marketing? **[20 marks]**

Question 4

Service quality is the essence of services marketing. Discuss this statement using the PZB gaps model.

[20 marks]

Question 5

To understand the service encounter is to understand services marketing. Discuss. **[20 marks]**

Question 6

How are services classified? **[20 marks]**

Question 7

Using a service organisation of your choice, analyse how price discrimination is practiced between different groups of customers. **[20 marks]**