



CRM

Question:

- What is CRM? (In your understanding)
- When you heard the word CRM, what comes to your mind?

CRM Definition

‘CRM is the **core business strategy** that **integrates** internal **processes and functions**, and external networks, to create and **deliver value to targeted customers at a profit**. It is grounded on high-quality customer data and **enabled by IT.**’

3 levels of CRM

- **Strategic CRM**
 - A **top-down** perspective on CRM which views CRM as a **core customer-centric business strategy** that aims at **winning and keeping profitable customers**
- **Operational CRM**
 - A perspective on CRM which focuses on major **automation** projects such as service automation, sales force automation or marketing automation
- **Analytical CRM**
 - A **bottom-up** perspective on CRM which focuses on the **intelligent mining** of customer data for strategic or tactical purposes

Misunderstandings about CRM

- CRM is database marketing
- CRM is a marketing process
- CRM is an IT issue
- CRM is about loyalty schemes
- CRM can be implemented by any company

Why is that?

What is a relationship?

What is a relationship?

- A relationship consists of episodes between dyadic parties over time
- Episodes are time-bound and nameable
- Examples of episodes
 - Placing an order
 - Raising a query
 - Playing a round of golf
- Each episode is made up of a series of interactions
- Business relationships are made up of task and social episodes

Can Relationship Evolve?

A 5-stage model of relationship evolution

1. Awareness
2. Exploration
3. Expansion: **Trust** begins!
4. Commitment:
 - **Mutually understood** roles and goals
 - Purchasing may become **automated**
5. Dissolution

Trust

What does it feel like to trust someone?

Trust is focussed

Trust is shown in the other party's

1. **Benevolence**. A belief that one party will **act in the interests of the other**.
2. **Honesty**. A belief that the other party will be **credible**.
3. **Competence**. A belief that the other party has the **necessary expertise**.

Definition of commitment

- Commitment exists when
 - an exchange partner believes that an ongoing relationship with another is so important as to warrant maximum effort to maintaining it; that is, the committed party believes the relationship is worth working on to ensure that it endures indefinitely

Companies **want** relationships with customers

- Why?
 - Identify → Satisfy → Retain profitable customers → Enjoy Better Business Results
 - Reduced customer churn creates
 - A larger customer base
 - Longer average customer tenure
 - **Reduced marketing costs to replace** defected customers
 - Better understanding of customer requirements
 - **More cross-selling** opportunities

Example:

- UK Ad agency: 20times to recruit (pitch) than retain
- Online clothing: spend +67% in 3rd year than first half year

Impact of churn on customer numbers

- What does it mean?
- What impact?

Impact of **churn** on customer numbers

year	Company A (5% churn)			Company B (10% churn)		
	Existing customers	New customers	Total	Existing customers	New customers	Total
1999	1000	100	1100	1000	100	1100
2000	1045	100	1145	990	100	1090
2001	1088	100	1188	981	100	1081
2002	1129	100	1229	973	100	1073
2003	1168	100	1268	966	100	1066

Impact of **churn** on customer numbers

year	Company A (5% churn)			Company B (10% churn)		
	Existing customers	New customers	Total	Existing customers	New customers	Total
1999	1000	100	1100	1000	100	1100
2000	1045	100	1145	990	100	1090
2001	1088	100	1188	981	100	1081
2002	1129	100	1229	973	100	1073
2003	1168	100	1268	966	100	1066

19%
Higher!

The customer journey

- **Suspect** - could the customer **fit** the **target** market **profile**?
- **Prospect** - customer fits the profile and is being **approached** for the **first time**
- **First-time customer** - customer makes **first purchase**
- **Repeat customer** - customer makes **additional purchases**
- **Majority customer** - customer selects your company as **supplier of choice**
- **Loyal customer** - customer is resistant to ~~switching~~ suppliers; **strong positive attitude** to your company
- **Advocate** - customer generates additional **referral** dollars

Customers are potential income streams

- A core CRM idea is that a customer should not be viewed not as a set of independent ~~transactions~~ but as a **life-time income** stream.

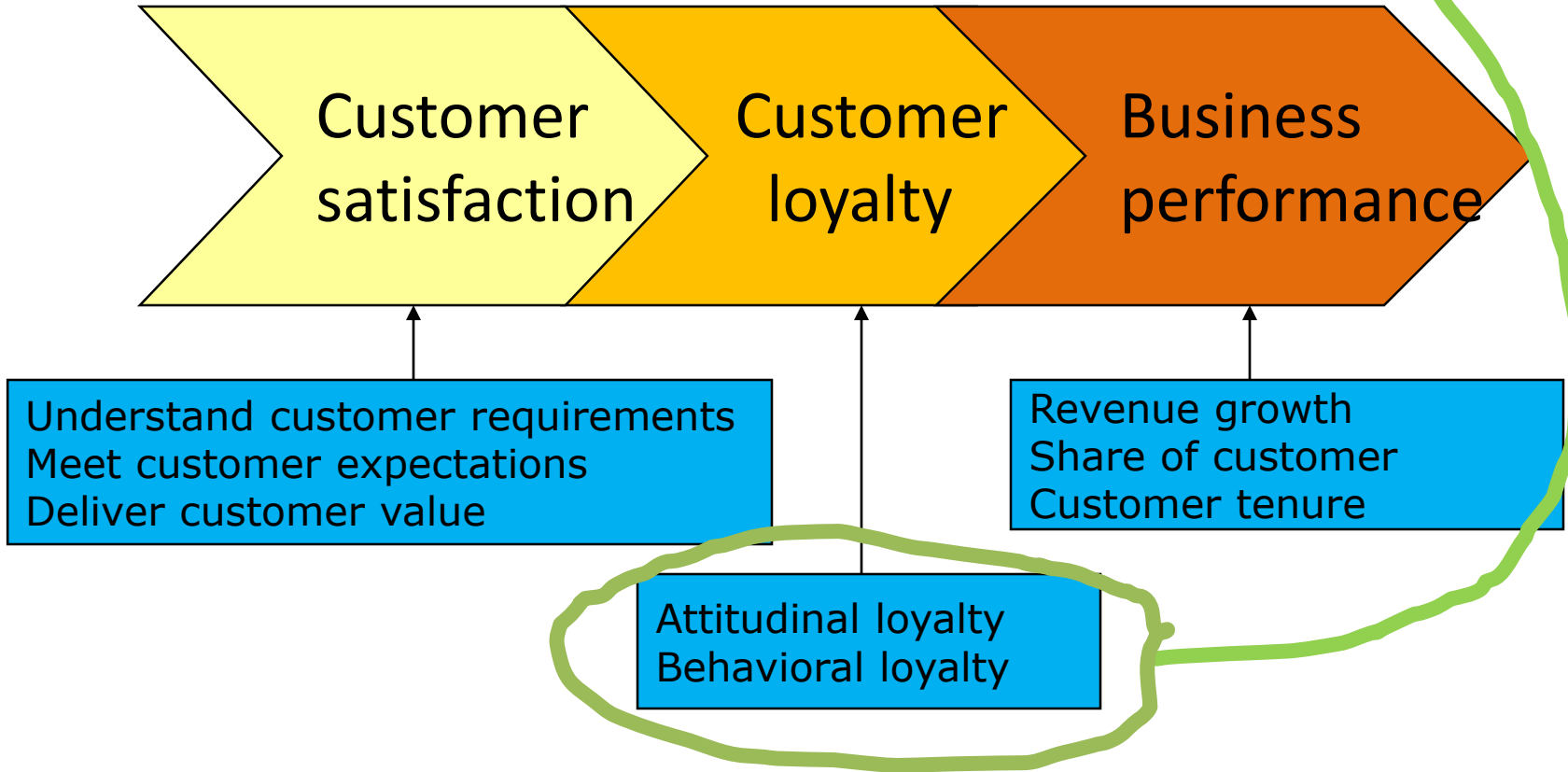
Customer life-time value = ?

Customer life-time value

- The **total present day value** of a customer is the sum of
 - **all past net margins** compounded to today's value, and
 - **all future net margins** discounted to today's value
- The **potential value** of a customer is
 - **all future net margins** discounted to today's value

Customer Satisfaction, Loyalty, and Business Performance

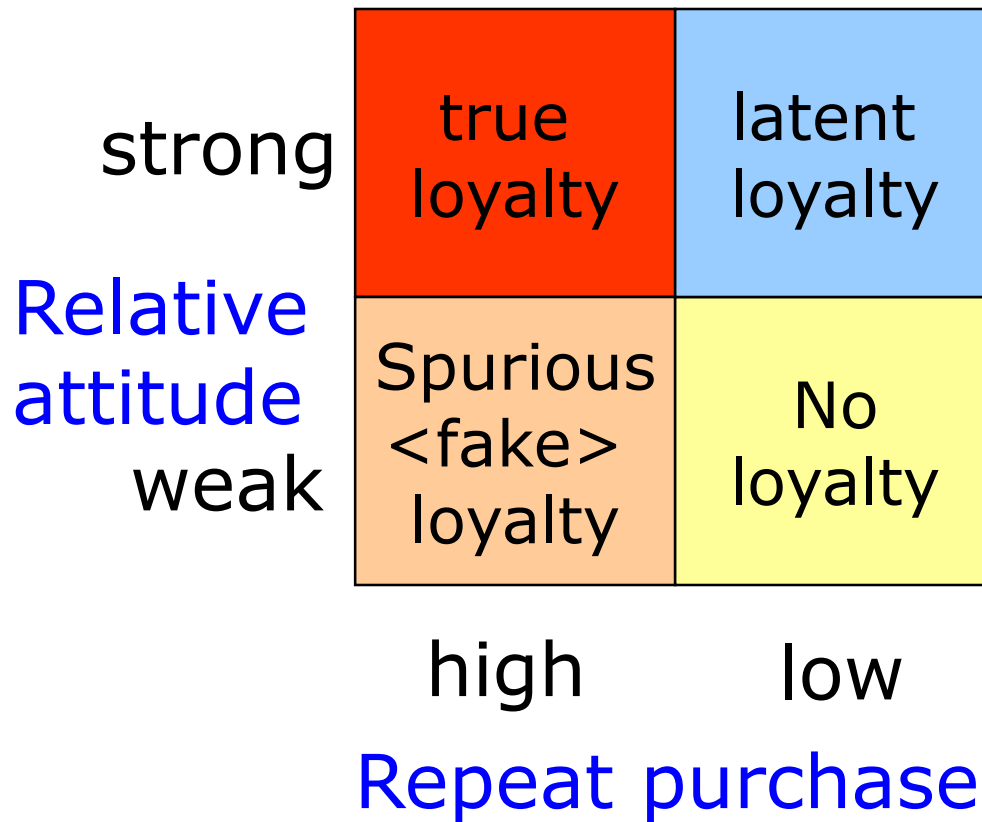
How do you measure?



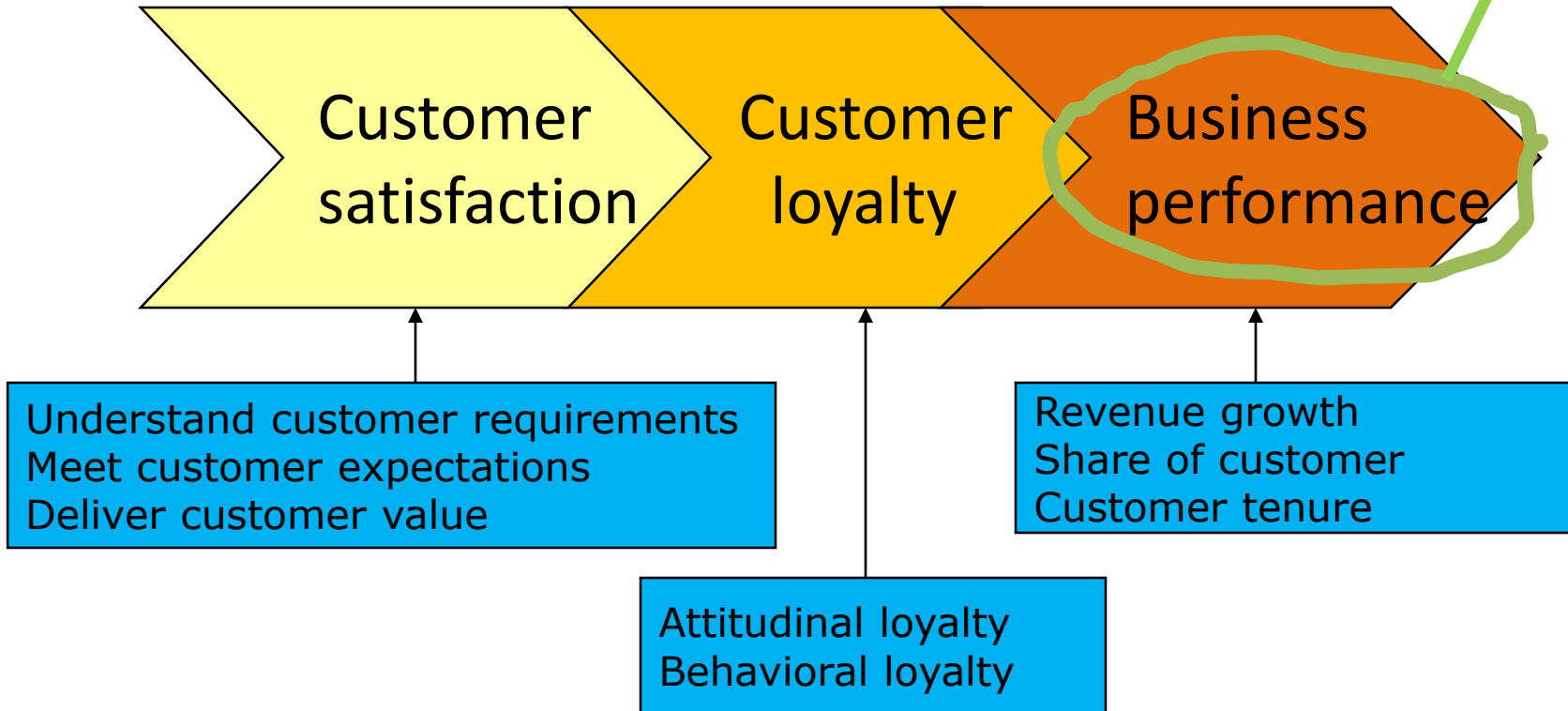
Two dimensions of customer loyalty

- Behavioral loyalty
 - Is the customer active?
 - What is our share of customer spend
 - RFM variables
 - Recency
 - Frequency
 - Monetary value
- Attitudinal loyalty
 - Beliefs
 - Commitment
 - Preference
 - Intention to buy

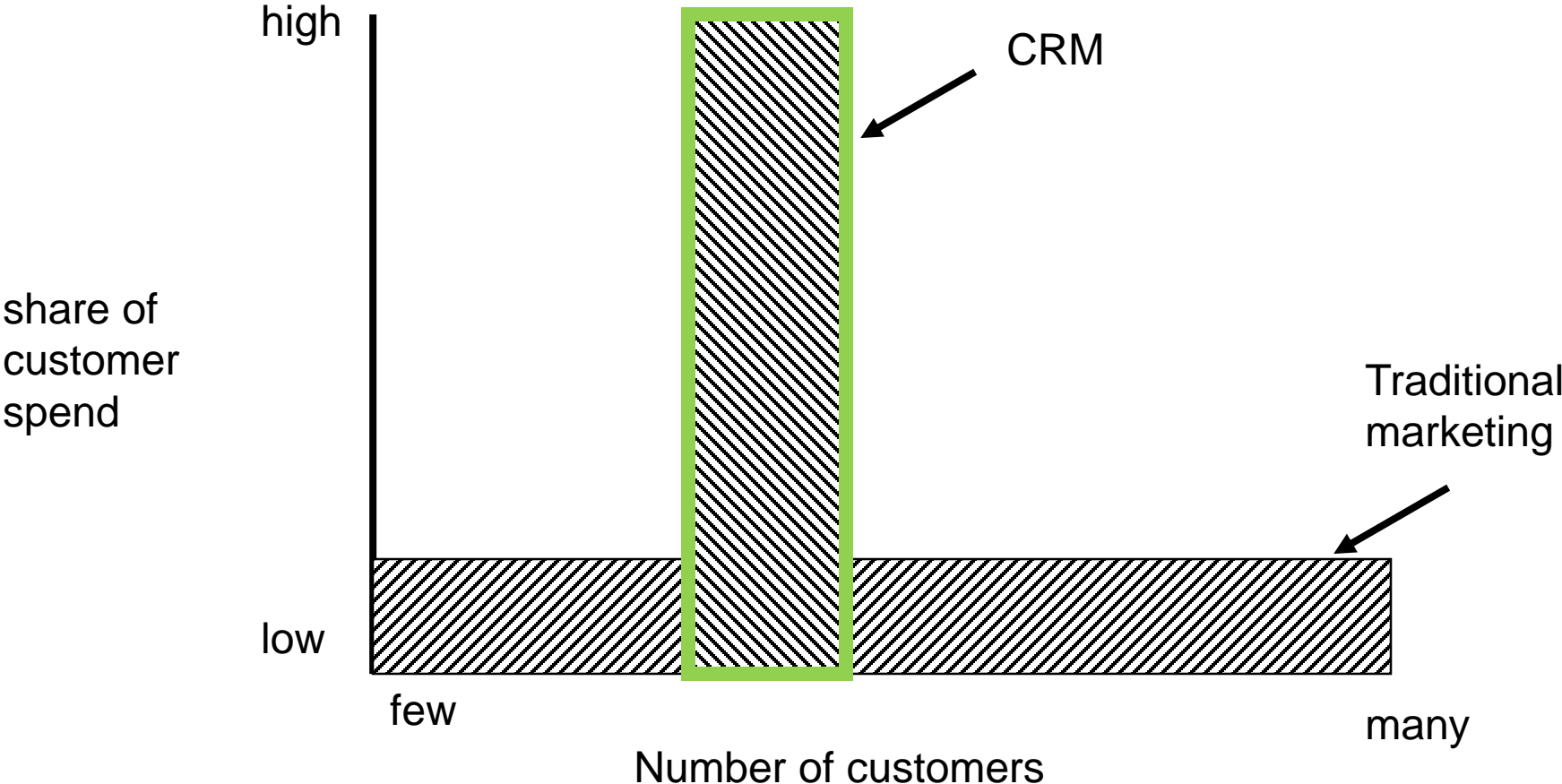
Dick and Basu's model of customer loyalty



Besides Sales & Profit, how do we Measure Business Performance?

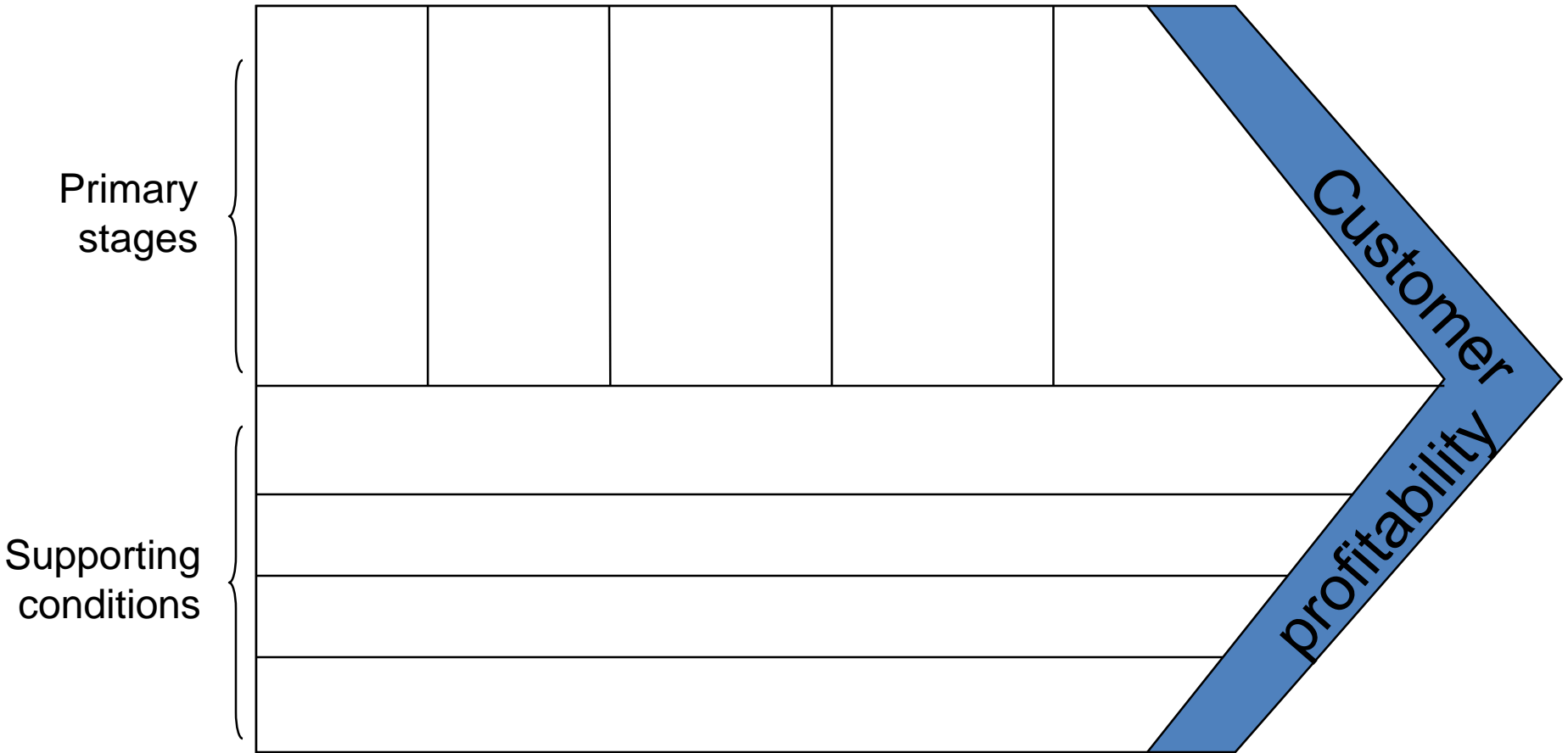


Share of market vs. share of customer

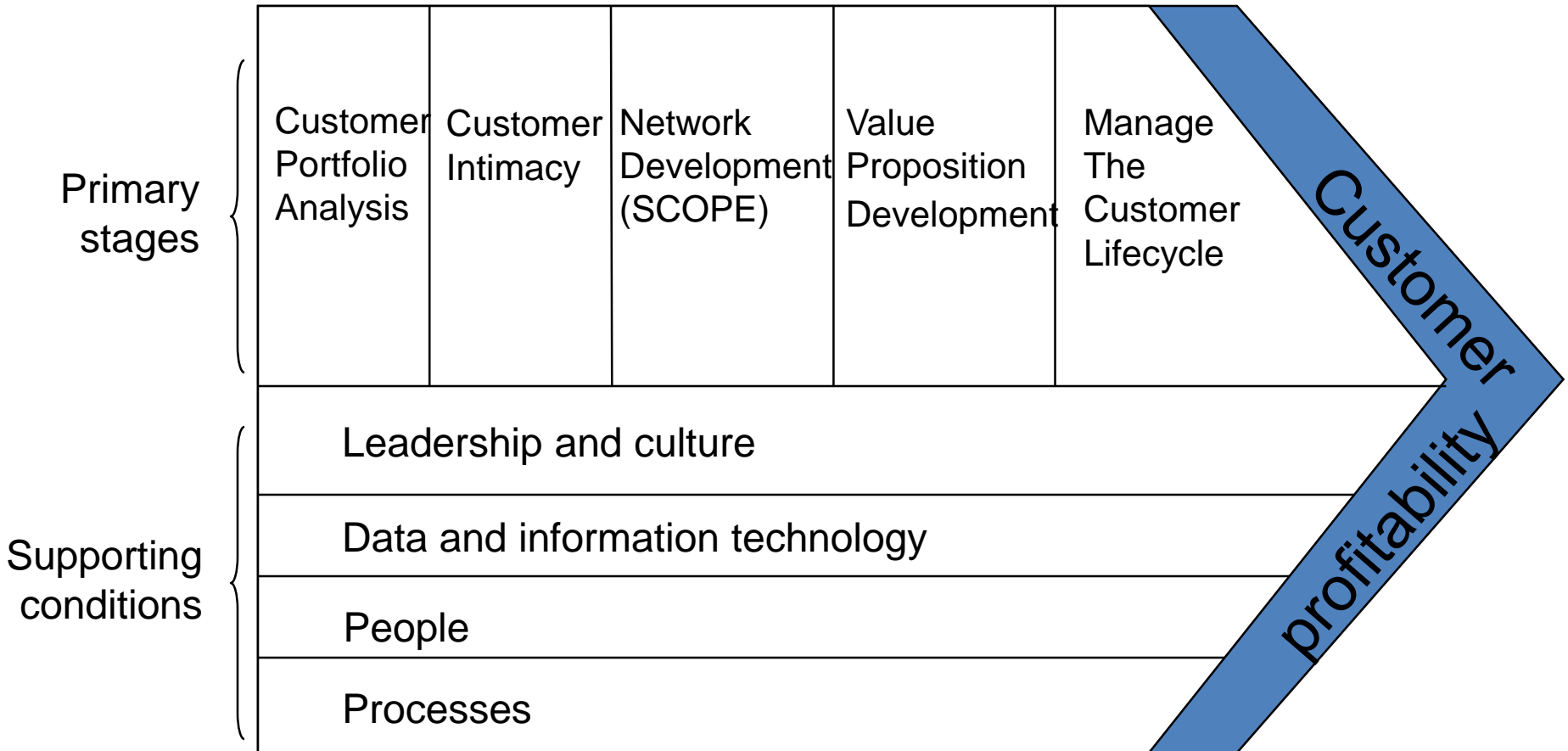


Value Chain

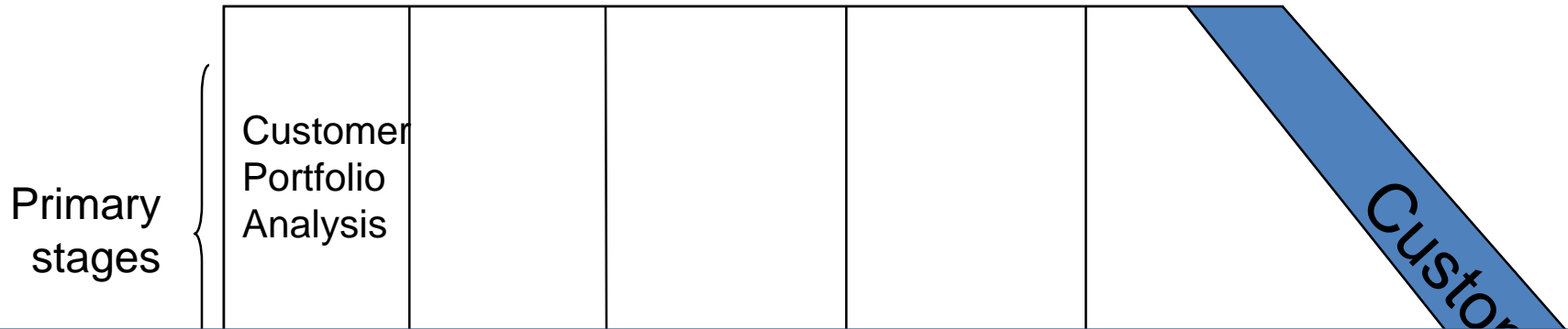
CRM value chain



CRM value chain



CRM value chain



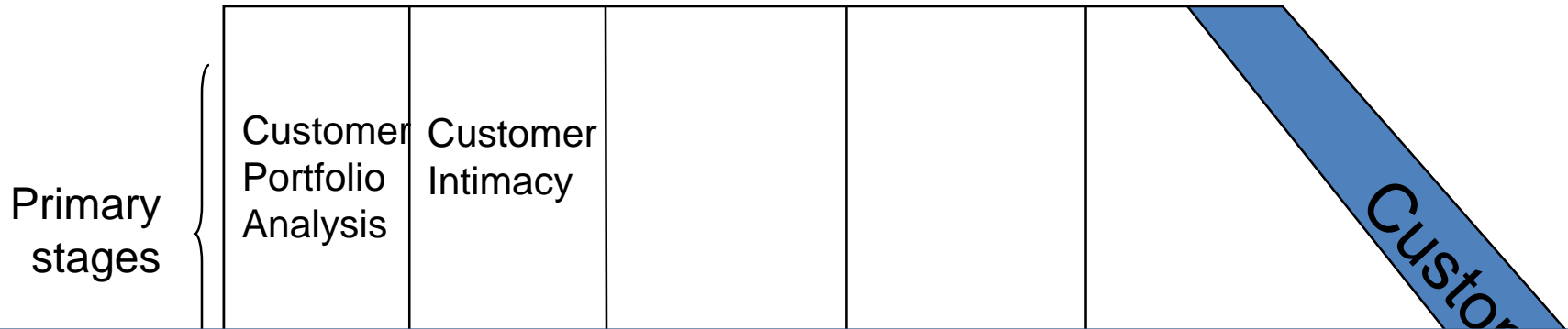
Question: Customer?

Answer: Actual and potential customer

You want to serve in the future

Note: The top list generate more profit (80:20)

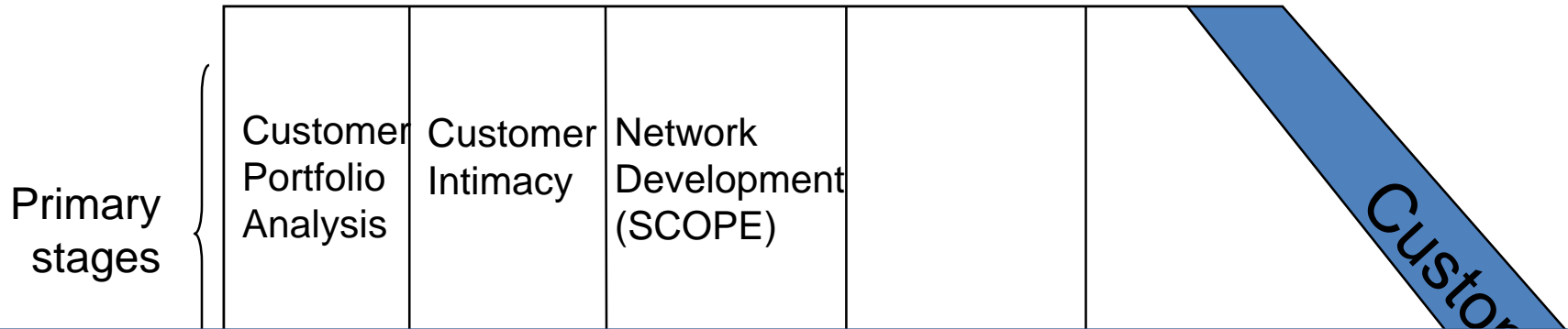
CRM value chain



Getting to know:

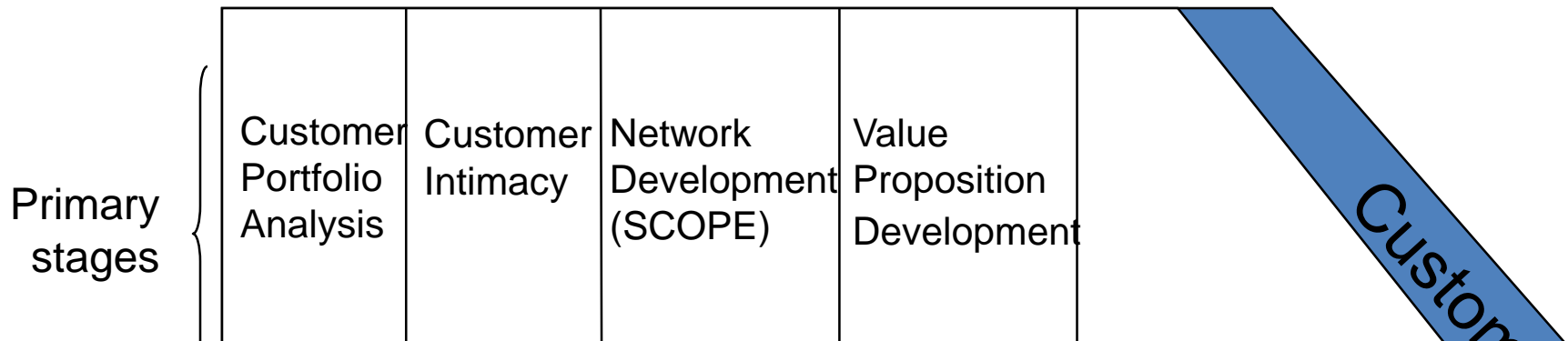
Identify, profile, history, requirements, expectations, preferences

CRM value chain



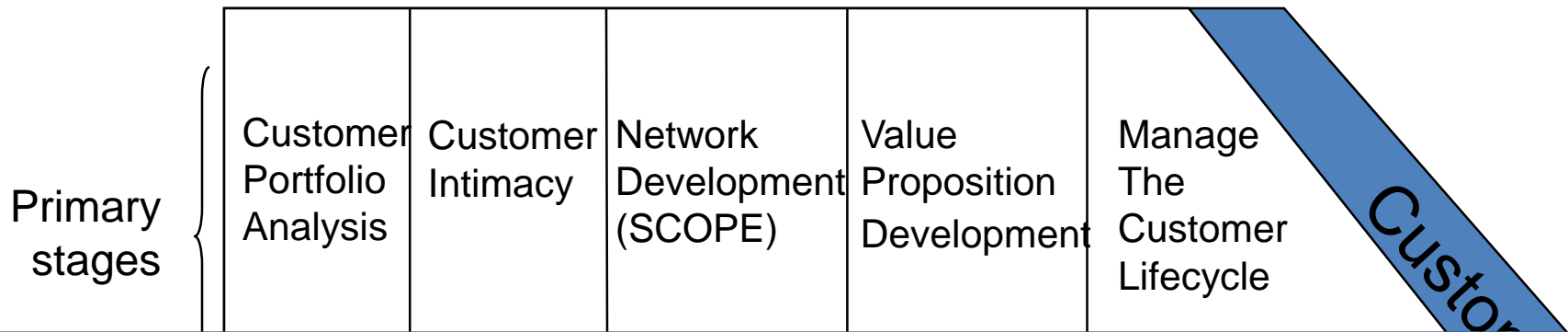
- Identify, brief, and manage relationships with your network members
- Create & Deliver value to chosen customers
- Network includes suppliers, partners, owners/ investors, employees

CRM value chain



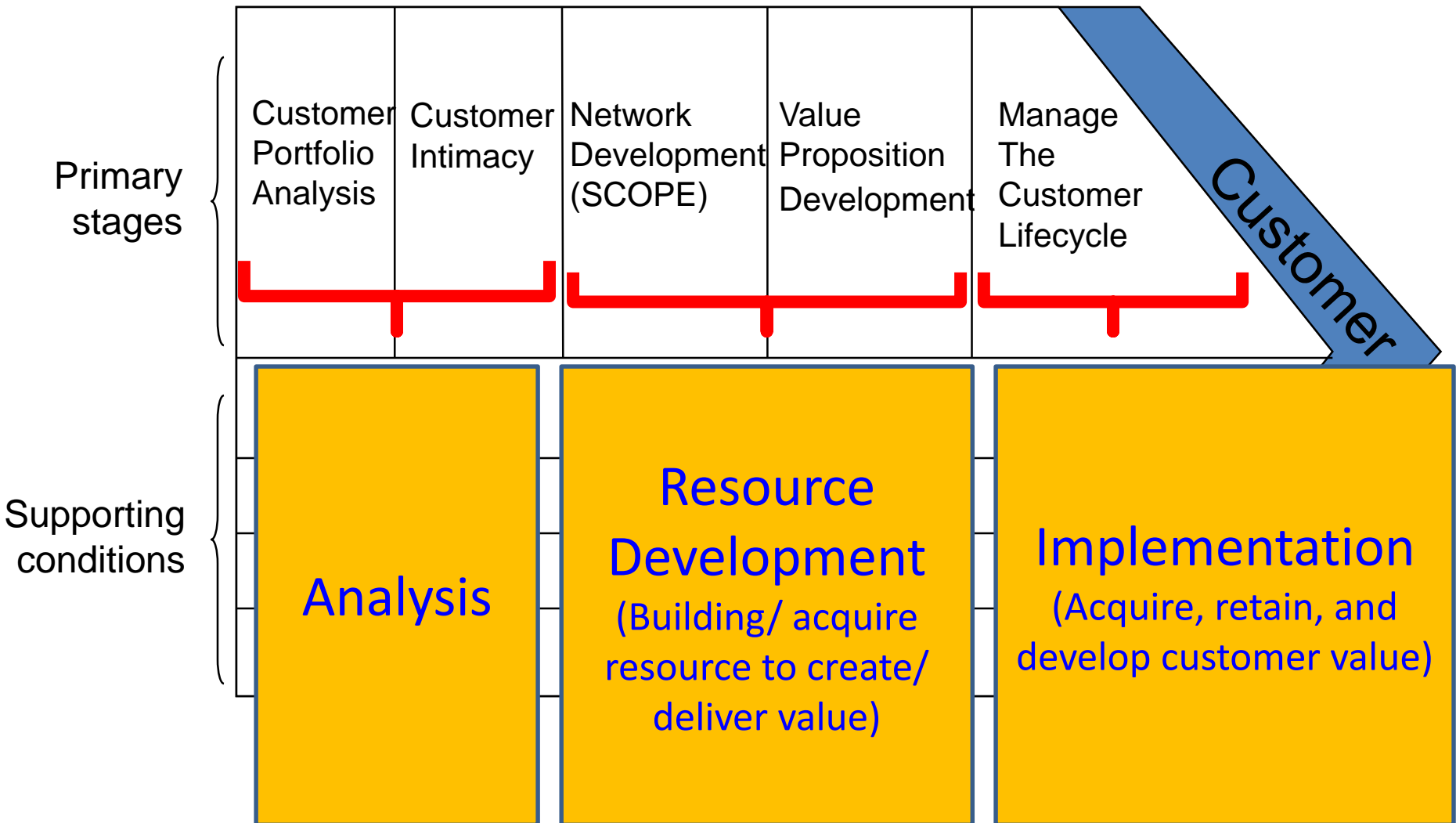
- Identifying sources of value for customers
- Create proposition and experience that meet customers' requirements, Expectations and preferences

CRM value chain

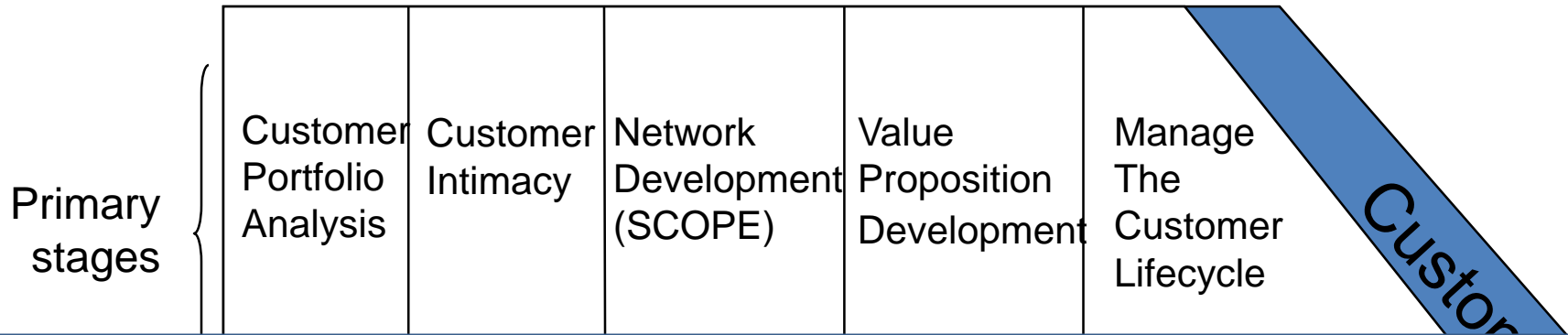


- Manage the customer's journey (suspect → advocate)
- This requires attention to process and structure

CRM value chain



CRM value chain



- The 5 steps are

- Iterative

- Repetitive, continuous

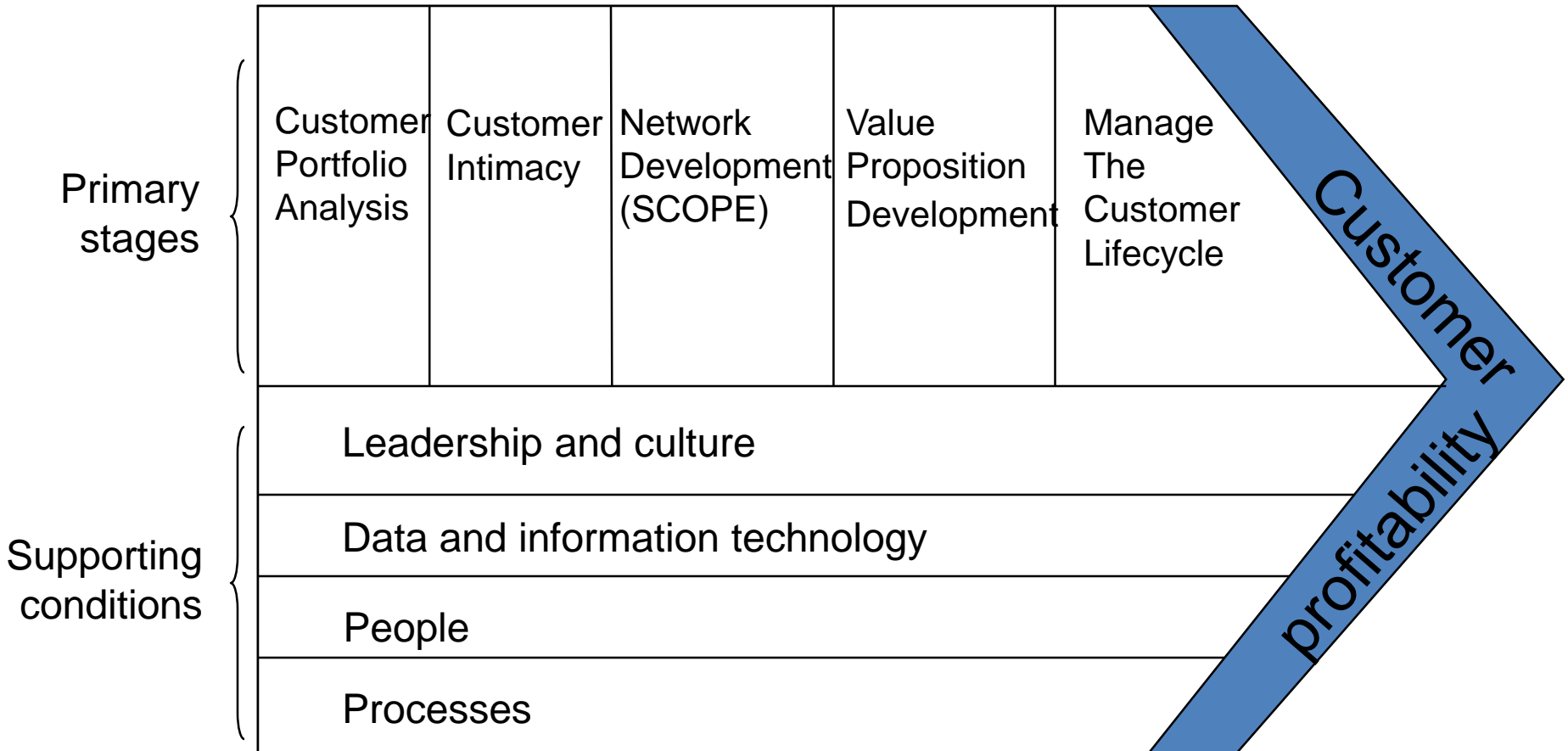
- E.g. keep reviewing who/ how to serve

- Reflexive

- Backwards and forwards interdependence between 5 stages

- E.g. Has to review target decision if has not competency to serve (Identify → design value → network can't serve → has to re-identify)

CRM value chain



Q&A