



# MK 322 Retail Management

## Chapter 11: Customer Relationship Management Part II

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# Implementing CRM Programs

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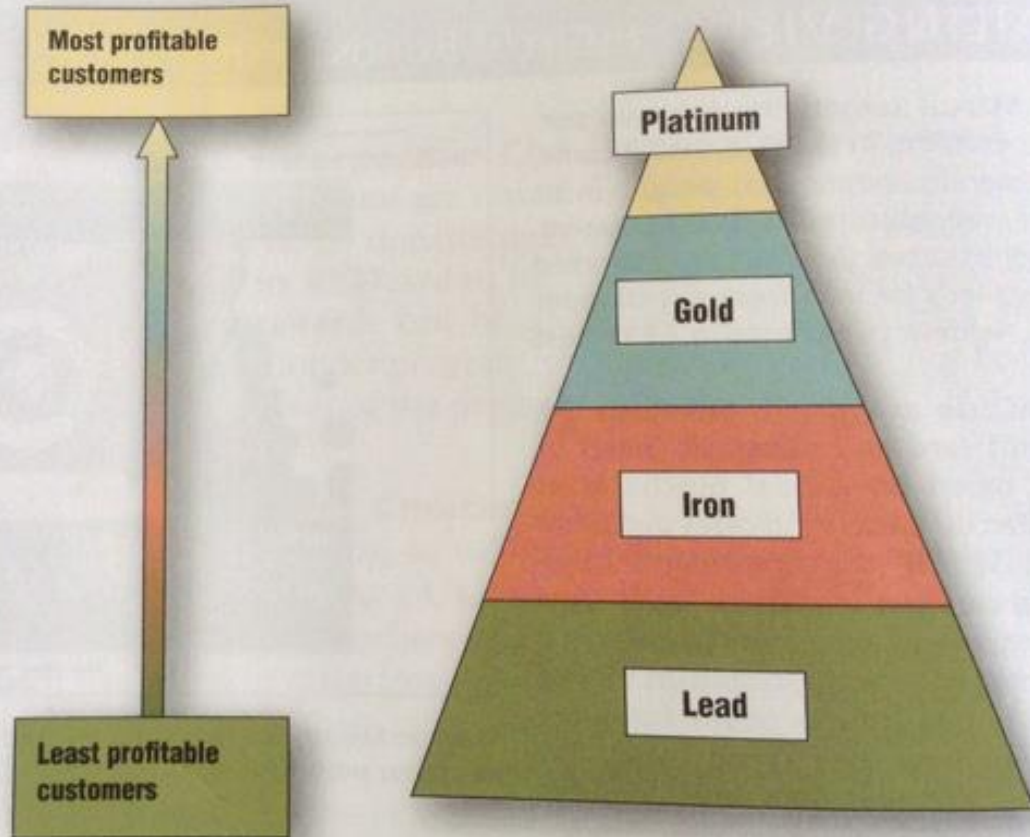


# Customer Pyramid

- 80-20 rule...80 percent of profits come from 20 percent of customers
- Group into 2 groups – 20 percent of the customers with the highest CLV scores and the other group, the rest

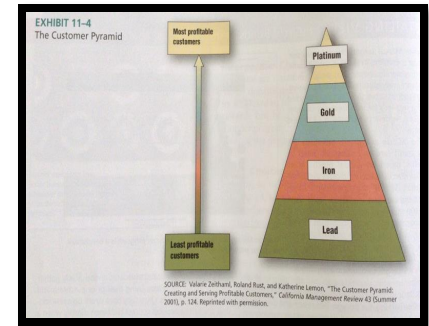
# Customer Pyramid

**EXHIBIT 11-4**  
The Customer Pyramid



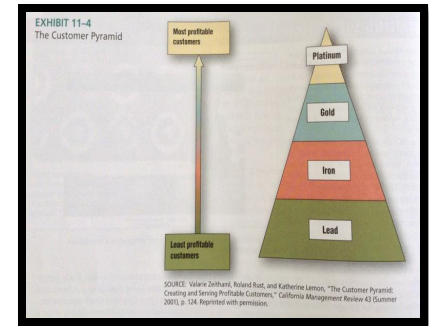
SOURCE: Valarie Zeithaml, Roland Rust, and Katherine Lemon, "The Customer Pyramid: Creating and Serving Profitable Customers," *California Management Review* 43 (Summer 2001), p. 124. Reprinted with permission.

# Platinum Segment



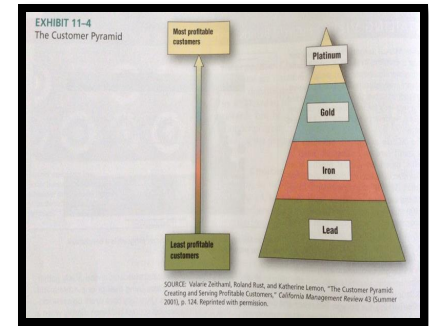
- Composed of top 25 percent CLV
- Most profitable and loyal
- Are not overly concerned about pricing
- Buy a lot of merchandise sold by retailer
- Often place value on customer service more than price

# Gold Segment



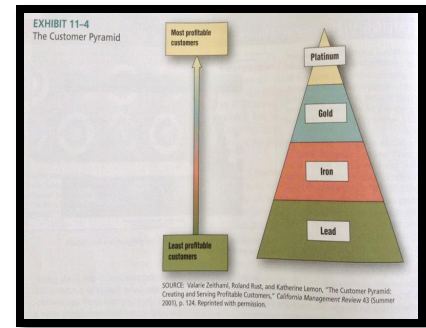
- Buy a significant amount of merchandise, but not loyal as platinum customers
- Patronize some of retailers customers
- Profitability less than platinum-tier since price plays a greater role in decision making
- Objectives of CRM program is to move gold-tier customers to the platinum level

# Iron Segment



- Purchase a moderate amount of merchandise
- But their spending levels, loyalty, and profitability are not substantial enough for special treatment
- Possible to move into higher tiers, but for reasons such as limited income, price sensitivity, or shared loyalties with other retailers, additional expenditures on them may not be worth it

# Lead Segment



- Customers with lowest CLV
- Can make negative contribution to the firm
- Often demand a lot of attention, but do not buy much
- Buy merchandise on sale or abuse return privileges
- Cause additional problems by complaining about retailers to others
- As a result retailers do not direct any attention to these customers

# Customer Retention

- Personalization
- Developing retail programs for small groups or individual customers is referred to 1-to-1 retailing



# Customer Retention

## Personalized Website Example

Dynamic

Amazon personalizes its Internet interactions with customers by analyzing its customer database to present offerings that will be of interest to each of its customers.



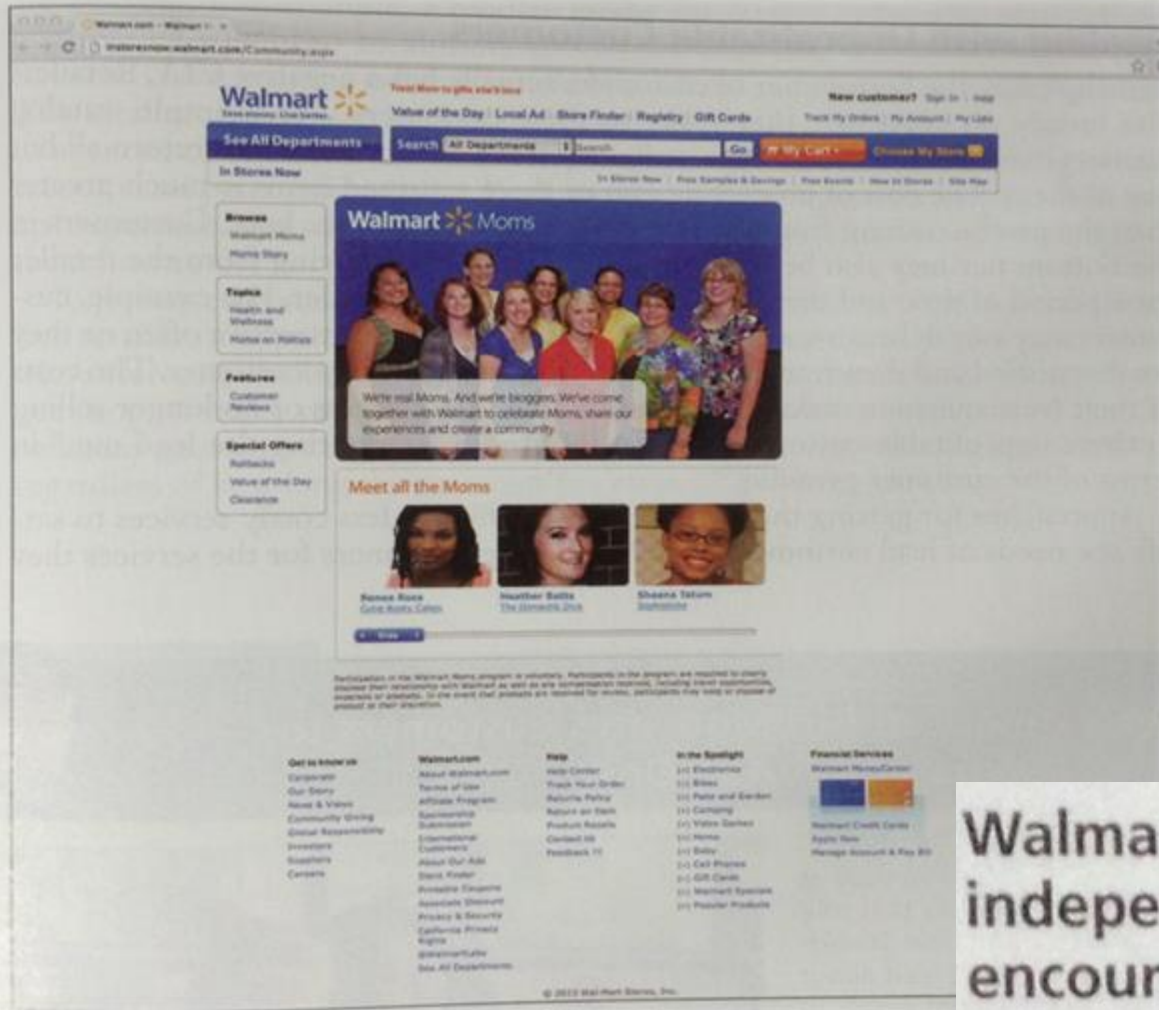
Static



# Community

- A retail brand community is a group of customers who are bound together by their loyalty to a retailer and the activities the retailer sponsors and undertakers.
- Community members identify themselves with other members and share a common interest and participation in activities related to the retailer

# Community



Walmart supports blogs by independent bloggers to encourage a community of value-oriented moms.

# Customer Conversion: Making Good Customers into Best Customers

- In context of customer pyramid, increasing the sales made to good customers can be referred to as customer alchemy- converting iron and gold customers into platinum customers
- Add-on selling – offering and selling more products and services to existing customers to increase retailer's share of wallet with these customers
- Good example is Amazon.com uses personalized customer information

# Customer Conversion: Making Good Customers into Best Customers



American Girl increases its share of wallet with customers by offering special services like hairdressing and dining with dolls.

# Dealing with Unprofitable Customers

- Bottom Tier has negative CLV
- Retailers lose money to every sale they make
- Refunds may be costly
- Customers vanish to other competitors



# Dealing with Unprofitable Customers

- The process of no longer selling to these profitable customers could be referred to as "getting the lead out" in terms of customer pyramid
- Approaches for getting the lead out are
  1. Offering less costly services to satisfy the needs of lead customers
  2. Charging customers for services they are abusing



**That's All Folks**