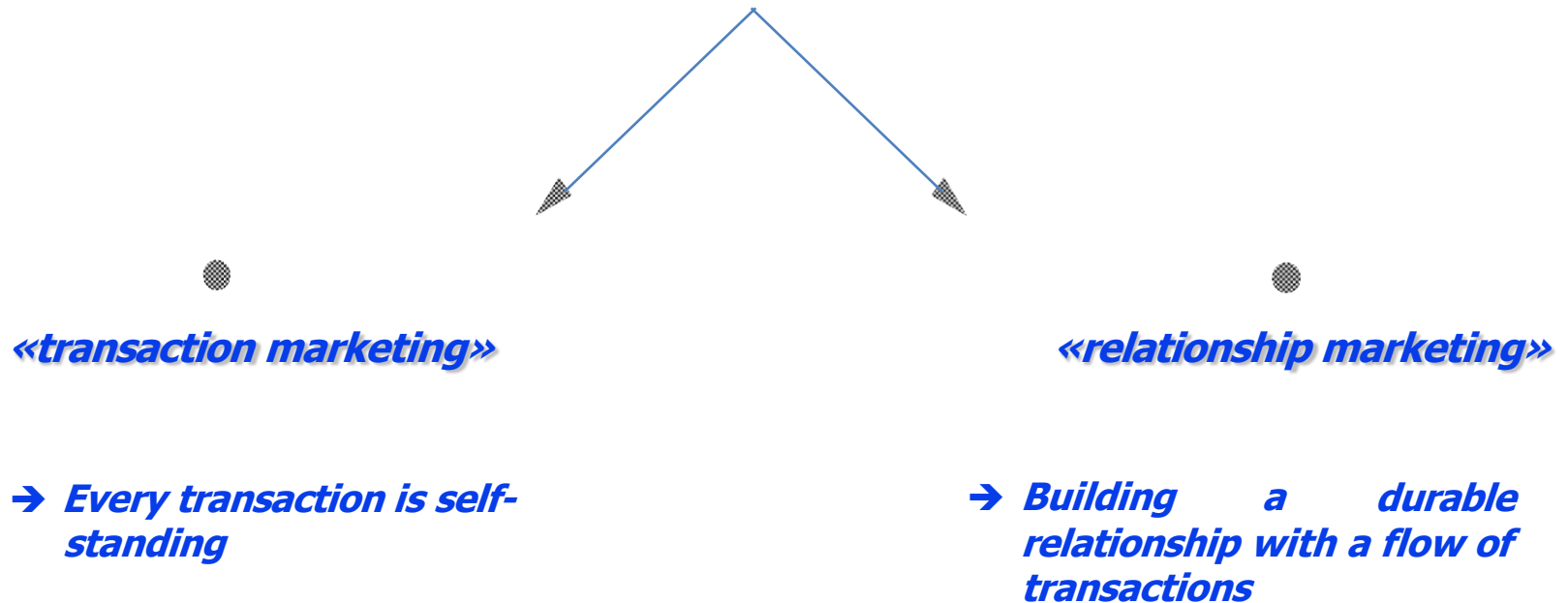# Customer relationship management and co-creation with the consumer

Debora Bettiga

WHY CRM?

The evolution from transaction marketing to relationship marketing

Possible strategies

«transaction marketing»

«relationship marketing»

➔ *Every transaction is self-standing*

➔ *Building a durable relationship with a flow of transactions*

Why relationships create value

Risk: probability that something goes differently from what is expected

Uncertainty before the purchase **+** Risk during and after the purchase **=** Total perceived risk

Relationship as value

- The customer does not purchase a «product», but rather a solution to his/her specific problem

- The relationship is a part of the solution

Product

Service

Experience (Relationship)
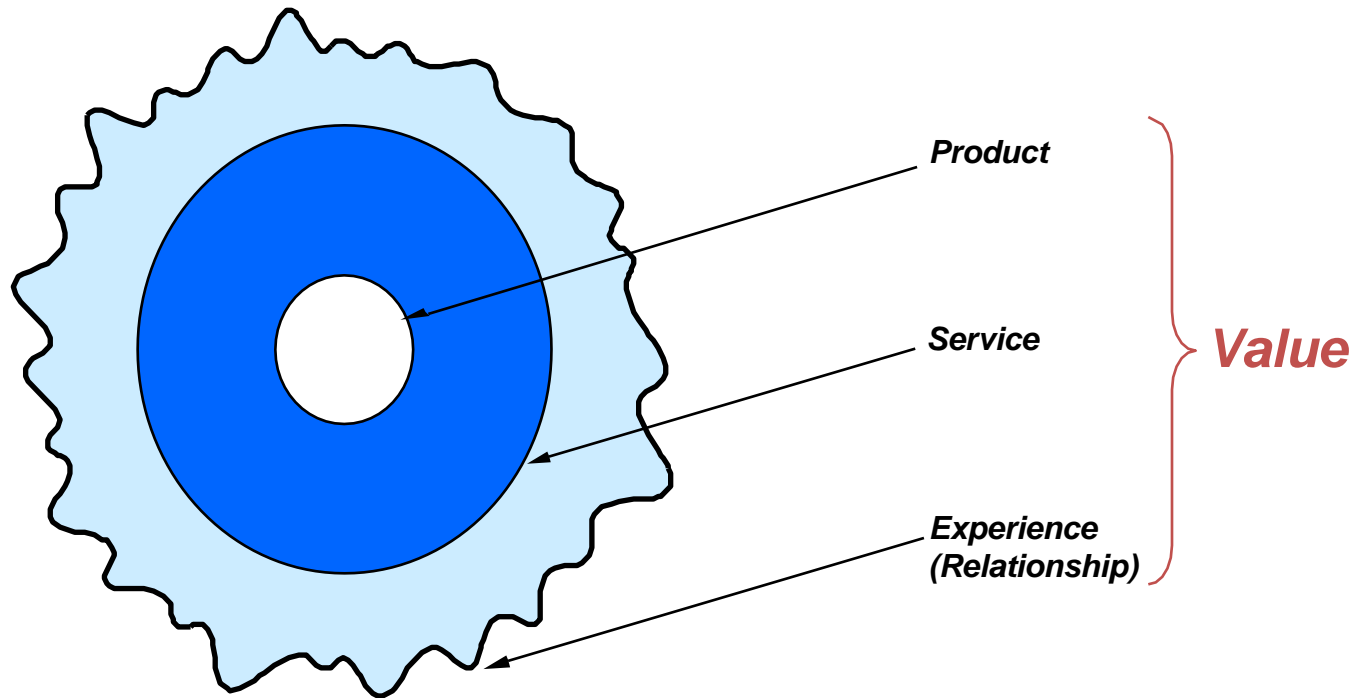
Value

Defining CRM

Gummesson

CRM is the translation of relationship marketing theory and value in strategies and practices

Pricewaterhouse Coopers

CRM is a commercial strategy, an attitude towards wmployees and customers, supported by processes and systems. The objective is to build long termed relationships through the understanding of individual preferences, so to create value for both the company and the customer

Eggert & Fassot

eCRM includes analysis, planning and management of customer relationships with the support of ICTs in order to put the selected customers at the core of business processes

CRM: three levels of analysis

Strategic CRM

- Culture and organizational effort to maximize the return on customer relationships

Operational CRM

- System to collect and integrate data (sales force automation, marketing automation, service automation, third parties' data, etc.)
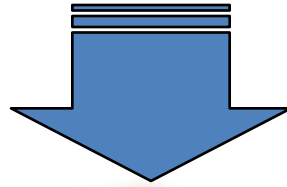
Analytical CRM

- analyze customer data collected through multiple sources, and present it so that business managers can make more informed decisions

Defining CRM

Customer Relationship Management is:

a **business strategy** for the **selection** and **management of relationships** (with customers) able to create **value** for both of the parties

1. *It is not based on innovative ideas*
2. *It requires a business system management philosophy centred on the customer*
3. *Technological applications may be useful, but only with the right company leadership, strategy and culture*

Key principles of CRM

1. Relationships create value
2. Retaining customers tends to be easier or cheaper than acquiring new ones
3. Customers are not all the same ➔ Differentiated marketing actions according to the customer profile
4. Customer accountability as the key

METHODS FOR CUSTOMER EVALUATION

Value analysis output

Most profitable
customers

Least profitable
customers

Platinum

Gold

Iron

Lead
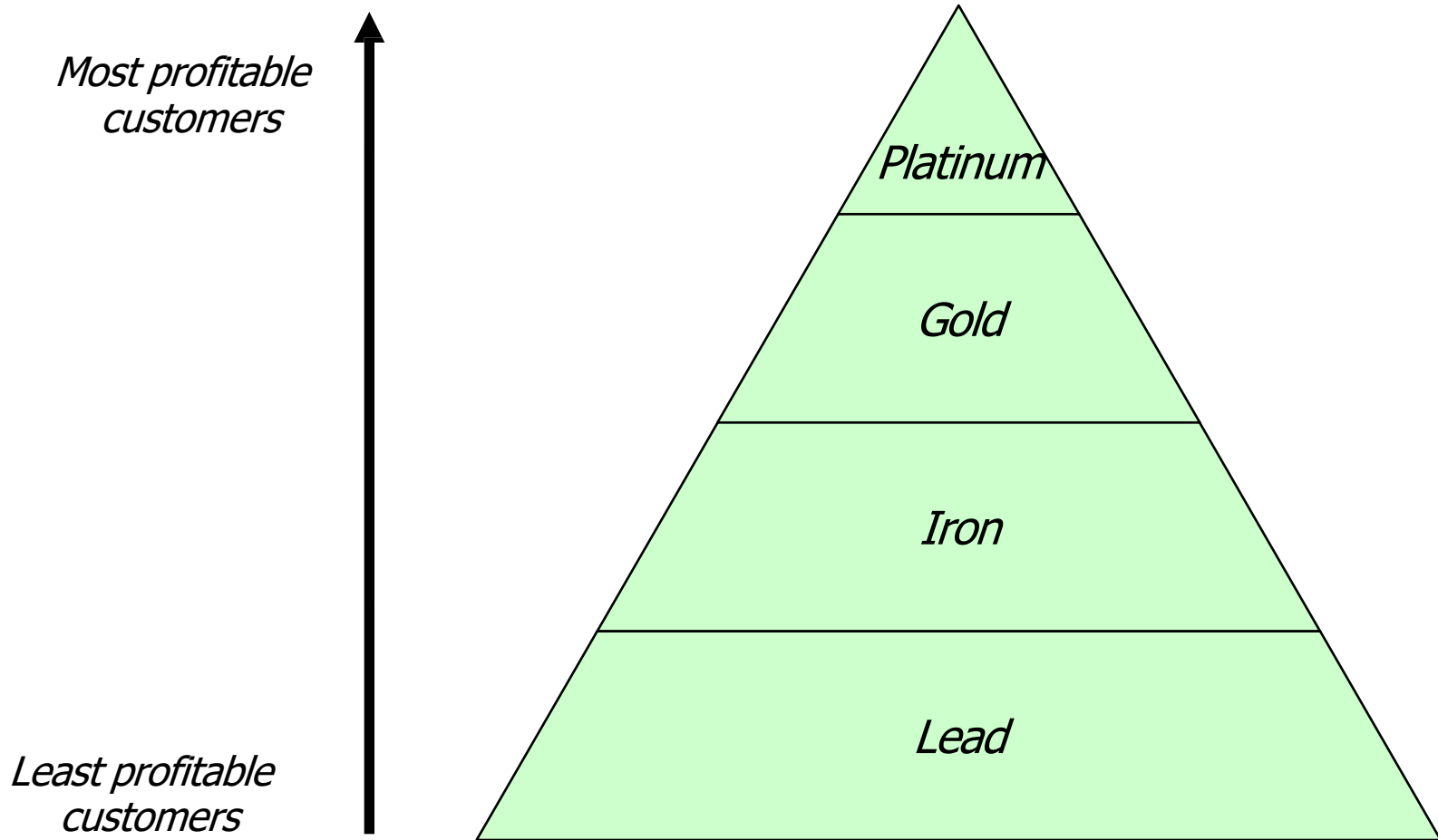
Customer assessment: Share of Wallet

SoW: The percentage of a customer's spend that is with a given company over a given amount of time

	Low SoW	High SoW
High revenues	Important customer, low penetration ➔ nurture	Strategic partner ➔ consolidate
Low Revenues	Marginal customer ➔ harvest	Loyal customer, low growth opportunities ➔ retain

The loyalty-profitability matrix

	Not loyal customers	Loyal customers
High profitability	**Butterflies**	**True friends**
Low profitability	**Foreigners**	**Question marks**

Butterflies

- Group of customers knowing their potential value and hunting the better offer.

- Possibility to make these customers loyal is very limited

- Focus on single transactions (through promotion and special offers) and not on *structural loyalty programs*.

- "Exploit" only time when the account is active.

- Understand as soon as possible when it is time to divest.

Foreigners

- No loyalty and no value for the supplier.

- Cut loyalty investment on this cluster of customers

- Try to extract value from each transaction

The loyalty-profitability matrix

Question marks

- The most critical to manage. Investments in loyalty programs generate few returns due to lower volumes featuring these accounts.

- Measure the potential value of the customer (wallet) and the relative *share of wallet*

  - Small share of wallet can imply opportunity of cross-selling and up-selling
  - Small wallet obliges an accurate management of relationship costs.
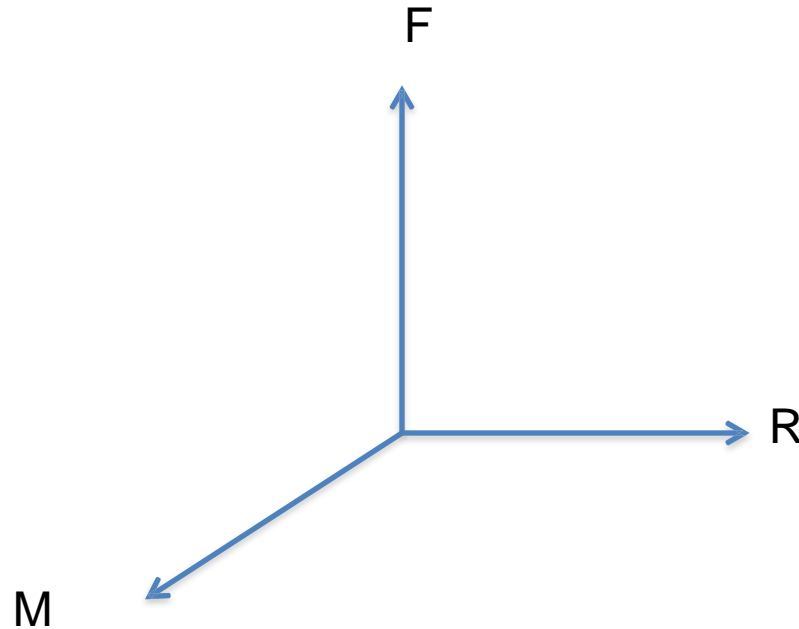
True Friends

  - There are the most valuable customers for the firm.
  - High communication but not entropy
  - Both behavioural and attitudinal loyalty investments

Customer assessment: RFM Analysis

Recency – How recently has the customer bought?

Frequency – How often does the customer buy?

Monetary – How much does the customer spend?
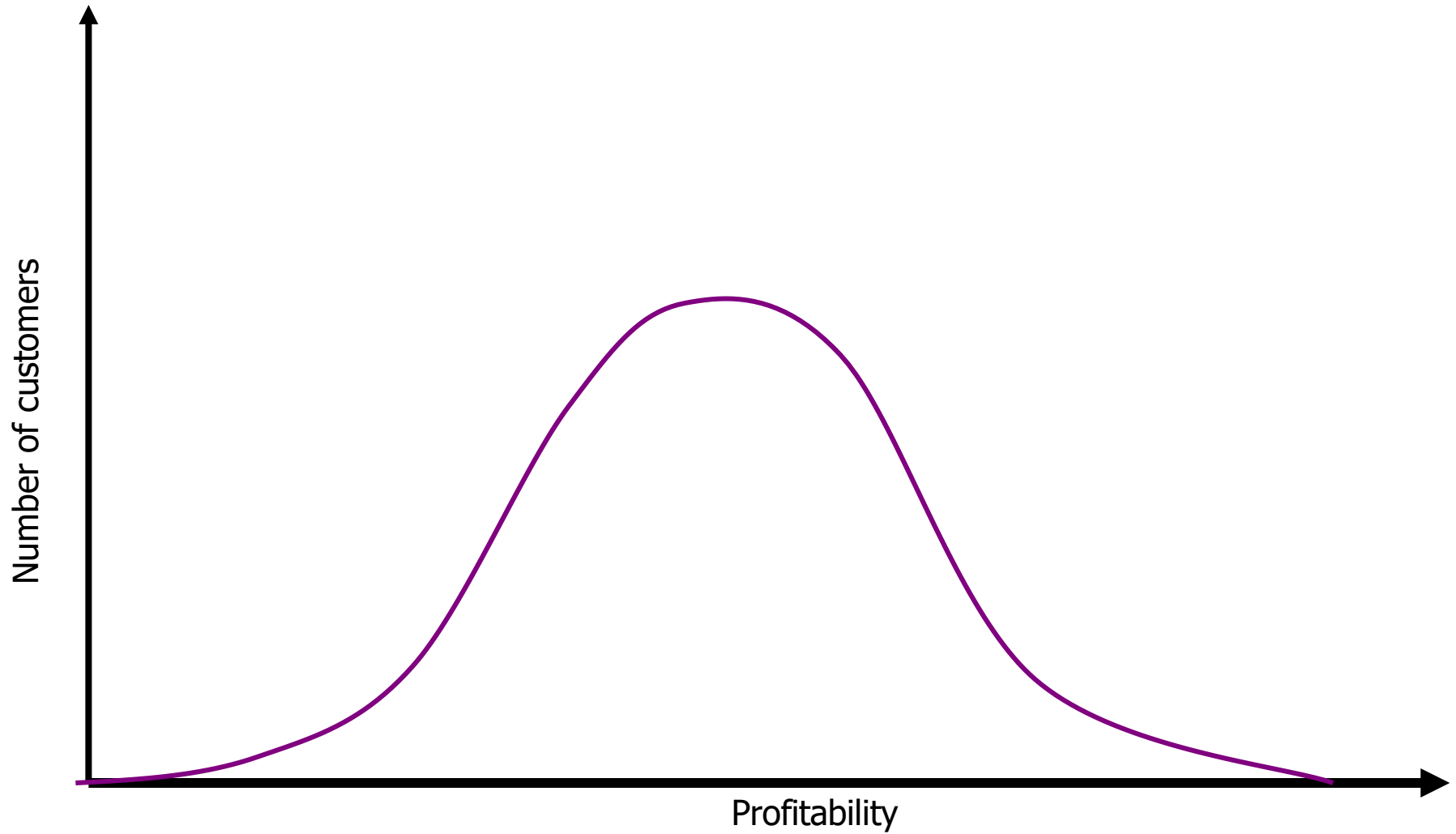
F

R

M

Customer assessment: analisi RFM

CUSTOMER ID	RFM CELL	RFM SCORE
1	5,4,4	4.3
2	4,5,4	4.3
3	1,1,1	1.0
4	2,2,2	2.0
5	3,3,3	3.0
6	2,2,2	2.0
7	4,3,3	3.3
8	1,1,5	2.3
9	1,5,5	3.7
10	3,4,3	3.3
11	5,4,4	4.3
12	5,5,5	5.0
13	2,3,2	2.3
14	3,2,1	2.0
15	4,1,1	2.0

A possible RFM-based segmentation

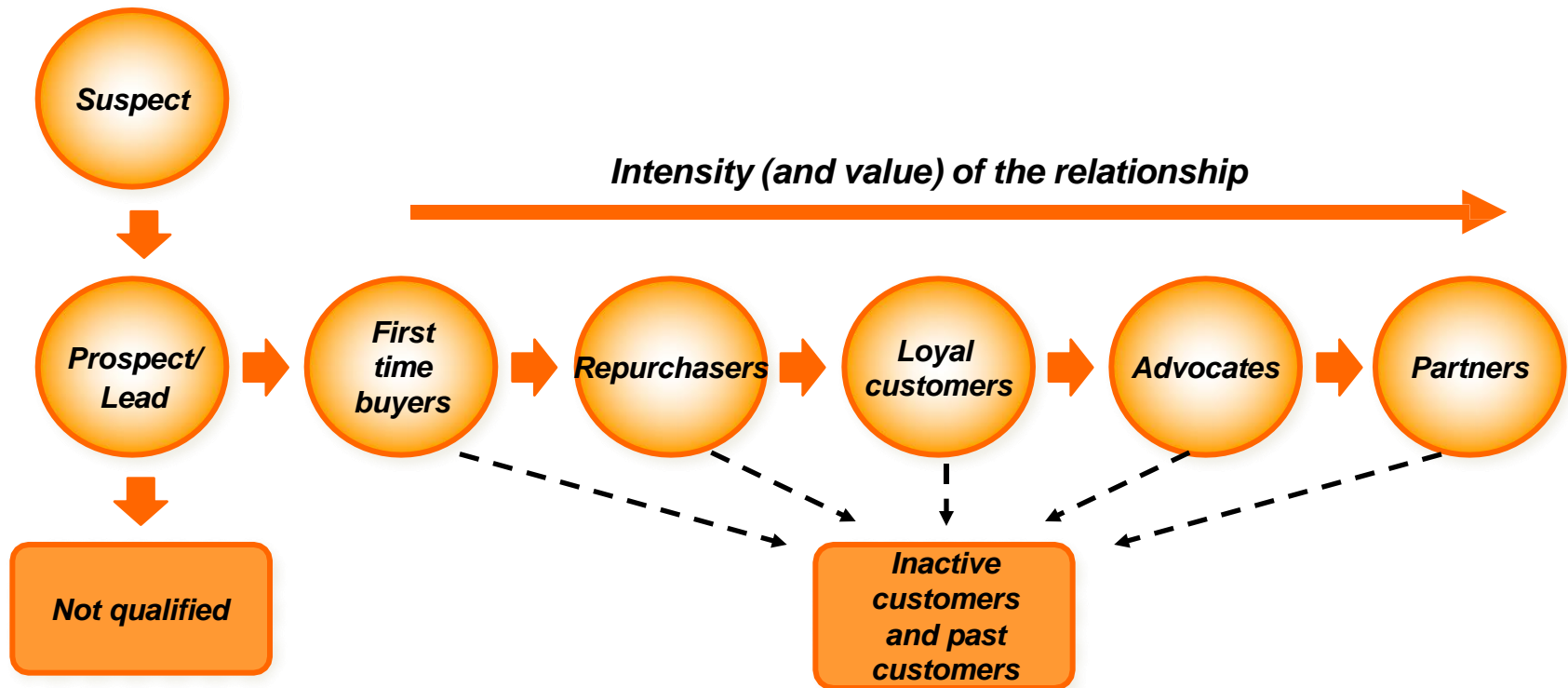| Customer Segment	Activity	Actionable Tip
Champions	Bought recently, buy often and spend the most	Reward them. Can be early adopters for new products. Will promote your brand.
Loyal Customers	Spend good money with us often. Responsive to promotions.	Upsell higher value products. Ask for reviews. Engage them.
Potential Loyalist	Recent customers, but spent a good amount and bought more than once.	Offer membership / loyalty program, recommend other products.
New Customers	Bought most recently, but not often.	Provide on-boarding support, give them early success, start building relationship.
Promising	Recent shoppers, but haven't spent much.	Create brand awareness, offer free trials
Customers Needing Attention	Above average recency, frequency and monetary values. May not have bought very recently though.	Make limited time offers, Recommend based on past purchases. Reactivate them.
About To Sleep	Below average recency, frequency and monetary values. Will lose them if not reactivated.	Share valuable resources, recommend popular products / renewals at discount, reconnect with them.
At Risk	Spent big money and purchased often. But long time ago.	Send personalized emails to reconnect, offer renewals, provide helpful resources.
Can't Lose Them	Made biggest purchases, and often. But haven't returned for a long time.	Win them back via renewals or newer products, don't lose them to competition, talk to them.
Hibernating	Last purchase was long back, low spenders and low number of orders.	Offer other relevant products and special discounts. Recreate brand value.
Lost	Lowest recency, frequency and monetary scores.	Revive interest with reach out campaign, ignore otherwise.

Source: Putler, 2017

Value analysis output

A basic strategy

Getting rid of unprofitable customers

- Acquiring new profitable customers
  - Up selling
  - Cross selling

Keeping customers for a longer period of time

Number of customers

Profitability

Source: Peppers and Rogers, 1999
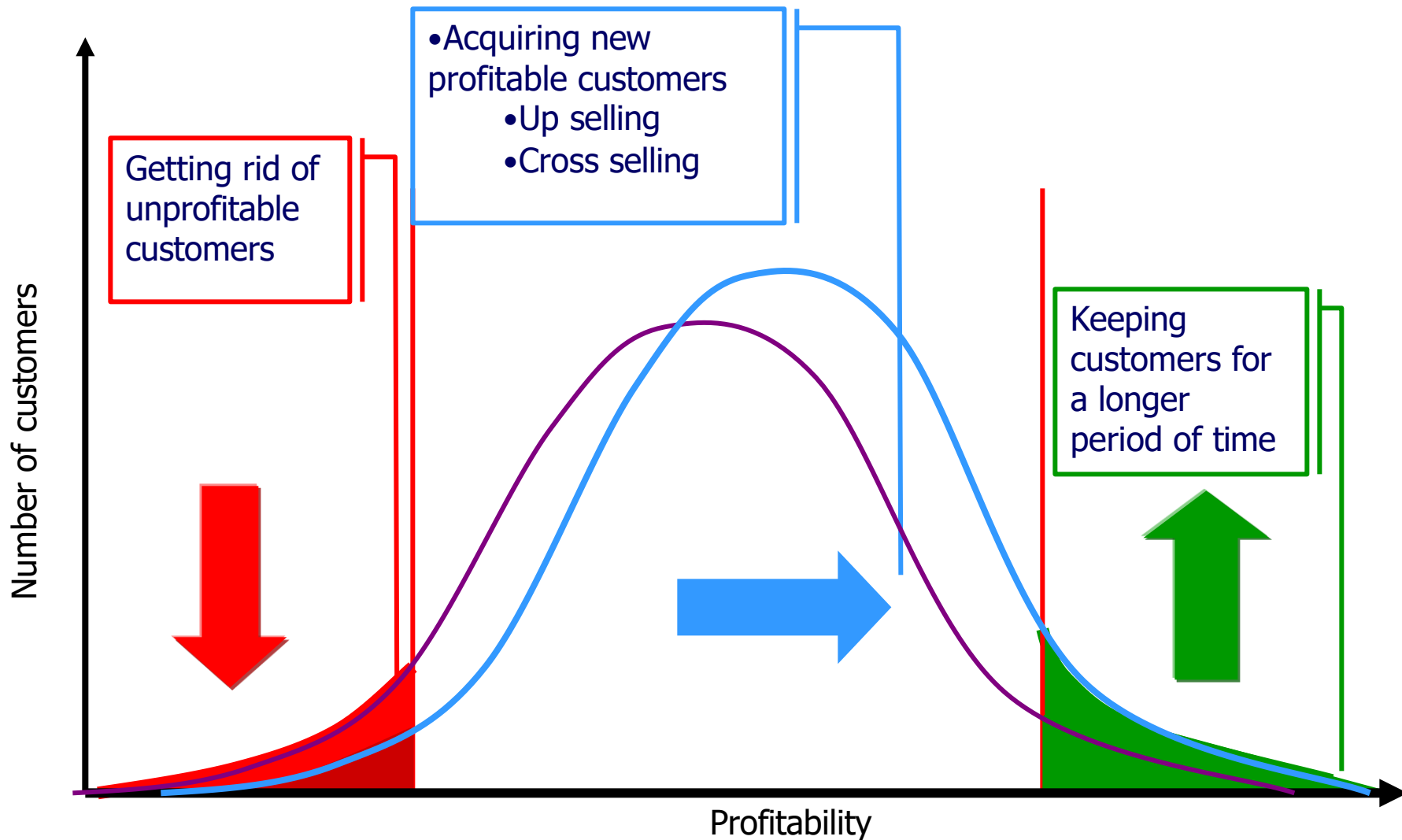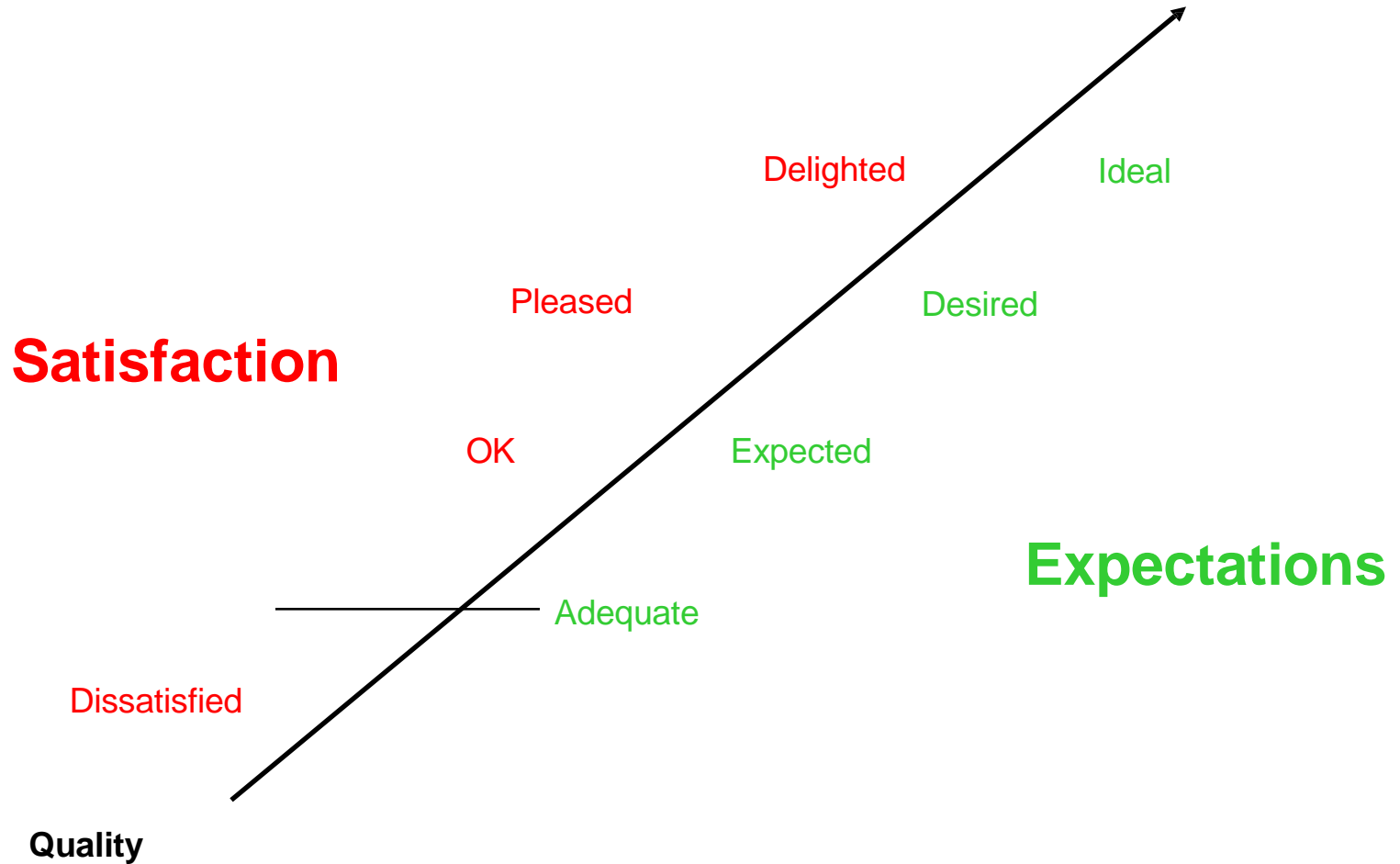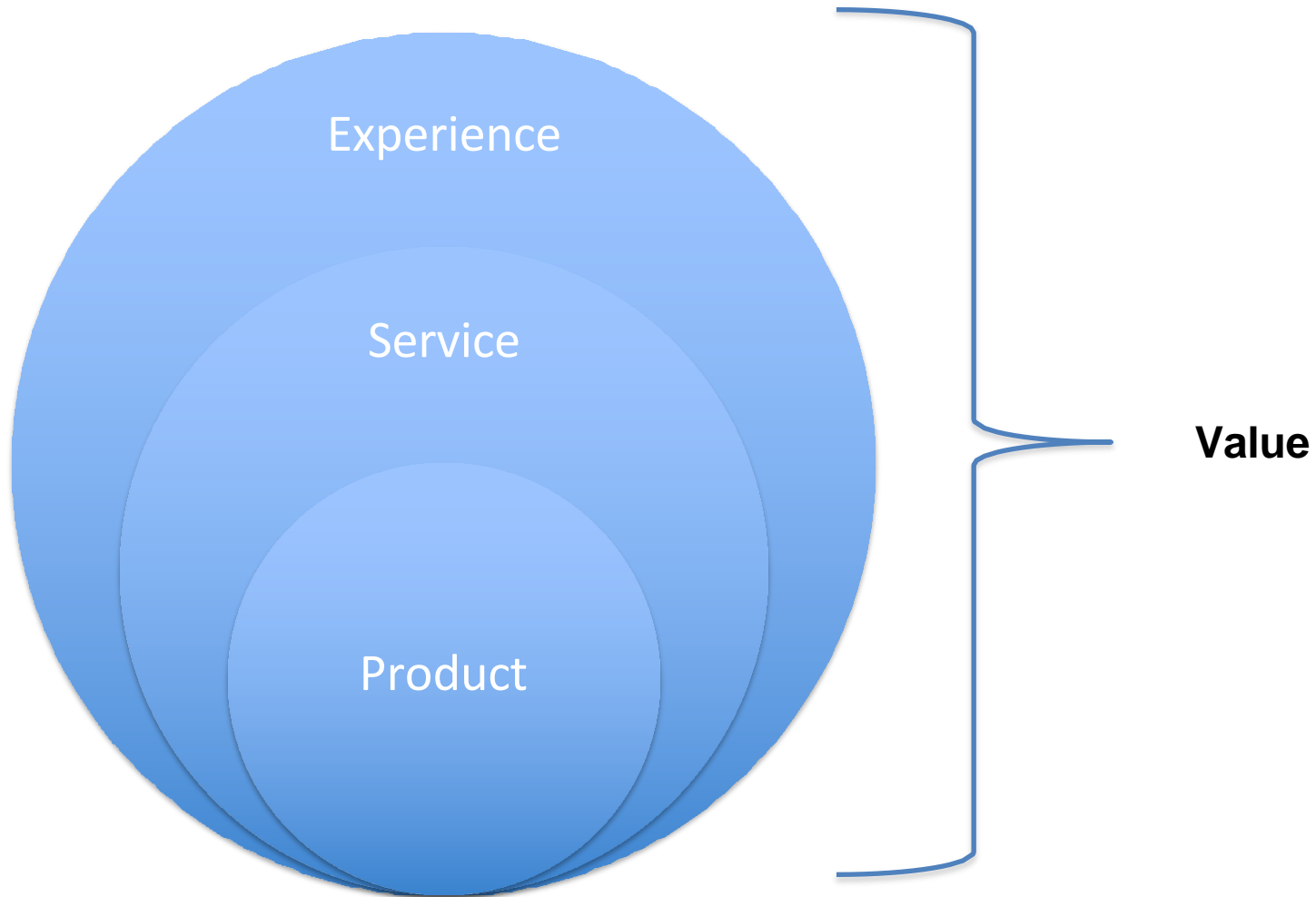
Customer development

The key for developing a customer

Customer satisfaction

A definition of customer satisfaction

Customer satisfaction if the extent to which a product, service or experience meet or **exceed** the customer's expectations
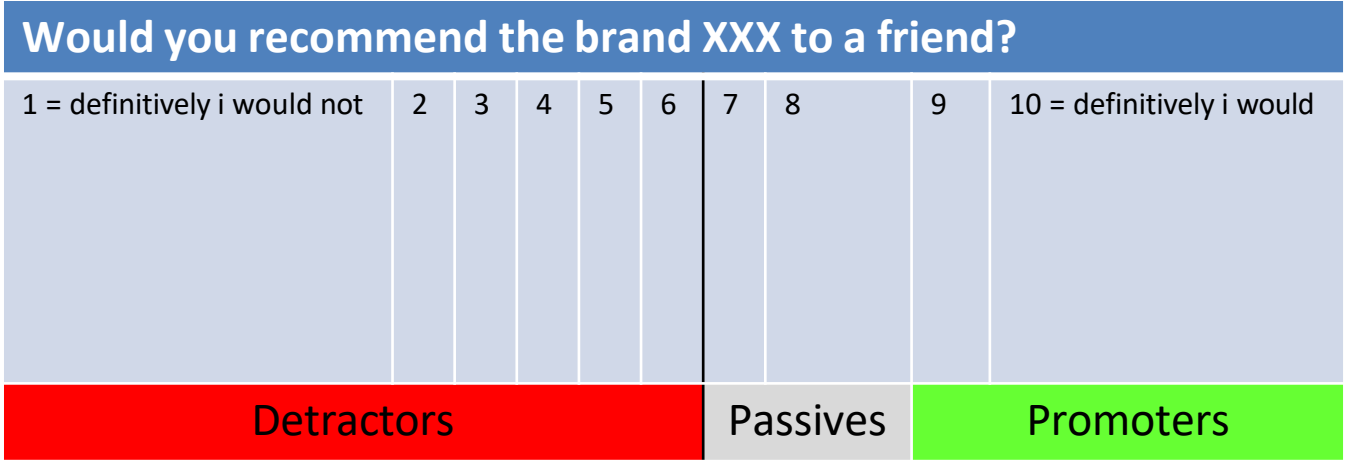
What is customer satisfaction?

Satisfaction

Expectations

Delighted · Ideal

Pleased · Desired

OK · Expected

Adequate

Dissatisfied

Quality

How to satisfy?

Experience

Service

Product

Value

Approaches to customer satisfaction analysis

1. Customer satisfaction Index (CSI): average customer satisfaction score measured in /100

2. Customer effort score (CES): measurement of the effort perceived by the customer

3. Net Promoter Score (NPS): measurement of the propensity to advocacy

Net Promoter Score (NPS)

Would you recommend the brand XXX to a friend?									
1 = definitively i would not	2	3	4	5	6	7	8	9	10 = definitively i would
Detractors						Passives		Promoters	

NPS = % Promoters - % Detractors

Creating value through CRM

CRM as a driver of revenues

Customer loyalty boosts repurchase

Customer advocacy may create new purchases

CRM as a driver of costs

Managing a relationship has a cost

Continuous improvement has a cost

It is **generally** recognized that even slight improvements in loyalty may lead to huge increases in profitability

Creating value through CRM

Nonetheless, not all the customers are **structurally** profitable

Extreme sensitivity to price/promotions when your brand is not structurally the cheapest

Excessive customer retention costs

Misfit in targeting

Opportunistic/unfair behaviors

Creating value through CRM

So, the main objectives of a CRM system are:
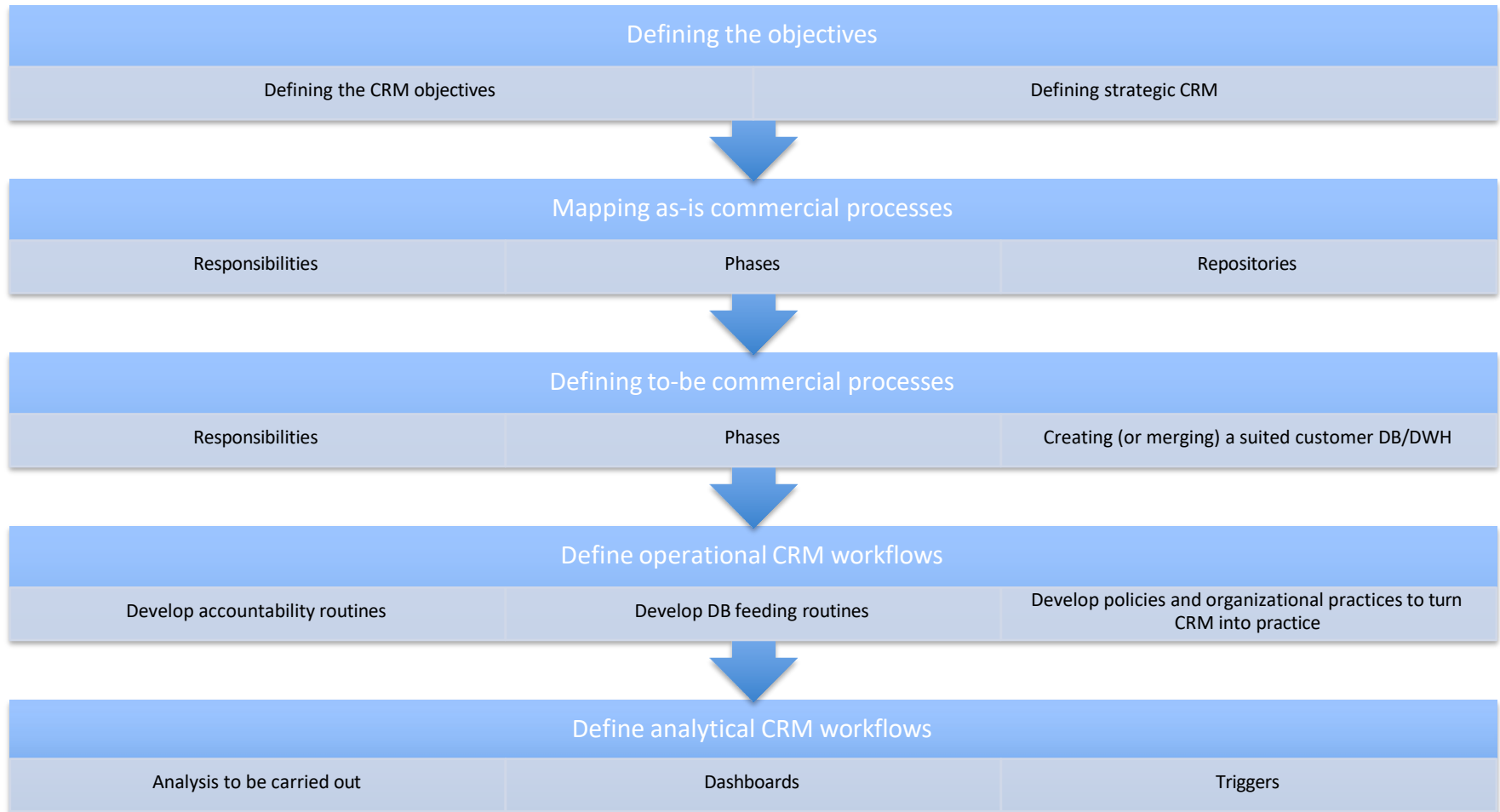
Collecting, storing and processing customer data

Support customer profitability analysis

Support retention/demarketing programs

Support cross-selling/up-selling programs

Support customer care programs

Developing a CRM system

Defining the objectives	
Defining the CRM objectives	Defining strategic CRM

Mapping as-is commercial processes		
Responsibilities	Phases	Repositories

Defining to-be commercial processes		
Responsibilities	Phases	Creating (or merging) a suited customer DB/DWH

Define operational CRM workflows		
Develop accountability routines	Develop DB feeding routines	Develop policies and organizational practices to turn CRM into practice

Define analytical CRM workflows		
Analysis to be carried out	Dashboards	Triggers

Developing the CRM system

CRM strategy
- Logical modelling of CRM activities
- Service blueprint

Campaign management systems
- Planning & design
- Dataflows management (CJ, etc.)

Structural data management system
- DBs & technologies (e.g., CRM automation, machine learning, AI systems, etc.)
- Profiling system

BIG DATA AND CRM

Treating different customers in different ways

Identify	Differentiate	Interact	Customize

- **Create value**
- **Focusing on customers**
  i**n a continuous, dedicate process**
- **Involving the whole organization**

⬇

CUSTOMER-CENTRIC COMPANY

Vertical CRM systems
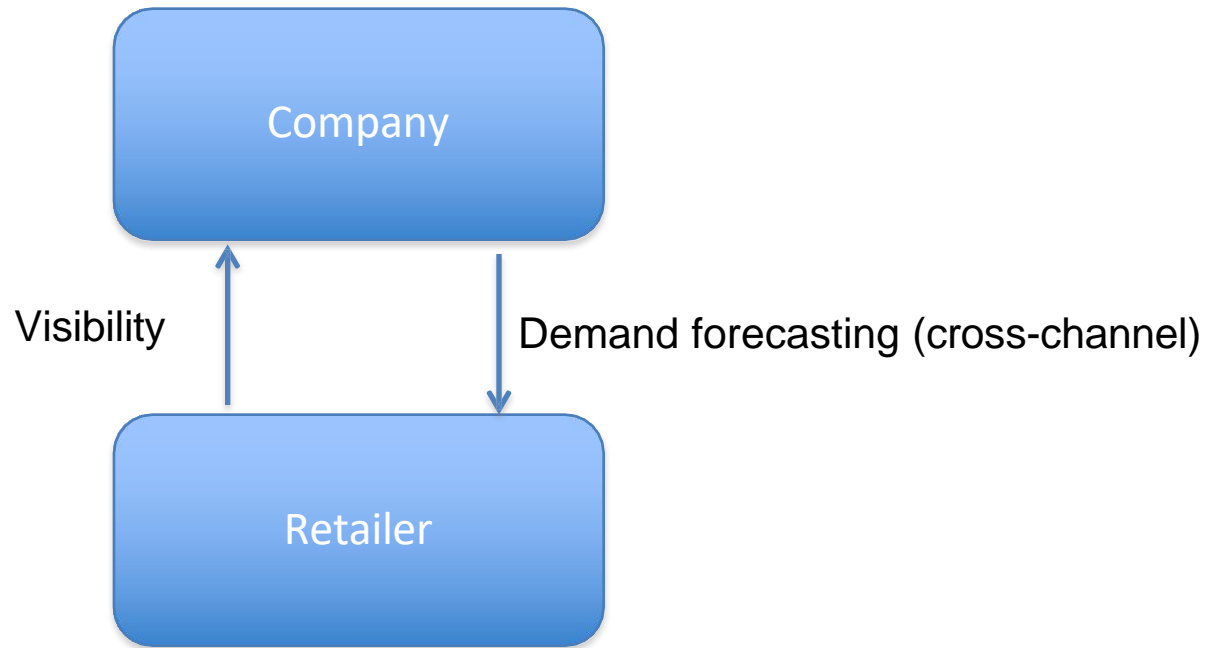
Horizontal CRM
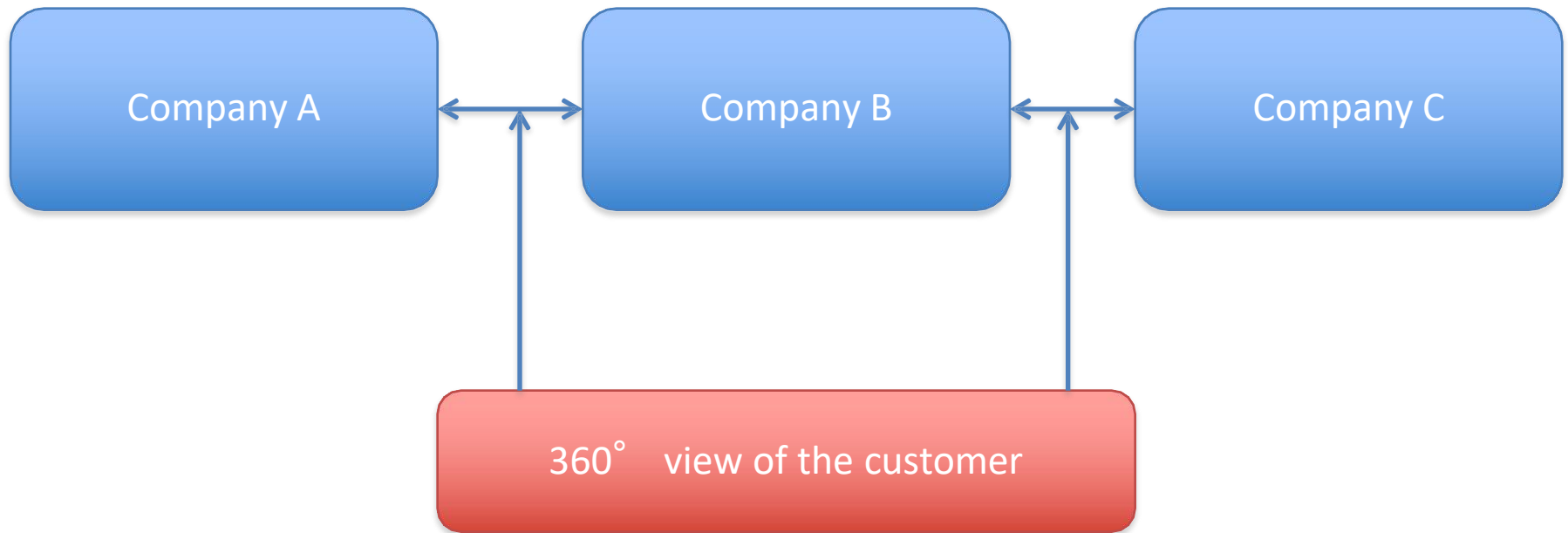
Consequences

Incresing pressure on efficiency

Higher autonomy

People as "humanizers"

Developing suited performance measurement systems

**Toward enriched relationships
with the consumer: co-creation**

Why consumer involvement?

"No matter how smart you are, most of the smartest people work for someone else"

Bill Joy, Sun Microsystems co-founder

⇩
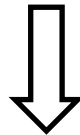
Knowledge is sticky

(*Von Hippel, MIT Sloan*)

Why consumer involvement?

Development of ICT-based platforms

Consumers empowerment

Possibility to co-create customized branded multichannel experiences

Value co-creation
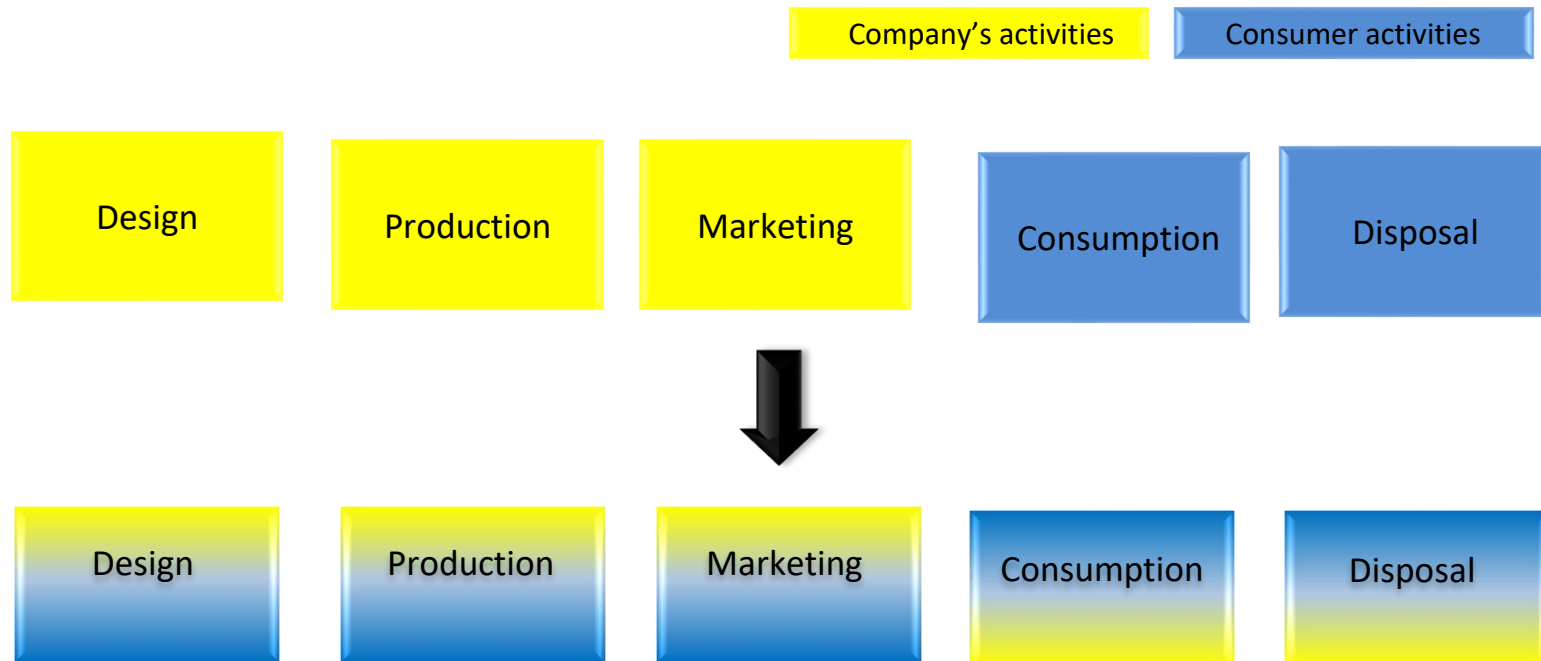
Value co-creation

https://www.threadless.com

Value co-creation

https://www.popsugar.co.uk/fashion/Burberry-Launch-Art-Trench-Social-Networking-Site-6103928

https://www.youtube.com/watch?v=aZ9kSMmetd0&list=PLum7nGvNcfsDD_ZuA4kGPWZvlsW3R0pKc

It's not only about consumers… NASA

NASA uses crowdsourcing for outside-the-box thinking about human space exploration challenges.
Examples:
-seek new algorithms to improve Robonaut's tool use
-developing improved textiles for planetary exploration spacesuits
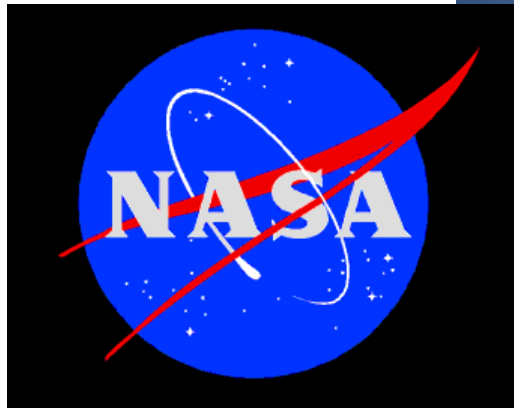
It's not only about consumers… GoPillar

https://gopillar.com/it/
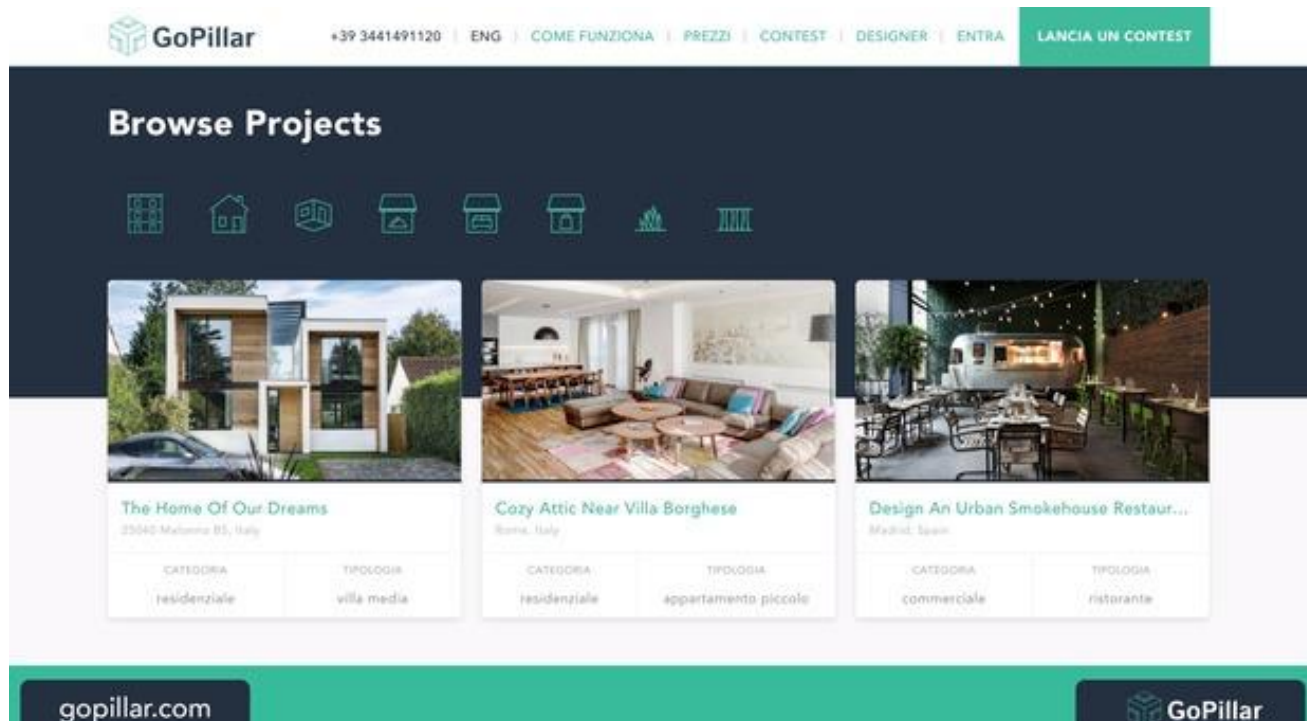
It's not only about consumers... DHL

Company perspective

Benefits

•Lower costs (internal R&D, market-research, advertising) resulting in increased profits for Companies and/or reduced sales prices;

•Increased product quality, resulting in increased sales for a Company and greater customer satisfaction;

•Increased chances of positive word-of-mouth in C2C communication.

•Social effects: ↑ customer loyalty, new customers, brand awareness.

•Risk reduction: ↑ market acceptance

Inhibitors

1. Risk of loosing brand image and reputation

2. Risk of loosing brand distinctiveness (especially luxury brands)

3. Risk of changing brand perception

4. New products are innovative but not profitable

5. Co-creators are not the customer target, thus market acceptance results low

6. Legal requirements

Which kinds of initiatives?
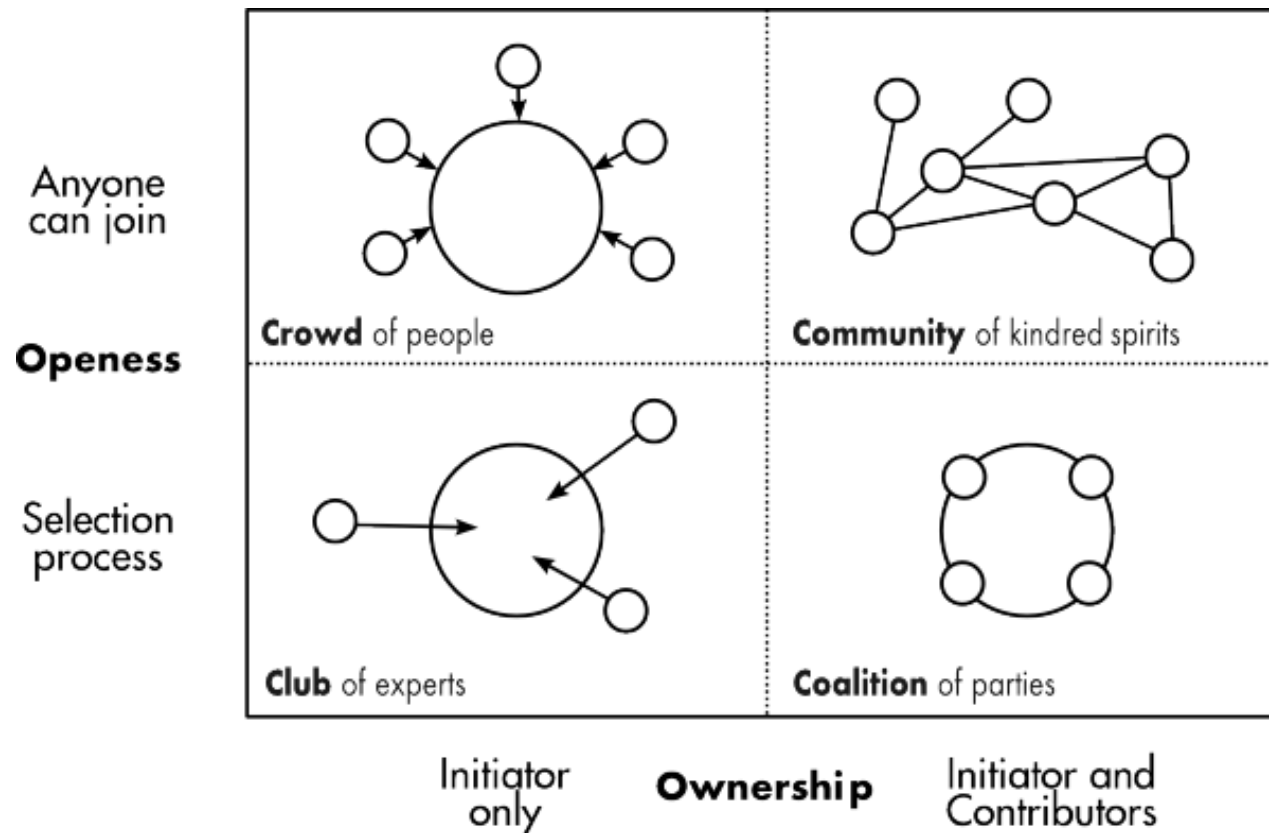
Source: Design for innovation. European Commission. Co-creation design as a new way of value creation. Business Innovation Observatory. 2014

Which support?

03. COLLECTIVE INTELLIGENCE & PREDICTION PLATFORMS

Lumenogic – collective intelligence markets

We Are Hunted – the online music chart

Ushahidi – crowdsourcing crisis information

Google Image Labeler – crowdsourced image labeling

Kaggle – data mining and forecasting

01. RESEARCH & DEVELOPMENT PLATFORMS

Innocentive – open innovation problem solving

Innoget – research intermediary platform

IdeaConnection – idea marketplace and problem-solving

One Billion Minds – online (social) challenges

Yet2.com – IP market place

NineSigma – technology problem solving

PRESANS (beta) – connect and solve R&D problems

Ideaken – collaborative crowdsourcing

Hypios – online problem solving

Innovation-community.de – Community of innovators & creators.

e crowdsourcing

Clickworker – small online task solving

Amazon Mechanical Turk – low-cost crowdsourcing

ware

Venture Spirit – gamification platform

, experts, employees

Wellspring Worldwide– open innovation software

02. MARKETING, DESIGN & IDEA PLATFORMS

CMNTY Corporation – community co-creation

99designs – pioneer in design crowdsourcing

Innovation Exchange – open innovation market place

Edge Amsterdam – elite sourcing platform

Guerra Creativa – crowdsourcing anything creative

OpenIDEO – collaborative design platform

Brand Tags – tagging brands

Challenge.gov – crowdsourcing for government problems

Battle of concepts – student challenges

eYeka – the co-creation community

crowdSPRING – creative designs

Spigit – social innovation platform

12designer – marketplace for creative solutions

Zooppa – Branding/marketing platform

LeadVine – crowdsourcing lead generation

I SERVICES

ontests and idea hunts

Chaordix – crowdsourcing engine for innovation

the life sciences

DataStation – complete innovation platform

Customer perspective

Consumer perspective: why they involve in co-creation activities?
Several motivations…

•Social: new connections, social identity, sense of belongingness to the community;

•Personal**:** fame, pride of authorship, reputation in network of participants, status and authority;

•Monetary: financial rewards, product giveaways, lotteries and coupons;

•Learning: new information/knowledge about products or services and their underlying technology;

•Hedonic: enjoyment, fun and pleasure;

But also constraints…

•Time and effort: time and energy needed to participate and task complexity;

•Risk of discredit: losing of intellectual property rights, be deceived by the firms, getting mocked by other people for own ideas, losing power and unique status within the community;

Which tools can use Companies to involve consumers?

•Workshops: meetings with Company representatives for product or service development. Participants discuss and design product concepts that suit Company's needs.

•Toolkits for user innovation: online configurators designed to save users time by doing trial-and-error tasks in a cost-efficient way;

•Innovation contests: firms that are seeking a solution to a problem ask final consumers to propose ideas to solve that problem. Best ideas receive rewards;

•Virtual communities: networks of people who have common interests, initiate discussions about a topic and help each other by participating in the discussion.

Co-creation case: Mc Donald

https://cargocollective.com/Madmosli/Mein-Burger

The winner was a burger named the "Just Stevinho" which features a breaded chicken pattie topped with herb sauce and cucumber.
The sandwich had 143,552 Facebook likes and was broadcasted on a TV commercial for one week. The four other finalists were included in McDonald's summer menu as time limited editions.

→consumer involvement improved brand loyalty of current buyers and also attracted neutral individuals who were not within the target public

Results

The initiative resulted in the most successful burger launch for McDonalds

Germany. Specific results included:

- 18 million page impressions
- 22,000 fan-created marketing campaigns
- 10% of adult votes in Germany (5 million)
- 1 burger creation per 6 seconds (327,653 burger)
- 1 million page views of the McDonald's Facebook fan page in a single day

Benefits?

Costs and risks?

Follow up

Similar campaigns were also held in Spain, the Netherlands and Austria.

Other brands launched similar initiatives:

In USA: Domino's Pizza, Ben &Jerry's ice cream, Mountain Dew…

In Italy: Gocciole, San Carlo chips..

It is not just the brand McDonald's that guaranteed a successful initiative, it was the user experience that was attractive.

Further readings

Kumar and Reinartz, Customer Relationship Management –Concept, Strategy and Tools, 3 Edition (2018). Springer