



LESSON PREVIEW

Customer Relationship Management

No matter how wonderful a product is, regardless of whether a business can beat the competition's price, or how loyal and efficient the company's workforce is, without customers a business simply cannot survive. The old saying, "The customer is always right," may be a bit of an exaggeration, but it does exemplify the importance of customers to any business.

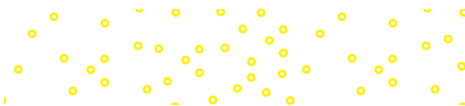
This is true no matter what the "customer" is called. Physicians have clients, restaurants have patrons, bars have regulars, but they are all customers and they are all the lifeblood of a business. It is no surprise, then, that acquiring and keeping customers is such an important part of running a successful business. Customer relationship management systems have been developed to assist businesses in all aspects of dealing with customers.

After completing this section, you will be able to:

- Explain the importance of customer relationship management (CRM) systems.
- Describe how CRM systems assist businesses to acquire new customers, segment a market, and target a market segment.
- Describe how CRM systems assist businesses in prospecting and qualifying potential customers.
- Explain how businesses use CRM systems to identify current customers.
- Explain how businesses use CRM systems to understand how customers interact and to get information about a customer.
- Explain how businesses use CRM systems to analyze customer information and develop relationships with customers.
- Explain what is meant by share of customer, customer equity, customer profitability, and customer lifetime value.
- Describe the risks, laws, and regulations involved with storing customer data.
- Describe the ethical considerations of selling customer data to third parties.
- Describe how CRM market analytics improve the quality of customer data collection and are used to develop new products.



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The Importance of Customer Relationship Management Systems to Businesses

Organizations use **customer relationship management (CRM)** systems to assist in the management of the critical relationships they have developed with their customers. These systems assist organizations to synchronize business operating units relating to customer interaction. Customer interaction includes the marketing, sales, and service areas of the organization.

CRM provides insights into customer satisfaction and how best to retain customers once they are acquired. This software allows organizations to better identify and attract prospective customers, maintain customer engagement and relationships, provide wanted or needed services, and ultimately increase sales.



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How Businesses Use CRM Systems to Acquire New Customers

The cost of acquiring a customer has steadily increased and, to deal with some of the obstacles surrounding customer acquisition, businesses have been turning to CRM software systems.

Customer acquisition is the process and strategies an organization uses to obtain new customers. This may take the form of using social media, search, affiliate, referral, and email marketing. Organizations often track customer acquisition using a lead generation or acquisition funnel.

A lead generation funnel starts with gaining customer interest through CRM-driven marketing activities. The business attempts to gain interest about a product or service and create the need, want, or desire to purchase a product or service. The end result should be that the customer pays for the product or service.

CRM software is used to track purchases and record purchase information through the various stages of the funnel. This software assists organizations to identify **marketing qualified leads (MQLs)** and **sales qualified leads (SQLs)**.

- MQL: This is a lead (a prospective customer) who has an identified interest in a brand, product, or service. MQLs are curious about a product.
- SQL: This is a lead that has been qualified and is ready to make a purchase. SQLs are ready to take action.

CRM software can identify which leads are MQLs and which are SQLs.

Salesforce.com is the most widely used CRM platform, providing a variety of analytical tools, including monitoring, tracking, and trend analysis of customer acquisition.



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How CRM Systems Assist Businesses in Segmenting a Market

Market segmentation is the process of dividing customers into groups (or segments). Segmented groups share common traits, interests, needs, wants, and geographic locations.

The information about characteristics assigned to each segment can be used to create better targeted marketing strategies and to increase sales and customer retention. CRM marketers use the information to create targeted promotions such as customer loyalty programs. Segmented marketing campaigns have been shown to generate an average of a 760% increase in revenue.

A customer segmentation tool should, according to Salesforce.com, consider:

1. Integration—include the ability to efficiently link data from a variety of sources
2. Data collection and analytical tools—consider data access, ease of use, and ease of data interpretations
3. Flexibility and scalability—should be scalable as the company grows
4. Cost—tool selected should provide enough information but not include unnecessary features



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How CRM Systems Assist Businesses to Target a Market Segment

A **target market** is the group of existing and potential customers that an organization believes they can sell their products or services to and that shares common characteristics, including geographic location, demographic and psychographic backgrounds, and income level. CRM software is used to identify a target market and provide insights into the profiles of these customers.

CRM systems provide analytical tools, which are used to recognize who the market is and how to reach that market. A variety of strategies are used to do this, including online and traditional media. CRM software can identify where customers are located, what they buy, how often they buy, and even the purpose of the purchase. The data are used to create an ideal customer profile.



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How CRM Systems Assist Businesses in Prospecting Potential Customers

Prospecting is the method of searching and finding potential customers and involves identifying potential customers, designing effective marketing strategies to reach them, and then converting them from prospect to customer. Prospecting may be the most difficult stage of the sales process, and many firms use external prospect software that integrates with their CRM. Some popular prospecting tools are:

- Zoominfo: This software uses the world's most comprehensive business-to-business (B2B) database to generate lists and information on potential prospects.
- LinkedIn Sales Navigator: This system includes CRM and single sign-on (SSO) integration and utilizes more than 630 million connections on the site to generate prospects and leads.
- Clearbit Prospector: This system generates targeted prospect lists using a database of over 200 million contacts from 20 million companies; 85 different data points are utilized to filter out the best prospects.



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How CRM Systems Assist Businesses in Qualifying Potential Customers

Qualifying a potential customer occurs when an organization determines whether an individual or business makes sense to pursue as a potential customer. Research shows that qualified sales leads result in better close rates and a higher return on investment (ROI). Many CRM software programs offer the opportunity to create customized sales funnels based on specific organizational needs and sales characteristics, and they give the user the ability to distinguish between prospects and realistic sales opportunities. Pursuing unqualified leads can be costly to a company.



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How Businesses Use CRM Systems to Identify Current Customers

Organizations need to identify needs, wants, preferences, and expectations of current customers, which can be done with CRM software. The following activities can help uncover these things:

- Customer surveys: Used to collect feedback from customers and make informed decisions.
- Social media: A variety of social media platforms should be used to reach an organization's target public and can be integrated with the CRM for data collection and analysis.
- Monitor procurement methods: CRM can identify trends in preferred shopping methods, customer motivation, purchase frequency, and spending habits.
- Analytics: CRM analytics can be used to uncover trends in the collected data.



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How Businesses Use CRM Systems to Understand How Customers Interact

Customer interaction encompasses all the communication that takes place between a customer and an organization, including social media, email, traditional mail, direct marketing, and more. The design of a CRM strategy should include the following:

- Monitor customer interactions: Identify what methods of communication are most engaging for customers; CRM can track engagement.
- Customers as individuals: CRM can ensure each customer receives an individual contact record each time he or she enters a company's database.
- Automation: CRM can generate automatic responses to customer interactions, scheduling of tasks related to customers, and customer communications.
- Customized communication: CRM can ensure that messages are properly matched to the customer.



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How Businesses Use CRM Systems to Acquire Information Regarding Customers

CRM systems offer the interface and methodology needed to manage interactions with customers, create and maintain relationships, and collect information about customers. By storing information about prospective, current, and past customers, this allows members of an organization to identify sales targets, document product or service issues, and create and manage marketing campaigns. Common types of customer data collected in a CRM system include identity, quantitative, qualitative, and descriptive data.



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How Businesses Use CRM Systems to Analyze Customer Information

Businesses use CRM analytics as follows:

- Customer segmentation: Groups customers into homogenous segments
- Customer value and profitability: Identifies customers who create the highest revenue
- Personalization: Allows for customized marketing based on individual behavior
- Predictive modeling: Prior information is used to help with the success of future endeavors



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How Businesses Use CRM Systems to Develop Relationships with Customers

CRM systems allow an organization to see all data collected from customers in one place. This information can be efficiently and intelligently used to develop relationships with customers.

CRM systems are used to create better customer service, which research has indicated creates stronger customer relationships. Customer service is improved with CRM because information about the customers' purchases and interactions is stored and easily accessed to troubleshoot issues.



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Share of Customer

Share of customer, also known as **share of wallet**, focuses on getting as much business as possible from fewer customers. A high share of wallet means that the existing customers are spending more on purchases from one organization than competitors.

Here is an example of how to calculate share of customer: If a firm sells a new type of catnip mouse, to calculate share of customer, take the amount spent on this product and divide that by the total amount spent on the catnip toys category. The information needed to calculate share of customer, as well as the identification of what areas to capitalize on, can be gained from CRM systems.



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Customer Equity

CRM systems can help measure **customer equity (CE)**. This is the value that the future lifetime revenue of an organization's customers will generate minus customer acquisition costs and customer retention costs. An organization with a high customer equity value often has higher revenues and is valued higher than a company with a low customer equity value.

For example, Apple has a very high CE value because of the extreme customer loyalty exhibited by their customers. It allows Apple to spend little on customer acquisition costs and even less on their customer retention.



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Customer Profitability

Customer profitability (CP) is the amount of profit an organization makes from selling products or services to a customer or group of customers over a specified time period. It is calculated by subtracting the costs associated with sales and engagement from the revenue earned from the sales of products or services.

CRM systems are used to measure customer profitability. It can analyze large data sets contained in a database to determine which customers are the most profitable. Also, CP analysis using CRM might uncover that some customer relationships are unprofitable and cause the organization to decide to no longer sell to these customers.



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Customer Lifetime Value

Customer lifetime value (CLV) is used to determine the profitability of an organization's customers. CLV is the total amount an existing customer will spend on an organization's products or services over that customer's lifetime. This is used to determine how much should be spent to acquire new customers versus how much should be spent to retain existing customers.

For example, assume a customer likes the Toyota brand of trucks. He decides to purchase a new Toyota truck. Toyota wants him to purchase another truck from them in the future. The company will likely spend money, with the goal of maintaining a good customer relationship with him. Assume the average cost of trucks, over time, is \$50,000. The CLV calculation is \$50,000 multiplied by 4 trucks over this customer's lifetime equals a CLV of \$200,000.



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Risks Involved with Storing Customer Data

Data breaches are one of the biggest threats to storing customer data. Here are steps to be taken to prevent these breaches:

- Server security: For physical onsite servers, firewalls and routers should be secured and all software should be up to date.
- Proper CRM administration: Staff who interact with the CRM system must be properly trained, and managed access and access levels are in place.
- Consistent updates to CRM software: CRM systems and software constantly are updated to help prevent data breaches.



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Laws and Regulations Associated with Storing Consumer Data

The following U.S. organizations are required by law to notify authorities within 72 hours of a data breach.

- The Federal Trade Commission Section 5
- The Gramm Leach Bliley Act
- The Fair Credit Reporting Act
- California Consumer Privacy Act (CCPA)
- Europe's General Data Protection Regulation (GDPR)



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Ethical Considerations of Selling Customer Data to Third Parties

Organizations collect data from individuals for a variety of legitimate purposes, but many organizations go on to sell the data to third parties who may use it for marketing and demographic analysis. Many people agree to this without even realizing it; the agreement is often part of the fine print that appears before the user clicks an “I agree” button.

Today, most consumers expect that the organization they share their personal data with will use it in ethical ways. However, data privacy and security are very difficult to control on the individual level. It is up to the organization to determine what types of data they will collect, how they will use this data, and to properly communicate these policies and procedures with the public.



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How CRM Market Analytics Improve the Quality of Customer Data Collection

Analytics can be used to improve data collection and processing. Some of these strategies are:

- End-user needs: CRM data collection can be guided by a better understanding of users' unique preferences and activities.
- Standardized data collection processes: CRM analytics identify when data errors occur and give insight into what data management processes can prevent this from occurring.
- Demonstrate the value of CRM: CRM analytics can provide insight into how customers and members of the organization interact with the CRM system and use this to design data collection strategies that encourage interaction and use.



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How CRM Market Analytics Are Used to Develop New Products

The information collected by CRM systems can be used to guide product development. Here are some ways CRM analytics can help to guide new product or service development:

- Viability: CRM analytics can help test the viability of products or services using consumption trends and usage behaviors.
- Product/service measurements: CRM systems can capture information about what features of a product or service are working and what features are causing problems.
- User experience: CRM systems can capture data about why users are buying a product or service and how they are using it.
- Product development: Quantitative analytics coupled with qualitative information about how users think and feel provide an all-inclusive view of current products and services.



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