

Redefining Marketing Strategies: The CRM Way

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Before liberalization, the Indian market was a seller's market where sales were guaranteed because the supply always fell short of the demand and the customer had very limited choice. With the opening up of the market, there was an onslaught of new and innovative products and the customer never had it better. As the competition stiffened, the marketing department found itself in the eye of the storm. They had to reorient their strategies from being product centric to customer centric. Their role was also redefined to encompass an entire gamut of activities ranging from finding out the needs of the customer to developing and delivering the right product at the right time and right place.

Though the marketers appreciated the role of customer relationship management, the advances in technology, especially newly developed CRM tools gave it a further fillip. The importance of being closer to the customer is being reiterated time and again. The marketing managers are being constantly bombarded with messages from CRM technology vendors as to how technology can bring about a revolutionary change in the way they market their products. However, the question that marketers seem to be asking is how this technology will redefine the role of marketing department. Will the strategies that they have traditionally been using undergo any change? And how should the marketing department brace up to adopt new technology

Before going any further, let us take a look at what CRM means. Essentially, CRM is a management philosophy, which can drive the profitability of an organization by ensuring greater customer loyalty. At the heart of CRM philosophy lie two very simple principles. One: Pareto's principle which says that 80% of the revenue is generated by 20% of the customers and two: the cost of retaining an existing customer is much less than that of acquiring a new one. One way to define CRM could be "selection and management of customers to optimize their life-time value".

CRM requires a customer-centric business philosophy and culture to support effective marketing, sales, and service processes. This implies that the marketers have to know the customers and understand their needs. In the past, collecting information about customers and using it effectively was a tedious process. However, CRM applications have made it possible to manage data efficiently and cost effectively. CRM applications can enable effective Customer Relationship Management, provided that an enterprise has the right leadership, strategy, and culture.

Successful CRM implementation requires a redefinition of the activities undertaken by the marketing department. Traditionally, the sequence of steps followed by the marketers to design a marketing plan is: identify the potential customers, determine their needs, design the marketing mix keeping these needs in mind and respond to these needs. We will take a look at each of these steps and see how it is being affected by CRM implementation.

Segmentation and targeting: As we move from the days of mass marketing to relationship marketing, customer segmentation has assumed a lot of significance. It is extremely difficult for the marketer to deal with the entire market in which the customer profile and needs are varied. Therefore, they take recourse to segmentation, which allows them to divide the market into similar groups based on demographic, socioeconomic or psychographic characteristics. The underlying assumption is that customers in one group will behave in a similar manner and that their future buying behavior is a shadow of past behavior.

But customers within the same segment exhibit different buying behaviors. Their purchase frequencies, price sensitivity, consumption levels all can be significantly different. Traditional segmentation does not allow the marketers to take this into account while making the strategies to lure these segments. But the sophisticated database management tools available today facilitate the segmentation of the market down to the micro level and track the actual consumer behavior. This easy access to individual customer profiles means that marketers can understand their customers and tailor their marketing strategies according to their requirements. Moreover, based on this detailed data, the most profitable customers can be identified and steps can be taken to develop long-term relationship with them.

Dell Computers is an excellent example of using segmentation effectively. Dividing their customers into distinct groups made them realize that if they have to grow fast they have to target large companies. And what these companies require is the best after sales service. From this insight emerged the idea of providing the industry's first on-site service for personal computers. Moreover, Dell's sales force was also specialized. A salesperson dealing with corporate customers would know everything about their technological requirements, the service support they need and so on. All this was facilitated by systematic data collection about each and every customer. Segmentation on the basis of detailed data helped Dell build closer relationships with the customers.

An Indian example is Shopper's Stop. It has sifted through its customer database and identified the most profitable customers. These customers are offered a membership of First Citizen's Club wherein they enjoy benefits like accumulation of points on every purchase, which can be, redeemed later, special parking space and even a separate queue for making payments. These steps though small by themselves ensure that a customer feels pampered and closer to the organization.

The Marketing Mix

The traditional approach to the 4Ps is also undergoing a significant change in the wake of CRM tools.

Product Development:

Most of the organizations till now were product centric. The product portfolio was dictated by the technological capabilities of the enterprise and not by the demand of the product in the market. This approach worked well till the companies were operating in the seller's market. But with the competition intensifying, the bargaining power has shifted in favor of the customer. The customer is becoming ever more demanding. This change has necessitated customer involvement in the product development process.

The best companies in any industry are developing what the customers want. They are tuned into the signals from the market and have also built enough flexibility in their systems to respond to these signals. In this context, the role of marketing has undergone a sea change. Earlier, the role of the marketing department was limited to taking that product to the market. But now the role had expanded much beyond that. It has to keep track of the latest trends, and convey them to the production department. These inputs from the market determine what and how much should be produced.

In this scenario, it has become imperative that marketing department works closely with the production department. To facilitate this, a seamless flow of information from the marketing to the production department is required.

Dell computers was the first company in its industry to recognize this opportunity and to build an entirely new differentiation platform. It offered the customers a product of their choice at a much lower cost. Their entire business- design, manufacturing and sales were oriented towards listening and responding to the customer. Before building any product, they knew what the customer wanted and were able to deliver exactly that. To make this model successful it was important that the entire sales force is trained to understand the customer requirements and convey it to the production department.

Pricing

Since most of the competition in the industry was based on price, the price was determined by the company rather than the customers. Marketing department played a key role in setting the price levels, determining the discounts to be given and so on. But they were not aware of what was the economic value of the product to the customer.

The CRM tools enable the marketers to track each and every characteristic of the customer including his price sensitivity. This data can then be exploited to decide the optimum price. This is easier in case of e-businesses. The Internet allows you to track each and every move of the customer. The browsing habits of the customer can reveal a wealth of information. If the customer is flitting from site to site in search of bargains, it indicates that he is price sensitive. But if he sticks to a trusted and familiar website, it shows that to him trust is a more important factor than

price.

In fact many e-commerce companies following the C2C model are allowing the customers themselves to determine the price they want to pay commensurate with the value they perceive. In such a situation, the companies merely facilitate the process of price exploration and determination. The Internet auction company e-bay provides the customers with a virtual market place wherein they can bargain and arrive at a consensus price agreeable to the buyer as well as the seller.

Advertising And Sales Promotion

In the days of mass marketing, the same message was broadcast to the entire using mass media. But now the marketers are realizing that the same strategy does not work across the entire customer base because the customer tastes and preferences vary.

A recent example of this realization is Coke's effort to regionalise its marketing strategies. Coke has decided to have a different strategy not just for the south as a whole but further splitting it down for Tamil Nadu, Andhra Pradesh and Karnataka. The customer feedback indicated that their advertisements featuring Bollywood stars failed to click with the southern audiences. So now they are tailoring their promotional activities for different regions. While Karnataka will see campaigns featuring Salman and Hrithik, it has signed up actor Vijay for Tamil Nadu and Chiranjeevi for AP. In a further focussed approach, it has decided to run different promotional campaigns for cosmopolitan Bangalore and the rest of Karnataka. This example drives home the point that marketers need to take differences in customer preferences into account before launching an advertising campaign.

The advancements in technology have made this even easier. The emergence of new media like the Internet, interactive kiosks, CD-ROMs etc provide the marketers a vehicle to deliver customized and interactive messages to the target audience. And the CRM tools enable the marketers to determine the customers' preferences and tailor the message according to his tastes and preferences. Therefore, technological changes affect not only the delivery of the message but also the content of the message.

The approach of marketers towards sales promotion is also undergoing a change. These programs are no longer only a tool to meet the sales targets, but also an opportunity to draw the customer into a long-term relationship with the company. CRM technology provides detailed transaction database, which can be used to determine the customers' reaction to various offers. Of this, the most effective program can be identified based on its potential to help building of long-term relationships with the customer. This approach looks at sales promotion not as a tool to drive sales volumes, but as a strategy to acquire and retain customers.

Supply chain management

CRM is about building customer loyalty by fulfilling needs of the customers, offering them products and services they require, at time and place they desire. An effective CRM program has to be supported by a robust supply chain. Partners across the supply chain are crucial to the survival of a business because we need them to produce the products and deliver these products to the target markets. And in context of fast changing customer requirements a supply chain has to be flexible and responsive. In other words, a customer centric organization has to be supplier centric too. A high service, low cost logistics and supply chain strategy can be the foundation for sustainable customer relationships possible in this dynamic and uncertain environment.

Emergence of new channels like Internet, telemarketing has led to a shift from a 'push' strategy to a 'pull' strategy. Effectively, this means that the customer is now in charge and the entire network has to be geared towards responding to him.

SCM strategies affect not only the distribution of the product but also have an effect on pricing, product management and brand image. In this context, the role of marketing department has expanded to include building sustainable relationships with the supply chain partners as well, especially those who support the distribution network. To build relationships, the supply chain constituents should not be treated as merely suppliers or distributors. Their objective

should not be to wring out the maximum possible benefit from them, but also to help the channel partners manage their business in a more effective way.

The marketing department has to work closely with these channel partners, help them understand the requirements of the end consumer and design strategies to increase the value delivered. It has to work with these partners to identify the opportunities of cost optimization and value maximization, be it inventory planning or designing logistics strategies.

P&G and Wal-Mart have been able to build mutually beneficial relationship by working together closely. The replenishment of inventory at Wal-Mart is done as per the demand and this is aided by a seamless flow of information between the two organizations. This means that the customers will get timely delivery of products at a lower cost while at the same time Wal Mart And this arrangement has resulted in lower costs and higher profits for both of them.

Issues and problems

However, we must understand that it is not easy to implement a CRM initiative. There are many technological, infrastructure and cultural issues involved.

CRM tools allow the company to collect and analyze customer data. To make the CRM more effective, this information has to be communicated to the other departments in the organization, in a format which is relevant and useful for them. The information system should be so designed as to allow a smooth flow of information not only across the department but also across the supply chain.

In a country like India lack of technological infrastructure has made customer data collection a daunting task. The retail sector is dominated by unorganized retailers, most of which do not have any systematic tools of data collection. It has been left untouched by automation. Hindustan Lever Limited has a huge distribution network of about a million retailers of which just a handful are able to capture point of sale data. And among the few supermarket chains that have the capability to collect this data, a common standard is found to be lacking. Therefore, standardization of data becomes a big issue. And for relaying this information across the supply chain connectivity is a bottleneck.

Apart from this, there are a lot of behavioral issues associated with information sharing. Unless there is enough trust between the various participants in the system, the flow of information cannot be smooth. Unless all the participants see how they will be benefited by adopting this new approach, they will not be willing to trust the other partner. It is important that each member has a stake in the system, so that they do not withhold information.

CRM promises to change the way we know marketing, but this is unlikely to happen unless we first deal with these issues.