The main purpose of introducing CRM is to increase lifetime value (LTV) in the long term.

To manage (monitor) whether lifetime value is increasing over the long term, information is needed to confirm whether lifetime value per customer (CLV) is increasing year by year.

The lifetime value per customer is Customer Life-time The initials of Value ,

It is abbreviated as CLV.

We check the information every year to see if this CLV is increasing over the course of one, two, three, four, and five years.

For supermarket CLV, the first year will be 30,000 yen.

Second year CLV increased by 20% to 36,000 yen,

The third year CLV also increased by 20% to 43,200 yen.

The main goal of CRM is to increase the value of each customer in this way.

If your company has 3,000 online customers,

The company's profits will be 90 million yen in the first year (CLV 30,000 yen x 3,000 people), 180 million yen in the second year, and 129.6 million yen in the third year.

If you look at the rise and fall of customer CLV, you can see that sales promotion activities (marketing activities)

You can determine the profit situation over the long term, whether it is profitable or not.

Please understand that the purpose of introducing and promoting CRM is **to "increase profits stably over the long term."**

Please understand that **CLV is the most valuable figure for making that decision .**

Pursuing a low price policy will lower CLV.

CLV will rise if the external environment, such as inbound demand, is favorable.

Stores in good locations have high CLV numbers.

When other companies enter the market, CLV suddenly drops to a low number.

In today's world, it is impossible to predict what will happen in the future.

One of the strategies to solidify our foothold is the pursuit of CRM.

A side note

A few years ago, a London-based consulting firm conducted a survey of managers of 1,000 European and American companies.

The question is, "Do you know about lifetime value?"

83% of managers answered "I don't know."

For companies that have implemented CRM

The question "Was it successful?"

Only 15% answered that it was successful.

The reason for its lack of success is that CRM was perceived as a system.

CRM (Customer Relationship Management) is a hot topic, and many university professors and consulting firms around the world are saying that CRM needs to be customer-oriented rather than product-oriented.

Many papers have been published stating that CRM is a form of marketing that brings long-term, stable profits to companies.

However, this was not understood, and CRM was considered a system, and was introduced at the expense of hundreds of millions of yen from IBM and other companies, but the failure was due to the lack of attention to customer and human orientation.

It was criticized that the failure was due to a failure to understand that this is a marketing technique that appeals to the human emotions of customers.

CRM is a marketing method that increases customer satisfaction and loyalty.

It must be learned, understood, and implemented as part of the company's strategy.

CRM is a strategy to improve business performance without being affected by the external environment.

**[ Requirements for achieving the true purpose]**

Becoming a company that is loved by customers will enable us to achieve long-term profits.

This is a very difficult challenge.

Here we will discuss the CRM marketing elements that will help you achieve your goals.

Your customer base consists of new and existing customers.

Department stores also have external trade customers, which we have not considered here.

The next page , "Customer Issues," explains how new and existing customers affect profit growth.

Acquiring new customers is an important factor in increasing sales and profits.

The most important factor is existing customers.

Existing customers continue to buy

Existing customers will visit the store more often

Increased purchase amount from existing customers

Existing customers increasing the number of items they purchase

Existing customers purchasing products with high gross profit margins

Not a customer seeking special offers or other rewards

If existing customers don't leave and continue to shop,

CLV, the goal of CRM, will continue to rise.

**[Customer Issues]**

We look at the problems your customers have.

**1. Problems with acquiring new customers**

Due to population decline, declining birthrate and aging population, and intensifying competition (entry of major retailers from other prefectures, etc.),

Acquiring new customers is a challenge.

You may think that you are attracting new customers by distributing flyers, but most of the customers who come to your store because of the flyers are existing customers who only come during this sale.

This is an existing customer who is at the bottom or ninth in the decile analysis (top 10 divisions based on purchase amount).

CLV will increase if the number of new customers increases, but the reality is that this is quite difficult.

Even if you attract customers at extremely low prices, they will leave unless you continue to offer the lowest prices.

We live in an age where we cannot expect much increase in CLV from new customers.

**2. Problems with existing customers**

Existing customers are divided into the following categories:

They can be divided into super-valued customers, valued customers, and regular customers.

"Decile analysis" is a customer identification method commonly used in supermarkets.

Decile 1 customers are very valuable customers, 2nd and 3rd are best value customers, 4th to 6th deciles are general customers, and 7th deciles and below are reward-oriented customers.

Using RFM cell analysis information, AA customers can be classified as very valuable customers, AB customers as valued customers, and AC customers as average customers.

CRM is a marketing method that develops regular customers into loyal customers and loyal customers into super loyal customers.

**3. The problem of customer defection**

Many regular customers tend to leave.

The number of customers who leave varies depending on the store and sales area.

Many customers are leaving, with a defection rate of 10% to 30%.

This churn rate reduces CLV.

Our loyal customers have almost zero churn rate. They keep buying.

These customers make a significant contribution to the CLV figures.

Here are two important numerical terms:

This is a number that has a significant impact on the CLV value.

**One is retention rate**

**The other is the churn rate.**

If there are 1,000 existing customers, and 950 customers will be retained next year, and 50 customers will defect,

Our existing customer retention rate is 95% and our churn rate is 5%.

Furthermore, the retention rate the following year was 95%.

Of the 950 existing customers, 95%, or 902 people, remain existing customers this year.

48 people defect.

This will result in a decline in existing customers.

As a result, CLV falls.

If the churn rate is 20% or 30%, the CLV will be small and will suffer.

The average defection rate for supermarkets is around 30%.

The loss of existing customers must be compensated for by acquiring new customers.

What is your current customer churn rate (or, conversely, retention rate)?

Do you understand? A 30% increase is a huge blow to long-term profit growth.

There are five types of defection rate patterns:

Long-term customer pattern First year defection rate 5% Next year defection rate 5%

Medium-life customer pattern: First-year defection rate: 25%; second-year defection rate: 10%

Freaky customer pattern First year defection rate 50% Next year defection rate 10%

Short-life customer pattern First year defection rate 50% Next year defection rate 50%

Instantaneous customer lifespan pattern First year churn rate 100%

Your company must aim for a long-life customer pattern.

To do this, you must clearly identify all of your customers.

**[ Responding to customer issues]**

**1. Response to new customer acquisition**

In an era of declining population, a declining birthrate and aging population, and intensifying competition, it is extremely difficult to deal with new customers.

Due to the declining population, local department stores and supermarkets are facing very difficult times.

There are four possible ways to respond.

One is selling at reduced prices, attracting customers with extremely low prices.

Lowering prices reduces sales to existing customers, which lowers CLV.

There is a trade-off between low-price strategies and CLV, so it is not a strategy that should be pursued.

The second is to stock products that other companies don't have. Stocking health-conscious and vegan products (completely plant-based products) is one way to attract customers from far away. It's about stocking products that are only available there.

Under the guidance of a supermarket, we displayed products such as line-caught bonito from Kochi, bran bread from Nagoya, ancient rice cakes from Takamatsu, and dried hijiki seaweed from Uwajima. What surprised us was that two new customers came to the store from 30 kilometers away, and these customers came almost once a week.

The third is to get word of mouth from existing customers, very loyal customers, and loyal customers.

To do this, you need to plan the products, sales methods, and weekday events that will generate word of mouth for your company.

The fourth is to utilize social networking sites (SNS) to advertise the products your company handles and attract customers.

Daimaru has organized a dedicated social media department, and the editors are interviewing customers at the Tokyo store. If you keep an eye on TikTok, you can see posts about events like the Hakata Daimaru 75th anniversary event and the Sapporo Daimaru event. However, since social media is advertising, it's unclear whether it's attracting new customers.

It might be better than doing nothing. I'm thinking of experimenting with using Instagram etc.

**2. Dealing with existing customers**

There is no distribution industry or retail store that does not have defecting customers.

This year, there were zero defections. And those same customers will also have zero defections next year. This might be possible in a monopoly market with no other stores, but there is no such business area.

In a certain supermarket, the defection rate is less than 10% and the sales amount is in the top 30% of the decibel analysis.

I was surprised to see a figure of over 90%.

When I asked, I found out that this store was located on top of a small mountain, with no other stores nearby.

These rare cases are a different story; typically, around 30% to 40% of users leave.

In other words, the current retention rate seems to be between 60% and 70%.

Now, you can easily answer the question of what to do to increase CLV in this situation.

Yes, that's right.

It's about reducing your churn rate. If you can improve your churn rate by 10%, your average customer lifetime will increase. It's like a healthy lifespan.

The following figures were published in the "Loyalty Guide" published by a London-based consulting firm:

If the annual retention rate is 50%, the average customer lifetime is 2 years

If the annual retention rate is 70%, the average customer lifetime is 3.3 years

If the annual retention rate is 80%, the average customer lifetime is 5 years

If the annual retention rate is 90%, the average customer lifetime is 10 years.

If the customer churn rate is 10% and the retention rate is 90%, this means that existing customers will continue to buy for an average of 10 years. Although the CLV figure is not shown, it will continue to rise.

The purpose of implementing CRM is to achieve long-term profit growth.

To maintain a high CLV, it is important to maintain a high customer retention rate and reduce customer churn as much as possible.

There is another factor that contributes to increasing CLV.

This is explained in terms of cross-selling and up-selling.

Cross-selling is related purchasing.

Upselling is getting a customer to buy a higher-grade product.

If a customer buys two items at a time, cross-selling means getting them to buy one more item, which increases CLV.

If the product is the same, you want customers to buy a higher-grade product. This increases CLV.

If this can be achieved, the average purchase price per customer will increase.

This means that CLV will increase.

**[How to allocate promotional investments] Who should you invest in to get the CLV effect?**

Allocating the promotional budget. Annual budget planning. Budget allocation is the most important, most difficult to adjust, and most emotional issue.

The company's traditional budget allocation philosophy remains deeply rooted, making it extremely difficult to allocate budget to implement new strategies.

The budget allocation mentioned here is the allocation of the promotional budget.

Advertising expenses, seasonal event promotion expenses, and monthly flyer expenses are all promotional expenses.

In this budget planning, aren't you currently requesting a 5% increase on the previous year's budget?

For example, if 50 million yen is approved, would you use it as an expense within the budget for the fiscal year?

This is incorrect.

**A promotional budget is not an expense, but an investment that will generate profits.**

**awareness throughout the company that promotional expenses are** not expenses, but rather an "investment." We must stop taking the attitude that anything is possible as long as it is within the budget.

As I will explain later, **as long as it is an investment, how much profit will there be compared to the investment in sales promotion expenses?**

**The numerical profit margin calculated by dividing the profit amount by the promotion investment amount. Return on investment (ROI ) On Investment ) value must be indicated in the promotional application.**

We consider the allocation of the promotional budget for promoting CRM implementation as follows:

**1. Allocating budget to acquiring new customers**

He said that currently, acquiring new customers is a challenge.

Investment in acquiring new customers will be difficult to justify.

You think that flyer advertising will help you acquire new customers, but it is not effective at all. You need to think of a different way.

On page 6, we outlined four ideas for acquiring new customers.

Decide which of these four you will implement, or whether to do all four, and create a budget allocation for the investments you will make. You will also predict the ROI figure.

**Budget allocation for relationship-strengthening promotional investments and special offers to retain customers**

There is a lot of value in investing in existing customers. We set goals such as increasing customer retention rates by 10% and invest accordingly. However, not all existing customers are worth investing in.

**From the RFM cell information, the AA group of highly valued customers and the AB group of highly valued customers have the highest investment value.** The investment value of the AC group of general customers (the group with the largest number of customers in the entire group) is very small.

When it comes to investing, our experience shows that thank you letters are a worthwhile investment for department stores. For supermarkets, our recommended campaign of "Get a discount sticker when you stick it on" is highly popular with customers and highly worthwhile for existing customers who have a redistricting of 3 or more (based on a decile analysis).

There is one more thing I would like you to do with an emphasis on existing customers.

**a word-of-mouth promotion** .

The idea is to sell "products that will spread word of mouth" to the customers in the AA and AB groups of top value customers, and to plan "sales promotions that will spread word of mouth." It doesn't require much investment. It all depends on your ideas.

If you don't provide something that will garner word of mouth, you won't get word of mouth. Word of mouth is the most effective form of free advertising, so please discuss your ideas with everyone. Word of mouth is an excellent promotional method for acquiring new customers who are difficult to attract.

I've heard that in Europe and the US, there are specialized departments that promote word-of-mouth. That's how important the marketing method is. It will likely be spread to a large number of people on social networking sites (SNS).

**3. Allocating budget to bring back lapsed customers**

It's not worth the investment. Chasing away customers is a waste of time.

It's like trying to persuade your ex-wife to come back.

There is just one way of thinking.

Complete customer defection is a waste, but it is **an investment to prevent customers who show signs of defection from defecting** .

If it's been 90 days since the last purchase at a department store, it's a sign of defection. If it's been a year, the customer is completely defected and there's no chance of them coming back.

If we run a comeback campaign for RFM Cell's very best customers, the BA group, who are showing signs of defecting, and for best customers, the BB group, who are showing signs of defecting, nearly half of them tend to return (comeback experience).

If you're a supermarket, you might be able to attract customers who have been shopping with you for more than 30 days but not yet 50 days by offering them discount stickers. If it's been more than 60 days (without buying groceries at your store), they've probably moved or started shopping at another store. Investing in these customers is a waste.

From a CLV perspective, customer churn lowers CLV. Therefore, you should take measures to prevent churn as soon as there are signs of churn.

As mentioned above, promotional expenses, advertising expenses, event expenses, etc. should not be considered as expenses but as customer investments, and you should consider who to invest in to effectively generate profits and then consider how to allocate your promotional investments.

It's the same as investing in stocks.

As I have said many times before, promotional expenses are not an expense. They are an investment.

Since it is an investment, it is natural business practice to check the numbers to see how much profit you have made from your investment.

It is completely unclear how much profit the newspaper advertisements and flyers brought in.

I believe that we are no longer in an era where business is so easy that it would be possible to do something like this.

**[ Product strategy to attract customers]**

Let's consider product strategies that affect marketing activities from a CRM perspective.

This is a marketing strategy that merchandisers (whose main job is to plan product lineups) and buyers (whose main job is to procure products based on product lineup plans) are currently completely unaware of.

We will explain what product strategy from CRM is.

**1. Product strategy aimed at acquiring new customers**

I don't think it really qualifies as a strategy, but it's such an important consideration that I've decided to call it a strategy.

Product strategies to attract new customers. We negotiate products that will spread word of mouth and attract customers from far away, and then display them in each store and sales floor.

In supermarkets, some good products include Kochi's line-caught bonito tataki (conveniently stored in the refrigerator as it is a frozen food) and Osawa Japan's germinated brown rice cream. Osawa Japan is a company that develops products for vegetarians. They have many products that are beneficial to the health of consumers. Set up a vegetarian section.

Department stores will set up vegan product shops, selling shoes, bags, belts, coats, and other clothing items that are not made from materials that involve animal cruelty. This is an appeal to animal ethics.

We will introduce products that cannot be purchased at other stores and products that can only be purchased here.

**2. Product strategies to increase customer retention**

In a supermarket, each department has a product that has a high repeat purchase rate. This product can be positioned as a star product, and promotional investments can be made to let customers who have not yet purchased it know about it.

In department stores, branded products such as Hermes are purchased repeatedly. By frequently contacting the RFM cell of frequently purchasing branded products in the department store, the AA group of highly valued customers, and the AB group of highly valued customers, we can deepen our relationships. We develop general customers into valued customers, and valued customers into highly valued customers. These efforts will increase CLV.

**3. Cross-selling and upselling product strategies**

Books by the same author and music by the same composer are cross-sold products. Plastic train models that you can enjoy by expanding are also cross-sold products.

We will pursue cross-selling (related purchases) and check the current situation, such as creating a sales floor and display location that encourages sales of related products, and consider ways to increase cross-selling sales.

If you can cross-sell and up-sell (guide customers to purchase better products), the average purchase price of existing customers will increase, leading to an increase in CLV.

**4. Product display strategies that spread word of mouth**

On page 6, I mentioned four ideas for acquiring new customers, one of which is word of mouth.

The term "oshikatsu" (supporting one's favorite product) is currently popular, and it involves considering, introducing, and displaying favorite products.

As mentioned in the new customer product strategy, department stores will set up shops selling vegan ingredients. Vegan products are hard to find, so if your company sets up a shop, there is a high chance that customers will come from more than 50 kilometers away, which will help you acquire new customers.

Although they may be purchasing online, if there is a sales area where they can see the actual product and shop in person, new customers will come to the store, increasing sales volume and sales amount. This will increase CLV.

A vegan shop where you can buy products in person. Word of mouth will spread. Your store or sales area could spread at 100 kilometers per hour on social networking sites.

If supermarkets also stock vegan foods, it will become a hot topic among vegetarians and customers who follow a vegan lifestyle, and word of mouth will spread.

Waitrose, a supermarket chain with 125 stores in London and a supplier to the Royal Family, has set up a vegan product section in every store. Tesco and Sainsbury's, the number one and number two supermarkets in the UK, also have vegan products on display. Carrefour in France also has vegan products on display.

Nearly 20% of the population is vegetarian, so it is becoming common to stock vegan products, a recent trend in the West.

**5. Product Strategy for Customer Comeback**

Completely churn customers are not worth investing in.

What should be considered is a sales floor strategy and product strategy to bring back customers who have been with us for more than 30 days in the case of supermarkets, or more than 90 days in the case of department stores, or customers who are prone to defection.

We believe that introducing products that can only be purchased at this store to customers in the 4th to 6th decibel range will lead to a comeback, and this is one comeback product strategy.

Supermarkets can also utilize RFM cell information, so we hope that they will try to use this information to make comeback investments in intermediate loyal customers who are showing signs of defecting from the BB group.

**[ Customer Investment Strategy CIM Theory]**

We will abandon the current view of promotional expenses as expenses and make a paradigm shift to view them as an investment strategy for customers. Paradigm means norms.

Consider which types of customers you should invest in to get the highest return on investment (ROI), and invest in customers with the same mindset as investing in stocks. This is the CRM approach, and the way to determine whether you are achieving long-term profits is to check whether your CLV figures are trending high.

CIM involves identifying customers and allocating budgets to each customer.

**This promotional investment strategy is called Customer Investment Management. Its abbreviation is CIM. It stands for Customer Investment Management.**

Customer marketing fund investment management, a concept of measuring the effectiveness of customer marketing fund investment.

For each promotion or event you run, this is a system that evaluates which promotions were profitable and which were in the red (loss) in relation to the investment of funds.

**CIM is a scientific method of customer strategy and a tactic that delivers results.**

**CIM is a theory that allows optimal allocation of customer budgets.**

**CIM is a management methodology that produces investment results that bring benefits to the client's budget rather than costs.**

Customer investment management requires three decision-making metrics:

There are three important decisions to make:

What should the customer investment budget level be?

How much of the customer investment budget should be allocated?

Measuring customer investment productivity and results with ROI

ROI ( Return On Investment ).

The passing mark is an ROI of 35%.

**[CRM CLV CIM RFM important relationships]**

CRM is a marketing technique that increases long-term profits and increases profits as the years of operation progress.

CLV is a figure that evaluates whether profits are expanding each year.

CLV is the lifetime value per customer.

If CLV is increasing, it can be said that earning power is increasing year by year.

Factors that increase CLV include acquiring new customers, maintaining existing customers, and preventing customer defection.

There are four elements to increasing the average purchase price per customer.

CIM Customer Investment Management is the investment in acquiring new customers, maintaining existing customer retention rates, and increasing the average purchase price per customer.

**To maintain a high ROI on customer investments,**

**You need to find out who you can invest in to get the highest return.**

RFM cell code analysis is the information that helps you determine who to invest in to get effective results.

Just like with stock investment, information on which stocks to invest in and information from all angles is widely available.

However, there is no widespread information on who to invest in to increase profits.

RFM is a concept that is spreading worldwide.

However, after using the US model (package), we felt that this was insufficient, and so far the RFM cell code information we developed has not been seen anywhere in the world.

RFM cell information is extremely effective in identifying effective customers, such as those who are extremely valuable, those who are valued, those who are likely to defect, and those who have completely defected.

By using RFM cell information to invest in customers, you can achieve a high ROI, which, in turn, can lead to high CLV and increased long-term profits.

**[Reference information]**

**How to calculate CLV: A simple example**

Specialty store/bakery chain CLV

How is CLV calculated? A sample is shown.

The calculation is based on the first year and then the second, third, and so on for that customer.

The figures shown in the table are based on the following assumptions:

Number of purchasing customers in one year: 45,000

Retention rate (customer retention rate) 65% in the first year

Annual purchase amount per person (average) 2,500 yen

The annual purchase amount per person in the next fiscal year will be 105% of the previous year

Average product cost rate: 50%

Promotional expenses are 3% of sales amount

Discount rate (depreciation of assets) 1%

NetPro Foot Value NPV is total profit divided by discount rate

Cumulative NPV is the cumulative total for each fiscal year

CLV is cumulative NPV divided by the number of customers in the first year (it can also be divided by the number of customers each year).

Calculating from the above figures, the CLV per customer of a bakery chain is:

1,175 yen in the first year, 1,843 yen in the second year, and 2,223 yen in the third year.

This is an increase of 1.9 times compared to the first year.

CLV changes depending on retention rate and purchase amount per person.

