Customer relationship management

Building mutually satisfying, effective customer relationships is fast becoming the only way to stay ahead

THE 1990S SAW a revolution in marketing practice, in which new thinking about how companies should relate to customers coincided with the development of cheaper, more powerful IT systems that could enable a new way of handling customer relationships. In a very short period, what had been known to direct marketers as database marketing became relationship marketing, and IT suppliers rapidly provided software that helped turn this into CRM – a broader, company-wide concept.

CRM has often been technology-led (1), and suppliers have focused on three areas, which are increasingly integrated (10):

- call centre and customer support.
- sales force information.
- marketing insight and automation.

However, as many commentators have pointed out (eg 2, 7), technology should not be the driver. The key to CRM is the attitude it entails for the company and the structure required to embody this attitude. Failure to adopt the customer-centric attitude implicit in CRM lies behind much of the widely reported dissatisfaction with CRM systems (1, 2, 10).

Five key concepts underlie CRM.

1. It is far cheaper to retain customers, and build business with them, than to acquire new ones (16, 20).

2. Customers are looking (sometimes) for a closer relationship with the companies they do business with, and customer retention depends heavily on the quality of these one-to-one relationships (4, 11, 26).

3. Any company's customer portfolio will be subject to the Pareto (80:20) effect (14, 18) – a small minority will account for a large share of the sales and the vast majority of the profits (1).

4. Customer loyalties are becoming more fragile, as choices have widened, and product parity has become general (1, 4, 6).

5. In today's fragmenting media markets, the ways in which customers interact – directly or indirectly – with a company are increasingly numerous and complex. Customers can largely choose their own modes of interaction (26).

Business restructuring

These concepts dictate that companies must become far more customer focused. This means they must restructure the ways in which they handle customer contacts (of all kinds), to ensure that customers have a seamless experience of the company. Customer-facing employees should have the necessary information and empowerment to handle any customer contact completely and satisfactorily in real time (9, 10, 12, 13).

For this, a company must collect, organise and analyse the most complete information possible about each customer, to create a single view of that customer (22, 25): not just their transactions and dealings with the company, but their characteristics, attitudes, lifestyle and – ideally – the full range of their purchasing across the markets that the company is interested in. This must be supplemented by data about the marketplace and competitive offerings and activity (7).

In many companies, this entails the demolition of product and function-based 'silos' of information (7) and the construction of a central data warehouse (2, 9). This can be used both in real time, to provide frontline employees with the necessary information about the customer's dealings with the company; and as a resource for analysis, to guide planning of communication, marketing and product strategy. It must be recognised that it can be difficult to structure the database efficiently, because of different legacy systems (25), and easy to clutter it with irrelevant material (20), while conventional OLAP (online automated processing) tools may be inadequate for analysis (22).

Getting it right – 11 key factors in CRM success

Articles, reports and books about CRM are replete with lists. This box pulls together some key guidelines from a variety of sources.

1. Involvement and commitment by CEO
2. CRM implemented through inter-disciplinary teams
3. Capture all possible customer data
4. Differentiate customers
5. Measure customer LTV – and update regularly
6. Use research – cautiously and sensitively
7. Ask customers for information and permission to contact
8. Understand customers' preferred contact channels
9. Customise – relevantly; treat customers as individuals
10. Rethink the marketing mix
11. Don't mess with the brand

Customer valuation and segmentation

Included in the analysis should be ways to segment customers into more or less attractive targets for business development (20). The initial basis for this is likely to be transaction history – direct marketers have for years used recency, frequency, value (RFV) as an indicator of future purchases (19). However, this is backward-looking, and it is more valuable to project into the future (3), and develop measures of customer lifetime value (LTV) as a guide to future revenue (25).

One way to do this is through a form of gap analysis, focusing on gaps in acquisition, sales ('share of wallet', 14) and retention among the prospect/customer database (6). More broadly, customer data can be used to develop models of the behaviour of different segments, leading to a range of scenarios that can guide communications planning (22).

While this can be done by segmenting customers (17), and this may be all that is needed for fmcg brands (19), it is argued that it should normally be done on an individual basis (3). At the same time, LTV is a dynamic, not a static construct: people's life stage, lifestyle, economic circumstances and interactions with the company can change in ways that may be unpredictable.

The analysis is helped by the combination of behavioural and attitudinal data – which should include some form of loyalty measurement and, where possible, indications of likely future purchases (22).

A logical conclusion from the Pareto effect is that less attractive customers should be 'managed' to take up less of the company's time and resources to service – or, indeed, cease to be customers (1). There is, however, a problem here. As customers become more sophisticated and marketing-savvy, they are likely to recognise a process designed to downgrade or exclude them. You do not want to turn them into 'terrorists' (4) who will badmouth you to their friends: there is ample evidence that dissatisfied customers are powerful negative advocates.

One-to-one

The ideal of the individual transaction, based on a personalised offer, has enticed marketers at least since Peppers and Rogers' first book (5). The degree to which products and services can be personalised varies. 'Mass customisation' is frequently the closest that can economically be achieved (6, 24) – but the stream of contact between customer and company can become largely personalised, especially where it is enabled by permission marketing (25), backed by an exchange of detailed personal information.

Peppers and Rogers (11) define the key processes as the following.

- Identify and understand customers in as much detail as possible.
- Differentiate customers, and prioritise accordingly.
- Interact with customers by building on previous interactions.
- Customise at least some aspects of the company's behaviour or offer, based on the customer's needs and values (18, 25).

The logic of individualised marketing is that communication should mostly be direct (23), and targeted (12, 18). With adequate data collection and data mining, it should be possible to devise appropriate contact strategies (26) to talk to the right customer, at the right time, in the right place, with the right product (9) – and, indeed, with exactly the right message: relevance is key (18). The company should speak to the customer with a single voice (6, 13), and communication programmes should be totally integrated (7).

Recognising success

Given the objective of building and sustaining an effective, mutually satisfying relationship between customers and company, success must be measured not just by short-term sales but in terms of customers' perceptions of the relationship.

While purchase and, especially, repurchase are key bottom-line metrics, it is important to get measures of customers' satisfaction, loyalty and purchase intentions, as well as behaviour, to put flesh on these quantified bones (14, 27).

Customer satisfaction surveys have limitations – it has long been recognised that a 'satisfied' or even 'very satisfied' customer is quite capable of switching allegiances (15). A 'good' relationship need not necessarily be a strong one (3). It is both more sensitive and more informative to split broad satisfaction measures into detailed components (21).

More recently, measures of commitment or loyalty (4) been used widely, because they appear more dynamic, and it is easier to see meaningful changes. A 'loyalty ladder', combining behaviour and attitudes, is a valuable concept here (4). Even so, measuring loyalties may prove sobering. To take the car market, loyalty, at the marque level, is some 40% internationally today, against over 60% 30 years ago (8), and McNeil (4) lists a range of similarly challenging figures. ■

October: Understanding consumer behaviour

key reading at www.warc.com

There is a massive literature, printed and online, about CRM; amazon.com alone lists over 100 titles. Useful websites include crm-forum.com and crmguru.com.

Core reading

1. Is there light at the end of the tunnel? J Bean, Admap, Sept 2002.
2. Who is killing CRM? D Burrows & J Williams, Admap, Jul 2001.
3. The lifetime value concept, J Hoekstra & E Huizingh, ESOMAR/EMAC, 1996.
4. How can market research reflect today's paradigms and management ideas? R McNeil & M Clark, MRS 2000.
5. The one-to-one future, D Peppers & M Rogers, Doubleday, 1993.
6. Customer ownership; business planning through customers, F-J Rensmann, Admap, Dec 2000.
7. Control IT before it controls you, R Shaw, Market Leader, Summer 1999.

CRM – general

8. The new marketing: what does customer focus now mean? R Brookes & V Little, ESOMAR, 1996.
9. Making the most of customers, P Dorrington, Admap, Feb 2001.
10. Beyond data gathering. Implications of CRM systems to market research, L Flores & R Briggs, ESOMAR, Sept 2001.
11. The one to one field book, D Peppers & M Rogers, Capstone, 1999.
12. The communication tightrope, A Smith, Admap, Dec 2000.
13. The one-to-one dialogue, A Stracey, Admap, Oct 1996.

Satisfaction and loyalty

14. Targeting customers. A new paradigm for customer acquisition and loyalty? P Dwyer, ESOMAR, Sept 2000.
15. Why satisfied customers defect, T Jones & E Stasser, HBR, Nov/Dec 1995.
16. The loyalty effect, F Reicheld, Harvard Business School Press, 1996.

Customer value and segmentation

17. Revaluation – a new approach to customer value, A Greenyer, Admap, Mar 2000.
18. Unprofitable liaisons are costing companies money, K Johnston, Admap, Oct 1999.
19. Customer-centric marketing, T Kregor, ARF Workshop, Nov, 2001.
20. Using online databases for developing CRM strategy and tactics, R Wilson, ARF Workshop, Nov 2000.

Other

21. CRM – using behavioural measures to assess customer needs, D Chavda *et al*, ARF Workshop, Nov 2001.
22. Analytical CRM, R Hofman *et al*, ESOMAR, Sept 2001.
23. New marketing and direct communication, M Raaijmaakers, ESOMAR, 1996.
24. Isn't it time we stopped treating our customers like numbers? P Talmage, Admap, Mar 1998.

Case studies

25. CRM: is it really achievable? M Broadbent & R Dunbavand, MRS, 2001.
26. Subaru Australia, S Charles, AFA Awards, 2000.
27. MasterCard International – creating a loyalty metric that is the true measure of CRM success, L Widmer *et al*, ARF Workshop, Nov 2001.