9 Customer relationship management

Chapter at a glance

Main topics

Case studies

Web support

The following additional case studies are available at **www.pearsoned.co.uk/chaffey**

- Variations in online buyer behaviour and loyalty
- Worldwide demand for CRM applications
- Digital loyalty networks

The site also contains a range of study material designed to help improve your results.

Scan code to find the latest updates for topics in this chapter

Learning outcomes

After completing this chapter the reader should be able to:

- Outline different methods of reaching and acquiring new customers via digital media
- Evaluate different buyer behaviour amongst online customers
- Describe techniques for retaining customers and cross- and up-selling using digital media communications

Management issues

Customer relationship management involves these management issues:

- Which digital media should we invest in to reach new audiences?
- What are the practical success factors for using digital media need to make customer acquisition more effective?
- What technologies can be used to build and maintain the online relationship?
- How do we deliver superior service quality to build and maintain relationships?

Links to other chapters

The main related chapters are:

- *Chapter 4* – CRM techniques are constrained by social, legal and ethical factors
- *Chapter 5* – CRM supports digital business strategy
- *Chapter 8* – CRM is one of the tactics aimed at fulfilling the objectives defined in the digital marketing plan

Introduction

Customer relationship management (CRM)
An approach to building and sustaining long-term business with customers.

The application of technology to support **customer relationship management (CRM)** is a key element of digital business. Building long-term relationships with customers is essential for any sustainable business. Failure to build relationships largely caused the failures of many dot-coms following huge expenditure on customer acquisition (as explained in Chapters 2 and 5). The importance of customer retention to long-term profitability is well known from modelling of the type referred to in Chapter 4. But research summarised by Reichheld and Schefter (2000) showed that acquiring online customers in the retail sector is so expensive (20–30% higher than for traditional businesses) that such start-up companies may remain unprofitable for at least two to three years. The research also shows that by retaining just 5% more customers, online companies can boost their profits by 25% to 95%. These authors say:

> *but if you can keep customers loyal, their profitability accelerates much faster than in traditional businesses. It costs you less and less to service them.*

Note that the relationship between customer loyalty and profitability has been questioned, notably by Reinartz and Kumar (2002), who discovered through analysis of four company databases that:

> *there was little or no evidence to suggest that customers who purchase steadily from a company over time are necessarily cheaper to serve, less price sensitive, or particularly effective at bringing in new business.*

They have suggested that companies that base their marketing focus on the simple assumption that loyal customers are the most profitable will miss opportunities in targeting other potentially profitable customers.

Customer life cycle
The stages each customer will pass through in a long-term relationship through acquisition, retention and extension.

This chapter evaluates different digital communications techniques such as search and social media marketing to reach new audiences and then initiate and build relationships with them as customers. The chapter is structured around the different stages of the classic **customer life cycle** of Select, Acquire, Retain, Extend, as is shown in Figure 9.1. The figure emphasises the importance of integrating customer relationship management activities across the appropriate channels. The four marketing activities that comprise CRM involve the following:

1 **Customer selection** means defining the types of customers that a company will market to. It means identifying different groups of customers for which to develop offerings and to target during acquisition, retention and extension. Different ways of segmenting customers by value and by their detailed life cycle with the customer are reviewed. From an digital business perspective (as we see in Chapter 5), we may want to selectively target customer types who have adopted e-channels.

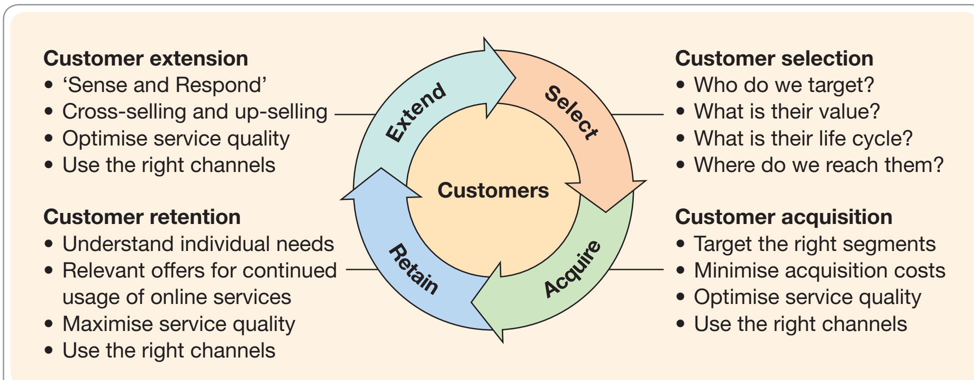

Figure 9.1 The four classic marketing activities of customer relationship management

2 **Customer acquisition** refers to marketing activities intended to form relationships with new customers while minimising acquisition costs and targeting high-value customers. Service quality and selecting the right channels for different customers are important.
3 **Customer retention** refers to the marketing activities taken by an organisation to keep its existing customers. Identifying relevant offerings based on their individual needs and detailed position in the customer life cycle (e.g. number or value of purchases) is key.
4 **Customer extension** refers to increasing the depth or range of products that a customer purchases from a company. This is often referred to as 'customer development'.

There are a range of customer extension techniques for CRM that are particularly important to online retailers:

(a) **Re-sell.** Selling similar products to existing customers – particularly important in some B2B contexts as re-buys or modified re-buys.
(b) **Cross-sell.** Sell additional products which may be closely related to the original purchase.
(c) **Up-sell.** A subset of cross-selling, but in this case, selling more expensive products.
(d) **Reactivation.** Customers who have not purchased for some time, or have lapsed, can be encouraged to purchase again.
(e) **Referrals.** Generating sales from recommendations from existing customers.

Note that although the concept of CRM is prevalent in current marketing thinking and provides a valuable framework for tactics to increase loyalty and profitability, it may not accurately reflect the way the customer views their dealings with a company. Consumers may simply see their dealings with an organisation as an exchange relationship and will not believe that they are tied to any company, i.e. they may say 'I don't want a relationship'. O'Malley and Tynan (2001) note that the concept of a long-term relationship or partnership may be more readily applied to B2B marketing than consumer marketing. They say consumers:

> *do not consider this false intimacy an interpersonal relationship. It is not driven primarily by trust, commitment, communication and shared values, but by convenience and self-interest.*

It is useful to remember this consumer perspective on relationships when considering tactics to employ to help build and maintain relationships.

Marketing applications of CRM

A CRM system to support the four activities is made up of different marketing applications:

1 **Salesforce automation (SFA).** Sales representatives are supported in their account management and phone-based sales through tools to arrange and record customer enquiries and visits.
2 **Customer service management.** Representatives in contact centres respond to customer requests for information by using an intranet to access databases containing information on the customer, products and previous queries.
3 **Managing the sales process.** This can be achieved through e-commerce sites, or in a B2B context by supporting sales representatives by recording the sales process (SFA).
4 **Campaign management.** Managing ad, direct mail, email and other campaigns.
5 **Analysis.** Through technologies such as data warehouses and approaches such as data mining, which are explained later in the chapter, customers' characteristics, their purchase behaviour and campaigns can be analysed in order to optimise the marketing mix.

Real-world Digital Business

The Smart Insights interview

Vision Express

Kate Webb, Online Marketing Manager at Vision Express, explains how the multichannel retailer prioritises its use of social media to meet business goals. Her LinkedIn profile explains that at the time of the interview she was managing a budget of over £750,000, increasing online sales by 12% year-on-year 2010–2011 and by 16% year-on-year 2011–2012 while improving the online eye-exam booking conversion rate by 28%.

Q. How big an impact has the increase in popularity of social media with consumers had on Vision Express?

Kate Webb, Vision Express: It's had quite an impact in terms of time and resource, especially in the early days.

As a company we're relatively new to social media, we've only been active for just over a year. We spent a lot of time during the first 3–6 months listening, watching and learning what consumers were saying about our brand/looking for from our brand, in order to decide on how we should communicate, and where – which platforms.

During this time we have seen both our follower and fan numbers grow, but more importantly the engagement with our customers is increasing and we feel that our customers are really starting to converse with us as a brand.

Since being involved in social media we have seen an increase in the number of customers who mention us directly, or seek us out, rather than simply mentioning our brand name in passing conversation. To us this is an important development in building our customer relationship.

At Vision Express our social media activities are based on engaging with our existing customer base; we want to improve on relationships, or continue offline relationships, with our customers, online. In the optical industry we have a long purchase cycle – on average our customers come back to us every 2 years – so it is a long period during which to maintain our social media relationships.

We have found that for probably about 1–2% of our customer base, social media is their main point of contact with us. The type of communication varies between the different social media platforms, for example we find that Twitter is more of a customer service tool, while Facebook is a fun and engaging platform, suitable for promotional outreach.

There is still progress to be made, especially as social media grows and platforms are developed/changed, but we're confident we're on the right track to providing the same high level of service that our customers get in our stores, online.

Q. What do you see as the key parts of a social media strategy that require management?

Kate Webb, Vision Express: I find that too often businesses think that social media is just about posting messages about the company on Twitter or Facebook, or getting an agency in to handle everything for them. But the key to making social media work, for me, is to have a strong strategy behind it, and to manage that strategy.

For me the key areas of focus in this strategy should be:

Brand/Business persona: I feel it's key to define a persona or personality for your business and to identify how you want to position your brand on social media; is the brand/business fun/funky, calm/serious, sensitive/nurturing or brash/loud? You need flexibility to evolve this over time as your relationship with customers grows.

Which Platforms: There are hundreds of social media platforms that we could all be involved in, so it's key to identify which platforms support your business objectives, and which ones you are going to get involved with. Otherwise resources and communication will simply be spread too thinly.

Goals/Objectives: It is important to ensure that your social media objectives or goals are aligned with that of your organisation. What is it that you want to achieve via social media? For Vision Express, our three critical goals are to:

- Add value and service to our online customers, via informative dialogue, responsive customer service and feedback. This also works as a two-way path, in that we then pass on to our store network all/any feedback we have received from our online customers.
- Engage with our online customers, and build relationships with them. In order to do this effectively, we are working towards a one customer view database, which will enable us to match social media activity to in-store activity by our customers, thus enabling us to provide a tailored approach in our conversations.
- Build brand awareness and consumer knowledge about our service offering. We want our customers to understand our company, and to recognise our values, ethics and personality, online and offline.

Analytics/Results: Be this sentiment or engagement levels, reporting on results/analytics needs to be regular, managed and analysed in order to adapt future strategy.

Technology advancements: Social media platforms are changing all the time; because of this it is imperative that we understand and gain knowledge of how these advancements/changes will affect our business's social media presence going forward. For example, the development of Facebook's iframes in March this year [2013] opened up a great opportunity for us to integrate our website's core offers into our Facebook page.

Q. How should a company assess the relevance of different social media opportunities to prioritise their focus?

Kate Webb, Vision Express: Having clear objectives and a clear strategy will help – enabling you, on a case-by-case basis, to identify what social media opportunities work for which promotion/aspect of the business.

It's important for any business/brand not to spread their actions/activities too thinly. Identify where the majority of your customers are and focus on engaging well with your customers on a few platforms.

As well as identifying which platforms to be active on, it's important to also understand to what extent you work with these platforms. Does your business need/require interactive apps or games? Or is simple communication the key to your social media engagement?

I feel it is also important to identify where social media fits in with your overall online and offline presence, and ensure that it complements your other activities. Recently I have seen an increase in brands advertising both online and on TV their Facebook and Twitter presences, but not their website. To me, a brand's website should take precedence, and social media presences should complement the website messaging and be aimed at engaging customers with the website.

If through doing these engagement activities we acquire customers, then great, but this isn't our primary focus.

Q. What advice would you give to a company starting a social media listening/reputation management initiative?

Kate Webb, Vision Express: Listen, listen and listen some more. Social media isn't about who shouts the loudest, it's about engaging in conversation with your customers/prospective customers and about keeping them informed.

There are some free tools which you can use at the very beginning, such as Tweetdeck or Hootsuite, but bear in mind these are often limited to either one platform, or to scheduling outreach messages only.

If you are really serious about social media, and I think companies need to be these days, you need to enlist a social media monitoring platform, which will enable you to listen to what consumers are saying about your brand across micromedia (Twitter/Facebook), blogs and forums.

You won't be able to respond to all consumer mentions, due to forum rules, but you can at least listen and feed this back into the business, so you can modify activities, or continue doing popular ones!

Start small, don't overstretch your resources, and be realistic about the amount of time/resource and money that social media can take up.

A few key things to remember are that once you start talking, you need to continue the commitment to maintain the conversations, and ensure you gain inter-company awareness; there is nothing worse than talking to a customer via Twitter, and then having them go into store to be presented with 'We're on Twitter? I didn't know that'.

You will also need to get to know your customers; the ideal solution here is to integrate social media activities into your core customer database, so you have one customer view, but this can take time, money and resource. In the interim, the better social media monitoring tools these days are offering engagement platforms, which allow you to add notes and assign tasks, so you can build up a reasonable knowledge of your social media customers.

Q. Where do you think the responsibilities for managing social media marketing in a company should lie? How is it managed at Vision Express?

Kate Webb, Vision Express: By spending our first 3 to 6 months listening to what our customers were saying about our brand/looking for from our brand, we managed to identify that our social media activities needed to be part of the whole business, not just an 'add-on' to our marketing activities.

It is important that social media activities have management 'buy-in' in any business. It needs to be integrated into core business activities if it is going to work properly.

To integrate these activities into different departments correctly requires management support; the management structure needs to understand why/how/who social media impacts on and affects both internally and within our customer base.

As a result, so far, we've integrated social media into a couple of key departments within the business, with the Online Marketing team as social media 'owners', in that we will identify the next strategic steps, bring in agency support, provide understanding of new developments and report on analytics and progress.

We have involvement from our Customer Care team, who respond on a day-to-day basis to customer enquiries/queries and feedback. We integrate social media into our marketing planning activities from the outset, identifying whether a promotion is suitable for social media and if so, which platform it suits best, and we have our Product Department involved to provide a great level of product information and advice.

To have social media as purely a marketing tool/activity will restrict a business in providing the right level of customer care, and will lead to sporadic/untimely and unfocused outreach.

What is e-CRM?

The interactive nature of the web combined with email communications provides an ideal environment in which to develop customer relationships, and databases provide a foundation for storing information about the relationship and providing information to strengthen it by improved, personalised services. This online approach to CRM is often known as '**e-CRM**', and it is on this we focus in this chapter. Although Figure 9.1 refers to the whole customer life cycle, typically it is used to refer to customer retention and extension activities.

Electronic customer relationship management (e-CRM)
Using digital communications technologies to maximise sales to existing customers and encourage continued usage of online services.

It is difficult to state where CRM ends and e-CRM starts, since today they both make extensive use of digital technology and media. This is what Chaffey and Smith (2008) say:

> *What is e-CRM? Customer Relations Management with an 'e'? Ultimately, e-CRM cannot be separated from CRM, it needs to be integrated and seamlessly. However, many organisations do have specific e-CRM initiatives or staff responsible for e-CRM. Both CRM and e-CRM are not just about technology and databases, it's not just a process or a way of doing things, it requires, in fact, a complete customer culture.*

Digital marketing activities which are within the scope of e-CRM and which we will cover in this chapter include:

- Using the *website and online social presences for customer development* from generating leads through to conversion to an online or offline sale using email and web-based content to encourage purchase.
- *Managing customer profile information and email list quality* (coverage of email addresses and integration of customer profile information from other databases to enable targeting).
- Managing customer contact options through mobile, *email and social networks* to support up-sell and cross-sell.
- *Data mining* to improve targeting.
- Providing online **personalisation** or **mass customisation** facilities to automatically recommend the 'next-best product'.
- Providing *online customer service facilities* (such as frequently asked questions, call-back and chat support).
- Managing *online service quality* to ensure that first-time buyers have a great customer experience that encourages them to buy again.
- Managing the *multichannel customer experience* as they use different media as part of the buying process and customer life cycle.

Personalisation
Delivering customised content for the individual through web pages, email or push technology.

Mass customisation
The creation of tailored marketing messages or products for individual customers or groups of customers typically using technology to retain the economies of scale and the capacity of mass marketing or production.

To help understand the scope of e-CRM, you may also find Figure 8.1 useful. This summarises different marketing activities that need to be completed by an online retailer, structured according to customer acquisition, conversion and retention activities.

Social CRM
The process of managing customer-to-customer conversations to engage existing customers, prospects and other stakeholders with a brand and so enhance customer-relationship management.

From e-CRM to social CRM

In previous chapters, we have seen the growing popularity of social media with consumers and as a marketing technique. It's natural that a new marketing approach, **social CRM**, has developed to determine how social media can be applied to develop customer relationships and customer value.

(We discuss this further in Chapter 10 where we look at the rise of social business.) Areas that overlap with e-CRM are customer research, identifying new customers through social media and managing customer service through social media.

Customer-centric marketing
This is based on customer behaviour within the target audience and then seeks to fulfil the needs and wants of each individual customer.

Sharma and Sheth (2004) have stressed the importance of a trend from mass marketing to what is now widely known as 'one-to-one' or '**customer-centric marketing**'. They note that e-channels can have advantages in terms of delivering relevant messages and offers to customers at relatively low cost. It can also be used to support customisation of products. These authors give the example of the Dell model where each PC is manufactured and distributed 'on demand' according to the need of a specific customer. This is an example of what they refer to as 'reverse marketing' with the change on marketing execution from product supply to customer need. Another aspect of this transformation is that online, web marketers can track the past and current behaviours of customers in order to customise communications to encourage future purchases. This approach, which is another aspect of reverse marketing and also a key concept with e-CRM, can be characterised as '**sense and respond communications**'. The classic example of this is the personalisation facilities provided by Amazon. Companies can also arrange triggered or follow-up email activity after a customer event such as a quote (as used by insurer MORE TH>N, www.morethan.com) or an abandoned shopping basket (as used by Tesco.com) to encourage purchase.

Sense and respond communications
Delivering timely, relevant communications to customers as part of a contact strategy based on assessment of their position in the customer life cycle and monitoring specific interactions with a company's website, emails and staff.

Benefits of e-CRM

Using the Internet for relationship marketing involves integrating the customer database with websites to make the relationship targeted and personalised. Through doing this marketing can be improved as follows:

- *Targeting more cost-effectively*. Traditional targeting, for direct mail for instance, is often based on mailing lists compiled according to criteria that mean that not everyone contacted is in the target market. For example, a company wishing to acquire new affluent consumers may use postcodes to target areas with appropriate demographics, but within the postal district the population may be heterogeneous. The result of poor targeting will be low response rates, perhaps less than 1%. The Internet has the benefit that the list of contacts is *self-selecting* or pre-qualified. A company will only aim to build relationships with those who have visited a website and expressed an interest in its products by registering their name and address. The act of visiting the website and browsing indicates a target customer. Thus the approach to acquiring new customers with whom to build relationships is fundamentally different, as it involves attracting the customers to the website, where the company provides an offer to make them register.
- *Achieve mass customisation of the marketing messages* (and possibly the product). This tailoring process is described in a subsequent section. Technology makes it possible to send tailored emails at much lower costs than is possible with direct mail and also to provide tailored web pages to smaller groups of customers (micro-segments).
- *Increase depth, breadth and nature of relationship*. The nature of the Internet medium enables more information to be supplied to customers as required. The nature of the relationship can be changed in that contact with a customer can be made more frequently. The frequency of contact with the customer can be determined by customers – whenever they have the need to visit their personalised pages – or they can be contacted by email by the company according to their communications preferences.
- *A learning relationship can be achieved using different tools throughout the customer life cycle*. For example, tools on Amazon and other retailers summarise products purchased on-site and the searching behaviour that occurred before these products were bought; online feedback forms about the site or products are completed when a customer requests free information; questions asked through forms or emails to the online customer service facilities; online questionnaires asking about product category interests and opinions on competitors; new product development evaluation – commenting on prototypes of new products.
- *Lower cost*. Contacting customers by email or through their viewing web pages costs less than using physical mail, but perhaps more importantly, information only needs to be sent to those customers who have expressed a preference for it, resulting in fewer mail-outs. Once personalisation technology has been purchased, much of the targeting and communications can be implemented automatically.

Customer engagement strategy

Customer engagement
Repeated interactions that strengthen the emotional, psychological or physical investment a customer has in a brand.

This difficulty in finding opportunities to achieve attention online on all types of sites has led to the emergence of the concept of **customer engagement** as a key challenge with which digital marketers are increasingly concerned. cScape (2008) describe customer engagement as:

> *Repeated interactions that strengthen the emotional, psychological or physical investment a customer has in a brand.*

while for Haven (2007) customer engagement is:

> *the level of involvement, interaction, intimacy, and influence an individual has with a brand over time.*

Arguably the biggest difference in communications introduced by the growth of digital media and the web is that customers' conversations are an integral part of communications (as we noted in Chapter 8). Today, proactively managing consumer participation through social media is seen as essential. The '*Focus on* Social media' section discusses this challenge.

Permission marketing

Permission marketing
Customers agree (opt in) to be involved in an organisation's marketing activities, usually as a result of an incentive.

Interruption marketing
Marketing communications that disrupt customers' activities.

Permission marketing is an established approach which should form a practical foundation for CRM and online customer engagement. 'Permission marketing' is a term coined by Seth Godin. Godin (1999) noted that while research used to show we were bombarded by 500 marketing messages a day, with the advent of the web and digital TV this has now increased to over 3,000 a day! From an organisation's viewpoint, this leads to a dilution in the effectiveness of the messages – how can the communications of any one company stand out? From the customer's viewpoint, time is seemingly in ever-shorter supply, customers are losing patience and expect reward for their attention, time and information. Godin refers to the traditional approach as '**interruption marketing**'. Despite the growth in social media marketing, permission marketing is still a core concept within digital media today which works well when integrated with social media. Companies from consumer brands, to retailers, to travel companies and business-to-business start-ups all want visitors to their site to sign up to email and then deepen the relationship with them through e-CRM. Today, it's more likely to be known as inbound marketing (which we introduced in Chapter 8); this describes how permission marketing fits in with digital marketing techniques like search engine optimisation and social media. It's about seeking the customer's permission before engaging them in a relationship and providing something in exchange. The classic exchange is based on information or entertainment – a B2B site can offer a free report in exchange for a customer sharing their email address, while a B2C site can offer a newsletter with valuable content and offers.

Opt-in
A customer proactively agrees to receive further information.

Opt-out
A customer declines the offer to receive further information.

From an e-commerce perspective, a customer agrees to engage in a relationship when they check a box on a web form to indicate that they agree to receiving further communications from a company. This is referred to as '**opt-in**'. This is preferable to **opt-out**, the situation where a customer has to consciously agree not to receive further information. You may recall (from Chapter 4) that in many countries data protection laws requiring opt-in before customers receive communications and mandatory inclusion of opt-out have now been introduced in an attempt to stop spamming. Effectively, the law is mandating permission marketing as best practice!

The importance of incentivisation in permission marketing has been emphasised by Seth Godin who likens the process of acquisition and retention to dating someone. Godin (1999) suggests that dating the customer involves:

1 Offering the prospect an incentive to volunteer.
2 Using the attention offered by the prospect, offer a curriculum over time, teaching the consumer about your product or service.

3. Reinforce the incentive to guarantee that the prospect maintains the permission.
4. Offer additional incentives to get even more permission from the consumer.
5. Over time, use the permission to change consumer behaviour towards profits.

Notice the importance of incentives at each stage. The use of incentives at the start of the relationship and throughout it is key to successful relationships. As we shall see in a later section, email is very important in permission marketing to maintain the dialogue between company and customer.

Figure 9.2 summarises the process of permission marketing in an online context. It shows how different methods are used to drive visitors to a website (1); incentives are then used to profile the customer (2). Subsequent email or social network communications (3) and direct mail (4) are used to encourage repeat visits to the website for future purchase or to learn more about the customer and increase the information in the profile (5).

> **Debate 9.1**
>
> **Is permission marketing the future?**
>
> *'In the future, all marketing communications, regardless of medium, will be permission-based.'*

Customer profiling

To engage a customer in an online relationship, the minimum information that needs to be collected in an online form such as in Figure 9.2 is an email address. This was an initial approach taken by the Peppers and Rogers site (www.1to1.com). What we really need,

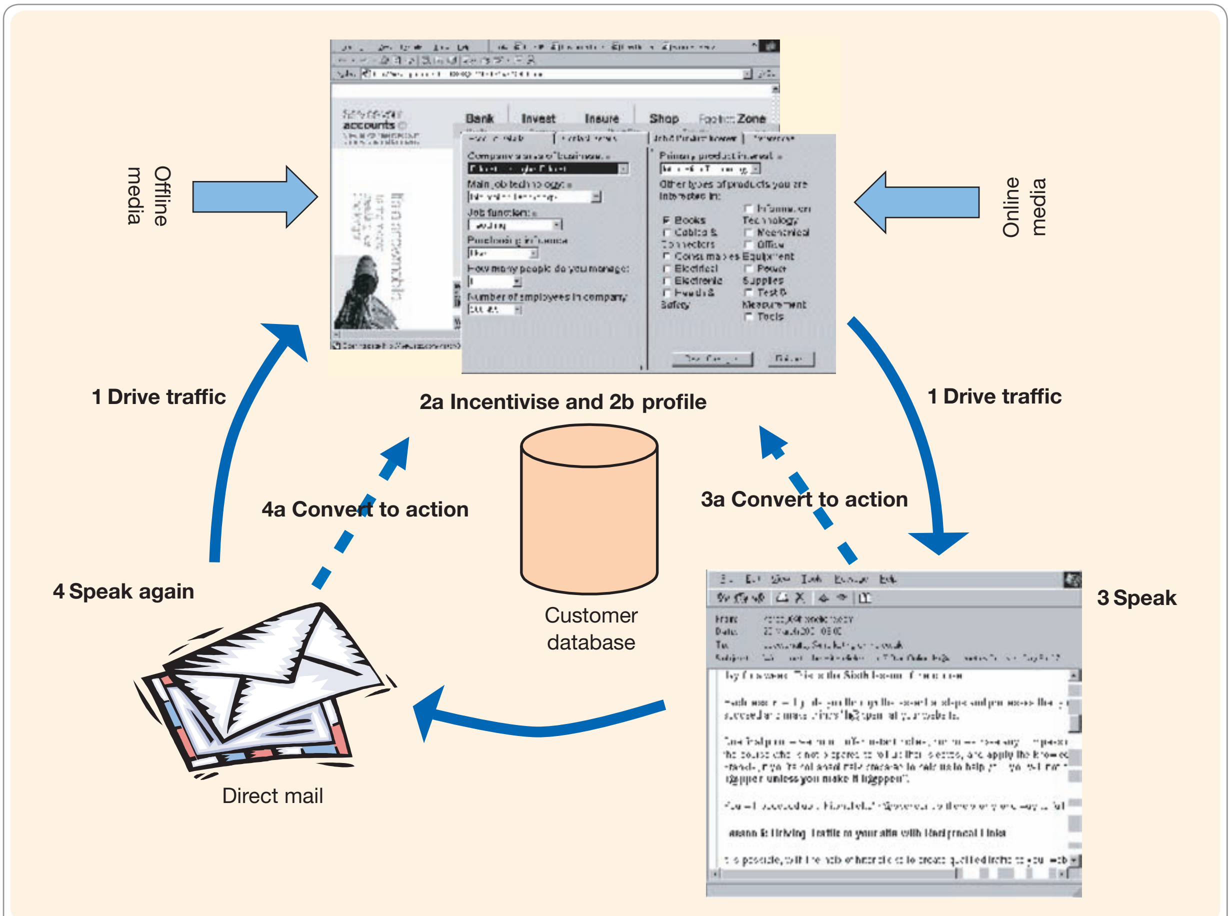

Figure 9.2 A summary of an effective process of online relationship-building

Qualified lead
Contact information for a customer and an indication of his or her propensity to purchase different products.

Customer profile
Information that can be used to segment a customer.

particularly for B2B sites, is a **qualified lead** that provides us with more information about the customer to help us decide whether that customer is a good prospect who should be targeted with further communications. For B2B this could mean a visit by field sales staff or a follow-up email to arrange this. The Peppers and Rogers site has now been updated to reflect this approach.

To continue the relationship it is essential to build a **customer profile** that details each customer's product interest, demographics or role in the buying decision. This will affect the type of information and services delivered at the retention stage. For the customer to give this information a company will have to offer an incentive, establish trust and demonstrate credibility. Data protection and privacy law sets constraints on what can be collected from the customer (as described in Chapter 4. p. 141).

Peppers and Rogers (1999) were amongst the first commentators to explain how to use technology to build a *one-to-one* relationship. They suggested the IDIC approach as a framework for using the web effectively to form and build relationships:

1. **Customer identification.** This stresses the need to identify each customer on their first visit and subsequent visits. Common methods for identification are use of cookies or asking the customer to log on to a site.
2. **Customer differentiation.** This refers to building a profile to help segment customers. (Characteristics for differentiating customers are described in Chapter 4 (p. 142).)
3. **Customer interactions.** These are interactions provided on-site, such as customer service questions or creating a tailored product.
4. **Customisation.** This refers to personalisation or mass customisation of content or emails according to the segmentation achieved at the acquisition stage. Approaches for personalisation are explained in the section on customer retention management.

Note that although we are suggesting it is vital to capture the registration information, this should not be too 'up-front' since studies reported by Nielsen (2000) show that having to register acts as a barrier to entering sites. So the advice is to delay customer registration as late as possible.

Conversion marketing

Conversion marketing
Using marketing communications to maximise conversion of potential customers to actual customers and existing customers to repeat customers.

For managers to assess and improve the effectiveness of their CRM implementation, evaluation using the **conversion marketing** concept is useful. In an online context, this assesses how effective marketing communications are in converting:

- web browsers or offline audiences to site visitors;
- site visitors to engaged site visitors who stay on the site and progress beyond the home page;
- engaged site visitors to prospects (who are profiled for their characteristics and needs);
- prospects into customers;
- customers into repeat customers.

We referenced a high-level model based on this approach which can be used for planning purposes in Figure 5.14. This shows the acquisition part of the process and gives an indication of how the different channels can support each other. At each conversion step, some visitors will switch from one channel to the other, dependent on preferences and marketing messages. The dilemma for marketers is that the online channels are cheapest to service, but tend to have a lower conversion rate than traditional channels because of the human element. It follows that it is important to offer phone, live chat or email contact in online channels to help convert customers who need further information or persuading to purchase. Box 9.1 shows how a framework covering all marketing activities to develop relationships online can be used to manage online customer relationships.

Box 9.1 Using the RACE marketing value framework to increase sales

RACE (Figure 9.3) is a practical framework designed to help marketers manage and improve the commercial value that their organisations gain from digital marketing. RACE is an evolution of the REAN (Reach Engage Activate Nurture) framework originally developed by Xavier Blanc and popularised by Steve Jackson in his book *Cult of Analytics* (Jackson, 2009). It is intended to help create a simplified approach to reviewing the performance of online marketing and taking actions to improve its effectiveness. (The measures in the figure are covered in more depth in Chapter 12 where we explore the power of using web analytics for improving marketing performance.)

RACE consists of four steps designed to help engage prospects, customers and fans with brands throughout the customer life cycle:

- *Step 1 Reach* – Build awareness of a brand, its products and services on other sites and in offline media and build traffic by driving visits to web presences.
- *Step 2 Act* – Engage audience with brand on its website or other online presence to encourage them to act or interact with a company or other customers.

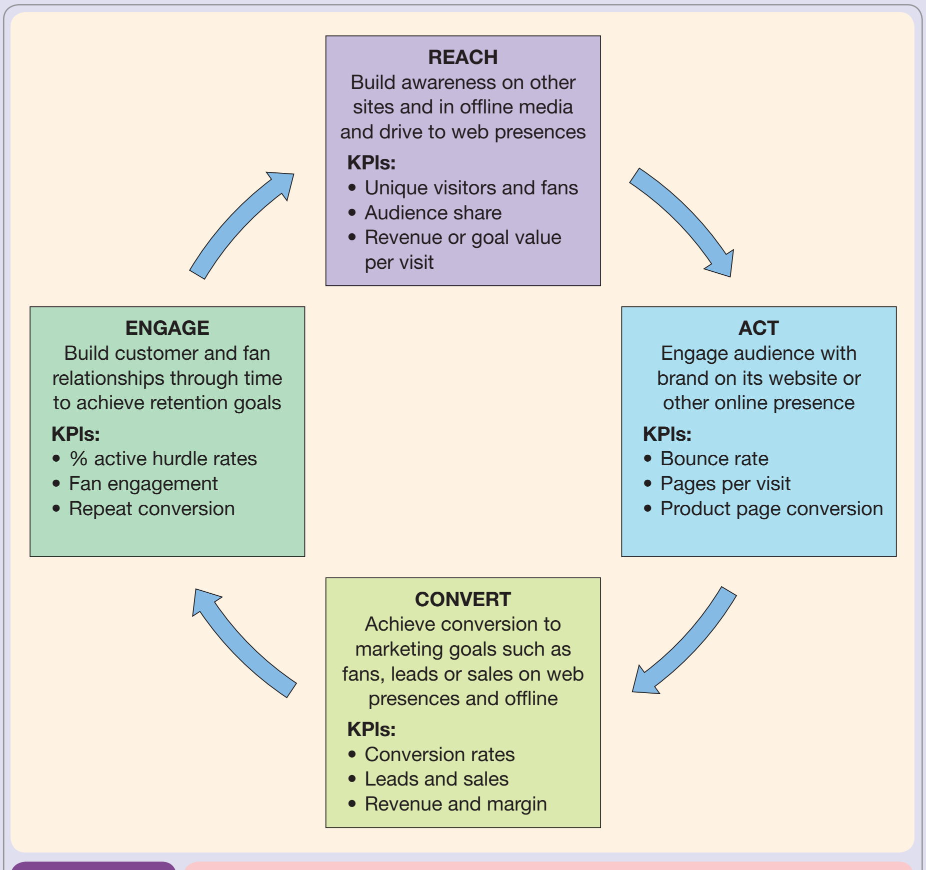

Figure 9.3 Reach–Act–Convert–Engage model
Source: Smart Insights (2010) Introducing RACE = A practical framework to improve your digital marketing. Dave Chaffey, 15 July 2010. www.smartinsights.com/blog/digital-marketing-strategy/race-a-practical-framework-to-improve-your-digital-marketing.

- *Step 3 Convert* – Achieve conversion to marketing goals such as new fans, leads or sales on web presences and offline.
- *Step 4 Engage* – Build customer relationships through time to achieve retention goals.

Integrating RACE

Digital channels always work best when they are integrated with other channels, so where appropriate digital channels should be combined with the traditional offline media and channels. The most important aspects of integration are, first, using traditional media to raise awareness of the value of the online presences at the Reach and Act stages. Second, at the Convert and Engage steps, customers may prefer to interact with customer representatives.

Digital marketing – it's not just about the website

Today, the popularity of participation in social media means that how to reach, interact, convert and maintain ongoing engagement of customers through social networks is vital to the success of a brand. At each step in RACE you need to think how social media can help achieve your goals and how you can measure the effectiveness.

Performance drivers
Critical success factors that govern whether objectives are achieved.

RACE is a development of the work by Agrawal *et al*. (2001) who created a scorecard for effective conversion marketing, assessed using a longitudinal study analysing hundreds of e-commerce sites in the USA and Europe. The scorecard is based on the **performance drivers** or critical success factors for e-commerce, such as the costs for acquisition and retention, conversion rates of visitors to buyers to repeat buyers, together with churn rates. Note that to maximise retention and minimise churn, service-quality-based drivers need to be evaluated.

There are three main parts to this scorecard:

1. **Attraction.** Size of visitor's base, visitor acquisition cost and visitor advertising revenue (e.g. media sites).
2. **Conversion.** Customer base, customer acquisition costs, customer conversion rate, number of transactions per customer, revenue per transaction, revenue per customer, customer gross income, customer maintenance cost, customer operating income, customer churn rate, customer operating income before marketing spending.
3. **Retention.** This uses similar measures to those for conversion customers.

The survey performed by Agrawal *et al*. (2001) shows that:

> *companies were successful at luring visitors to their sites, but not at getting these visitors to buy or at turning occasional buyers into frequent ones.*

Agrawal *et al*. (2001) performed a further analysis where they modelled the theoretical change in net present value contributed by an e-commerce site in response to a 10% change in these performance drivers. This shows the relative importance of these drivers, or 'levers' as they refer to them:

Attraction

- Visitor acquisition cost: 0.74% change in net present value (NPV)
- Visitor growth: 3.09% change in NPV.

Conversion

- Customer conversion rate: 0.84% change in NPV
- Revenue per customer: 2.32% change in NPV.

Retention

- Cost of repeat customer: 0.69% change in NPV
- Revenue per repeat customer: 5.78% change in NPV
- Repeat-customer churn rate: 6.65% change in NPV
- Repeat-customer conversion rate: 9.49% change in NPV.

This modelling highlights the importance of on-site marketing communications and the quality of service delivery in converting browsers to buyers and buyers into repeat buyers. It also highlights the need to balance investment between customer acquisition and retention. Many start-up companies invest primarily in customer acquisition. For failed dot-com retailers such as LetsBuyit.com this was a strategic error since customer retention through repeat purchases is vital to the success of the online service.

The online buying process

Companies that understand how customers use the new media in their purchase decision-making can develop integrated communications strategies that support their customers at each stage of the buying process. Considering mixed-mode buying is a key aspect of devising online marketing communications since the customer should be supported in changing from one channel to another.

The simple model of the buying process shown in Figure 9.4 is valuable in developing the right online marketing tactics to support each stage of the process for each business.

Individual preferences for using the web will also differ. Lewis and Lewis (1997) identified five different types of web users who exhibit different **searching behaviours** according to the purpose of using the web:

Searching behaviours
Approaches to finding information vary from directed to undirected.

- *Directed information-seekers*. Will be looking for product, market or leisure information. This type of user tends to be experienced in using the web and is proficient in using search engines and directories.
- *Undirected information-seekers*. These are the users usually referred to as 'surfers', who like to browse and change sites by following hyperlinks. This group tends to be novice users (but not exclusively so) and they may be more likely to click on banner advertisements. The research in Figure 9.6 suggests that this behaviour is now less common.
- *Directed buyers*. These buyers are online to purchase specific products. For such users, brokers or intermediaries who compare product features and prices will be important locations to visit.
- *Bargain hunters*. These users want to use the offers available from sales promotions such as free samples or prizes.
- *Entertainment seekers*. Users looking to interact with the web for enjoyment through entering contests such as quizzes.

These different types of behaviour could be exhibited by the same person in different sessions online, or, less likely, in the same session.

Differences in buyer behaviour in target markets

There is great variation in the proportion of user access in different countries (as explained in Chapter 4, in the section Understanding users' access requirements). This gives rise to differences in buyer behaviour between different countries or between different segments according to how sophisticated customers are in their use of the Internet.

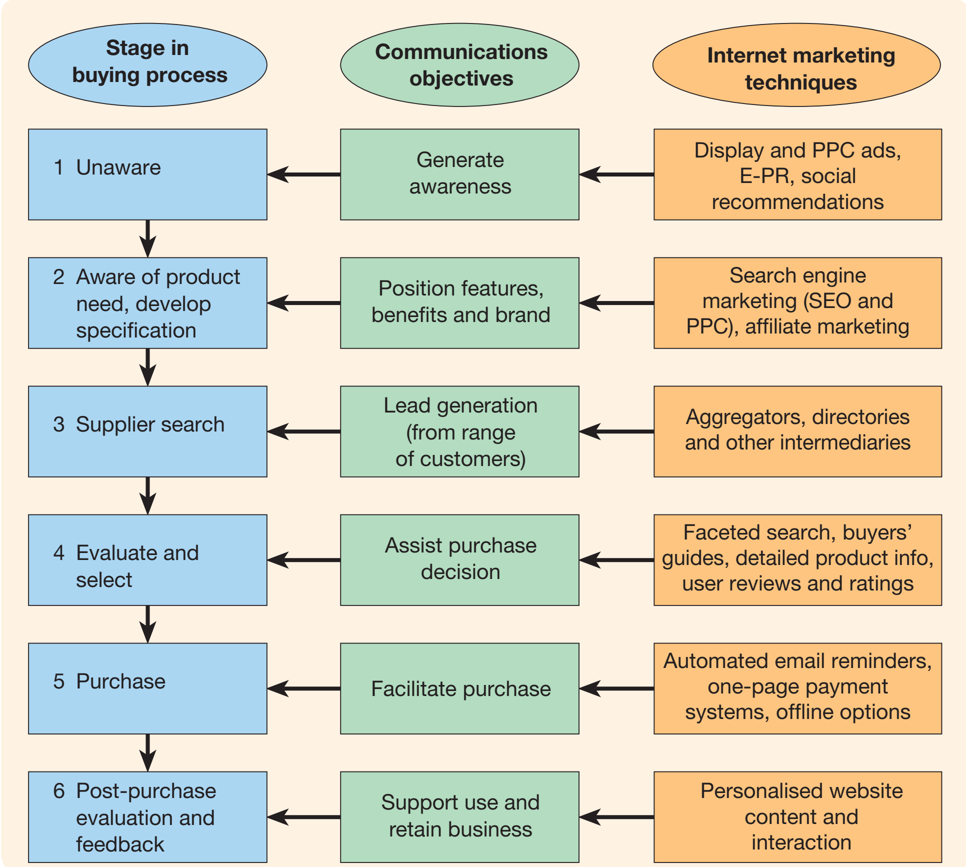

Figure 9.4 A summary of how the Internet can impact on the buying process for a new purchaser

Differences between B2C and B2B buyer behaviour

Major differences in buyer behaviour exist between the B2B and B2C markets, and these must be accommodated in digital marketing communications. The main differences are:

1. Market structure
2. Nature of the buying unit
3. Type of purchase
4. Type of buying decision
5. Communication differences.

One of the main differences between business-to-business and business-to-consumer is the number of buyers. As Kotler (1997) points out, in B2B there tend to be *far fewer but larger buyers*. This means that the existence of suppliers tends to be well known, so efforts to promote the website using methods such as banner advertising or listing in search engines are less important than for consumer brands.

Influences on purchase

In the online environment, purchasers lack the physical reassurance we have when purchasing from a store or talking to someone over the phone. This is compounded because of stories of fraud and security problems. It follows that consumers are looking for cues of trust when they are on a site, which can include brand familiarity, site design, the type of content, accreditation and recommendations by other customers.

Bart *et al.* (2005) have developed a useful, widely referenced conceptual model that links website and consumer characteristics, online trust, and behaviour based on 6,831 consumers across 25 sites from 8 website categories including retail, travel, financial services, portals and community sites. We have summarised the eight main drivers of trust from the study in Figure 9.5 and have added some details about how these elements of trust can be substantiated or proved on the website.

The model of Bart *et al.* (2005) and similar models are centred on a site, but perceptions of trust are also built from external sources including the role of social media and friends, in particular, which can have a significant influence on purchase as research from BrandNewWorld (2004) shows (Figure 9.6). A useful summary of influences on online purchase intention has been proposed by Dennis *et al.* (2009) where they do stress the importance of 'subjective norms' or 'social factors' in influencing purchase.

Net promoter score (NPS)
A measure of the number of advocates a company (or website) has who would recommend it compared to the number of detractors.

The net promoter score

Net promoter score (NPS) is a measure of customer advocacy originally popularised by Reichheld (2006) in his book *The Ultimate Question* which is essentially '*would you recommend us?*' It is highly relevant to CRM since recommendations are important to acquiring

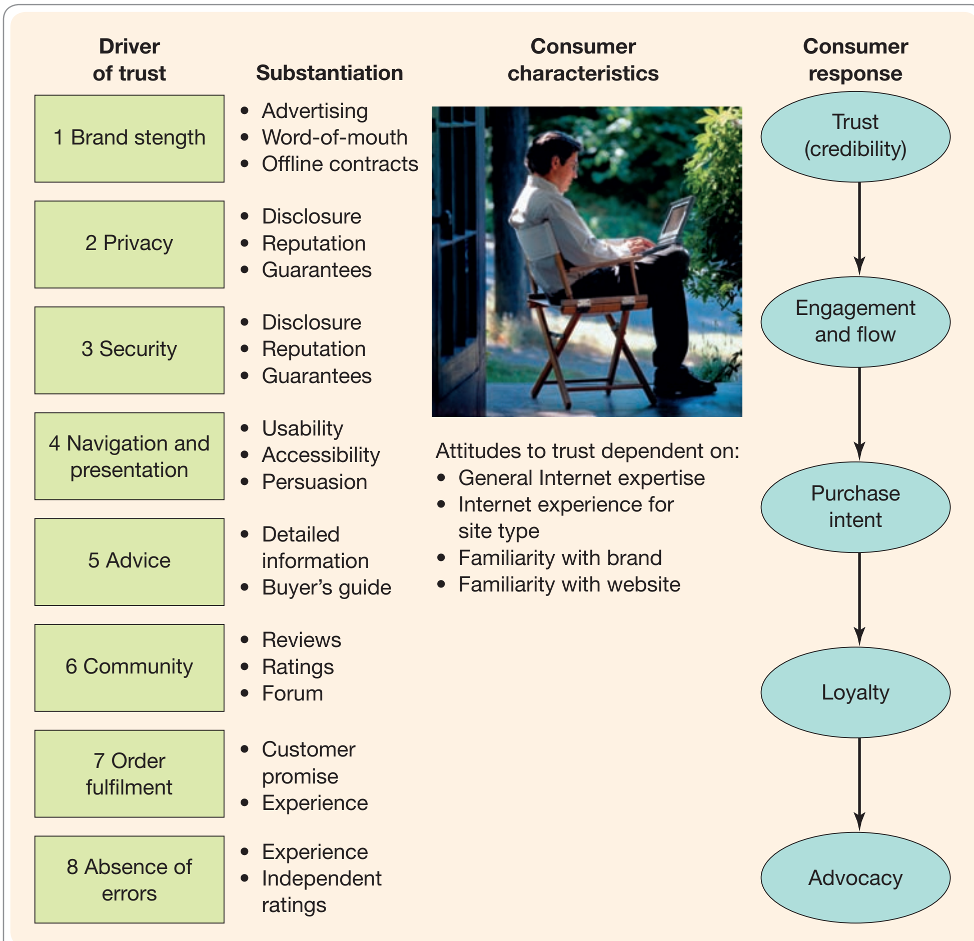

Figure 9.5 A model of the relationship between different aspects of trust and consumer response based on the categories
Source: Bart *et al.* (2005).

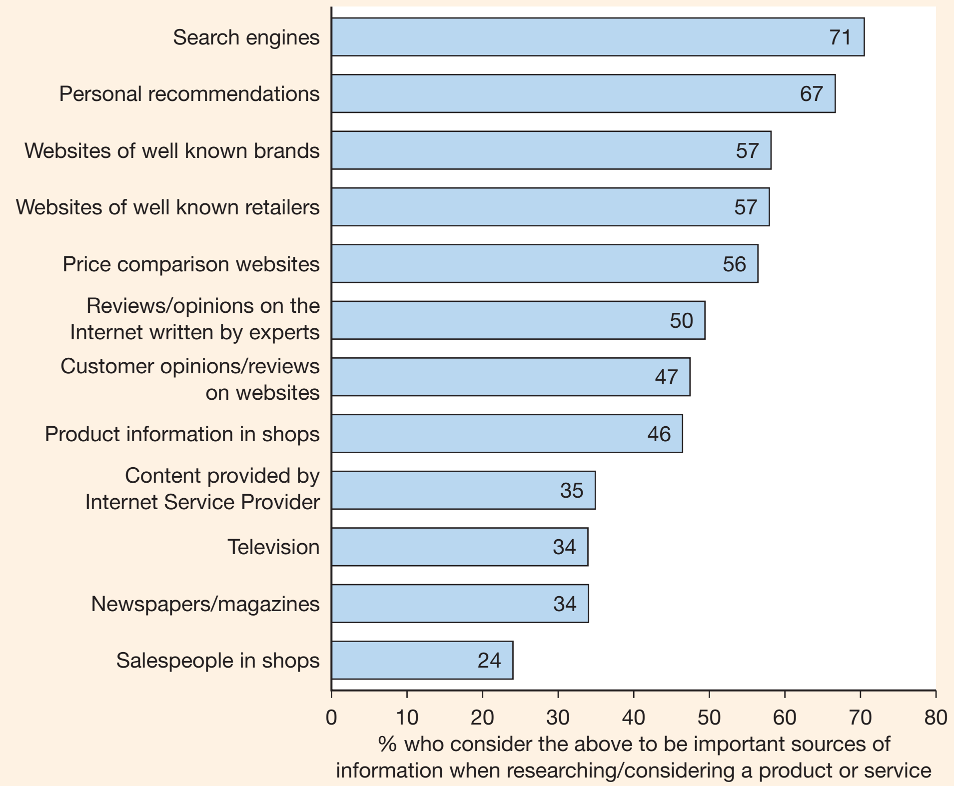

Figure 9.6 Percentage who consider the different information sources as important when researching/considering a product or service
Source: BrandNewWorld: AOL UK/Anne Molen (Cranfield School of Management)/Henley Centre, 2004.

customers, but it is also the ultimate measure of customer satisfaction which is needed to drive retention.

Reichheld explains the main process for NPS as follows:

1 Systematically categorise customers into promoters, passives, or detractors. If you prefer, you can call them loyal advocates, fair-weather friends, and adversaries.
2 Creating closed-loop processes so that the right employees will directly investigate the root causes that drive customers into these categories.
3 Making the creation of more promoters and fewer detractors a top priority so employees up and down the organisation take actions based on their findings from these root-cause investigations.

In practice, consumers are asked 'Would you recommend [Brand/Company X] to a friend or colleague', answered on a scale between 0 (not at all likely) and 10 (extremely likely). The actual score is calculated by subtracting the percentage of detractors (those giving 0–6 answers) from promoters (9–10s). The middle section, between 7 and 8, is the so-called passives.

The concept of NPS is based on economic analysis of the customer base of a company. For Dell, Reichheld estimates that the average consumer is worth $210 (based on a lifetime-value calculation of future value over a five-year period calculated as net present value (NPV)), whereas a detractor costs the company $57 and a promoter generates $328. Online Dell uses software from Opinion Labs (www.opinionlabs.com) to both gather feedback and follow up on negative experiences and so reduce the number of detractors with major negative sentiment.

So, the idea is that after surveying as many customers as possible (to make it representative) and show you are listening, you then work backwards to determine which aspects of the experience of interacting with a brand creates 'promoters' or 'detractors'. Some specific approaches that can be used to help manage NPS in the online environment are:

Facilitating online advocacy:

- Page template contains 'forward/recommend to a friend' options.
- Email templates contain 'forward to a friend option'.
- Facilitate customer feedback through a structured programme of emailing customers for their opinions and NPS evaluations and by making it easy for site owners to comment.
- Showcase positive experiences, for example, e-retail sites often contain options for rating and commenting on products.
- Involve customers more in shaping your web services and core product offerings.

Managing online detractors:

- Use online reputation management tools for notification of negative (and positive) comments.
- Develop a process and identify resource for rapidly responding to negative comments using a natural and open approach.
- Assess and manage the influence of negative comments within the natural listings of search engines.
- Practise fundamental marketing principles of listening to customer comments about products and services and aim to rectify them to win back the situation!

Kirby and Samson (2008) have critiqued the use of the NPS in practice. For example, they ask: 'Is an NPS of 40, consisting of 70% promoters and 30% detractors, the same as the same NPS consisting of 40% promoters and 0% detractors?' They also quote research by Kumar *et al.* (2007) which shows that while about three-quarters of US telecoms and financial service customers may intend to recommend when asked, only about one-third actually follow through and only about 13% of those referrals actually generate new customers. Keiningham *et al.* (2007) have assessed the value of recommendation metrics as determinants of customer lifetime value and also believe that the use of NPS could be misleading. They say the consequences of a simple focus on NPS are:

> *the potential misallocation of customer satisfaction and loyalty resources due to flawed strategies that are guided by a myopic focus on customers' recommend intentions.*

Customer acquisition management

Customer acquisition
Techniques used to gain new prospects and customers.

In an online context, '**customer acquisition**' can have two meanings. First, it may mean the use of the website to acquire new customers for a company as qualified leads that can hopefully be converted into sales. Second, it may mean encouraging existing customers to *migrate* to using online for purchase or service. Many organisations concentrate on the former, but where acquisition is well managed, campaigns will be used to achieve online conversion. For example, American Express developed a '*Go Paperless*' campaign to persuade customers to receive and review their statements online rather than by post. Phone bank First Direct used call centre representatives to persuade customers of the benefits of bypassing them by reviewing their statements online. They also encourage 'e-advocacy' amongst employees, i.e. encourage them to use the online services so they can better empathise with customer needs.

Before an organisation can acquire customers through the content on its site, it must, of course, develop marketing communications strategies to attract visitors to the website.

Focus on Marketing communications for customer acquisition, including search engine marketing, online PR, online partnerships, interactive advertising, email marketing and social media marketing

E-commerce managers constantly strive to deliver the most effective mix of communications to drive traffic to their e-commerce sites. The different techniques can be characterised as traditional **offline marketing communications** or rapidly evolving **online marketing communications** which are also referred to as **digital media channels**. The objective of employing these techniques is often to acquire new visitors or 'build traffic' using the diverse marketing communications techniques summarised in Figure 1.8. Some additional techniques to promote repeat visits are considered in the section on *Customer retention management*.

Offline marketing communications
Traditional techniques such as print and TV advertising used to generate website traffic.

Online marketing communications
Internet-based techniques used to generate website traffic.

Digital media channels
Online communications techniques used to achieve goals of brand awareness, familiarity, favourability and to influence purchase intent.

The characteristics of interactive marketing communications

To best exploit the characteristics of digital media, it is important to understand the different communications characteristics of traditional and new media. In this section, we look at eight key differences.

1 From push to pull

Traditional media such as print, TV and radio are **push media**, a one-way street where information is mainly unidirectional, from company to customer. In contrast, the web is an example of **pull media**, more idely known today as inbound marketing. It means that as prospects and customers only visit a website when it enters their head to do so – when they have a defined need – they are proactive and self-selecting. But online pull means marketers have less control than in traditional communications where the message is pushed out to a defined audience. What are the digital marketing implications of the pull medium? First, we need to provide the physical stimuli to encourage visits to websites. This may mean traditional ads, direct mail or physical reminders. Second, we need to ensure our site is optimised for search engines. Third, email is an online push medium, so it should be a priority objective of website design to capture customers' email addresses in order that opt-in email can be used to push relevant and timely messages to customers.

Push media
Communications are broadcast from an advertiser to consumers of the message who are passive recipients.

Pull media
The consumer is proactive in selection of the message through actively seeking out a website responding to inbound marketing cues.

2 From monologue to dialogue

Creating a dialogue through **interactivity** is important. Since the Internet is a digital medium and communications are mediated by software on the web server that hosts the web content, this provides the opportunity for two-way interaction with the customer. This is a distinguishing feature of the medium (Peters, 1998). For example, if a registered customer requests information, or orders a particular product, it will be possible for the supplier to contact them in future using email with details of new offers related to their specific interest. Deighton (1996) proclaimed the interactive benefits of the Internet as a means of developing long-term relationships with customers.

Interactivity
The medium enables a dialogue between company and customer.

A website, interactive digital TV and mobile phones all enable marketers to enter dialogue with customers. But digital dialogues have a less obvious benefit also – intelligence. Interactive tools for customer self-help can help collect intelligence – clickstream analysis recorded in web analytics can help us build up valuable pictures of customer preferences and help marketers 'sense and respond'.

3 From one-to-many to one-to-some and one-to-one

Traditional push communications such as TV and print are one-to-many: from one company to many customers, often the same message to different segments and often poorly targeted.