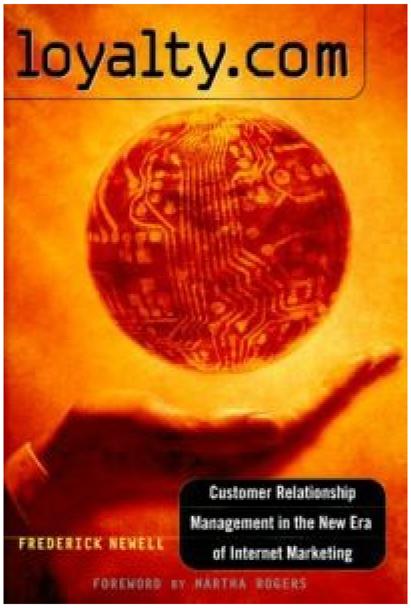

Book Loyalty.com

Customer Relationship Management in the New Era of Internet Marketing

Frederick Newell
McGraw-Hill, 2000

Recommendation

This book is a delightful result of Frederick Newell's recent indoctrination in marketing through the World Wide Web. Newell is an internationally acclaimed professional and part-time academic who specializes in database marketing. He admits in his preface that he's a bit of a "geezer" - because his 1997 book, *The New Rules of Marketing*, lacked a Web component, which undermined its newness. In an effort to rectify that, he reconciles the impressive database-mining and customer relationship concepts from his earlier book with today's rapidly changing cyber-marketing theories and practices. Newell clearly is excited by what he has belatedly learned about the Web's potential, and provides on-target case studies to support his points. *BooksInShort* recommends this book to all marketers - especially to those in retail. Those who are new to Web business will find it particularly useful.

Take-Aways

- Success in sales is based on personal relationships, not business transactions.
- You can select and cultivate the customer you want from the masses of customers.
- You should cultivate the customer you want using data-mining information tools and the strategies of customer relationship management (CRM).
- The customers who represent ten percent of the company's business are the most profitable and are excellent candidates for CRM.
- CRM's goal is to create a relationship in which the customer is loyal to your business.
- Customer loyalty is more than a feeling - it is behavior that produces revenue.
- CRM is customer-centric. Its objective is to add to the company's profit margin by concentrating on benefits and values to the customer, rather than on what the company wants to sell.
- The company may sell quarter-inch drill bits. But the customer wants quarter-inch holes.
- Direct mail, telemarketing, and data-mining should focus on learning what the customer wants.
- The Internet is the ultimate tool for establishing one-on-one sales relationships.

Summary

Know Your Customer

Imagine you have moved to a small Midwestern town in 1962. You walk into the only department store on Main Street. The busy sales staff, all of whom seem related, are discussing family, school, church, and sports with their customers as they wait on them. When it is your turn, the salesperson begins asking questions. Are you new in town? Where are you from? Whose house did you buy? Where will you work? How many children do you have? How old are they?

> "Customer loyalty is more than a feeling, it is a set of behaviors that produce revenue: purchasing, repurchasing, and purchasing other products and recommending them to others."

From your answers, the salesperson discovers that the Dawson house, which you bought, has four more rooms than the one you left behind. You've moved from a temperate climate and will need to buy a lot of winter clothes. Your kids are growing so quickly; they change sizes twice a year. Your son is at the age when fashion dictates beyond all sense of reason. And you work for that tightwad downtown. Already, you feel like a familiar customer at a store where there is an obvious premium on personal services. Today, this sales method is known as Customer Relationship Management, or CRM.

> "Consumers increasingly want what products do rather than what they are."

Unlike the usual customer in 1962, the modern retail customer is increasingly mobile. People move to new counties for better school districts and to faraway states for $100-a-week income increases. Even if they were so inclined, salespeople cannot be expected to keep personal track of every customer today. Instead, mass marketers employ strategies to recapture or artificially recreate the intimacy that successfully developed customer loyalty in the past.

> "People don't want quarter-inch drill bits. They want quarter-inch holes. They want prodices, things that look like products but act like services."

Until the Internet, mail was the mass marketers' primary outreach instrument. To replace the salesperson's personal memory, marketers turned to credit cards and on-site data collection to build and mine databases. Marketers converted the raw material into mailers. Based on the success or failure of each mailer, marketers spawned new and more precisely aimed mailings. Inevitably, however, customer loyalty waned. Studies suggest that normal customer attrition was around fifty percent the first year and twenty percent the second. This meant that once you spent money on marketing to get those first one hundred people through the door - and labored to make them happy - only thirty-two were left at the beginning of the third year.

"Velvet Ropes"

Thus arose the "velvet ropes" of incentives known as loyalty programs, in which customers earn everything - from special personal sales days, to airline miles, to significant discounts - as rewards for keeping their business at the suitors' stores. Today, the average American shopper belongs to 3.2 such programs. Sixty percent of U.S. supermarkets offer them. To participate, shoppers must share the kind of information that salespeople might have personally gathered back in 1962. Since such questions can be deemed an invasion of privacy today, marketers trade discounts and other considerations for the information. However, since customers do not view the transfer and use of information as a benefit to their total purchasing experience, sales may increase, but loyalty may not.

> "The e-mail opportunity for CRM marketers is enormous, and it will be enormous for the customer. It is direct mail on steroids."

To build loyalty, marketers must gain knowledge of customers' most intimate likes and dislikes. Then they must use that knowledge to deliver the benefits the customers want. This way, customers feel that the purchasing process is just one part of a real, meaningful relationship with the retailer. This is CRM for the new millennium: one-on-one shopping. Where the tried-and-true database marketing was company-centric, CRM is customer-centric. Increasing the company's profit is still its objective. But it accomplishes that goal by concentrating on the customer's benefits and values, rather than on what the company wants to sell - thereby strengthening the relationship between the customer and the company.

> "People want a road map, not a treasure hunt."

The key CRM tasks include:

- Identify the consumer values that are pertinent to a particular business.
- Understand their relative importance to each customer segment.
- Determine if delivery of those values will positively affect the bottom line.
- Communicate and deliver the appropriate values to each customer segment in the way that the customer wants the information.
- Measure the results and prove a return on investment.

Evening Dresses at Sears?

Investing in CRM only to drive sales wastes money. For example, a fashion-conscious, affluent customer will buy tools at Sears, but not evening gowns, no matter how much evening gown marketing Sears does. If you are Sears, it makes more sense to let the customer know when you're holding a tool sale. Each Blockbuster Video store knows what its customers rented, as compared to what all other locations' customers did, in that neighborhood, and in other stores in similar neighborhoods. This enables Blockbuster to predict which titles customers will want to rent in the future, and how many of each title should be stocked. Thus, CRM becomes part of the marketing department's strategy - improve sales by seizing future opportunities to fill well-defined consumer needs and, therefore, provide more benefits than the competition.

> "We will see an avalanche of new tools for Customer Relationship Management and that will include even more sophisticated means of mass customization."

CRM can help you retain as many good customers as possible. Over time, CRM enables you to select among your best customers and concentrate your efforts on them. Research suggests that the top ten percent of your customers account for at least thirty to fifty percent of total sales. In most businesses, sixty percent of the customer base is responsible for ninety percent of sales and more than one hundred percent of profit. Those who do not participate in profitability, although they are technically customers, actually are drains on the company. CRM makes it possible - in fact, it dictates - that the top ten percent get most of the personalized attention. Those who shop only when there is a sale are "transaction shoppers" who will never develop loyalty to your business. Those who already shop often, even when there is no sale, are golden.

Share of the Wallet

Today, those who do business with off-line consumers must rely on the traditional methods of acquiring data for CRM's requisite marketing database. This could include:

- Using the latest postal and telephone techniques.
- Changing loyalty discount cards to "membership cards."
- Sending personalized mailings, including in-house magazines.
- Guaranteeing prompt service calls and making service-related phone calls when appropriate.

> "Data-mining implementers should prepare themselves to deal with data-mining as an application that needs as much underlying theory as a field such as semiconductor design or quantum mechanics."

Consider the "share of wallet" you earn from each customer. For example, if the customer is buying computers and ink cartridges from you, but buying paper somewhere else, you are missing a shot at a larger share of the wallet. Also, customer retention, that is, loyalty, comes from selecting the right customers in the first place. That is why Lexus dealers target former Mercedes and Cadillac owners. However, you can't rely on preconceived notions - especially when it comes to Baby Boomers, about whom several myths abound:

- Myth 1 - Today's mature adults are similar to their parents. They are not.

- Myth 2 - The mature audience is homogenous. Actually we become less, rather than more, alike as we age and become increasingly confident and independent.
- Myth 3 - Mature adults are brand-loyal. Not any more. Sixty-eight percent of Boomers and pre-Boomers are willing to switch brands, a higher percentage than any other generation. And, they like new products and services - as long as they can use them immediately.
- Myth 4 - Mature adults have consistent and predictable behaviors. Boomers are actively seeking a personal renaissance, which often leads to remarkable unpredictability.

Slow to Know

CRM database marketing is not a swift process. It takes at least three years to show a real payoff in terms of increased customer loyalty, reduced attrition, and increased sales. Today - if your company is willing and able to redesign itself to take advantage of the opportunity - the World Wide Web brings the missing element of speed to mass marketing. The redesign is almost always essential, because managing CRM on the Web means caring enough about the customer to react in real time.

> “Human beings and organizations do not act in response to reality; but in response to an internally constructed version of reality.”

One study found that forty-two top-ranked Web sites took longer than five days to reply to customers’ e-mail queries, never replied, or were not accessible by e-mail at all. This undermines credibility, frustrates customers, and destroys loyalty.

Not Toothpaste, Clean Teeth

The Web provides a tidy way to gather detailed information about customers in the form of a real dialogue and without third parties involved. Soon, your Web sites will be able to feature a phone connection that a customer can use to ask you questions, offer insight, and place an order. Once customers provide detailed information through on-line dialogue, they are more likely to be loyal to you - and less likely to go to your rival - because of the time they have invested communicating with your company.

> “Managing customer relations on the Web means caring enough about the customer to react in real time.”

The strategies for marketing on the Web are dramatically different from marketing outside cyberspace. The Internet is not about mass marketing. It can become the embodiment of one-to-one direct marketing. It is not about selling a can of soup. It is about providing information that has unique value about cans of soup. Consumers increasingly want to know what products do rather than what they are. People don’t want toothpaste, they want clean teeth. They want "prodices," things that look like products but act like services. The old economy dreamed up self-service gas stations and self-bagging grocery stores. The new economy knows when you are out of milk or gas, and delivers either at your convenience.

> “There will be new rules for Eveolution, one of which will be marketing to a woman’s peripheral vision. It does matter that she can find what she wants on your shelf. It also matters what kind of corporation you are, what kind of parking lot you have, what kind of benefits you give employees....”

Your sales relationship on the Web is not the same as that on the television or radio. A Web site needs quick downloading more than appealing slogans; clear graphics, not complex visual tricks; and a quick trip to the point of your message, not bells and whistles. People want a road map, not a treasure hunt. Copy must be interesting, not too short or long, and content is king. Soon, Internet stores will recognize customers when they log on, and will know what the customers want, maybe before the customer does. Amazon.com already tells you what books other customers bought after they bought the same book you did. Like the attentive shopkeeper of old, the Internet can bring a personal touch back to the shopping experience - but this time, on a mass scale. The secret of CRM - on the Internet and in person - is to listen and learn, not to tell and sell.

About the Author

Frederick Newell is CEO of Seklemian/Newell, an international marketing consulting firm. He is also a visiting lecturer at the Universidad de Belgrano in Buenos Aires, and at Duke University. He is the author of *The New Rules of Marketing*.