Chapter 1: Strategic Customer Relationship Management Today
Overview

Topics discussed:

- From the marketing to the customer concept
- CRM and customer value
- The concept of CRM
- CRM from a business strategy perspective
- Relevance of strategic CRM
- Customer value management approach
- Evolution and growth of CRM
From the marketing to the customer concept

The marketing concept needs to make way for the customer concept:

**Marketing** is defined as a distinct organizational culture, represented by a fundamental shared set of beliefs and values that put the customer at the center of a firm’s strategic and operational thinking (Deshpande and Webster, 1989)

**Main function:**
Addressing the needs of customer **segments**

**Time**

**Development of information technology and the internet**

The customer concept is the conduct of all marketing activities with the belief that the individual customer is the central unit of analysis and action.

**Main function:**
Meeting **individual customer** needs
An Important part of CRM is to a) identify different types of customers and b) to develop specific strategies to interact with them.

Examples of such specific strategies are:

- Better relationships with profitable customers
- Locating and enticing new customers that will be profitable
- Finding appropriate strategies to deal with unprofitable customers, including the termination of relationships
Link Between CRM and Customer Value

Customer Value: The economic value of the customer relationship to the firm – expressed on the basis of contribution margin or net profit

CRM is the practice of analyzing and utilizing marketing databases and leveraging communication technologies to determine corporate practices and methods that will maximize the lifetime value of each individual customer to the firm
Customer Value Based Approach to CRM

Using a customer value based approach to CRM yields several benefits:

- Decreased Costs
- Maximized Revenues
- Better profits and return on investment (ROI)
- Acquisition and retention of profitable customers
- Reactivation of dormant customers
Conceptualizations of CRM

- **Functional level**: focuses on technology
  - Developing sales force automation in the sales function
  - Developing campaign management in the marketing function

- **Customer facing front-end level**: focuses on total customer experience
  - Building a single-view of customers across contact channels
  - Distributing customer intelligence to all customer-facing functions

- **Strategy level**: focuses on customer satisfaction
  - Freeing CRM from technological underpinnings
  - Describing CRM as a process to implement customer centricity in the market and to build shareholder value
  - Understanding that knowledge about customers affects the entire organization

Within this context CRM will be defined from a **business strategy perspective**
CRM is the **strategic process** of **selecting** customers that a firm can most profitably serve and shaping **interactions** between a company and these **customers**. The ultimate goal is to optimize the **current and future value of customers** for the company.
Key Components of CRM from a Business Strategy Perspective

- **Strategic process**
  - Activities are initiated from the top of the organization
  - CRM activities span multiple organizational functions
  - Continuous efforts towards a customer-centric organization

- **Selection**
  - Resource allocation is based on the economic value of customers

- **Interactions**
  - Exchange of information and goods between customers and companies evolve as a function of past exchanges
Key Components of CRM from a Business Strategy Perspective

- **Customers**
  - Including end-users and intermediaries such as distributors and retailers
  - Greater fine-tuning of segmentation strategies to eventually target individual customers with customized product offerings

- **Optimizing the current and future value of customers**
  - Maximizing customer equity by maximizing profits over a series of transactions
Relevance of CRM

- Firms are facing **changes** with respect to:
  - Consumers
  - Marketplaces
  - Technology
  - Marketing functions

**CRM** is a response to these changes
## Changes with respect to Consumers

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<th>Behavioral changes</th>
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Demographic Changes and Increasing Consumer Diversity

- Aging populations, especially in developed countries
  - Falling birth rates
  - Median age increases drastically
  - Thus, to know the needs of elderly becomes increasingly important

- Increasing diversity in term of ethnicity
  - Closer integration facilitates immigration
  - Markets become more segmented

- Increasing individualization
  - Increasing number of working women
  - Increasing number of single households as well as single parents
Behavioral Changes

- Time scarcity
  - Activities compete for customers' time
  - Marketers should be wary of placing heavy time demands on consumers

- Value consciousness and intolerance for low service levels
  - Rising customer expectations
  - Declining consumer satisfaction levels

- Information availability and technological aptitude
  - Customers become more knowledgeable in making purchase decisions
  - Increasing level of comparisons across providers and transactions
Value consciousness and intolerance for low service levels

Decreasing/stagnating overall satisfaction among U.S. consumers

Source: theacsi.org
Behavioral Changes

- Increased use of social media
  - Enables companies to gain insights and to receive prompt feedback
  - Online word of mouth becomes increasingly important
- Decreased loyalty
  - Diversification of holdings across service providers even within the same household
- Need for convenience and the rise of self service

Meeting **consumers needs** becomes the major challenge for companies.
Decreasing Loyalty

Are you planning to switch your phone operator in 2011? (in %)

Source: Infas, 2010
Changes with respect to the Marketplace

- More intense competition between firms for customers
- Fragmentation of markets
- Diminishing product-quality differentiation

To maintain market share, companies need to realign their business strategy to become **customer-centric**
Changes with respect to Data Storage Technology

- Better technology, cheaper and larger storage units
- Huge increase in demand for data storage

Better information about customer behavior and attitudes
Better prediction of customer buying behavior
Too much data can lead to misapplication and wrong analysis
Changes with respect to the Marketing Function

- Media dilution and channel multiplication
  - Proliferation of communication media focused on the customer
    - Direct-to-consumer channels - email, telephone
    - Interactive media - internet, interactive TV etc
  - Reduced need for techniques focused on price alone due to
    - Availability of new data collection and communication tools
    - Marketing processes such as loyalty programs
Media dilution and channel multiplication

Daily media usage behavior in Germany

Hybrid/smart TV household penetration in Germany in %

Source: ARD, ZDF, Onlinestudie 2010 & Goldmedia 2010
Changes with respect to the Marketing Function

- Decreasing marketing efficiency and effectiveness
  - Lower efficiency and effectiveness due to
    - Prior focus on price and short-term transactions
    - Proliferation of new contact channels
    - Increased or flat cost of contact
    - Decreased customer response
    - Reduced value for advertising in any medium

Pressure on the marketing function
Marketing in danger of being restricted to advertising and media planning
Implications of Changes in the Business Environment

- Greater demand to learn about
  - Customer preferences
  - Product and service customization
- Focus on customer-centric instead of product-centric strategies
- Marketers need a management approach that
  - Realizes increasing customer heterogeneity
  - Addresses marketing accountability
  - Puts available data successfully into practice
  - Uses customer profitability as a key objective function

Customer value management
Benefits of the Customer Value Management Approach

A successful **data-based CRM system**, with **customer value** as its driving metric, empowers a company to perform ten actions leading to a **strategic advantage**:

- Integrate and consolidate customer information
- Provide consolidation information across all channels
- Manage customer cases
- Personalization
- Automatically and manually generated new sales opportunities
- Generate and manage campaigns
- Yield faster and more accurate follow-up
- Manage all business processes
- Give top managers a detailed and accurate picture
- Instantly react to changing market environments
Evolution and Growth of CRM

Timeline of the CRM evolution

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<th>Second Generation</th>
<th>Third Generation</th>
<th>Fourth Generation</th>
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- **Call Center Management**
- **Customer Service Support**
- **Sales Force Automation**
- **Campaign Management**
- **Integrated customer-facing front-end (marketing, sales, service)**
- **ERP integration**
- **Customer analytics**
- **Complete Web integration**
- **'On-demand' functionality**
- **Agile and flexible Strategic CRM**

**Scope:**
- **Service function**
- **Sales function**
- **Marketing function**
- **Service function**
- **Sales function**
- **Entire organization**
- **Entire organization including small and medium enterprises**

**Goals:**
- **Improve service operations**
- **Increase sales efficiency**
- **Reduce cost of interaction**
- **Increase customer retention**
- **Improve customer experience**
- **Cost reduction and revenue growth**
- **Competitive advantage**

*Note: ERP = Enterprise Resource Planning*
Evolution and Growth of CRM

First generation – functional level
- CRM developed as two independent product offerings
  - Sales force automation (SFA) addressing presales functions
  - Customer service and support (CSS) addressing after-sales functions

Second generation – customer facing front-end level
- Attempt to integrate different independent subsystems
- Increasing disillusionment with CRM technology

Third generation – strategic level
- CRM O organizations learned from experience
- Integration of front-end customers with back-end systems
- Integration of Internet technology helped to boost CRM

Fourth generation – agile and flexible strategic CRM
- Agile, flexibility and low costs are key
- Customer empowerment becomes a bigger topic
Evolution and Growth of CRM

Integration of front-end customers with back-end systems
Further Growth of the CRM Industry

- The CRM industry represents a fast-growing sector.
- CRM has been driven by a shift from transactional to relationship-based markets.
- Five further factors that are responsible for CRM’s forward movement:
  - Growing proof of profitable impacts of good customer relationships.
  - Improved marketing communication effectiveness.
  - IT vendors and associated change management consultancies.
  - Falling costs of data capture storage.
  - Customer value management.
Summary

- From a strategic perspective, CRM is the process of selecting the customers a firm can most profitably serve and shaping the interactions between a company and these individual customers.

- Assessing Customer Value is critical to CRM.

- Rapid changes are taking place in the environment in which firms operate with respect to customers, market places, technology, and marketing functions.

- These changes have driven the marketplace to become relationship-based and customer-centric.

- CRM’s goal is to optimize the current and future value of the customers for the company.