Lecture 8
E-Commerce & CRM
Building Relationships, Satisfaction, and Loyalty

CRM Defined

“a combination of business process &
technology that seeks to understand a company’s customers from the
perspective of who they are, what they do, and what they like”
(Couldwell, 1998)

CRM Defined

“a strategy to learn more about customers’
needs & behaviours in order to develop stronger
relationships with them…there are many
technological components to CRM, but thinking
about CRM in primarily technological terms is a mistake…CRM is a process that will help bring
together lots of pieces of information about
customers, sales, marketing effectiveness,
responsiveness & market trends.”
(Deck, 2001)
CRM

- An approach that recognises the customers as one of the core element of the business
- Advocating that the success of the company correlates with the satisfaction of its customers
- Aims at building and/or sustaining long-term relationship with the customers
- Based on the concept of *Relationship Marketing*

Relationship Marketing

- A concept of conducting trade/commerce while establishing & maintaining trust, relationship & loyalty between the vendor & the customers
- Happy customers = loyal customers = repeat trade/business = maintain/increase trade/business

Perspectives on CRM

- Movement from mass marketing & transaction-based marketing to more direct 1-to-1 marketing based on customer relationships
  - Establishing a learning relationship
- Use of modern IT & internet-based technologies to support marketing function
- Movement from production-centric to customer-centric organisations
  - Customer centric organisations = 60% more profitable than others
Perspectives on CRM

- **CRM can thus mean**
  - Organisation paying a little more attention to customer service & being enabled in this by some new software
  - Complete organisational transformation to customer-centric organisation that practices relationship marketing supported by data warehousing, data mining & sales automation tools

- **Commoditisation of mass produced goods**
  - Difficult to differentiate
  - Vulnerable to price competition

- **Modern IT enables interaction(s) with customers more cheaply & easily**
  - Data collection learn more about
    - Who customers are
    - What customers want
    - What customers are worth to organisation

- **Loyal customers contribute disproportionally to profitability**
  - Pareto’s Principle a.k.a. the 80/20 rule a.k.a. the Vital Few and Trivial Many Rule

- **Tailor goods & services to meet needs of most profitable segment(s)**
The Basic Tenets of CRM

- Customers are assets of firm
- Customers exhibit differences in
  - Needs
  - Preferences
  - Buying behaviour
  - Price sensitivity
- Profitability of customers vary
  - not all are equally desirable
- By (on-going) learning, organisations can tailor product/service portfolio to maximise profitability

Key Requirements

- Focus changes from product-centric to customer-centric
- Close cooperation between marketing & IT
- Organisation-wide collection of data at touchpoints with customers
  - Organisation-wide transformation implied
- Change in emphasis from customer acquisition to customer retention
- Establishment of long term relationships
  - Enabled by use of IT

Why Customer Retention & Loyalty?

(Richard &_battery, 2000)
Why Customer Retention & Loyalty?

- 5% in customer retention
- 35-96% average lifetime value of a customer
- 25-80% improved profits

(Adapted from Reichheld & Kenny, 1998; Reichheld, 1996; Ryals & Knox, 2001)

So… Why Customer Retention & Loyalty?

- Loyal Customers
- Advertising value
- Purchase over time
- Customer's switching costs
- Admin costs

(Adapted from Cook, 1989)

Lifetime Customer Value (LCV)

Calculating the LCV

\[
LCV = \sum_t \left( \sum_j (P - C) - \sum_k MC \right)
\]

- T = time periods measured
- J = number of products purchased
- K = number of marketing tools used
- MC = cost of marketing tool
- P = price
- C = cost
Why CRM?

- **Sales**
  - Up-selling & cross-selling
  - Customers buy more over time
  - Companies become more efficient at serving them
  - Referrals from retained & satisfied customers
  - Customers become less price sensitive

- **Customer Attrition**
- **Customer Satisfaction (advocates, apostles)**
- **Transaction Costs**
- **Cycle Times**

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**Beware of Customer Attrition**

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**Why CRM?**

**Loyalty & Satisfaction**

(Service Management Interest Group, HBS, in Cash, 1999)
Why CRM?

- acquire new customers
  - offer a superior product/service & excellent service
- enhance profitability of existing customers
  - cross-selling & up-selling
  - enhance value proposition for customers
- aim to retain profitable customers
  - be adaptable to changing requirements

But… Do remember

- “Database marketing” is expensive
- Establishment cost could be astronomical
- Constant updating of information is needed
- Appropriate skills are needed

Where’s CRM in the Overall Architecture?
Remember this?

[Diagram showing the overall architecture with supply and demand sides, relationships between retailers, suppliers, and buyers, and the role of CRM in this structure.]
Critical Success Factors of CRM
Its not just technology

• Understanding the customers & the market segment
  – Appropriate & proper use of customers data
• Appropriate business and customer strategy
  – The need for a customer-centric strategy
  – Legal/ethical issues
• Understanding the implication of CRM to the organisation’s operations
  – Re-engineering of business processes might be needed

Critical Success Factors of CRM
The appropriate technology

• Technology associated with Business Intelligence
  – Datawarehouse
  – Datamining
• Others: Internet, Webservices, Intelligent agents, mobile technologies
• Integrated & cross-functional
• Multiple channels
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Critical Success Factors of CRM
Using CRM

- Identify the customers
- Differentiate the customers
- Contact with the customers
- Customise & personalise

Barriers to Successful CRM (1)

- Lack of skills
- Lack of focus
- Lack of alignment between business strategy & customer strategy
- Inadequate investment
- Poor data quality & quantity

(Ryals & Ross, 2001; Hsiung, 2001; Yu, 2001)
Barriers to Successful CRM (2)

- Failure to understand the benefits
- Failure to understand the implication of CRM to the business
- Functional boundaries
- Inadequate measurement systems
- Failure to understand the customer's view & value of relationship

(Ryals & Pan, 2001; Hoop, 2001; Yu, 2001)

To put things in perspective…

- Over these years, how mature is CRM?
- How far would you go with CRM?
- Ethical & privacy issues?
- Do your customers want relationship?
- As a customer yourself, what do you want? What do you need? Is relationship with the company you purchase your goods important for you?