What Is CRM?

• CRM is a strategy for acquiring and retaining profitable customers

• “CRM is a strategy for optimising the lifetime value of customers” (Todman 2001)
Objectives of CRM

- to acquire new customers
- to retain good customers
- to develop long-term higher-spending customers from casual customers
- to drop bad customers

Understanding customer behaviour

- Understanding customer behaviour is at the core of CRM
- If you understand the needs of your customer
  - You can attract new customers
  - Retain existing customers

Motivation for CRM

- CRM is not new; it has always been practiced – but implicitly
- New business realities:
  - globalisation, hyper-competition, technological change, customer expectations
  - many more customers and products
  - new product developments require timely knowledge of consumer requirements
  - identifying what customers want and when has become a challenge
Prospects, customer acquisition

- Prospects are not customers yet – they are target market
- Acquisition campaigns: marketing campaigns directed to target market
- Media advertising, brochures, sending samples etc.
- Challenge:
  - to identify who is likely to respond to the offer
  - Identify best customer segment

Customer Acquisition campaigns

- For most businesses, the primary means of growth involves the acquisition of new customers
- Acquisition campaigns involve developing a combination of mass marketing (magazine advertisements, billboards, etc.) and direct marketing (telemarketing, mail, etc.)
- A marketing manager selects the demographics that they are interested in and then obtains lists of customers who meet those characteristics
Responders

- People who have registered on a web page, filled out application, made an inquiry, etc...
- Some responders may never become customers
- Which responders will become customers?

Established customer

- People who regularly make purchases
- Maximise the length of relationship (retention)
- Retain the good customers
- De-select the bad customers.
- Turn an infrequent casual customer into a higher spending customer
- Develop the repeatable sales processes
  - Cross-selling
  - Up-selling
- Develop customer loyalty

Cross-selling, up-selling

- Cross-selling is the process by which you offer your existing customer new products and services
  - Eg marketing mortgage products to credit card holders
- Up-selling is marketing of higher value products to existing customers
  - offering premium service to a customer who has standard service
  - marketing Platinum credit card to gold card holder
Customer retention

- Customer churn (attrition rate) is the number (or percentage) of customers lost to competition.

- To retain customers is very important:
  - Selling to an existing customer is 80% cheaper than selling to a new customer.
  - A 5% increase in customer retention can increase profitability by 85%.

- In the telecommunications industry, annual churn rates are around 25 to 30 percent, costing up to $10 billion worldwide (SAS Institute).

Former customer

- Voluntary churn
- How to predict when established customers will churn?
- Understand why customers churn
- Many possible reasons for voluntary churn:
  - Moved out of the area
  - Switched to competition
  - No longer needs the product (paid off the house)

- Win-back campaigns

Understanding customers

- Who is buying what - analysing purchasing patterns.
- Which prospects will become responders.
- Market basket analysis.
- Churn modelling:
  - Who is about to leave
  - Why is the customer leaving?
Customer contact

- A customer contact point is any transaction or customer interaction with the organisation
- Typical contact type: enquiries, complaints, transactions, advertising
- The importance of interaction with customers
- Communication channels
  - Phone, fax, internet, mobile, telex, mail, e-mail, TV, magazines, ATM, reps, print media, etc.
- Different customers may require (prefer) different communication channels

Targeted marketing

Marketing of products to selected groups of customers that are likely to be interested in the offer

Customer segmentation

- Categorise customers into groups
- Recognises that not all buyers are alike
- Find subgroups of people with similar behaviours
- The challenge is to target right level of customer

- Example of segments (Zikmund p 18)
Example of potential segments within the computer market

- Global Computer market
  - Domestic
  - Foreign
  - Business
  - Consumer
    - Dislikes computers
    - Uses E-mail only
    - Sophisticated user

Targeted marketing

- The identified segments can be used for a targeted marketing campaign
- The challenge is to target right level of customer
- Benefits: increased response rate, savings on marketing campaigns
- Identifying segments of the most profitable customers (e.g., frequent flyers: diamond, gold, bronze)
  - Offer personalized service to high-value customers to increase customer loyalty, special offers, etc.
  - Can be used for cross-selling, up-selling

Unsegmented marketing

- Mass marketing
  - Standardized offering
  - Standardized product
  - Low cost
- Applied if
  - There is little diversity among customers
  - If more cost effective than target marketing
- Disadvantages: missing opportunities to attract important segment of the market
Typical segmentation variables

- Geographic
  - Domestic, foreign, global, regions, post codes, climate, population
- Demographic
  - Gender, age, education, marital status, family life cycle, ethnicity, income
    - Life cycle example expenditures
      - Young single – entertainment, cars
      - Married DINKS – furniture, nesting
      - Married, Children under 6 – child care, schools, diapers
      - Empty nest – travel,

- Lifestyles and Psychographics
  - Activities (tennis, bird watching), interests, opinions, values
  - Categories can be combined, e.g. income with psychographic
  - Example of segments: achievers, strugglers
- Behavioural patterns
  - Consumption channel preference
  - Buys only when items are on sale
  - Buys in expensive specialty shops
  - Prefers to buy on-line
  - Loyalty (brand store)

Segmentation techniques

- Many different approaches
- Focus groups
- Surveys
- Analytically derived - Data-driven segmentation
  - Segments can derived from data bases using data analysis techniques (OLAP, data mining)
Customer optimisation

- CRM is about: “Targeting the right offer to the right customer at the right time for the right price” (Berry & Linoff)

- Different type of promotional offer for new customers
- Choosing the right channel of communication
- Retention programs focused at customers who are likely to leave
- Intervention programs for customers who are likely to stop paying

Customer lifetime value

Customer lifetime value: net present value of the future profits to be received from a customer (or group) during a specific period of years

Different organisations have different measures

A simple formula:

lifetime value = lifetime revenue - costs of acquiring and maintaining a relationship over a customer’s “lifetime”

- Lifetime revenue = avg value of customer transaction * expected number of years with the company

- Eg. subscriber to pay TV:
  - $30 per month for 12 months, expected to remain for 5 years
  - Estimated lifetime revenue = $30 * 12 * 5 = $1800
CRM Goals

• Obtain high level of customer knowledge - customer intelligence

• Leverage the knowledge – based on the knowledge develop appropriate strategies, processes and policies to increase profitability

Why is CRM more difficult now?

• many organizations now have accumulated or have access to huge volumes and variety of data and information about their customers

• the more data resources available, the harder it is for the organization to understand its customers

• Technology can help

• Is technology enough?

Customer Relationship Management, more definitions

• CRM is an enterprise-wide business strategy designed to increase customer profitability

• CRM is a strategy which utilise a combination of
  - Information
  - Technology
  - Policies
  - Business processes
  - Employees

  to develop profitable customers
Customer-Centric Organisations: from product-centric to customer-centric view of business

- Competitive pressures in the global economy
- Organisations are changing their focus from product to customers
- Organizations need to respond to the increasing individualization of demand
- The objective is to develop products and services based on understanding of customer needs and requirements

Customer-Centric Organisations

- In the new consumer-driven economy customers are their most important asset
- Companies’ success depends on effective customer relationships

CRM systems

- CRM systems have become a substantial investment for organisations.
- According to Gartner, the 2007 CRM market in Asia/Pacific alone will reach $183 million
Expected Benefits of CRM Systems

- Customer retention
- Customer loyalty
- Increased profitability

Benefits for customers
- Better customer service
- Enhanced satisfaction
- Continuity

CRM Systems: technology

- Any comprehensive CRM strategy includes the key business intelligence technologies: data warehousing, OLAP and data mining.
- These are able to provide valuable customer analytics, including
  - Customer behaviour analysis, segmentation, retention analysis, customer value modelling, market-basket analysis, cross and up-sell, trend analysis, clickstream analysis

Three Types of CRM

- Operational: automation of customer-related business processes such as marketing, sales, and customer service (front-office customer point of interaction)
- Collaborative: provides channels for communication with customers (email, video conferencing, internet)
  - Different customers may require [prefer] different communication channels
- Analytical: provides understanding of customer behaviour through in-depth analysis of customer data
Closed-Loop CRM

Using knowledge about customers obtained from analytical CRM, organisations can improve their customer service and decision making.

Next

- Seminar
  - Topic: CRM in organisations, Close-Loop CRM

References