

Customer Relationship Management

CHAPTER 11



Questions

- What is customer relationship management?
- Why do retailers want to treat customers differently?
- What is customer lifetime value?
- How do retailers determine who their best customers are?
- How can retailers build customer loyalty?
- What can retailers do to increase their share of wallet?
- What can retailers do to alleviate the privacy concerns of their customers?

Customer Relationship Management (CRM)

- A business philosophy and set of strategies, programs, and systems that focus on identifying and building loyalty with a retailer's most valuable customers.



CRM

- Retailers now concentrate on providing more value to their best customers using targeted promotions and services to increase their **share of wallet** – the percentage of the customers' purchases made from the retailer.
- Retailers are concentrating on developing customer loyalty and increasing share of wallet by providing more value to their best customers by using targeted, personalized merchandise, services, and promotions.

Customer Loyalty

- Committed to purchasing merchandise and services from a retailer.
- Resist efforts of competitors to attract the loyal customer
- Emotional attachment to retailer
 - Personal attention
 - Memorable positive experiences
 - Brand building communications programs



Can Offering Price Discounts Achieve Customer Loyalty?

• **No!**

- Retail strategies like these can be copied by competitors
- These strategies encourage customers to be always looking for the best deal rather than developing a relationship with a retailer



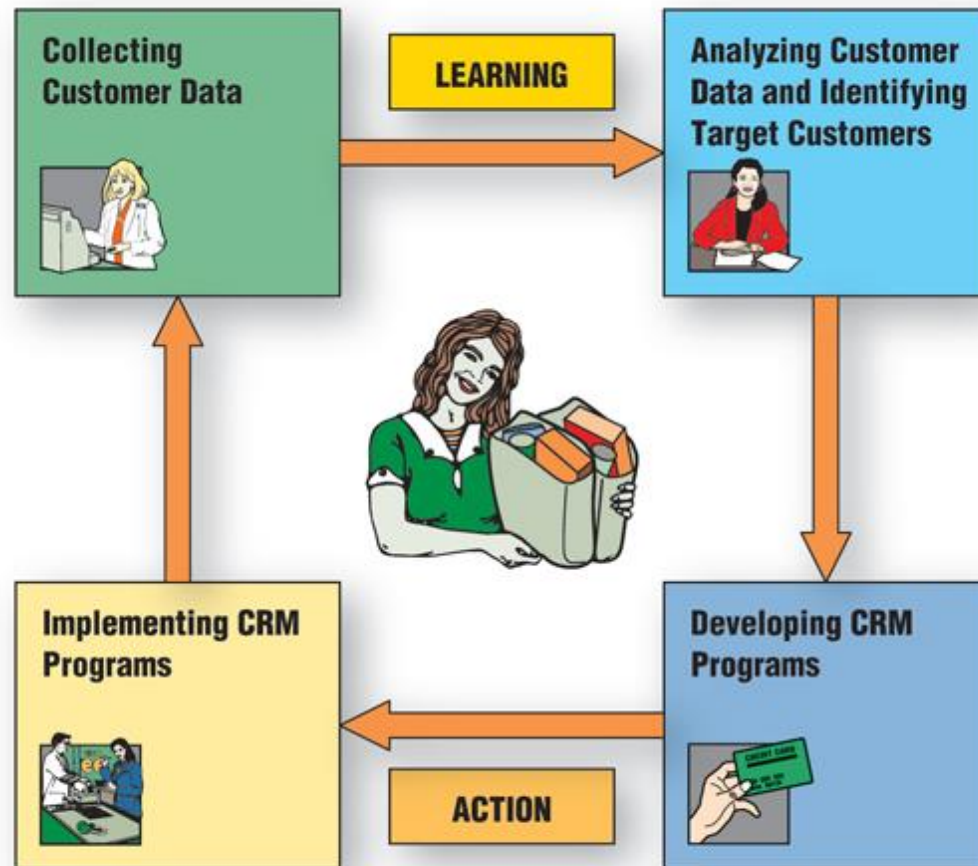
McGraw-Hill Companies, Inc./Gary He, photographer

The CRM Process

CRM is an iterative process that turns customer data into customer loyalty through four activities:

1. Collecting customer data
2. Analyzing the customer data and identifying target customers
3. Developing CRM programs
4. Implementing CRM programs

CRM Process Cycle



Collecting Customer Data: Customer Database

- **Transactions** – a complete history of purchases
 - Purchase date, price paid, SKUs bought, whether or not the purchase was stimulated by a promotion
- **Customer contacts** by retailer (**touch points**)
 - Visits to web site, inquires to call center, direct mail sent to customer
- **Customer preferences**
- **Descriptive information** about customers
 - Demographic and psychographic data
- **Customer's responses** to marketing activities

Collecting Customer Data: Identifying Information

Approaches that store-based retailers use:

- Asking for identifying information
 - Telephone number, name and address
- Offering frequent shopper cards
 - Loyalty programs that identify and provide rewards to customers who patronize a retailer
 - Private label credit card (that has the store's name on it)
- Connecting Internet purchasing data with the stores
- Use Biometrics
 - Measuring human characteristics such as a person's hand geometry, fingerprints, iris, or voice.
- Place RFID chips on merchandise



Privacy Concerns

- Control over Collection:
 - Do customers know what information is being collected?
 - Do customers feel they can decide upon the amount and type of information collected by retailers?
- Control over Use:
 - Do customers know how the information will be used by the retailer?
 - Will the retailer share the information with third parties?



Steve Cole/Getty Images

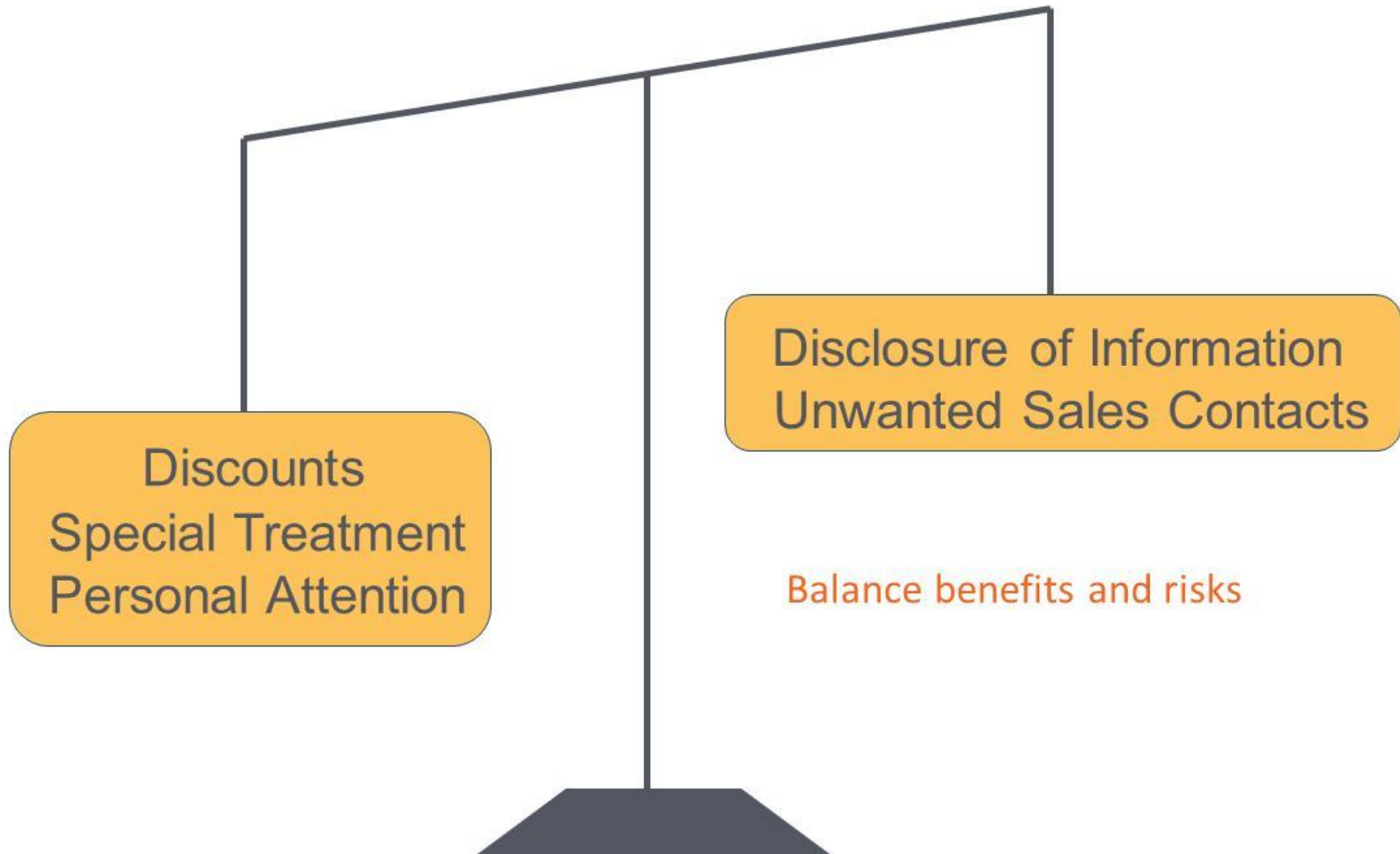
Protecting Customer Privacy

- Privacy by design
 - Shift responsibility for privacy from consumers to retailers.
- Simplified consumer choice
 - Allow customers to track their online activities.
- Greater transparency
 - Improve customer understanding



Stockbyte/Punchstock Images

Customer's Decision to Offer Information



FTC Guideline for Fair Information Practices

- **Notice and awareness**
comprehensive statement about information storage, manipulation, and dissemination
- **Choice/consent**
Opt-in and opt-out options
- **Access/participation**
Customer able to confirm accuracy
- **Integrity/security**
Controls for theft and tampering
- **Enforcement/redress**
Mechanism to insure compliance



Analyzing Customer Data and Identifying Target Customers

- Analyze the customer database and convert the data into information that will help retailers develop programs for building customer loyalty.
- Data Mining – technique used to identify patterns in data
- Retail Analytics- applications of statistical techniques and models that seek to improve retail decisions through analysis of customer data.



Ryan McVay/Getty Images

Identifying Best Customers

- **Estimating Lifetime Value (LTV)**
 - The expected contribution from the customer to the retailer's profits over his or her entire relationship with the retailer
- Use past behaviors to forecast future purchases, the gross margin from these purchases, and the costs associated with serving the customers
- Classifying Customers by recency, frequency, and monetary value of purchases ([RFM Analysis](#))



(c) Brand X Pictures/PunchStock

Which Customer Probably Has the Greatest Lifetime Value

Purchases Over Last 10 Weeks

	1	2	3	4	5	6	7	8	9	10
Jack	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20
Jill	\$210	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0

Market Basket Analysis

Data analysis focusing upon the composition of the customer's market basket – what items are bought during a single shopping occasion?

Uses:

- Adjacencies for displaying merchandise
- Joint promotions
 - Bananas in the cereal aisle as well as in the produce section
 - Beer with baby diapers
 - Tissues with cold medicine



Burke/Triolo Productions/Getty Images

RFM Analysis

Used by catalog retailers and direct marketers

Recency: how recently customers have made a purchase

Frequency: how frequently they make purchases

Monetary: how much they have bought

Frequency	Monetary	RECENCY			
		0–2 months	3–4 months	5–6 months	Over 6 months
1–2	<\$50	5.0%*	3.5%	1.0%	0.1%
1–2	Over \$50	5.0	3.6	1.1	0.1
3–4	<\$50	8.0	5.0	1.5	0.6
3–4	Over \$150	8.8	5.0	1.7	0.8
5–6	<\$300	10.0	6.0	2.5	1.0
5–6	Over \$300	12.0	8.0	2.7	1.2
Over 6	<\$450	15.0	10.0	3.5	1.8
Over 6	Over \$450	16.0	11.0	4.0	2.0

RFM Target Strategies

		RECENCY					
Frequency	Monetary	0–2 months	3–4 months	5–6 months	Over 6 months		
1–2	<\$50	First-time customers		Low-value customers			
1–2	Over \$50						
3–4	<\$150	Early repeat customers		Defectors			
3–4	Over \$150						
5–6	<\$300	High-value customers		Core defectors			
5–6	Over \$300						
Over 6	<\$450						
Over 6	Over \$450						

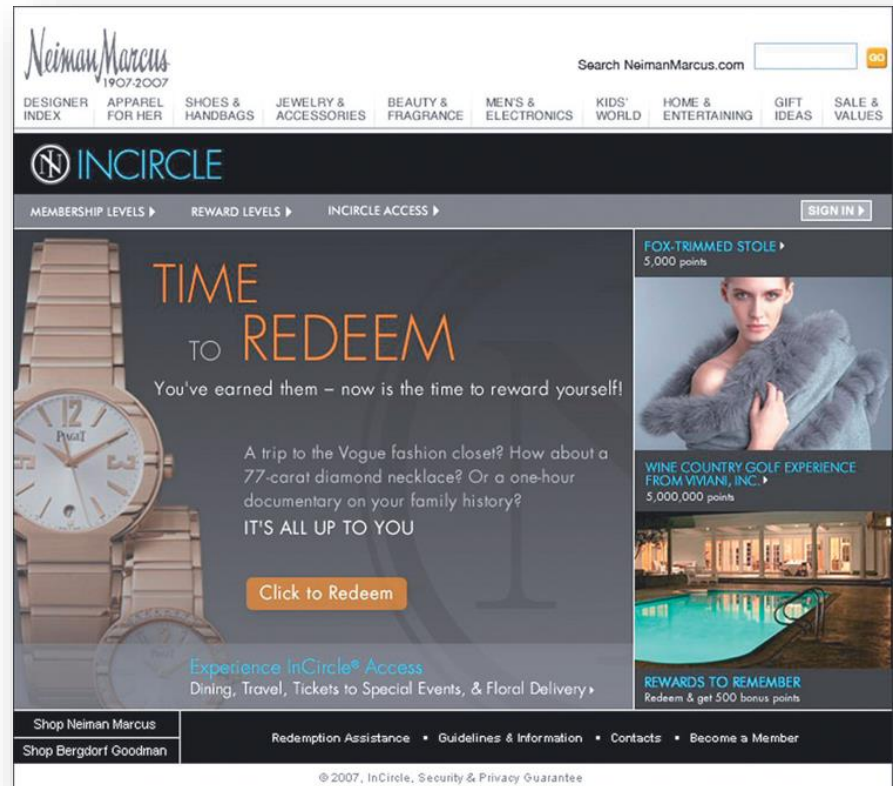
SOURCE: Reprinted by permission of Harvard Business School Press. Adapted from Robert Blattberg, Gary Getz, and Jacquelyn Thomas, *Customer Equity: Building and Managing Relationships as Valuable Assets* (Boston: Harvard Business School Press, 2001), p. 18. Copyright © 2001 by the Harvard Business School Publishing Corporation; all rights reserved.

Elements in Effective Frequent Shopper Programs

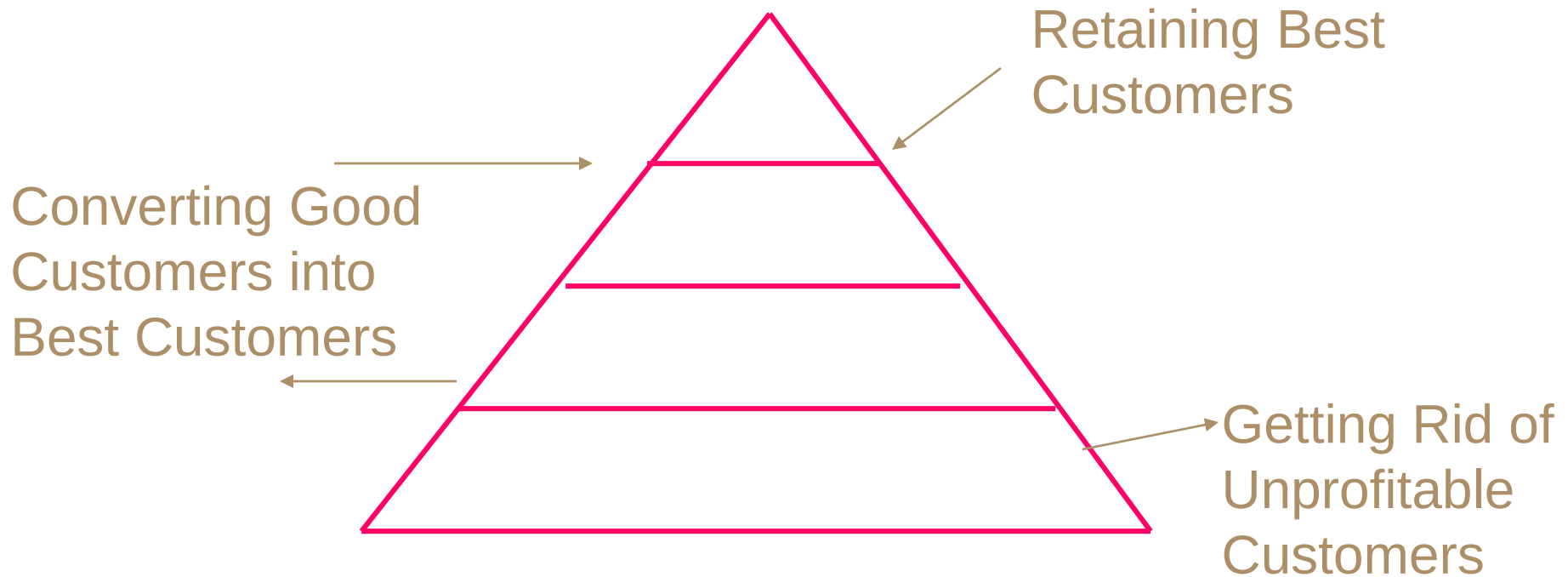
- Tiered rewards based on customer value
- Treat High CLV's as VIP's/
- Offer choices of rewards
 - No all customers value the same rewards
 - Non-monetary incentives, altruistic rewards
- Reward all transactions to ensure the collection of all customer transaction data and encourage repeat purchases
- Transparent and simple so that customers easily understand when they will receive rewards
- Incorporate charitable contributions

Issues with Effective Frequent Shopper Programs

- Expense
- Difficulty in Making Changes
- Impact on Loyalty Questionable
- Easily Duplicated – Difficult to Gain Competitive Advantage
 - Need to offer “invisible” benefits



Developing CRM Programs



Customer Retention



Royalty-Free/CORBIS

- Personalization
- Community

The screenshot shows the Amazon.com homepage for user Keri Johnson. The header includes the Amazon logo, a personalized greeting, and navigation links like 'Today's Deals', 'Gifts & Wish Lists', and 'Gift Cards'. Below the header, there's a section titled 'Keri, Welcome to Your Amazon.com' followed by 'Today's Recommendations For You'. This section displays four items: 'Sent (Missing) (Hardcover)' by Margaret Peterson Haddix, 'Books #1-4 + Cd (Bob Books...)' by Bobby Lynn Maslen, 'Scrabble Slim Cards', and 'These Days (Audio CD)' by Bon Jovi. Each item has a star rating and a 'Fix this recommendation' link. To the right, there's a 'Tap Into Your Friends' section with a Facebook logo and a 'BETA' label. Below the recommendations, there's a 'Coming Soon for You' section with four items: 'Mockingjay (The Final Book of...)' by Suzanne Collins, 'Camp Rock 2: The Final Jam (Audio CD)' by Various Artists, 'Camp Rock 2: The Final Jam (DVD)' by Alyson Stoner, and 'Girl's Gym Dance Workout'. Each item also has a star rating and a 'Fix this recommendation' link. On the far right, there's an 'Improve Your Recommendations' section with a 'Penn Court 1 Tennis Balls (Single Can)' and a 'Rate this item' section. At the bottom, there's a link to 'See more recommended future releases'.

Customer Pyramid

Platinum

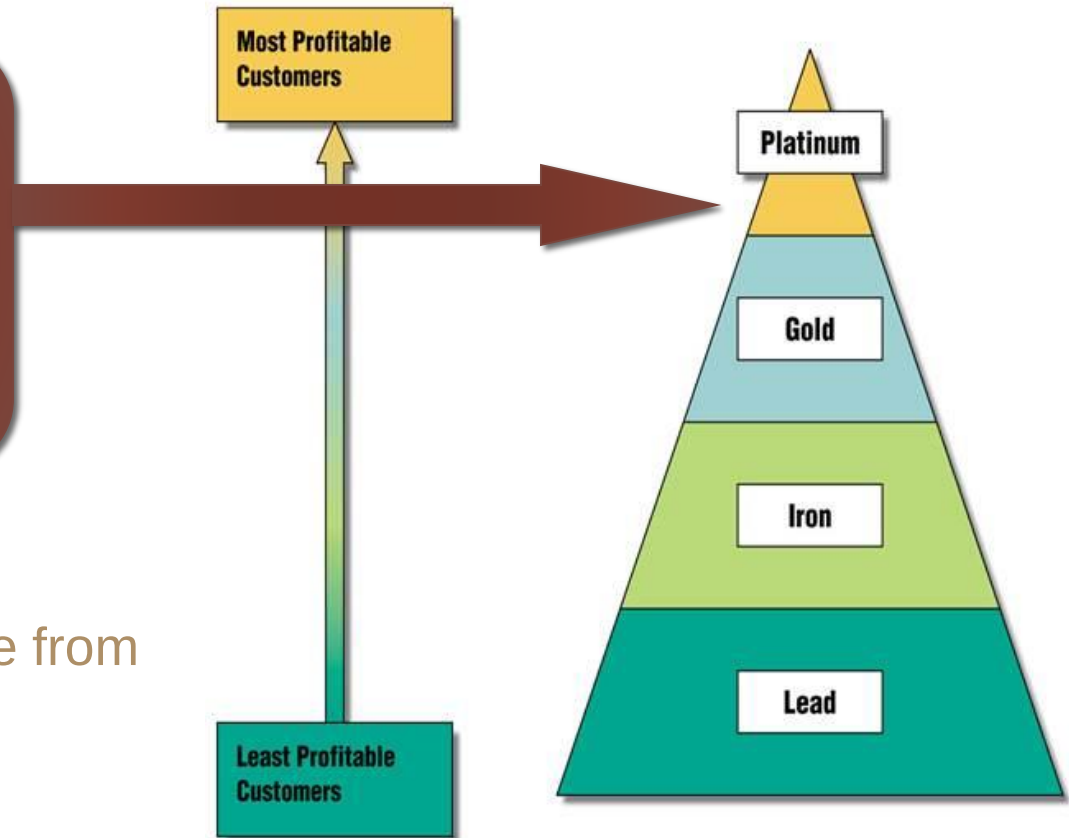
Best

Most loyal

Least price sensitive

80-20 rule:

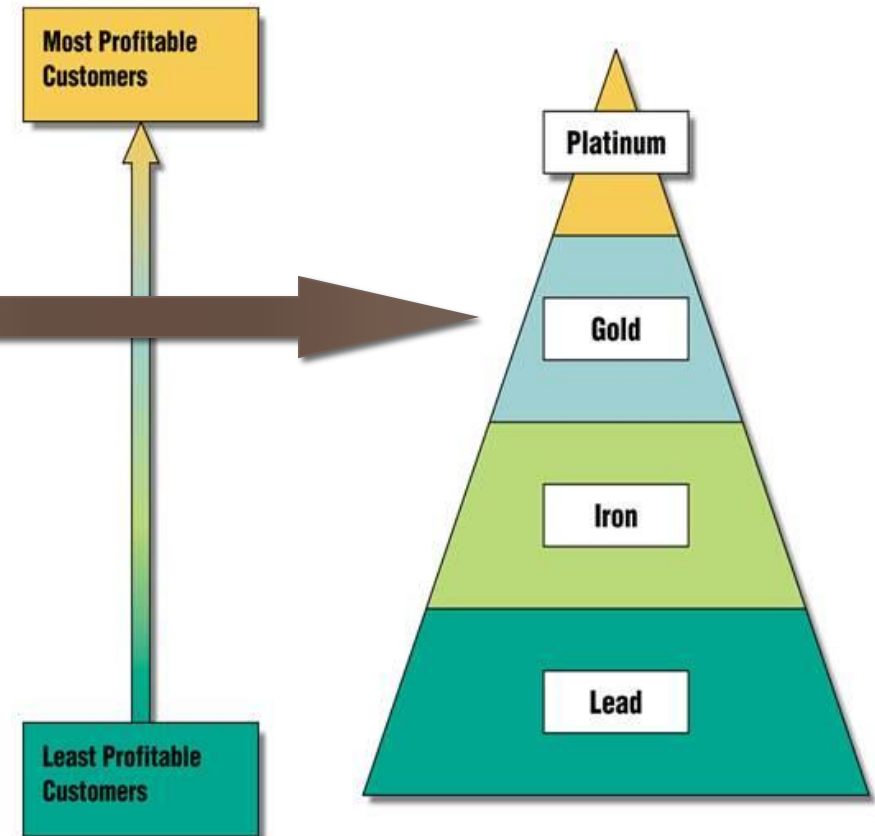
80% of sales or profits come from
20% of the customers



SOURCE: Valerie Zeithaml, Roland Rust, and Katherine Lemon, "The Customer Pyramid: Creating and Serving Profitable Customers," *California Management Review* 43 (Summer 2001), p. 125.

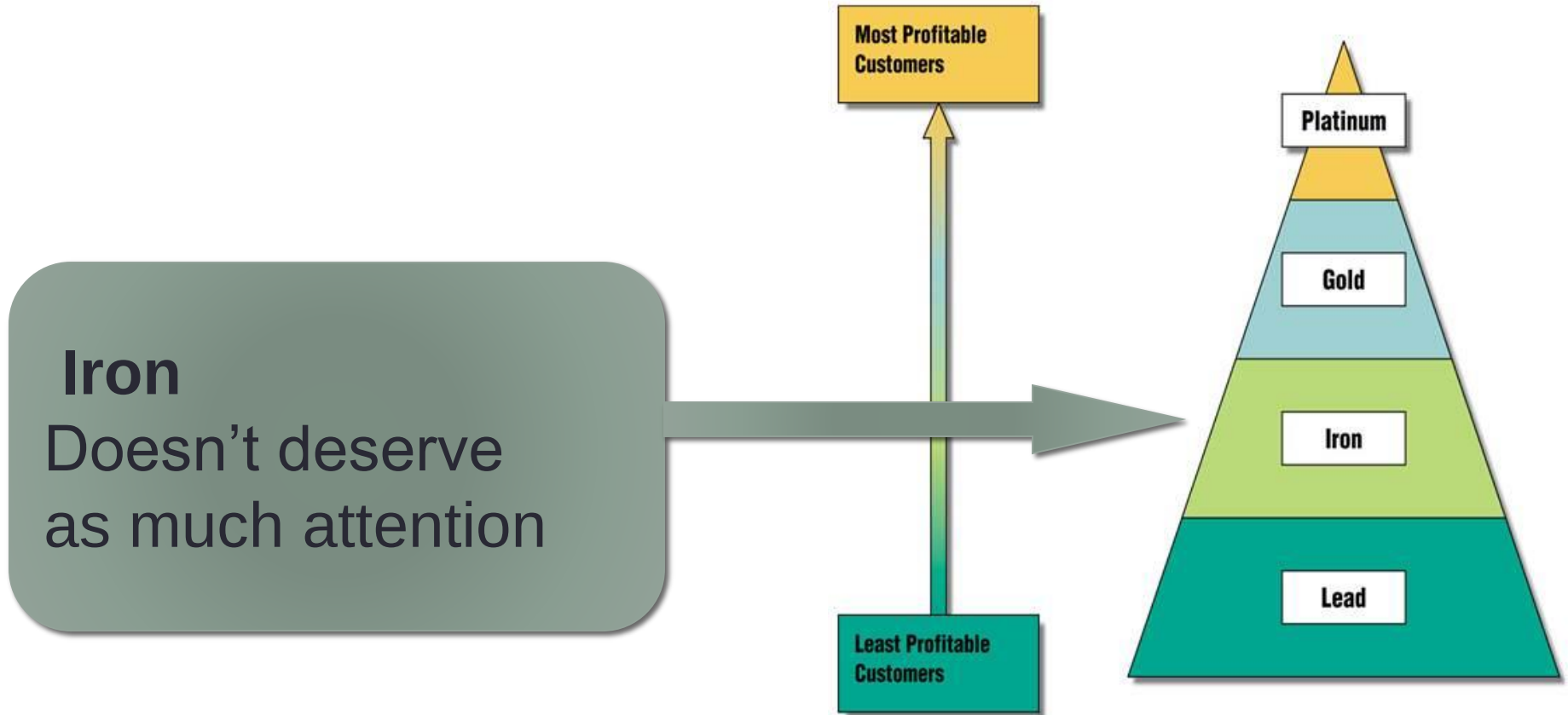
Customer Pyramid

Gold
Next best
Not as loyal



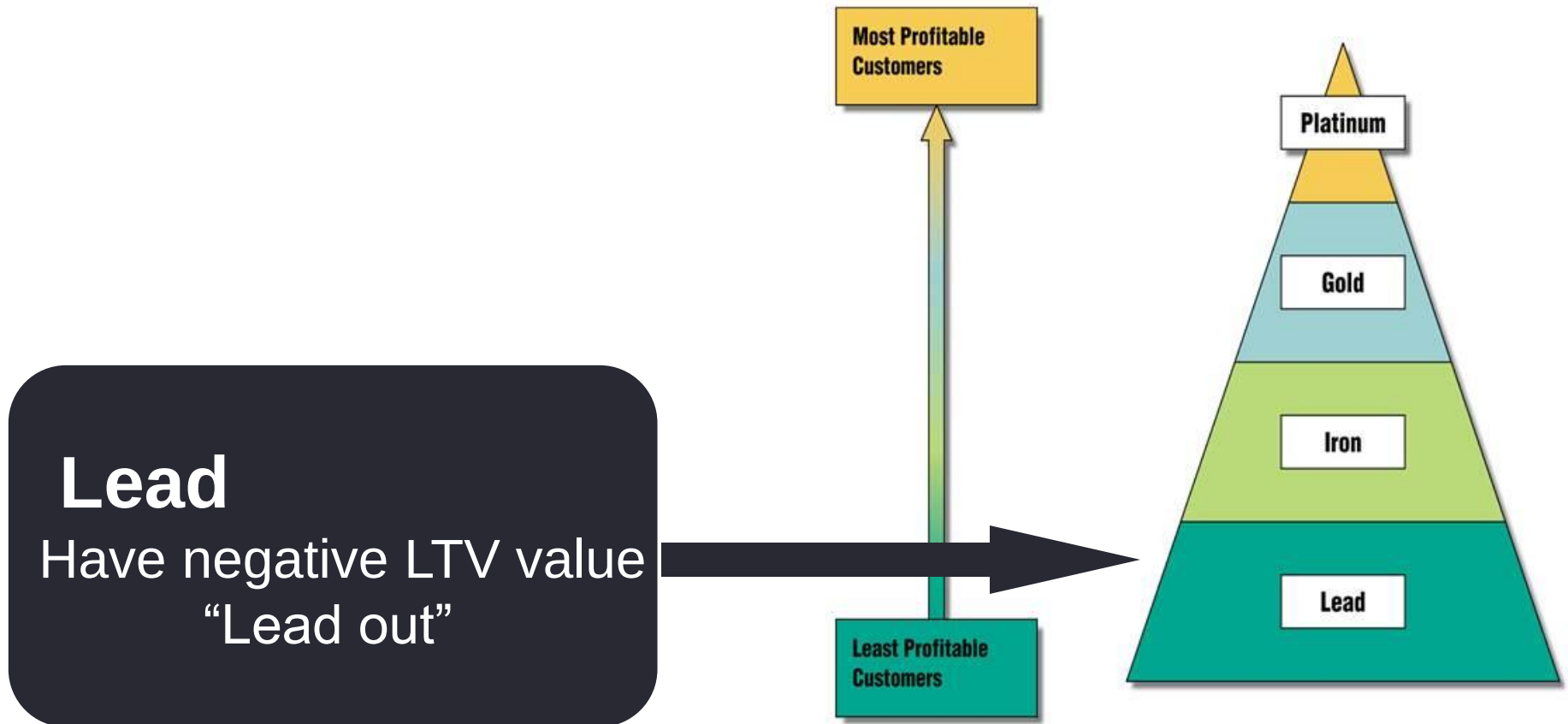
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Converting Good Customers into Best Customers

- **Customer alchemy**: converting iron and gold customers into platinum customers
- **Add-on selling** as a way to achieve customer alchemy
 - Involves offering and selling more products and services to existing customers and increasing the retailer's share of wallet with these customers
- *The Oprah Winfrey Show* to sell books, movies, and TV specials (Harpo Productions), a cable channel (Oxygen Media), a Web site (<http://www.oprah.com>), magazine (O)

Shopping Buddy



Dealing with Unprofitable Customers

- Offer less costly approaches for dealing with these customers
- Charge customers for extra services demanded



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