# Customer Relationship Management

- Growth of the power of customer information and the ability to affect corporate reputation

- Development of integrated offerings

- Diffusion of ICT

- Speed and response capability in reduced times competitive pressure
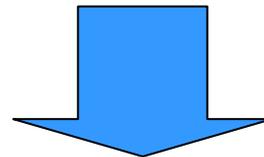
the customer is a scarce resource

CUSTOMERS

Prospect

Current

Ex

ANALYSIS AND TARGETING

To get customers

To increase the loyalty

To get customers back

AIMS
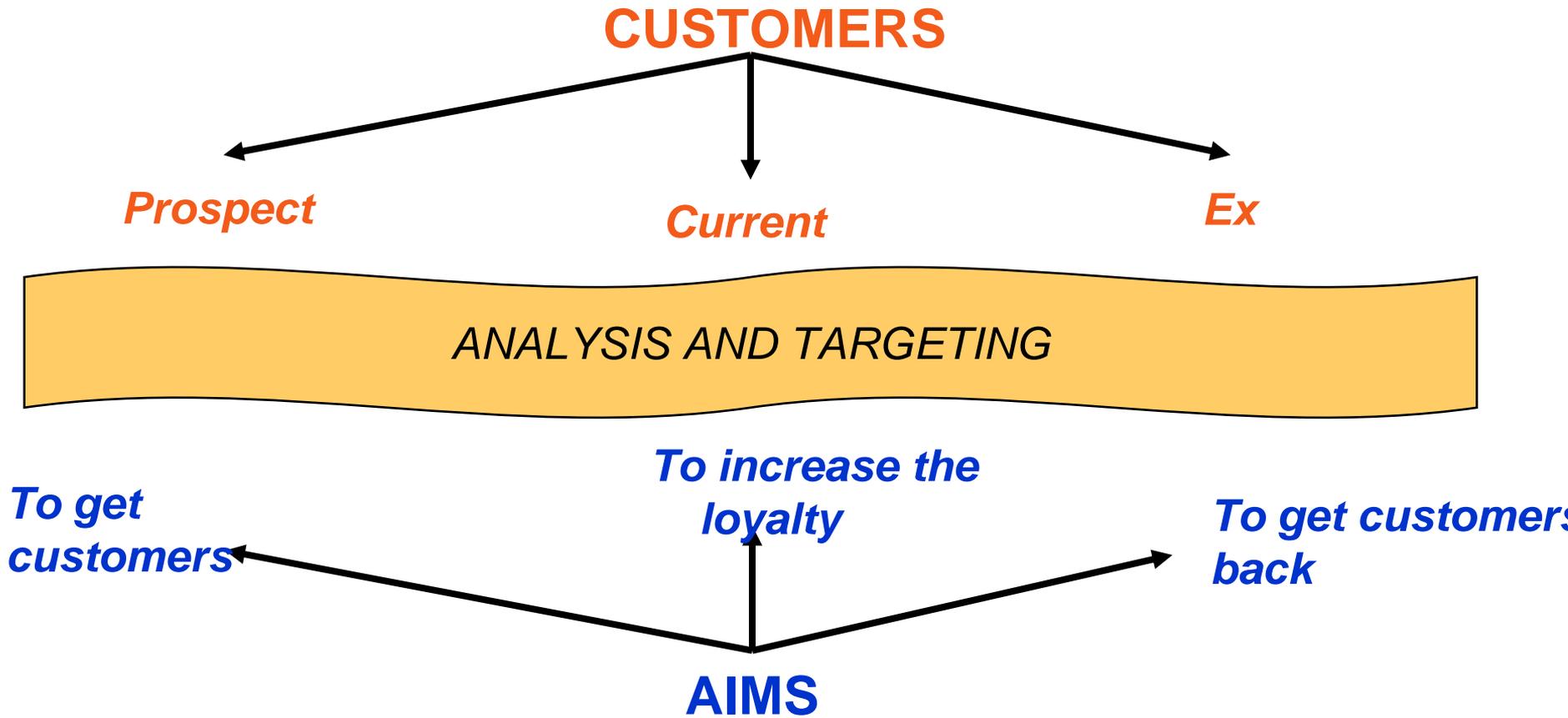
Relationship Marketing can be activities, processes and marketing tools, designed to create, strengthen and develop lasting and profitable relationships with customer and other partners, which are able to increase the single customer value and the total one.

UNITARY PROFIT PER CUSTOMER (in $)

LOYAL CUSTOMERS

COSTS

RETURNS

OTHER

Lower management costs

Lower promotion costs

Costant and increasing incomes

Cross-selling

Premium price

Positive word of mouth

Innovative and customized offered mix

Stimulated staff
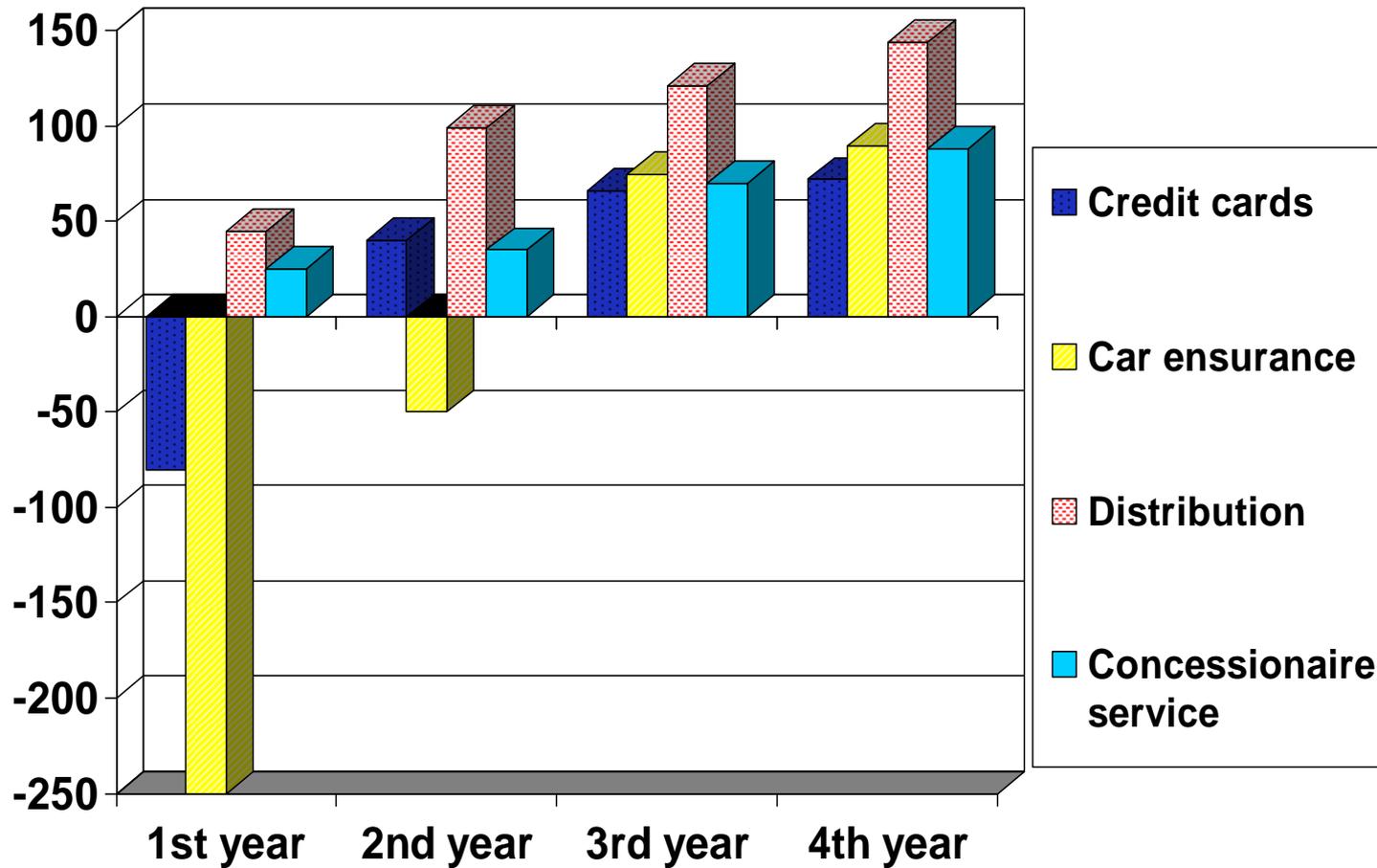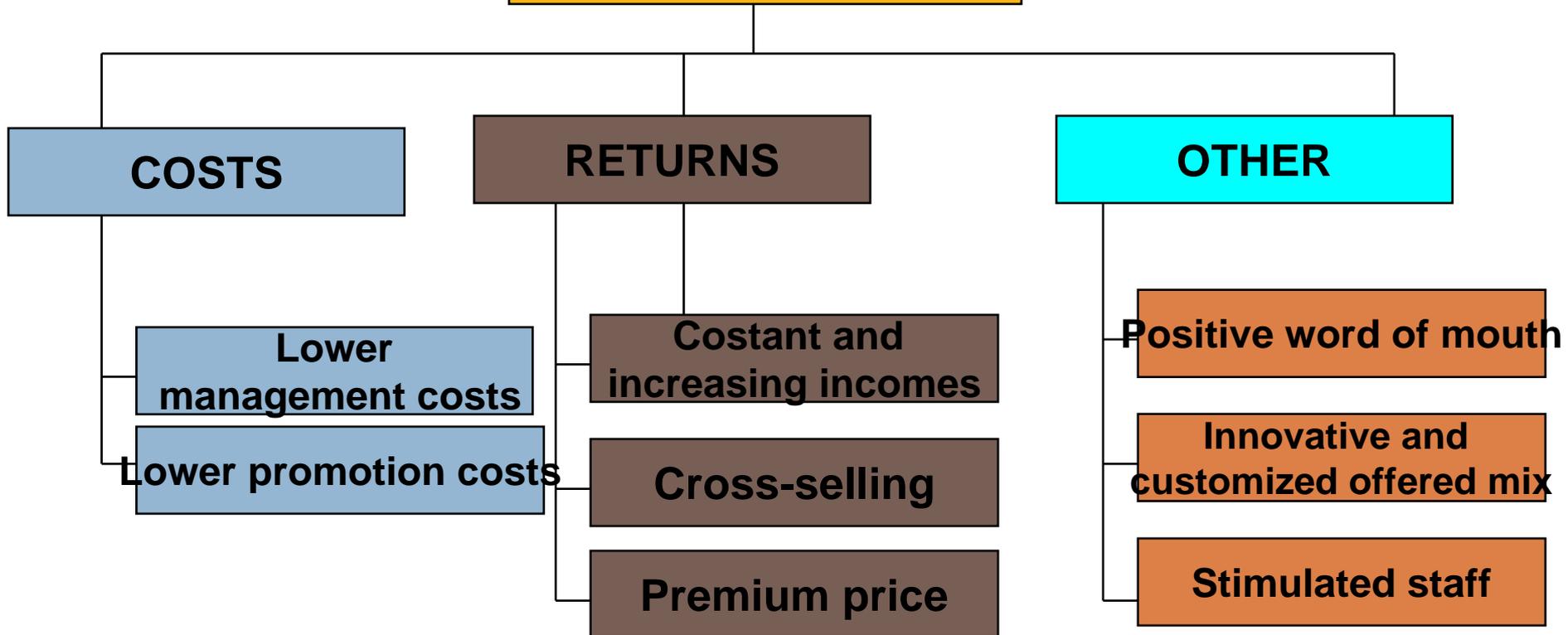
- Management costs may increase over time

- The multichannel opportunity move customers from the channels less costs to more expensive ones

- As a result of so-called "polygamous loyalty" is not always the most enduring customers are the most profitable (eg. Customers "leeches")

Molto elevata		

Redditività · **Scarsa**

Breve · **Durata della relazione** · **Lunga**

LE FARFALLE — Convincere

Corporate service provider	20%
Bank retail	15%
Mail order	19%
Direct brokerage	10%

GLI AMICI VERI — Focalizzare

Corporate service provider	30%
Bank retail	30%
Mail order	31%
Direct brokerage	32%

GLI ESTRANEI — Massimizzare

Corporate service provider	9%
Bank retail	34%
Mail order	29%
Direct brokerage	33%

LE SANGUISUGHE — Controllare

Corporate service provider	21%
Bank retail	15%
Mail order	21%
Direct brokerage	17%

QUALITY → SATISFACTION → TRUST → LOYALTY → PROFIT
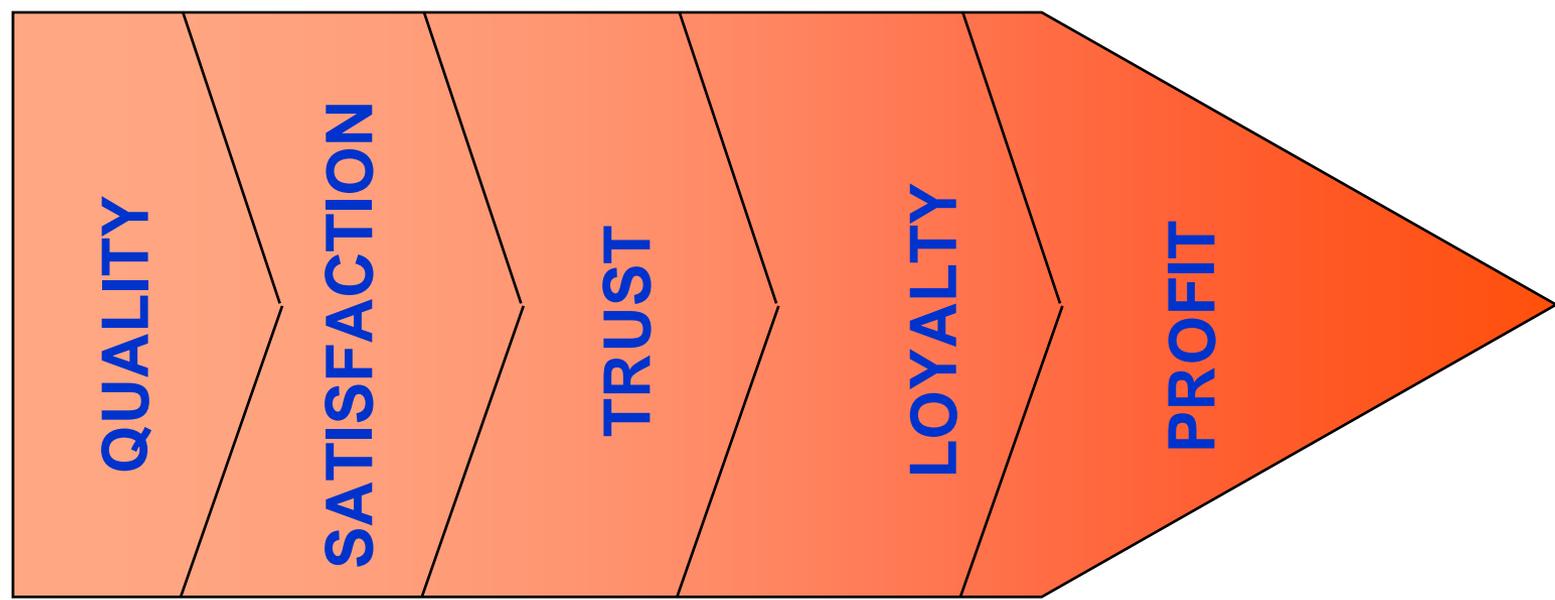
CRM is an iterative process that turns customer data into customer loyalty through four activities:

1. Collecting customer data

2. Analyzing the customer data and identifying target customers

3. Developing CRM programs

4. Implementing CRM programs

| Collecting Customer Data | **LEARNING** → | Analyzing Customer Data and Identifying Target Customers |
| Implementing CRM Programs | **ACTION** ← | Developing CRM Programs |
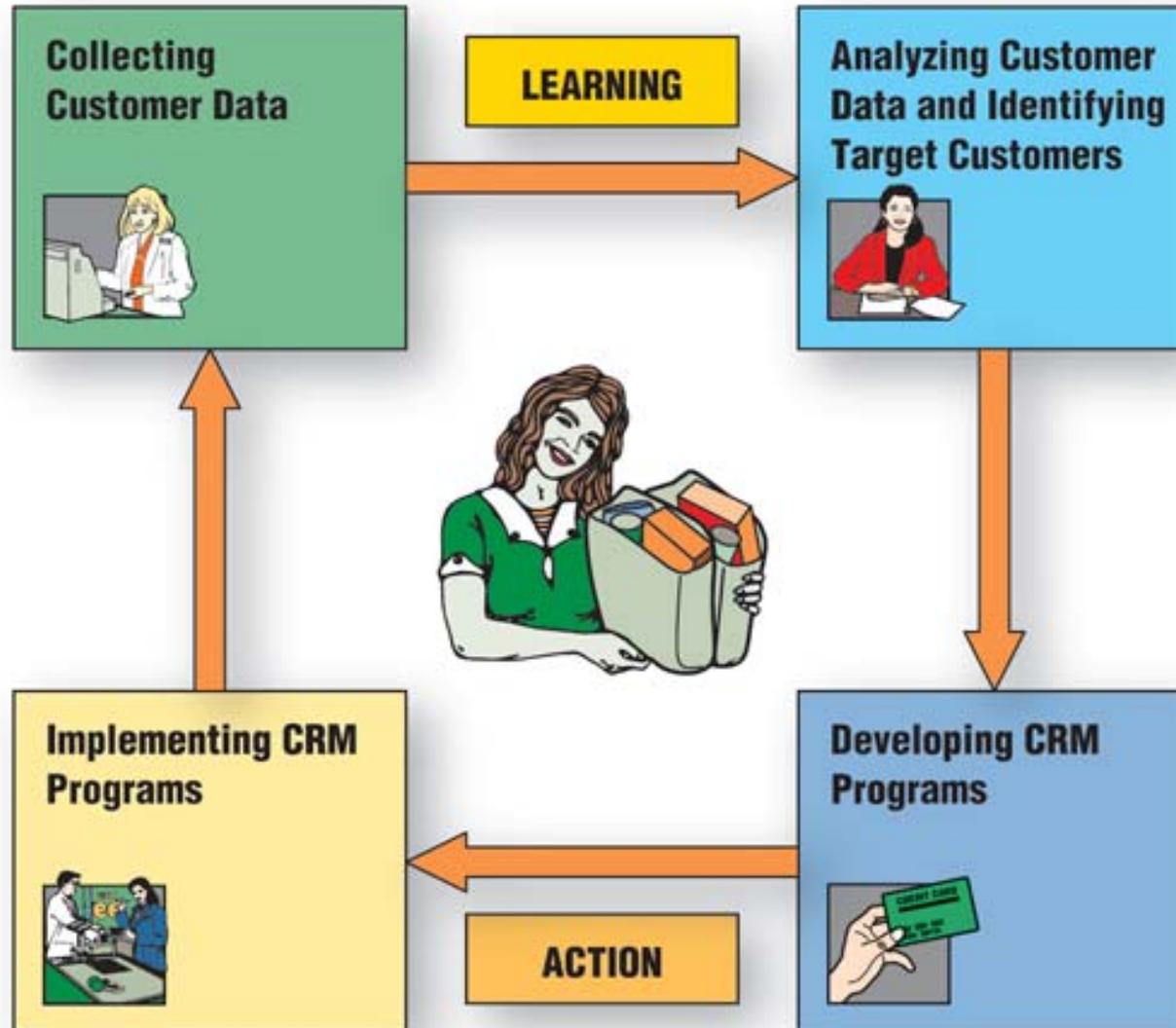
- Transactions – a complete history of purchases
  - Purchase date, price paid, SKUs bought, whether or not the purchase was stimulated by a promotion

- Customer contacts by retailer (touch points) --visits to web site, inquires to call center, direct mail sent to customer

- Customer preferences

- Descriptive information about customer
  - Demographic and psychographic data

- Customer's responses to marketing activities

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

☐ **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

➔ The main aim of this phase is to make a *ranking* of customers through a precise *rating: "rating for ranking"*

➔ The customer marketing aims are defined on the basis of the ranking

PORTFOLIO ANALYSIS

STATIC

DYNAMIC
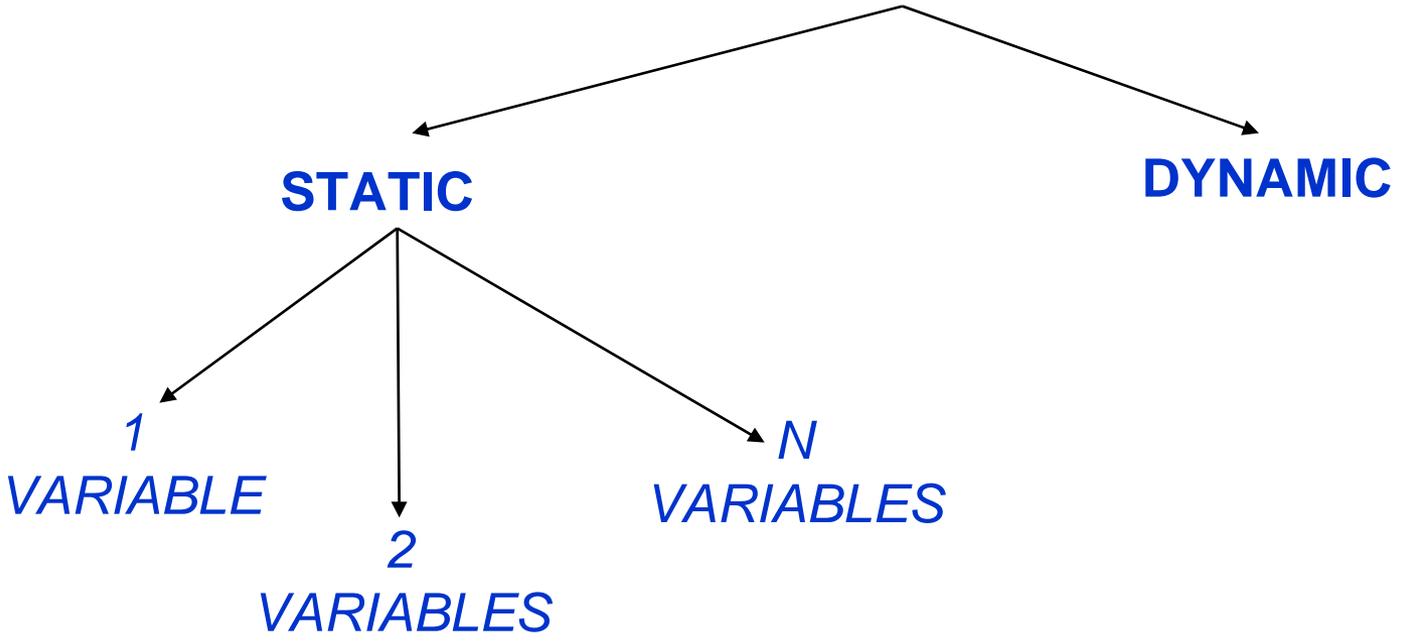
1 VARIABLE

2 VARIABLES

N VARIABLES

Platinum
Best
Most loyal
Least price sensitive

80-20 rule:
80% of sales or profits come from
20% of the customers

Most Profitable Customers

Least Profitable Customers

Platinum

Gold

Iron

Lead

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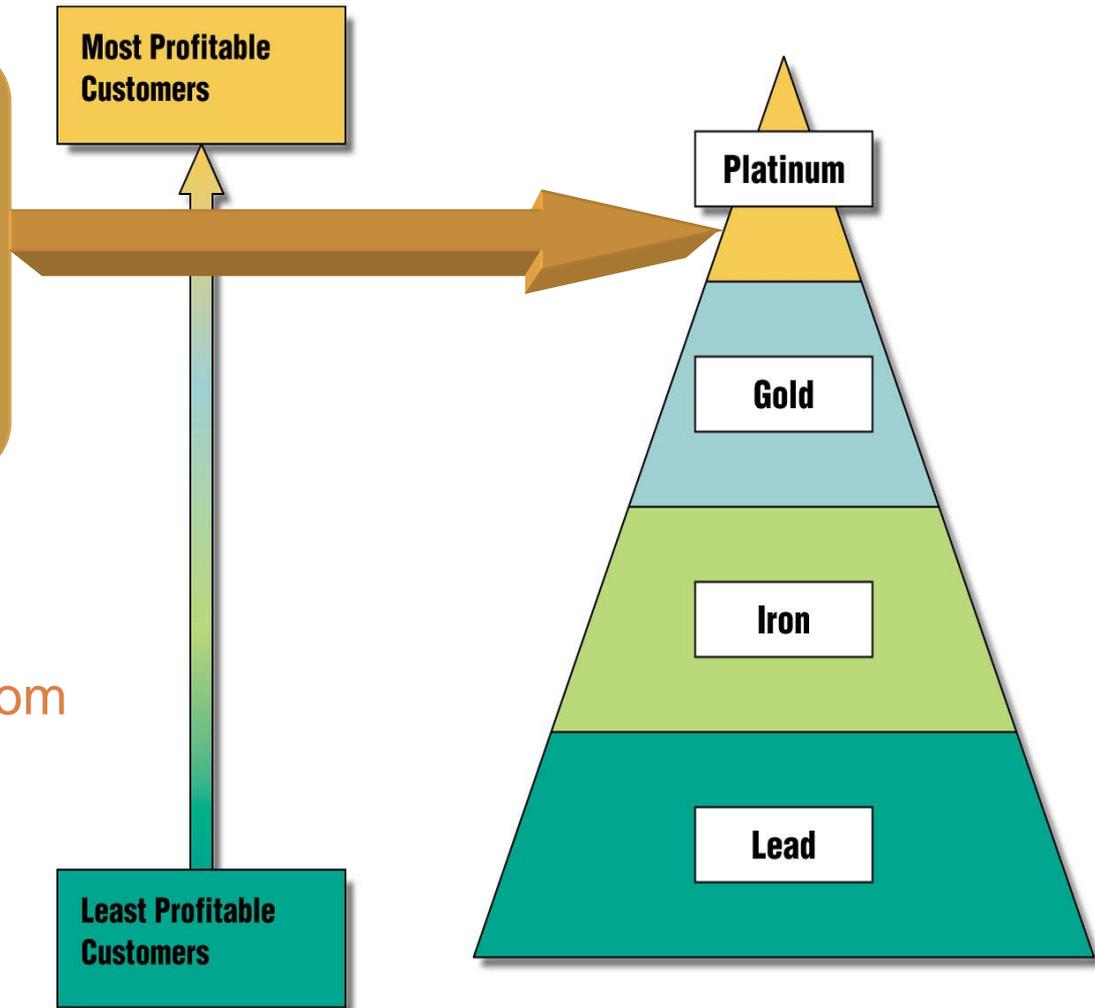
PORTFOLIO ANALYSIS WITH ONE VARIABLE

Selling %

Profits %

20% 4% 29%

50% 26% 55%

30% 70% 16%

NUMBER OF CUSTOMERS %
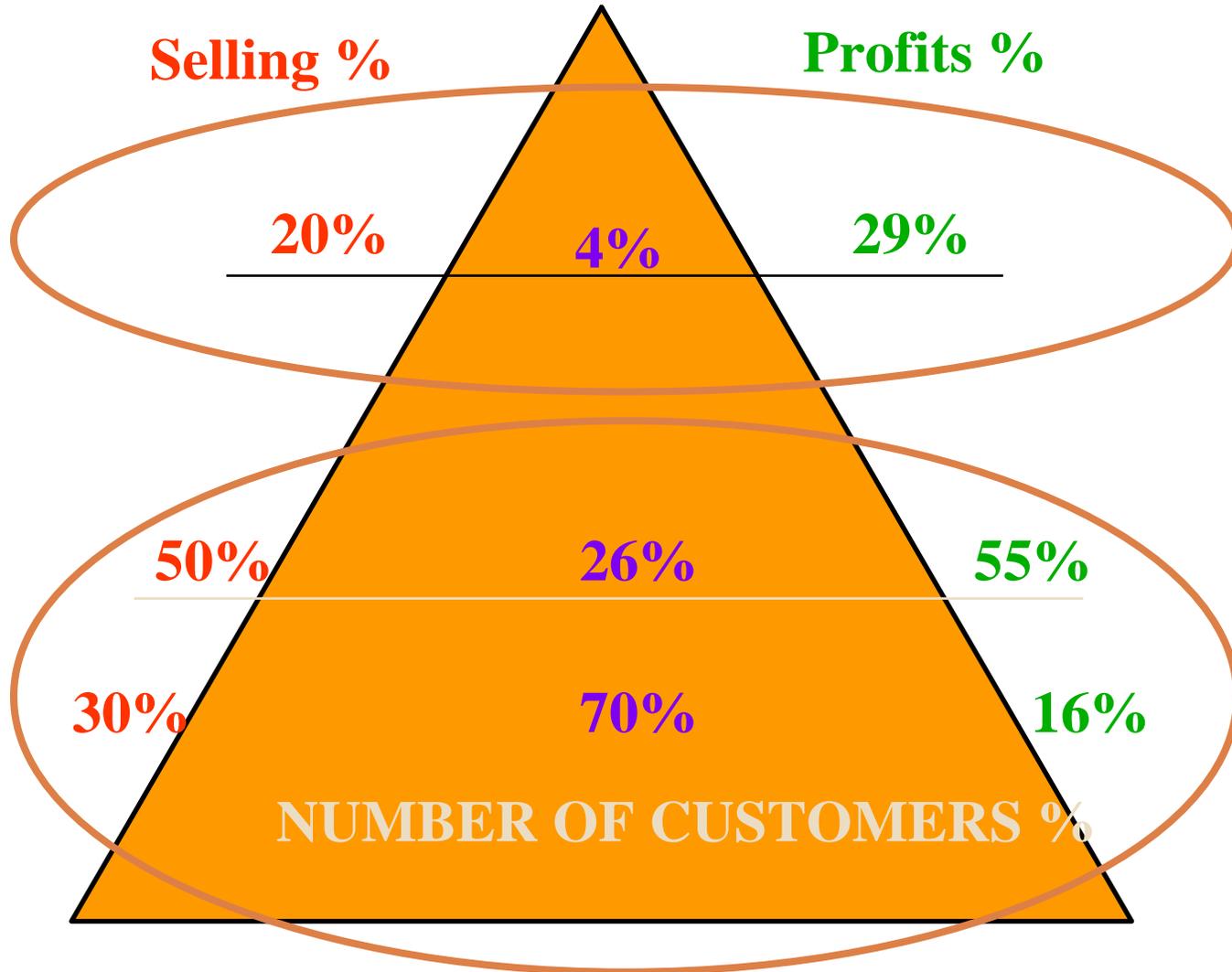
WHICH IS THE INFLUENCE OF THE 5% OF CUSTOMERS ON THE PROFITS?
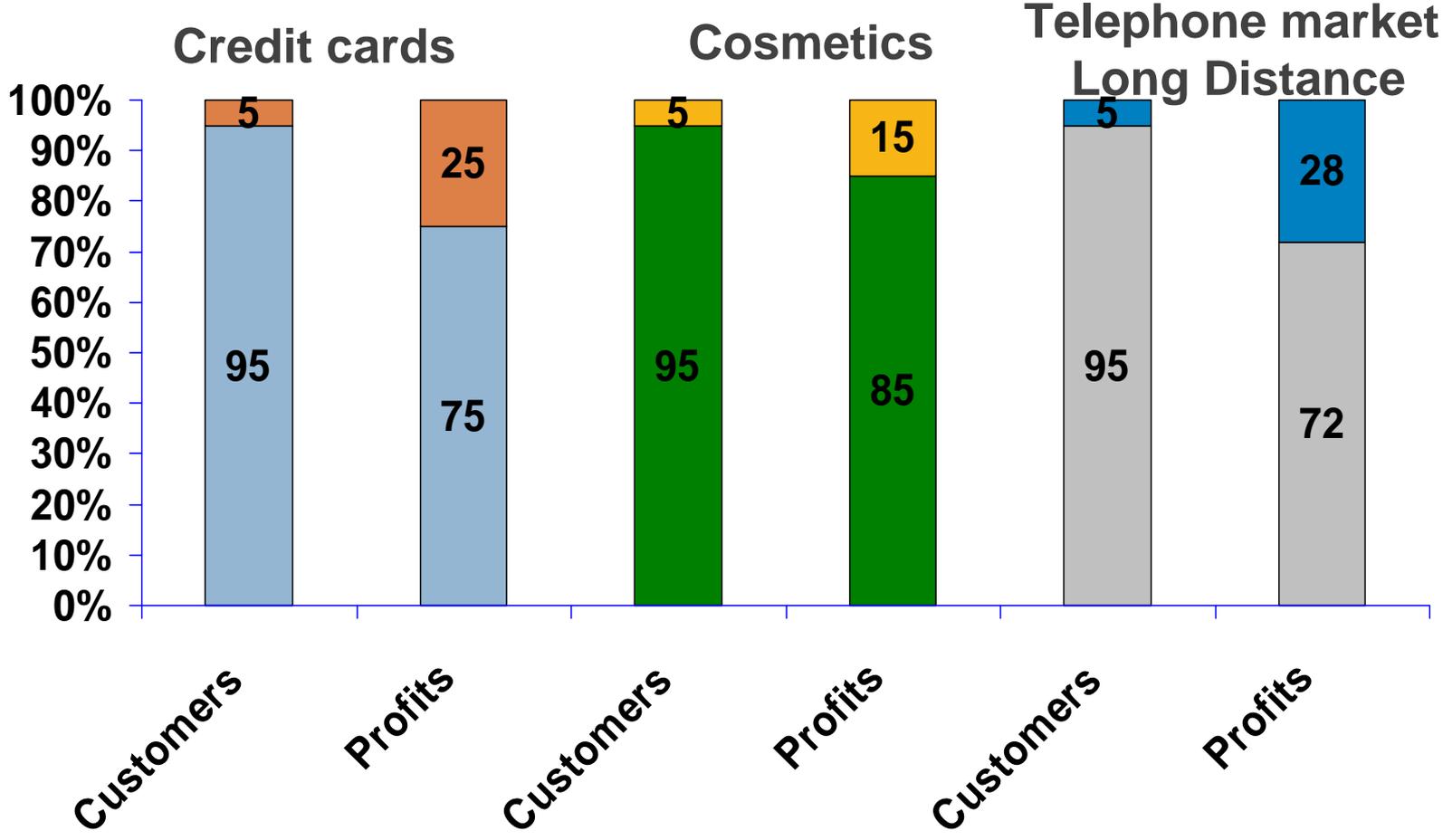
Advanced Marketing

ABC ANALYSIS

- ☐ It involves the use of a single variable (usually revenue) to analyze the importance of the customer's business portfolio

- ☐ Customers are ranked in descending order according to the variable

- ☐ Usually Pareto Paradigm is confirmed (rule 20/80)

Codicecliente	Fatturato
1	475.068,20
2	471.810,00
3	330.835,00
4	315.590,75
5	302.030,35
6	294.368,00
7	264.286,00
8	213.194,00
9	205.471,00
10	195.331,00
11	163.070,00
12	162.630,00
13	151.733,00
14	131.366,00
15	126.327,50
16	106.471,00
17	99.384,00
18	81.249,00
19	80.200,00
20	77.198,00
21	72.290,00
22	60.340,00
23	59.696,00
24	51.362,00
25	48.660,00
26	47.801,52
27	42.740,00
28	39.373,00
29	35.100,00
30	16.433,00

Average 1-12 customers=282.807

Average 30 customers= 157.380

Average 13-30 customers= 73.762

Clienti fascia A

Clienti fascia B

Clienti fascia C

Clienti fascia D

PORTFOLIO ANALYSIS

STATIC

**DYNAMIC**

1 VARIABLE

2 VARIABLES

N VARIABLES

☐ We use two variables

☐ Matrixs are more realible and to identify Key Clients

☐ It's difficult to chose two variables

There are three different typologies

➢ *Matrices of customer profitability: economic variables*

➢ *Matrices of the competitive situation of customers estimate the customers' competitiveness in key markets*

➢ *Matrices of customer relations: non-economic variables (satisfaction, no complaints, ease of maintenance, etc.)*

The matrix (Share of Wallet vertical axis: High / Low; Size of Wallet horizontal axis: Small / Large):
- High share, small size: **Hold on**
- High share, large size: **Maintain and guard**
- Low share, small size: **Do nothing**
- Low share, large size: **Target for additional selling**
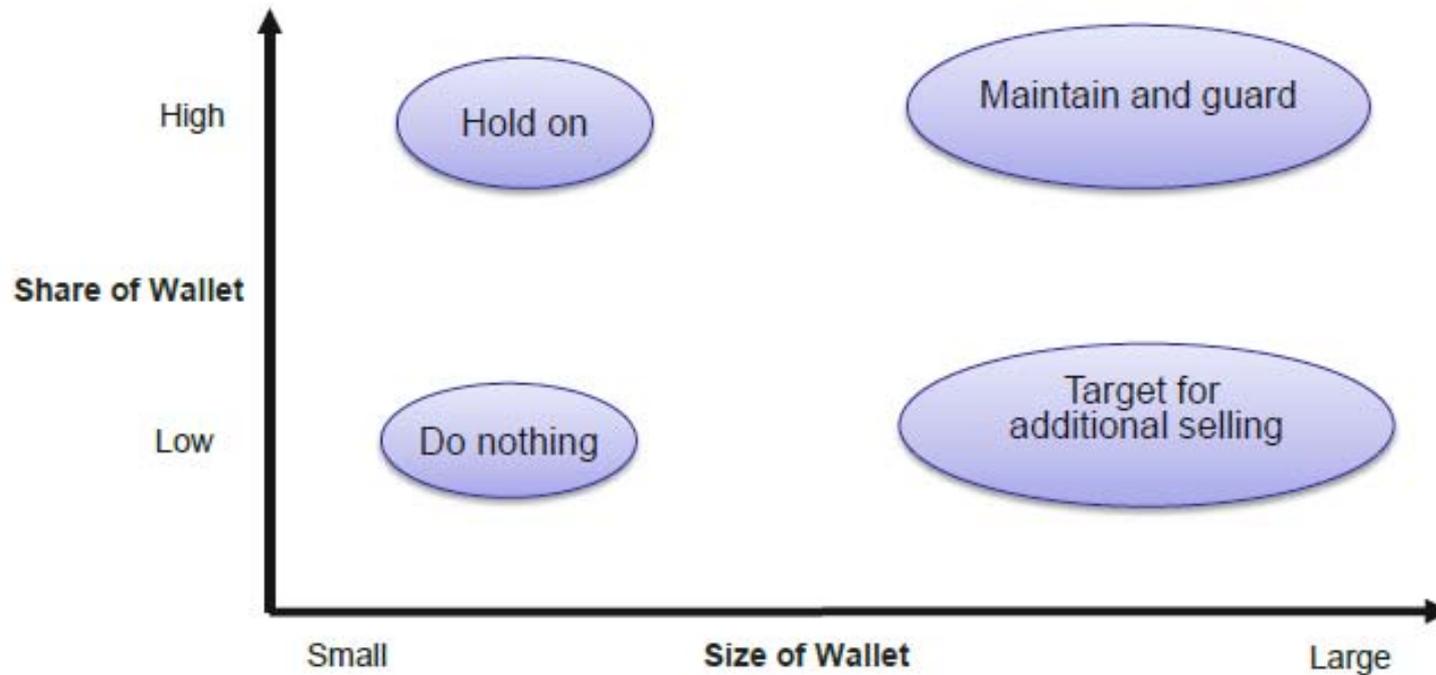
- The matrix shows that the **recommended strategies** for various segments **differ substantively**
- The firm makes optimal resource allocation decisions only by **segmenting customers along the two dimensions simultaneously**

LEVEL OF CUSTOMER LOYALTY (y-axis: 0%, 20%, 40%, 60%, 80%, 100%)

LEVEL OF CUSTOMER SATISFACTION (x-axis: Very Unsatisfied, Unsatisfied, Nor satisfied Neither unsatisfied, Satisfied, Very Satisfied)

Chart regions and labels:
- Hostages
- Loyalty area
- Apostles
- Indifference area
- Almost apostles
- Defection area
- Protesters
- Mercenaries

PORTFOLIO ANALYSIS

STATIC

DYNAMIC

1
VARIABLE

2
VARIABLES

**3
VARIABLES**
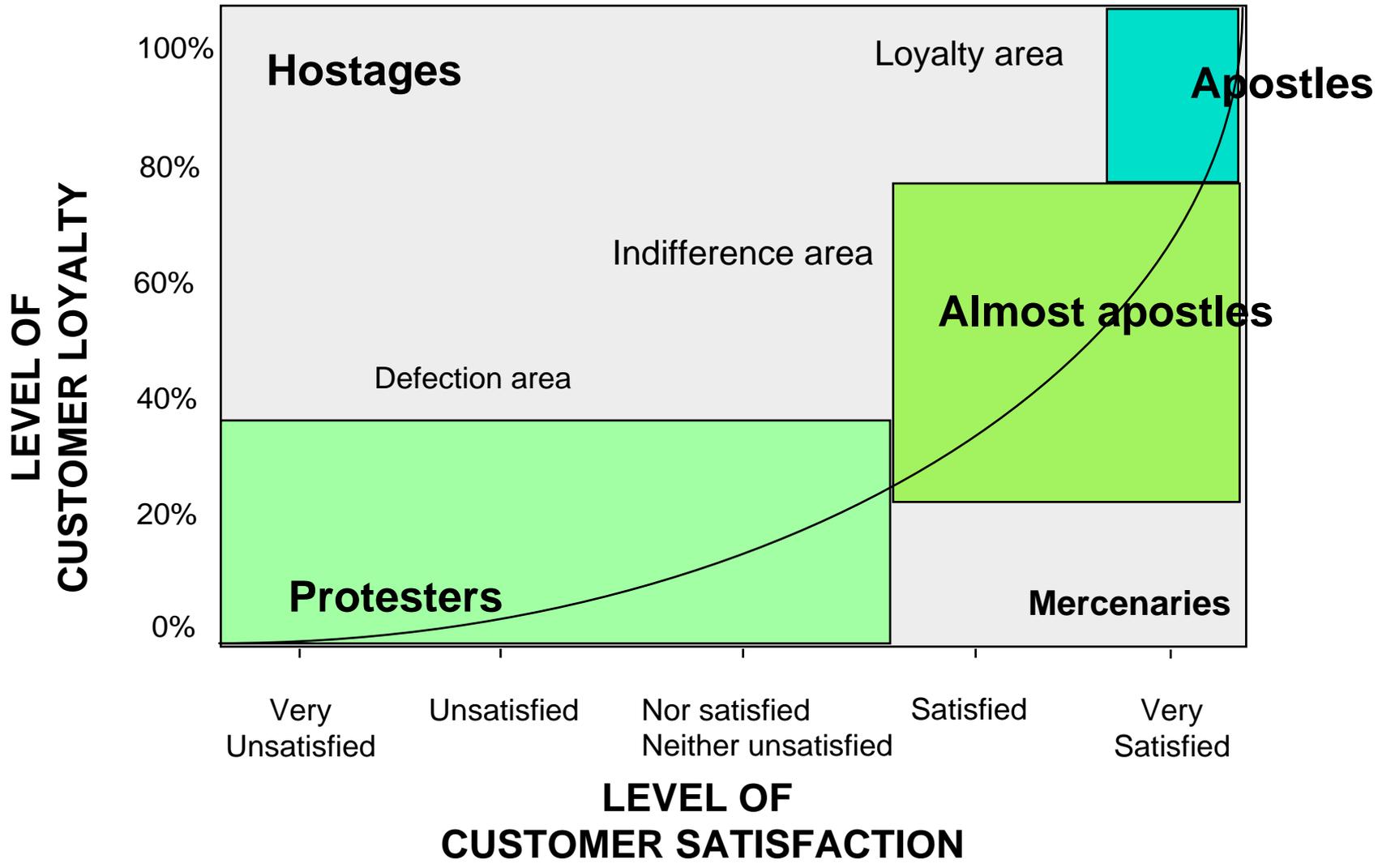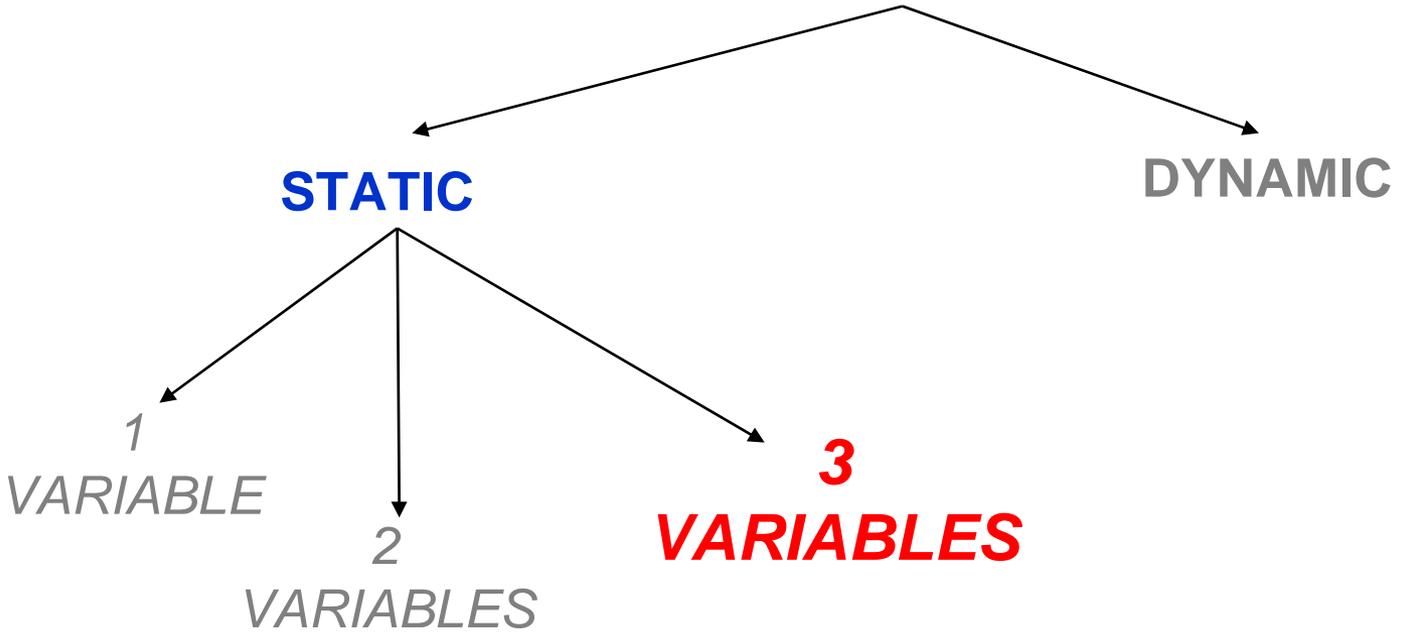
Used by catalog retailers and direct marketers

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

Frequency	Monetary	RECENCY			
		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: 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.

CUSTOMERS ANALYSIS BASED ON 3 VARIABLES (FRM METHOD)

CUSTOMER	Frequency	Recency	Monetary	Score frequency	Score recency	Score monetary	TOTAL
Auto rossi	1	July	400.000	5	10	16	31
Moto Bianchi	2	April	150.000	10	5	6	21
Verdi Elettro	2	February	550.000	10	5	22	37

HYPOTHESIS

Recency = 15 for the third 4 months period; 10 for the second; 5 for thr first

Frequency = number od agreements dealed in the period X 5

Monetary = 0,004% of the value

PORTFOLIO ANALYSIS

STATIC

DYNAMIC

1
VARIABLE

2
VARIABLES

3
VARIABLES

Large

Medium

Small

Customers

New

Prospect

Prospect customers

Other

Large

Medium

Customers

New

Prospect

Prospect customers

Other
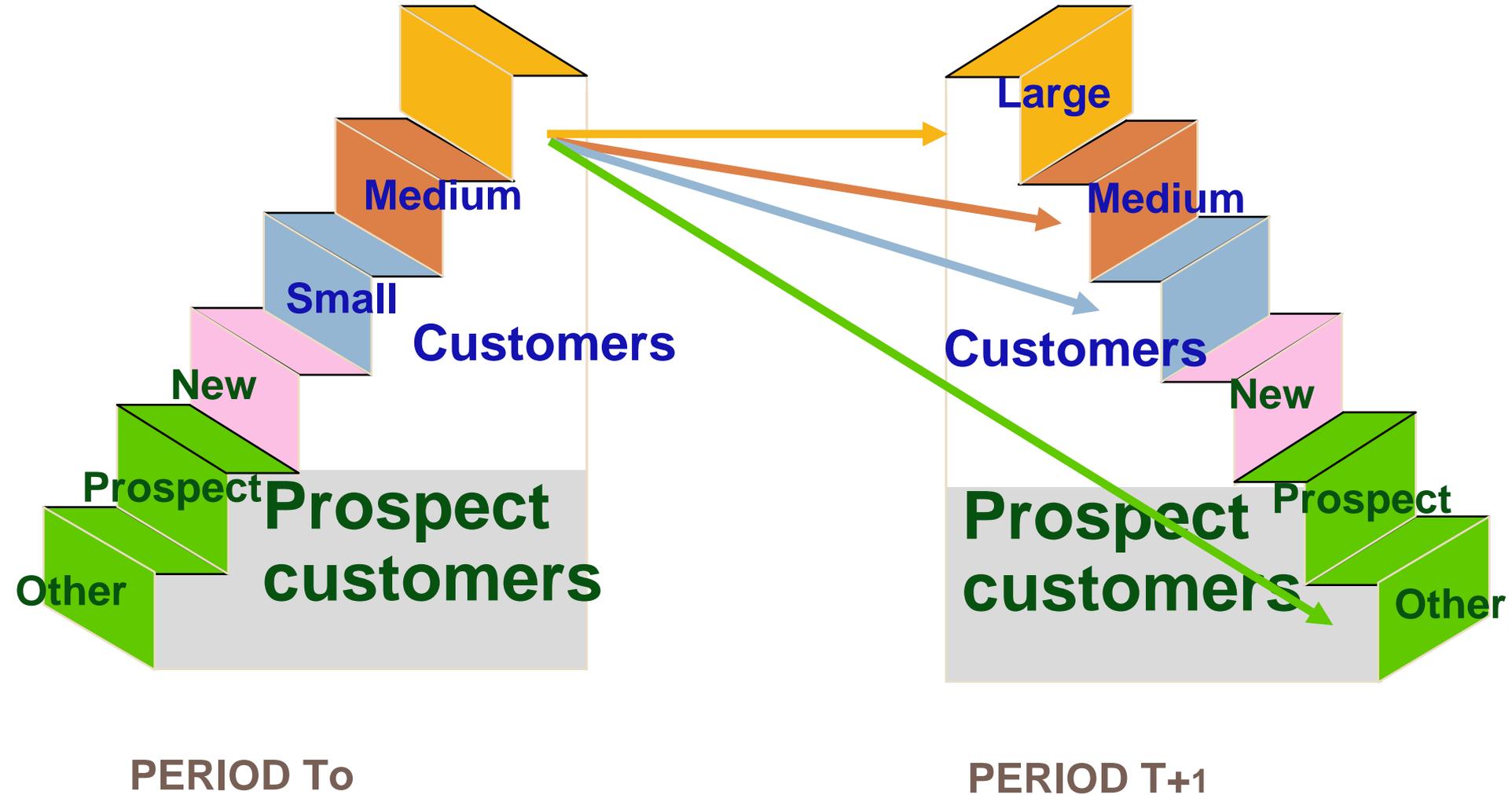
PERIOD To

PERIOD T+1

- ➢ INCREASE RATE VS UPPER CLASSES

- ➢ DECREASE RATE VS LOWER CLASSES

- ➢ STILLNESS RATE

- ➢ NEW CUSTOMERS ACQUISITION RATE

- ➢ DEFECTION RATE

Customer Retention Rate (CRR) $= \left[\dfrac{\text{Customer end period} - \text{New Customer}}{\text{Customer at beginning}} \right]$

Es. Customer at beginning=100; Customer end period=120;
New customer acquired in the period =40
CRR = (120-400)/100 = 80%

Defection rate = $\left[1 - CRR \right]$

Es. CRR =80%
Defection rate = (1- 0,80) = 20%

Customer Life Time = $\left[\dfrac{1}{1 - CRR} \right]$

Es. CRR =80%
CLT= 1/(1- 0,80) = 5 years

Churn rate= $$\left[\frac{\text{Customers defect towards other competitor "X"}}{\text{Tot. customers in the portfolio}}\right]$$

Es. Nr customers defect =60
Total of customers =200
Churn Rate = 30%

Acquisition Rate

Acquisition = first purchase or **purchasing in the first predefined period**

Acquisition rate (%) = 100*Number of prospects acquired / Number of prospects targeted

P(Active)

☐ Probability of a customer being active in time t

☐ P(Active) = P(Active) = $(T/N)^n$

  ◻ Where: n = the number of purchases in a given period,

  ◻ T = is the time of the last purchase

  ◻ N= Observation period

Customer 1

Customer 2

Observed period

End of period

Month 1   Month 8   Month 12   Month 18
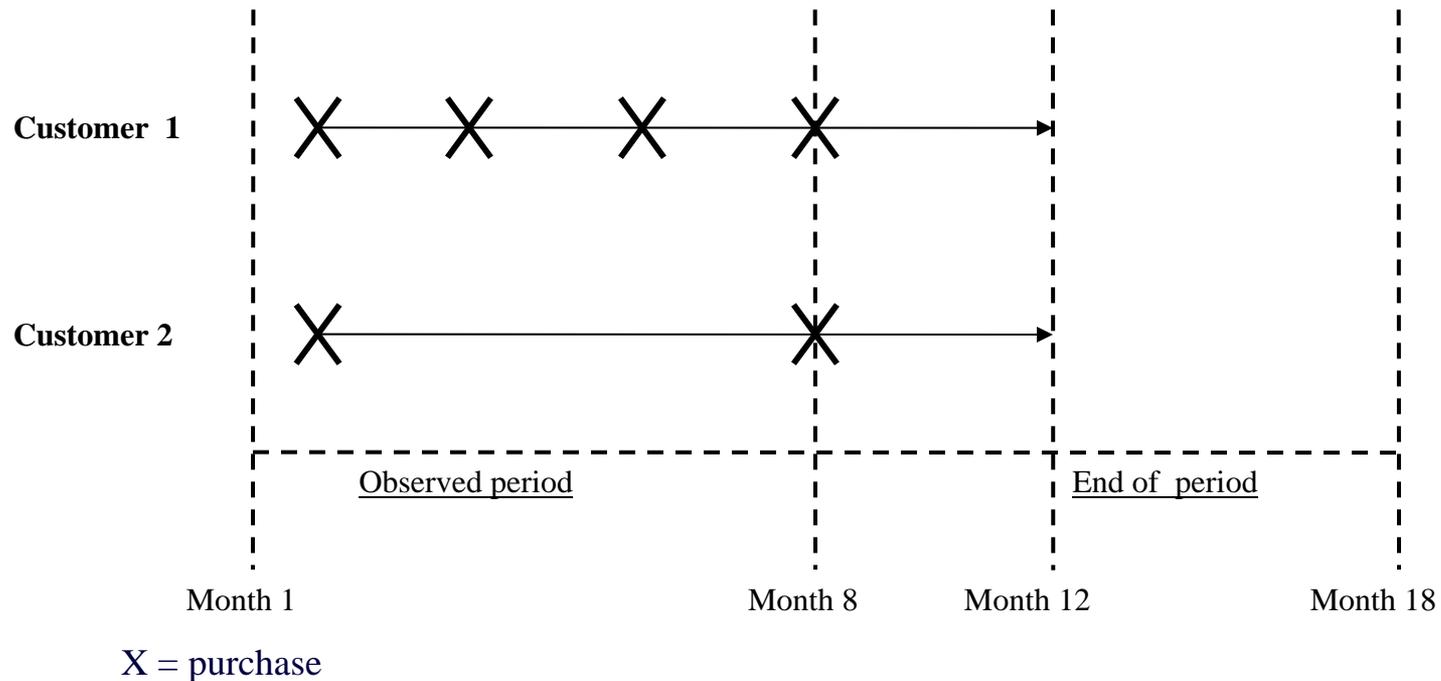
X = purchase

P(*Active*) of the two customers in the 12th month of activity:

Customer 1: T = (8/12) = 0.6667 e nr purchases = 4

$$P(Active)1 = (0.6667)^4 = 0.197$$

And for Customer 2: T = (8/12) = 0.6667 e nr purchases = 2

$$P(Active)2 = (0.6667)^2 = 0.444$$

Customer Life Time Value: $$\sum_{t=1}^{T} P\,active \frac{AGM_{it}}{(1+d)^{t}}$$

AGM: Average gross margin in period t

P active: Probability of a customer being active in time t

i: I customer

t: time when CLTV is calculated

T: number of periods

d: discount rate

Retaining Best Customers

Converting Good Customers into Best Customers

Getting Rid of Unprofitable Customers
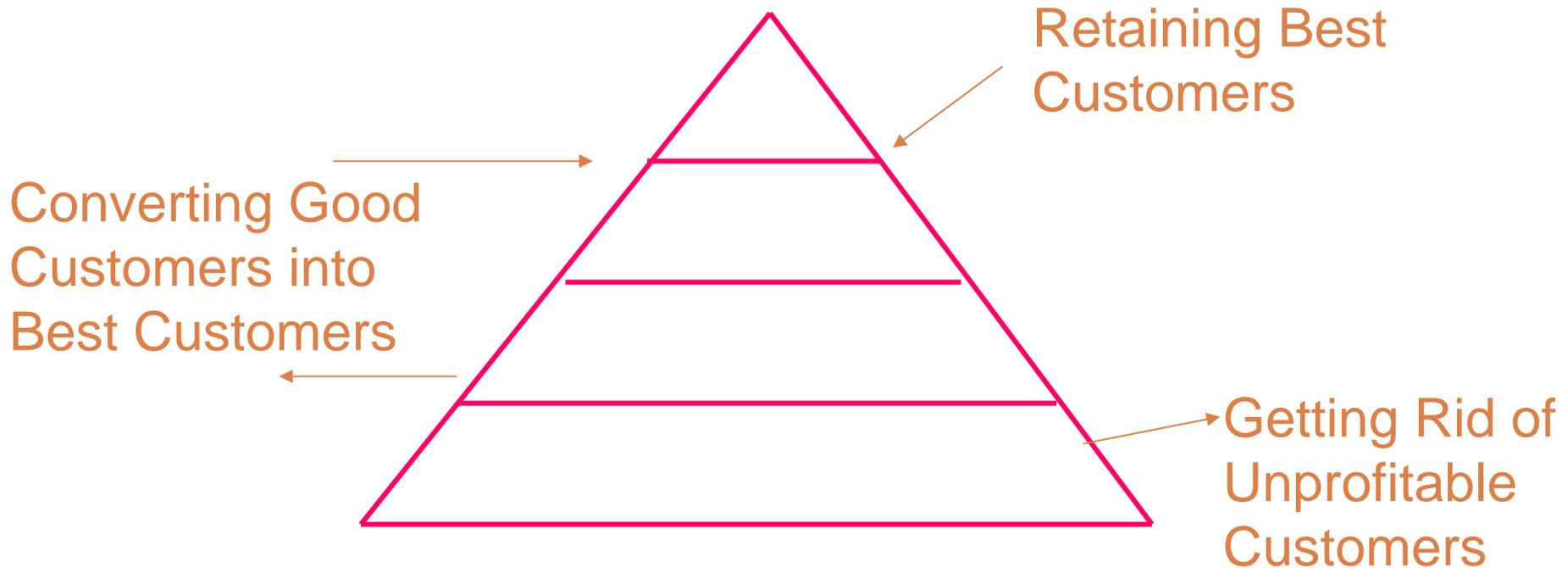
Royalty-Free/CORBIS

- ☐ Frequent Shopper Programs

- ☐ Special Customer Services

- ☐ Personalization

    1-to1 Retailing

- ☐ Community

- Tiered rewards based on customer value
- 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

- Expense

- Difficulty in Making Changes

- Impact on Loyalty Questionable

- Easily Duplicated – Difficult to Gain Competitive Advantage
  - Need to offer "invisible" benefits

- ☐ 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 (www.oprah.com), magazine (O)

Shopping Buddy

☐ Offer less approaches for dealing with these customers

☐ Charge customers for extra services demanded

Don Farrall/Getty Images

- Need systems, databases

- Close coordination between departments – marketing, MIS, store operations, HR

- Shift in orientation
  Product Centric ⟶ Customer Centric