CUSTOMER REATIONSHIP MANAGEMENT – A STRATEGIC TOOL FOR MARKETING

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ABSTRACT

With an ever-increasing competition and customers becoming restive, selective and even indifferent to marketers' pressures, it is not uncommon to observe firms loosing their market shares many are even closing down their business are selling it to rather more successful enterprises one of the common characteristics of successful enterprises/firms the last decade is that they have been more responsive to customer needs than their rivals. Also, they response has been innovative. How could they do it? Lessons from these organizations are that they implemented CRM strategy to build long term customer relationship. For them CRM is a strategy and not just another fad.

Finally, it concludes with some final thoughts for long-term success. After reading this article the reader will be mindful of the major issues needed for success and equipped to discuss primary development matters with vendors, staff and management.

WHAT IS CRM?

One of the most dynamic information technologies of the new millennium is the area of customer relationship management. At the core "CRM is an integration of technologies and business processes used to satisfy the needs of a customer during any given interaction. More specifically, CRM is the process of acquiring, satisfying, retaining and growing profitable customers. It requires a clear focus on the service attributes that represent value to the customers and create loyalty. This encompasses developing long term relationships with customers allocating marketing dollars based on the customer's value and deriving as much as revenue from these customers over a life time. It is important to note that the term "customer" may have very broad definition includes vendors, channel partners are virtually any group or individual that requires information from the organization.

GARTNER'S DEFINITION:-

'CRM is a business strategy with outcomes that optimize profitability revenue and customers satisfaction by organizing around customer segmentation, fostering customer satisfying behaviors and implementing customers centric processes SRM technologies should enable greater customer insight, increases customer access, more effective interactions and integration" throughout all customers channel and back office enterprise functions."

In IT terms, "CRM means an enterprise-wide integration of technologies working together such as Data warehouse, web-site, interact, phone support system, marketing, production, HR etc. CRM has many similarities with Enterprise Resource planning (ERP), where ERP can be considered back-office integration and CRM as front-office integration. A notable difference between ERP and CRM is that, ERP can be implemented without CRM. However, CRM usually requires access to the back-office data that often happen through ERP-type integration.

CRM principally revolves around marketing and begins with a deep analysis of consumer behavior. It uses IT to gather data, which can be used it develop information required to create a more personal interaction with the customer. In the long term, it produces a method a method of continuous analysis and refinement in order to enhance Customers lifetime value (CLV) with a firm. Well et al (1999) noted, "both (marketing & IT) need to work together with a high level of co-ordination to produce a seamless process of interaction". However, in order to work effectively with marketing. It managers need an understanding of the fundamental marketing motivation driving the CRM trend.

TYPES OF CRM:-

CRM allows a company to address all of the types of customers it serves at different points in their life cycle and to choose the marketing program that best fits a customer's attitude towards the company and willingness to purchase it products and services.

They are 4-types of CRM:-

(i) To Win-back or save customers

(ii) To attract new and potential customers;

(iii) To create loyalty among existing customers: and

(iv) To Up-sell or cross sell services.

1). WIN –BACK OR SAVE:-

This is the process of convincing a customer to stay with the organization a t the point they are discontinuing service or convincing them to rejoin once they have left.

Of the four categories of campaigns, win-back is the most sensitive. Research indicates that win-back campaign is 4-times more likely to succeed of contact are made within the first week following a defection than if it is made in the fourth week. Selectivity is the other essential characteristic of a successful win-back campaign.

2). Prospecting is the effort to win new, first time customers. A part from the offer itself, the three most critical elements of a prospecting campaign are segmentation, selectively and source. It is essential to develop an effective needs based segmentation model that allows the organization to effectiv3ly target the offer. Without this focused approach, the organization either fails to achieve an adequate acceptance or rate an offer or spends too much on promotions, advertising and concessionary pricing. It is advisable to achieve a 95% confidence rate before embarking on prospecting effort.

Selectivity is as important to prospecting as it is to win-back. Needs-based segmentation defines what the customer wants from the organization and the profit based segmentation, defines how valuable they customer is and helps the organization to decide how much i8t is willing to spend to get that customer, pre-scoring a customer credit rating is one of the techniques that an organization can use to determine the later.

3). LOYALTY:-

Loyalty is the category in which it is most difficult to gain accurate measures. The organization is trying to prevent customers from leaving and uses three essential elements:-

(i) Value-based segmentation;

(ii) Need-Based segmentation;

(iii) Predictive churn models;

Value – Based segmentation: It allows the organization to determine how much it is willing to invest in retaining a customer’s loyalty.

Needs Based segmentation: Once the customer has passed value based segmentation, the organization can use needs-based segmentation to offer a customize loyalty program.

Predictive Churn models: Using vast amount of demographic data and usage rate available for the existing base of customers which helps in forecasting customer attrition. Through their use of advanced data-mining tools, an organization can develop models that identify vulnerable and potential customers who can be targeted fort the loyalty campaign of offered alternative products.

“A SMALL PERCENTAGE OF CUSTOMERS ACCOUNT FOR A LARGE OERCENTAGE OF PROFITS”

4). Cross-sell/Up-sell

The purpose is to identifying complementary offering that a customer would like. For example: a basic long distance customer could be a candidate to buy internet access. Customers’ need-based segment, usage pattern and reaction to previous contacts/interactions determine the nature of the offer. Once the composition of the offer is determined and the contact medium is agreed to, then the organization directly presents that offer to the customer. Up selling is similar, but instead of offering a complementary product, the organization offers an enhanced one. For example: Replacing an analog data line with ISDN.

Cross sell/Up-sell campaigns are important because the customer targeted already has a relationship with the organization. They are less likely to see the offer as a commodity and are thus more willing to pay a premium for it. In financial terms, when a customer accepts a cross-sell or up-sell offer, he begins to become much more profitable.

IMPLEMENTING CRM:

Six-elements are required to implement a CRM program effectively:

Strategy

Segmentation

Technology

Process

Organization, and

Metrices

1.Strategy

Six types of strategy affect CRM programs: Segmentation, pricing, channel, marketing, branding and advertising. Out of these 6-strategies first-three have the greatest impact i.e. channel, pricing and segmentation. Segmentation determines how clients and ultimately the marketing organization will be structured. Pricing is the single greatest differentiation in a customized market. Channel strategy determines how the offer will be conveyed to the customer.

However, all these strategies are revised frequently as difficulties in implementation and evaluating campaign results may indicate the need for change.

2.Segmentation

Categorizing and marketing to customers according to customer needs is known as segmentation. Organizations rely too heavily on projected behavioural traits or psychographics rather than on historical patterns and demographics. A company uses segmentation to consider the value of customer to its business. To use segmentation effectively, an organization needs to develop the right set of formulas for modeling the behaviour of customers.

3.Technology

The CRM process depends on data. Single operation focused integrated logical database, data warehousing, data mining, decision support system (DSS), campaign management tools as well as call center software and hardware. Hardware, databases and DSS are in use within the communications industry but call center and data mining tools are less well known.

4.Process

The CRM process is the order and method by which one-to-one marketing activities are executed. It is not overly complicated but it does emphasize speed to market. As a consequence, process reengineering efforts concentrate on minimizing the time it takes to execute a particular marketing activity and reducing the interdependence, if not the total number of marketing tasks.

5.Organization

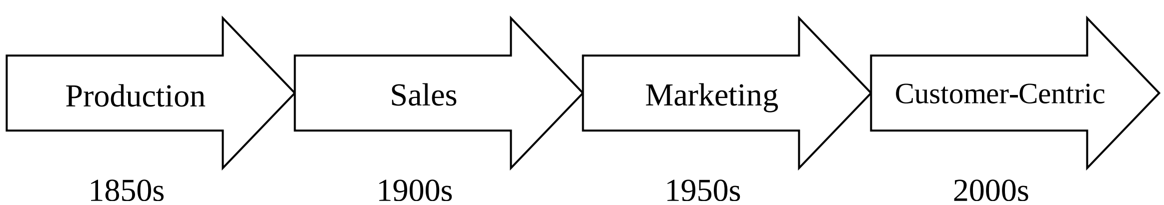
Creating cross discipline segment teams is effective if they are formed for the purpose of learning and executing new-styles of campaigns. Using the wrong performance measures can be organizational pitfall. Thus, it is essential that departments within the organization work together to form metrics that reflect the new process and the collaborative nature of customer relationship management.

6.Metrices

Enterprises must set measurable specific CRM objectives and monitor indicators if they are to become customer-centric. CRM metrics not only gauges the level of success, but also provides the feedback mechanism for continuous development of strategy and tactics. In addition, they can act as a great tool for change management and are vital for the structure of employees' incentives. CRM metrics must follow and measure an enterprise's own CRM strategy.

CRM MARKETING

During the 1850s, business could sell almost anything they made. Consequently, it was a seller's market and business focused on Product. In the early 1900s, competition was creeping up and businesses realized customers wielded more power and firms had to find reasons for people to buy their products. This brought about a sales orientation. But some forty years ago (during 1950s) marketers predicted that product focus would be downfall of many of large organizations. They believed that nothing less than totally customer-oriented business view could ensure organizational survival. Organizations that defined themselves otherwise – by what they did, what they produced or what technologies they used – were suffering from "Marketing Myopia" or "Marketing Shortsightedness". This ushered in marketing orientation. Marketing orientation focused on addressing the needs and wants of market segments. We are now at the beginning stages of a new "Customer-Centric Orientation" which is the subset of Marketing orientation.



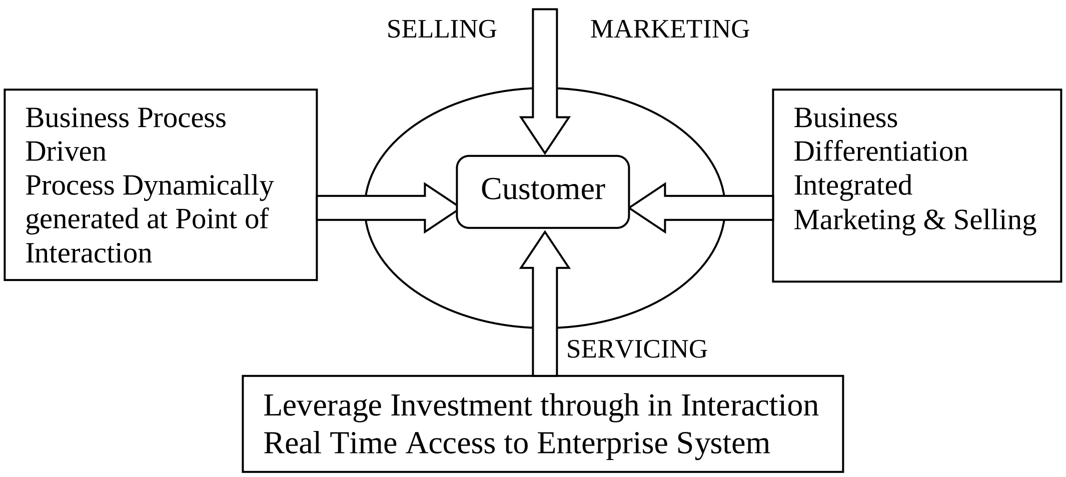
<u>Business Orientation of the last 150 years</u>

There is a shift from Mass-customization to one-to-one marketing or customization of products, which is also capable of treating every customer individually and uniquely depending on the customer's preference. As Berger & Benchwati (2000) put it, the "core of relationship marketing is the development and maintenance of long term relationships with customers, rather than simply a series of discrete transactions". They further note that a guiding principle is the management of "Customer's Life Time Vaue (CLV)". Rather than calculating profit from a discrete transaction, the firm must consider the value of a customer over his or his entire relationship with the firm.

Marketing is the area where customer insight, or the process of identifying the most valuable customer, is primary. Simply achieving a single view of the customer across diverse lines of business and departmentally focused information systems is the tremendous value and the added ability to gather and correlate this information in real time makes the information that much more valuable in making better business decisions. This capability is a core underpinning of successful customer relationship management, and is made possible by the CRM interaction capabilities. Once in possession of detailed customer information, it becomes possible to create and execute high-personalized targeted marketing programs for high value customers, which maximizes revenue opportunities, customer satisfaction and also efficiency and effectiveness of marketing efforts.

Multi Dimensional Customer Interaction

Consistent, Efficient & Effective Interactions across the front office

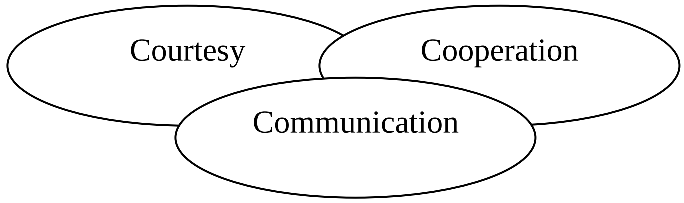


Indeed, this revolution in customer relationship management (CRM) has been referred to as the new mantra of marketing. Companies such as Siebel, Oracle, Broadvision, Kana, net perceptions and other have developed CRM products that do everything from tracking customer behaviour on the web to predicting their future moves to sending direct e-mail communications. This has created a worldwide market for CRM products and services of $34-billion in 1999, a market that is forecasted by IDC to grow to $125-million by 2004.

The need to better understand customer behaviour and the interest of many managers to focus on those customers who can deliver long-term profits has changed how marketers view the world. Traditionally, marketers have been trained to acquire customers either new ones who have not bought the product before or those who are currently competitors' customers. This has required heavy doses of mass advertising and price oriented promotions to customers and channel members.

Today, particularly for the company's "best" 3-C's i.e Cooperation, Communication and Courtesy (the tone of conversation) has changed from customer acquisition to retention. This requires a different mindset and a different and new set of tools. A good thought experiment for an executive audience is to ask them how much they spend and/or focus on acquisition versus retention activities. While it is difficult to perfectly distinguish the two activities the answer is that usually acquisition dominates retention.

The 3-Cs



According to McKinsey: The repeat customers generate over twice as much gross income as new customers

CONCLUSION

The market expects organizations to be able to manage down costs. What investors are skeptical about is an organizations ability to attract and retain profitable customers. Customer Relationship Management allows them to do just that.

The biggest threat to CRM is that management focuses on short-run profits rather than long-term vision. CRM is an expensive, time consuming and complex proposition. Even in the best case, this tool is an opportunity to rise above minor advantages and develop an actual relationship with the customers. Companies that are the most successful at delivering what each customer wants are the most likely to be the leaders of the future.

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