



Fifth Edition

# Customer Relationship Management

Concepts, Applications, and Technologies

Daniel D. Prior, Francis Buttle, and Stan Maklan



'In the fifth edition, Prior, Buttle and Maklan take what was already THE reference book for Customer Relationship Management to the next level, providing a highly contemporary and deeply pragmatic view of how to create value with CRM today and tomorrow.'

**Ross Dawson**, *futurist, keynote speaker, strategy advisor, and author of five books including Thriving on Overload*

'Completely updated, this remains absolutely the best exposition of customer relationship management. Can't think of a better guide to increasing your performance and profits. This book belongs on the desk of every company that is serious about CRM. The wealth of information and insight is astonishing.'

**Professor Philip Kotler**, *S.C. Johnson Distinguished Professor of International Marketing, Kellogg School of Management, Northwestern University, USA*

'The great thing about this book is that the authors keep it updated. Students get that rare combination of a comprehensive guide to theory, the injection of practical experience and the latest thinking on strategy, technology, and applications.'

**Dr. Merlin Stone**, *Professor of Marketing and Strategy (retd.), St Mary's University, Twickenham, UK, and co-author Customer Relationship Marketing: New Thinking, New Strategy, New Tools*

'This book is a complete guide to Customer Relationship Management. Of course, it covers the basics of CRM including Strategic CRM, Operational CRM and Analytical CRM, but the enriched fifth edition also explores cutting edge issues such as Artificial Intelligence, bots, Big Data, analytics for unstructured data, and how these impact on customer experience. This is a must-have book for everyone wanting to learn about CRM.'

**Aina Neva Fiati**, *Managing Director, iSystem Asia – Customer Strategy Excellence Center, Jakarta, Indonesia*

'At last, a serious manual for delivering what CRM always promised but generally failed to deliver. It is not, however, for the faint-hearted, but only for those who are serious about creating a holistic and unified organizational environment to create and deliver value to customers, and to keep them coming back for more.'

**Jeremy Cox**, *Founder and Chief Analyst, CX-Create Ltd., UK, and author of Mid-Market CRM: Customer Relationship Excellence in Mid-Sized Enterprises*

'The pressure to create excellent customer experience has intensified considerably over the past few years because of the challenges of our evolving digital economy. Directors are desperate for robust, proven processes to be embedded in their organisations. Daniel Prior, Stan Maklan and Francis Buttle are outstanding researchers, teachers and experienced practitioners in the CRM/Customer Experience domains, and I urge you to take time to read this state-of-the-art book on this topic. Absorb. Apply. Achieve.'

**Professor Malcolm McDonald**, *MA(Oxon), MSc, PhD, DLitt, DSc., Emeritus Professor at Cranfield University and Visiting Professor at five of the top Business Schools in the UK. Formerly Marketing and Sales Director of Canada Dry*

'An excellent insight into how CRM really works. I've used previous editions for my teaching as the book really helps students to understand CRM. I also use it with my clients, and they have been amazed at the difference that it has made to their businesses. It really helps them to develop critical customer knowledge and from there, appropriate customer strategies. This new edition, with updated content and case examples, has moved understanding forward yet again and has become my new go-to for CRM.'

**Dr. Julie Jones, PhD, FCIM, Chartered Marketer, Aberystwyth Business School,  
Wales, UK**

'A dynamic, strategic, practical and deeply relevant guide to creating and implementing a winning customer experience strategy. A must read.'

**Larry Hochman, European Business Speaker of the Year, Customer Experience  
expert and author of The Relationship Revolution**

'This book offers a comprehensive overview of the key ideas and issues related to modern Customer Relationship Management in an easily understandable format. It provides a lot of actionable insights and rich illustrative examples, and is a must read for all managers, scholars, and students interested in this domain.'

**Joona Keränen, Associate Professor, RMIT University Australia**

# CUSTOMER RELATIONSHIP MANAGEMENT

This highly regarded textbook provides the definitive account of Customer Relationship Management (CRM) concepts, applications, and technologies, focusing on how companies can create and maintain mutually beneficial relationships with customers.

Readers will gain a thorough understanding of the conceptual foundations of CRM, see CRM in practice through illustrative case examples and exercises, and understand how to organise customer data gathering, analysis, and presentation for decision making. The book achieves these outcomes by first considering strategic CRM before moving into operational CRM and, finally, onto analytical aspects of CRM.

The fifth edition has been fully updated to include:

- A series of new case examples to illustrate CRM within various regional and industrial contexts, including those relevant to large, medium, and small enterprises.
- A series of new exercises and discussion questions to help readers understand CRM concepts and to support pedagogical processes, particularly in higher education environments.
- A greater emphasis on managerial applications of CRM through new content to help guide managers.
- An updated account of new and emerging technologies relevant to CRM.
- Expanded coverage of customer experience (CX), customer engagement (CE), and customer journey management (CJM).

*Customer Relationship Management* is essential reading for advanced undergraduate and postgraduate students studying CRM, Sales Management, Customer Experience Management, and Relationship Marketing, as well as executives who oversee CRM functions. Online resources include an Instructor's Manual, chapter-by-chapter PowerPoint slides, and a bank of exam questions.

**Daniel D. Prior**, BCom, MCom, GradCertUnivLear&Teach, PhD, FAMI CPM SFHEA, is Associate Professor of Buyer-Supplier Engagement at the University of New South Wales, Australia, and Visiting Professor of Strategic Sales at Cranfield University, UK. Daniel is currently Deputy Head Education (Courses) of the UNSW Canberra School of Business and former Co-Director of the Centre for Strategic Marketing and Sales at Cranfield University, UK.

**Francis Buttle**, BSc, MA, PhD, is founder and principal consultant of Francis Buttle & Associates. He was previously Professor of CRM, Relationship Marketing, and Marketing at Macquarie University (Australia) and Manchester Business School (UK).

**Stan Maklan**, BSc, MBA, PhD, is Emeritus Professor at Cranfield School of Management (UK), where he was previously Professor of Marketing and Technology and Director of the Centre for Strategic Marketing and Sales.





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# **CUSTOMER RELATIONSHIP MANAGEMENT**

Concepts, Applications, and  
Technologies

Fifth Edition

**DANIEL D. PRIOR,  
FRANCIS BUTTLE, AND  
STAN MAKLAN**

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# PREFACE

Welcome to the fifth edition of *Customer Relationship Management: Concepts, Applications and Technologies* by Daniel D. Prior, Francis Buttle, and Stan Maklan. With this new edition, we welcome a new author to the writing team, Dr Daniel D. Prior. Francis and Stan have both worked with Daniel over several years and are delighted that Daniel, as lead author for this revision, has used his considerable talents and experience to enrich and refine the book.

The subtitle of this refreshed and updated edition has been reworded to reflect the book's dominant focus on managerial issues more accurately. Previous editions were either subtitled "Concepts and Tools" or "Concepts and Technologies". The new subtitle is "Concepts, Applications and Technologies", which draws attention to the coverage we give to the applications of CRM in businesses and not-for-profit organisations. Although there is plenty of content on technology, this is not a book about technology, *per se*. We present the technology-related content in the book in a way that readers who are unfamiliar with technology, or who are technophobes, can still understand what CRM technologies can deliver. Technology is secondary to management throughout the book. You do not need a degree in information systems to benefit from the book!

The book provides a comprehensive and balanced review of Customer Relationship Management (CRM). It defines CRM, the benefits it delivers, and the costs it creates across its many usage contexts. Companies of all sizes are the main adopters of CRM, but government agencies and not-for-profits are also users. Adopters use CRM principally to achieve their own goals; they also recognise that CRM has a major impact on customer – or citizen – experience.

CRM is widely, but incorrectly, thought to be synonymous with the use of information technologies to manage customer relationships. This is a narrow and restrictive view of CRM. The three-letter acronym CRM is, of course, shorthand for customer relationship management, and those three words should tell you plenty about CRM. It involves a focus on customers; it is about the relationships that companies wish to build with customers; and it is about active management of the processes and resources that enable those relationships to survive and prosper for the benefit of both companies and their customers. Those processes are typically housed in marketing, selling and customer service units, and operate in a wide range of touchpoints on the customer journey including, for example, customer on-boarding, cross-selling, loyalty management, and customer win-back. The resources necessary to manage customer relationships include data, IT infrastructure, software applications, devices,

workflow, and people. People are critical to CRM success. People design customer management processes, apply those processes, and interact with customers.

Companies first used IT to streamline administration, with a strong focus on accounting, billing, and financial reporting, resulting in IT heads reporting to the Chief Financial Officer or the Vice President of Finance. The next waves of IT deployment focused on personal productivity (desktop computing) and supply chain management (e.g., Enterprise Resource Planning – ERP). Then, in the early 1990s, IT became central to CRM, and most recently to customer experience management (CXM). CRM's emergence as a business discipline happened because advances in IT enabled adopters to capture, store, interpret and distribute customer-related data cost effectively in the execution of their CRM strategies.

CRM has changed massively since the first edition of this book in 2004, and even since the most recent edition in 2019.

- CRM practice traditionally relied upon on the exploitation of structured customer, prospect, and partner data housed in company-owned databases. This has changed. These days, most of the data customers generate, for example on social media platforms, is unstructured. Where structured data are easily codifiable, unstructured data are not. Unstructured data include text, audio, photographic and video data, call centre agent notes, recordings of customer engagement centre conversations as well as uploads to YouTube and Instagram. This means that CRM tools must accommodate a wider variety of data.
- Software-as-a-Service has largely replaced on-premise CRM. SaaS means that CRM users store their customer data in the cloud, and read, analyse, and exploit that customer data using software applications accessed through their web browsers. Most CRM vendors/developers now have a SaaS-first, or SaaS-only, approach to service provision.
- The sheer volume and variety of data generated by and about customers is growing exponentially. Big Data have massive volume, velocity, and variety. Big Data, including the data resident on social media platforms, are having a growing impact on CRM practitioners, as companies become more adept at accessing, analysing, and using this type of data.
- No longer do companies set the rules about how they will interact with customers through their control of communication channels and brand messaging. Customers now decide when and how they will interact with companies, and they have multiple channels for doing so, ranging from email, to face-to-face, and chatbot.
- Customers can also create and communicate their own brand-related messages on social media platforms like Instagram, TikTok, Facebook, and X (formerly Twitter). These may be quite different in content and tone from the brand owner's messaging.
- Artificial Intelligence (AI) is playing a more significant role in CRM. AI enables companies to make sense of random or chaotic datasets, and to respond automatically without human intervention in real-time.
- CRM now aligns with customer experience management (CXM). CXM is a hot topic in customer management. Companies are trying to understand what it is like to be a customer of their company, and to design moments-of-truth at customer touch points that improve customer experience. We view CRM and CXM as two sides of the same coin.

CRM resources including technologies and human skill sets change customer experience, and excellent customer experience on a large scale is only possible with the support of CRM technologies.

- Privacy and data security have become critical issues for regulators, and, in turn, for CRM practitioners. Questions about data ownership, use, and security have become critical as customers surrender personal information to online pre-plays such as Amazon and Facebook, and other organisations that are present online. Data breaches by bad actors have become all too common with adverse consequences for business and customers alike. Regulatory agencies, including governments, are responding.
- We are seeing the emergence of the next wave of technology-supported innovation in CRM featuring new business models founded on real-time, mobile data, particularly customer-generated data. CRM, the most mature of the IT-enabled customer-facing management disciplines, has an enhanced role in such an environment and we believe is still the cornerstone for marketing, sales, and customer service.

In producing this fifth edition we knew we had to reflect this evolving landscape, and in true, customer-oriented manner, we also surveyed readers and adopters of earlier editions. They told us what they wanted in this revision, and we have followed their guidance. We have also refined the focus of the book. We have removed content that readers and adopters do not value. We also streamlined and updated remaining content to provide an easier reading experience. This fifth edition continues to draw on academic and independent research to ensure that it is both theoretically sound and managerially relevant. Research from a wide range of academic disciplines contributes to the book. These include marketing, sales, customer service, human resources, technology management, strategy, change management, project management, leadership, operations, management accounting, finance, and organisational behaviour. Supplementing these academic credentials, the book also makes use of research conducted by independent analysts such as Gartner and Forrester, two organisations that conduct leading edge, state-of-the-art research into CRM and related areas.

## **AUDIENCE FOR THE BOOK**

This book targets several audiences, all of whom share an interest in improving their understanding of CRM. These include:

- MBA and Master's students, and upper-level undergraduates studying CRM or related advanced courses such as relationship marketing, database marketing, digital marketing, social media marketing, customer management, customer portfolio management, customer experience management, sales management, key account management, strategic management, customer value management, and customer service management.
- Those pursuing professional qualifications or accreditation in marketing through international organisations such as the Chartered Institute of Marketing, the Digital Marketing Institute, and the Institute of Direct and Digital Marketing, or national bodies such as the Marketing Institute of Ireland or the Canadian Institute of Marketing.

- Senior and mid-level managers who participate in CRM programmes and system implementations, whether in a marketing department, the sales force, or the service centre.
- CRM users who want a better understanding of this complex area. CRM tools serve all customer-facing parts of organisations. Users include sales representatives and account managers, marketing managers, market analysts, campaign managers, market managers, customer relationship managers, and customer service managers. These users see only a fragment of the CRM universe. This book can put their role into broader context.

## KEY FEATURES OF THE BOOK

- The book provides a helicopter view, an overview, of the domain of CRM. As an impartial review of the field, it does not advocate any one perspective on CRM. Indeed, the book presents several holistic models that amount to different and competing views of CRM.
- Although CRM is in widespread use, there is still some misunderstanding about what CRM is. The book presents three distinct types of CRM – strategic, operational, and analytical. Strategic CRM centres on the ways in which companies can identify and align with their most desirable customers. Operational CRM focuses on how companies can use CRM to conduct daily customer-related functions. Core to this is the use of IT systems to automate key activities in marketing, sales, and service. Analytical CRM involves using customer-related data to assess customer behaviours, define customer groups/segments, predict customer behaviour, and to present information to support key decisions such as customer selection. The book's structure groups chapters on each of these types of CRM together in each of its parts.
- The book defines CRM as “*an organisational capability that centres on the creation and maintenance of profitable customer relationships through the design and delivery of superior value propositions grounded in insights from customer-related data*”. This definition serves as a central point-of-reference throughout the book.
- We do not assume that customers want relationships with suppliers. If CRM is about developing and supporting relationships with customers, it is important to have a clear understanding of what a relationship looks like, and how, if at all, companies can manage them. We discuss what is meant by ‘relationship’ and question whether customers want relationships with suppliers and *vice versa*. We also describe attributes of successful relationships and review five different schools of thought that have influenced relationship management in a business context.
- The book emphasises a managerial perspective on CRM. While technology is crucial to CRM, the treatment of related topics should allow readers, no matter their knowledge of technology, to understand what CRM technologies can deliver.
- We examine how CRM relates to the customer journey, which begins before customers become customers, which is when they are prospects. We treat the journey as consisting of three key stages – customer acquisition, customer development, and customer



retention. Different CRM software applications can serve different purposes during the customer journey, depending on their capabilities.

- The book has a strong academic foundation provided by research from many disciplines, ensuring that the content is theoretically sound.
- The book contains many examples of CRM solutions and their application in the marketing, selling, or service functions of many different industries in different geographies. Screenshots from CRM software applications are a feature of the book.
- Every chapter includes embedded case illustrations. These are not problem-based cases, but examples of CRM in practice, so that readers can better appreciate CRM in context. Case illustrations capture a variety of contexts, including small, medium, and large organisations, different industries, and various countries.

## **NEW TO THIS EDITION**

- Fully updated to reflect the rapidly evolving CRM landscape, including extended coverage of:
  - Big Data.
  - Analytics for unstructured data.
  - Artificial Intelligence (AI).
  - Newer CRM technologies such as chatbots.
  - The impact of CRM on customer experience and customer engagement.
  - Privacy and data security issues.
- New and updated case illustrations of CRM applications in a wide variety of contexts.
- Most chapters now include end-of-chapter discussion questions to aid in learning.
- New and updated screenshots from CRM software applications.

# ACKNOWLEDGEMENTS

We thank the owners of all copyright materials used in this book. We have made every effort to track down copyright owners, and to cite them correctly in endnotes or in the text. If we have failed to identify and cite any copyright material correctly, we apologise, and advise copyright owners to contact our publishers so corrections can be made in future editions. We offer particular thanks to Dr John Turnbull for permission to use multiple images throughout the book.

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We hope you enjoy the book and find it a satisfying read. Writing a book is a little like painting a picture or tending a garden. You never reach a point where you can safely say that the job is finished. There is always more you can do. With that in mind, we invite you to write to us at [d.prior@unsw.edu.au](mailto:d.prior@unsw.edu.au), [francis@francisbuttle.com.au](mailto:francis@francisbuttle.com.au), and [s.maklan@cranfield.ac.uk](mailto:s.maklan@cranfield.ac.uk). We look forward to hearing from you.

**Daniel D. Prior, Canberra**  
**Francis Buttle, Sydney**  
**Stan Maklan, London**

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## Section A

# UNDERSTANDING CUSTOMER RELATIONSHIPS

This book has six sections. Section A consists of two chapters that introduce the fundamentals of CRM. Chapter 1 explains the concept of CRM, describes three types of CRM, highlights CRM's main stakeholders, and illustrates several contexts in which CRM is used. Chapter 2 explores what we know about commercial relationships and asks why companies and customers might want to develop relationships with each other, and why they sometimes do not.

# AN INTRODUCTION TO CRM

### CHAPTER OBJECTIVES

By the end of the chapter, you will be able to describe:

1. Three major forms of CRM: Strategic, Operational, and Analytical.
2. Where Social CRM fits in the CRM landscape.
3. The changing character of CRM.
4. Several common misunderstandings about CRM.
5. A definition of CRM.
6. Constituencies with an interest in CRM.
7. CRM deployments in several contexts.
8. Three models of CRM.

### INTRODUCTION

The expression, 'Customer Relationship Management (CRM)', has been in use since the early 1990s. As such, there have been many attempts to describe the domain of CRM (see Table 1.1 for a sample of definitions). CRM incorporates a variety of business activities.

### **IT perspectives of CRM**

IT companies tend to use the term 'CRM' to describe the software tools used to support the marketing, selling and service functions of businesses. This equates CRM with technology. The commercialisation of CRM software accelerated in 1993 when Tom Siebel founded Siebel Systems Inc. (now part of Oracle). Over the ensuing decades, the market for CRM software has become mature and now includes a diverse array of suppliers. According to a

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**Table 1.1** Definitions of CRM

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CRM is an information industry term for methodologies, software, and usually Internet capabilities that help an enterprise manage customer relationships in an organised way.<sup>1</sup>

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CRM is the process of managing all aspects of interaction a company has with its customers, including prospecting, sales, and service. CRM applications attempt to provide insight into and improve the company/customer relationship by combining all these views of customer interaction into one picture.<sup>2</sup>

---

CRM is an integrated approach to identifying, acquiring, and retaining customers. By enabling organisations to manage and coordinate customer interactions across multiple channels, departments, lines of business, and geographies, CRM helps organisations maximise the value of every customer interaction and drive superior corporate performance.<sup>3</sup>

---

CRM is an integrated information system that is used to plan, schedule, and control the pre-sales and post-sales activities in an organisation. CRM embraces all aspects of dealing with prospects and customers, including the call centre, sales force, marketing, technical support, and field service. The primary goal of CRM is to improve long-term growth and profitability through a better understanding of customer behaviour. CRM aims to provide more effective feedback and improved integration to better gauge the return on investment (ROI) in these areas.<sup>4</sup>

---

CRM is a business strategy that maximises profitability, revenue, and customer satisfaction by organising around customer segments, fostering behaviour that satisfies customers, and implementing customer-centric processes.<sup>5</sup>

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2022 Fortune Business Insights report, global spending on customer relationship management software applications is projected to grow from US\$63.91 billion in 2022 to US\$145.79 billion by 2029, at a compound annual growth rate of 12.5%.<sup>6</sup>

However, expenditure on CRM not only includes ongoing fees for software licences and subscriptions, but for data storage (with about 75% of all CRM data now stored in the cloud<sup>7</sup>). A more recent trend now sees suppliers offering CRM as a service, which means that companies access the service on a subscription basis, without the need to buy separate software licences (e.g., HubSpot, Salesforce).

Large businesses, for example, banks, telecommunications firms, and retailers, were early adopters of CRM. However, recent growth in CRM expenditure is from a broader array of sectors. Ubiquitous, online access to online CRM tools and support means that CRM capabilities are now easy to access for most organisations. Indeed, small-to-medium enterprises (SMEs), not-for-profits, and government departments all use CRM systems.

### Managerial perspectives of CRM

For managers who look to create sales, or support customers more broadly, 'CRM' refers more to activities than it does to software. Rather than emphasising IT applications, they

take the view that CRM is a disciplined approach to managing the customer journey from initial acquisition to their transition to a high-spending, profitable advocate for the company's brands. While technology certainly plays a role in this process, it is not the main feature of CRM. Instead, CRM equates to a customer management strategy. Through the aggregation and analysis of customer-related data, companies use CRM to address questions such as:

- Which customers should we serve?
- What sorts of value propositions should we present to them?
- Which channels should we use to serve our target customers?

Well-considered answers to these questions allow managers to design and implement processes, procedures, and systems that integrate diverse activities of the company to provide near-seamless customer interactions.

### CRM and customer experience management

Managerial perspectives of CRM have a close association with more recent attempts to manage customer experiences (CX).<sup>8</sup> By understanding CX, companies are more likely to design and implement measures that align with a comprehensive understanding of customers' interactions with company touchpoints such as storefronts, contact/call centres, and websites. New technology, new processes, or new people (particularly new customer-facing employees) all have the potential to affect CX in different ways.

For example, sales reps can now show product information through tablets that they carry with them. They can easily email the client links to product demo videos. They can also share contact details via online apps. Sales reps can also access CRM technology to gain in-depth client insights in real-time, thus developing customer rapport. There is scope to place orders, to trace the progress of current orders, and to recall earlier orders, all in real-time. CRM allows sales reps to create richer, more efficient CX than has been the case historically.

It is also the case, however, that the implementation of CRM may produce poor CX. Customers who prefer personal calls from sales reps might find these disappear in favour of an online sales portal. Self-service through such portals results in a very different CX. Customer resistance, resentment, and churn may result. There is also scope for a lack of a consistent or coherent CX, where parts of the company do not successfully coordinate with one another. Understanding customers' perspectives during the implementation or enhancement of CRM, therefore, is necessary.

CX is a major focus for consumer marketing and the provision of government services. By understanding the end-to-end journey from need identification to using the solution *in situ*, companies enhance their ability to create strategies and offers that truly engage their target customers and promote longer-term loyalty. This involves understanding the value customers extract in using the offer, all the steps involved in getting to that point, and the integration of all the company's online and offline channels to make that journey as easy and



rewarding as possible. CX therefore integrates strategic, operational, and analytical CRM to focus on creating the right customer experiences.

THREE FORMS OF CRM

We can resolve the debate between technological and managerial notions of CRM by envisioning CRM in three main forms: strategic, operational, and analytical, as summarised in Table 1.2.

Strategic CRM

Strategic CRM focuses on the development of a customer-centric culture. Central to this culture is the dedication to identifying, winning, developing, and keeping profitable customers. Creating and delivering better value propositions and experiences than those of competitors are core pursuits of strategic CRM.

A customer-centric culture is evident in the behaviours of leaders, the design of formal systems of the company, and in the common myths and stories. Resource allocations reflect an emphasis on customer value maximisation (i.e., increasing customer benefits, reducing customer costs), employee reward schemes align closely with customer value maximisation, and customer-related data collection and analysis emphasise a whole-of-company, integrated approach to managing CX.

Many businesses claim to be customer-centric, customer-led, customer-focused, or customer-oriented, but few are. The reality is that it is hard to develop and implement a customer-centric culture since it takes considerable resource investments and dedication to often difficult decisions that help the customer, sometimes to the detriment of the company.

PayPal, the online payment service, is an example of strategic CRM (see Case illustration 1.1).

Table 1.2 Types of CRM

Type of CRM	Dominant characteristic
Strategic	The aspects of company-level strategy that advocate a customer-centric approach to identifying, winning, developing, and keeping profitable customers.
Operational	The integration and automation of customer-facing processes such as selling, marketing, and customer service that create CX.
Analytical	The process through which organisations transform customer-related data into actionable insight useful for Strategic and/or Operational CRM.

## CASE ILLUSTRATION 1.1

### STRATEGIC CRM AT PAYPAL<sup>9</sup>

PayPal runs an online payment service, allowing customers to make online purchases easily, securely, and instantly. The PayPal brand has a reputation for security, support, and supplying safer online shopping. PayPal launched 'Pay in 4' in response to market demand for buy-now-pay-later options, allowing business customers to easily adapt to changing consumer expectations. PayPal is aware that consumers are looking for payment options that are fast, secure, and easy to use. The PayPal business model offers consumers a no-fee secure payment service, while charging merchants a percentage fee to offer the PayPal service.

PayPal manages over 400 million consumer and business/merchant accounts, collecting data from both buyers and sellers. This data allows PayPal to track trends and changes in consumer behaviour, and to offer different services to different customers in real-time; for example, customer accounts in debt (with money owing) do not see the 'Pay in 4' option when purchasing until the debt is cleared.

PayPal is expanding into cryptocurrency in response to changing consumer behaviours, with digital currencies expected to play an increasing role in payment options long-term. Account holders in the USA can already use cryptocurrency to pay for goods and services anywhere that accepts PayPal. Recently, PayPal expanded its service to allow customers in the UK the option to buy and sell and hold cryptocurrency in their accounts.

PayPal illustrates that convenient, secure payment options are in-demand globally. PayPal has become the world's leading payment platform by understanding that both its individual and business customers are looking for secure self-service, automated, easy-to-use software, coupled with buyer and seller protection policies. Despite this hands-off relationship, PayPal makes a significant effort to understand and ensure the satisfaction of its customers.

### Operational CRM

Operational CRM aims to improve the efficiency and effectiveness of customer-facing business processes and their integration between different corporate divisions or teams, particularly through automation. Many CRM software apps enable marketing, selling, and service process automation to varying degrees (normally depending on the package the company signs up to). Table 1.3 has a brief description of some common applications. We will revisit many of these applications in later chapters.

### Marketing automation

Marketing automation (MA) involves the software-based application of rules and algorithms that execute marketing activities with little or no human intervention.

**Table 1.3** Operational CRM – some applications

<i>Marketing automation tools/apps</i>	<i>Functions</i>
Campaign management	Allows marketers to use customer-related data to develop, execute, and evaluate targeted communications and offers across multiple channels.
Event-based (trigger) marketing	Identifies significant events or triggers relevant to the customer as the basis of communications content.
Marketing optimisation	Targeting communications as precisely as possible to simultaneously maximise effectiveness and efficiency of marketing resources.
<i>Sales force automation tools/apps</i>	
Account management	Maintains positive relationships with current customers through insight and planned communication.
Lead management	Develops new sales leads through analytics and insight, and targeted communications.
Opportunity management	Prioritises sales opportunities and applies a workflow to coordinate sales, marketing, and operations activities to convert sales opportunities into new business.
Pipeline management	Profiles sales opportunities in terms of the types of products/services in demand, the timing of such demand, and recommends a suitable service approach.
Contact management	Maintains records of communications from and to potential, current, and previous customers.
Product configuration	Through analytics and insight, recommends a product combination for a target customer.
Quotation and proposal generation	Normally through a structured workflow, the application develops a new proposal or quotation for a specified product offering for a given customer.
<i>Service automation tools/ apps</i>	
Case (incident or issue) management	Upon receipt of a customer enquiry, creates a record of a customer issue and generates a workflow to coordinate its resolution.
Customer communications management	Includes mechanisms to receive customer messages and to convey information to the customer (such as status updates).
Queuing and routing	The system uses algorithms to identify the most efficient set of steps necessary to resolve the customer issue and subsequently allocates the issue (or parts thereof) to appropriate resources.
Service level management	Monitors different service levels according to a set of pre-determined standards (i.e., 'service standards'), identifies any deviations, and recommends remedies.

Campaign management (CM) tools and/or apps allow marketers to use customer-related data to develop, execute, and evaluate targeted communications and offers. CM applications aim to lift customer engagement with the brand – be that a product brand or an organisational brand. CM tools and/or apps often include an ability to pre-plan marketing communications activities and to schedule their implementation. This is particularly the case with social media marketing. For example, HubSpot allows marketers to develop content (e.g., blog posts, videos, infographics) and schedule their dissemination among social media platforms.

In multi-channel environments, campaign management is particularly challenging. Fashion retailers may have several transaction channels including free-standing stores, department store concessions, a website, home shopping catalogues, catalogue stores, and even a TV shopping channel. Some customers may be unique to a single channel, but most will be multi-channel prospects, if not already customers of several channels. Integration of communication and offer strategies, and evaluation of performance, require a substantial amount of technology-aided coordination across these channels.

Event-based, or trigger, marketing is the term used to describe messaging and offer development to customers at points-in-time. An event triggers the communication and offer. Customer behaviours or contextual developments act as the triggers. A call to a contact centre is an example of a customer-initiated event. When a credit-card customer calls a contact centre to enquire about the current rate of interest, this is a sign that the customer is comparing alternatives and may switch to a different provider. This event can act as a trigger for the company to make an offer to retain or develop the customer relationship. Examples of contextual events are the birth of a child or a public holiday. Both can compel changes in buyer behaviour, which trigger a marketing response. Event-based marketing also occurs in business-to-business (B2B) market contexts. The event may be a change of personnel on the customer-side, the approaching expiry of a contract, or a request for information (RFI).

Real-time marketing combines predictive modelling and workflow automation enabling companies to make relevant offers to customers as they interact with different touchpoints such as websites and retail outlets. This means it is possible to optimise marketing campaigns to align with customer behaviours. As consumers share more data with companies, and as the company's ability to analyse that data improves, online and mobile marketing increasingly occur in real-time. Through CRM, companies can match customer usage pattern data with customer profiles, and those of similar people, to predict which communication and offers are most likely to generate a desired outcome (often called the NBO or Next Best Offer). E-retailers, such as Amazon, continually refresh recommendations because of customer searches, and Google changes the advertising it pushes to you as a function of your location and search behaviours.

Increasingly, MA relies on sophisticated algorithms trained to predict desirable outcomes, be they, to click to the next screen, express interest, buy a product, or make a recommendation. Algorithms can be developed to improve decision making (from the organisation's perspective) and scale rapidly. This enables firms to (ideally) add most value to their customers, at least maximise their revenue while minimising cost. It must be noted that algorithmic decision making is under increasing scrutiny and there are demands for organisations to take more responsibility for the assumptions upon which they are built and the unintended consequences of their deployment.

### Sales-force automation

Sales-force automation (SFA) is the application of computerised technologies to support and manage the sales activities of the company whether these be through customer-facing staff or through self-service channels. The main aim for companies that implement SFA is to optimise resource use. On the one hand, companies wish to maximise their likelihood of ongoing, profitable sales. On the other hand, companies also wish to invest the least resources possible. By using SFA, companies have a means to achieve these outcomes.

The selling process involves multiple stages. These include lead generation, lead qualification, lead nurturing, needs discovery, proposition development, proposal presentation, negotiation, closing the sale and after-sales follow-ups. Enacting each step can be complex. There is substantial scope for each salesperson (or sales team) to use different approaches or techniques. While this may be fine, it does lead to a series of potential problems. Inconsistent messages can confuse the customer. Poor communication between sales team members can compromise sales leads. There can be differences between sales promises and the ability of the company to deliver.

To address these problems, many companies adopt a sales methodology – an agreed framework or process that catalyses a sales effort. Sales methodologies allow sales team members and management to adopt a standardised view of the sales cycle, and a common language for discussion of sales issues. The presence of a sales method is often a precursor to the implementation of SFA.

SFA is then useful for a wide variety of typical sales activities. We discuss several of the more common examples here.

- SFA allows companies to assign leads automatically to sales personnel for further follow-up. SFA software then allows sales personnel and their managers to track and manage sales opportunities as they progress through the sales pipeline towards closure.
- Contact management lets users manage their communications programme with customers. Digital customer records hold customer contact histories. Contact management applications often have features such as automatic customer dialling, the salesperson's personal calendar, and email functionality.
- Product configuration applications enable salespeople, or customers themselves, to automatically design and price customised products, services, or solutions. Configurators are useful when the product is particularly complex, such as IT solutions. Configurators are typically based on an 'if ... then' rules structure. The general case of this rule is "If X is chosen, then Y is needed, prohibited, or legitimated or unaffected". For example, if the customer chooses a particular feature (say, a particular hard drive for a computer), then this rules out certain other choices or related features that are technologically incompatible or too costly or complex to manufacture.
- Quotation and proposal generation allow the salesperson to automate the production of prices and proposals for customers. The salesperson enters details such as product codes, volumes, customer name and delivery requirements, and the software automatically generates a priced quotation. This functionality often comes with product configuration in what is known as CPQ – Configure, Price, Quote.

## CASE ILLUSTRATION 1.2

### SALES-FORCE AUTOMATION AT ROCHE

Roche is one of the world's leading research-based healthcare organisations, active in the discovery, development, and manufacture of pharmaceuticals and diagnostic systems. The organisation has traditionally been product-centric and quite poor in customer management. Roche's customers are medical practitioners prescribing products to patients. Roche used to access customer information through several mutually exclusive sources, ranging from personal visits to handwritten correspondence. This information was not part of a single database, which resulted in an incomplete view of the customer. Roche found the need to adopt a more customer-centric approach to better understand their customers, improve services offered to them, and to increase sales effectiveness. Roche implemented a Sales Force Automation system that stores all customer-related data and records of customer interactions in a central database which is accessible throughout the organisation. Roche can now create customer profiles, segment customers, and communicate with existing and potential customers. Since implementation Roche has been more successful in identifying, winning, and retaining customers.

### Service automation

Service automation involves the application of technology to customer service operations. It helps companies manage service operations, whether delivered through call centre, contact centre, field-service, web, or face-to-face with high levels of efficiency, reliability, and effectiveness.<sup>10</sup> Service automation software enables companies to handle in-bound and out-bound communications across all channels. Software vendors claim that this enables users to become more efficient and effective, by reducing service costs, improving service quality, lifting productivity, enhancing customer experience, and lifting customer satisfaction.

Service automation differs significantly across contexts. The first point of contact for service of consumer products is often the retail outlet or a call centre. The company's employees that work at these touchpoints often use online diagnostic tools that help identify and resolve a customer's problem. Several technologies are common to service automation. Call routing software directs inbound calls to the best handler. Technologies such as Interactive Voice Response (IVR) and AI enabled chatbots enable customers to interact with company computers. Customers can input to an IVR system after listening to menu instructions either by telephone keypad (key 1 for option A, key 2 for option B), or by voice. If first contact problem resolution is not possible, the service process may then involve authorising a return of goods, or a repair cycle involving a third-party service provider. Increasingly, firms are deploying Artificial Intelligence (AI) to this process and ever-improving chatbots – robots capable of conversation with customers – can reduce costs while ensuring service quality standards.

Most large organisations now respond to customer complaints through social media such as Facebook and X (formerly Twitter) in close to real-time. Social media posts by angry customers can pose significant risks to the company. Real-time engagement in the social media conversation enables companies to intervene promptly to resolve the customer's issue

before a social media storm erupts. Some companies employ people and/or technologies to watch and respond to tweets and other social media content. However, other participants in the conversation, for example other users of X (formerly Twitter), might also be able to contribute to the resolution of a consumer's problem, through crowd-sourced customer service.

### CASE ILLUSTRATION 1.3

#### SERVICE AUTOMATION AT MERCEDES-BENZ<sup>11</sup>

Mercedes-Benz is an iconic automotive manufacturer, selling and servicing cars globally. The Mercedes-Benz brand name is synonymous with excellent customer experience, both from a driving perspective and from a service perspective.

Mercedes-Benz uses CRM software to automate service technician efficiency. The result is faster car servicing, quicker problem diagnosis, reduced costs, and reduced environmental impacts.

As automobiles become more and more digitised, computer technicians must increasingly work with dealership service technicians to diagnose problems. Mercedes-Benz uses two programmes to speed up the diagnosis process. In real-time, a dealership service technician with access to a tablet device can see both the Mercedes-Benz engine and a 3D model, in a mixed reality view. This programme is used in conjunction with "Remote Assist" allowing multiple experts from the factory offices to see what the technician sees, diagnose the problem, and to supply visual information.

Mercedes-Benz's service automation reduces problem diagnosis time, allowing a single team of experts to help dealerships around the world without the travel costs or carbon emissions, both hugely positive impacts for customer service.

Service automation for large capital equipment is different from other types of service automation. This normally involves diagnostic and corrective action taken in the field, at the location of the equipment. Examples of this type of service include industrial air conditioning and refrigeration. In these cases, service automation may involve providing the service technician with diagnostics, repair manuals, inventory management, and job information on a laptop or mobile device. This information is then synchronised at regular intervals to update the central CRM system. Many mechanical and electrical systems also include inbuilt diagnostics, with real-time back-to-base issue reporting. Rolls-Royce aeroengines, for example, are offered with a service contract which includes Rolls-Royce engineers monitoring aircraft engines in flight to help airlines maximise efficiencies, reduce service cost, and, most importantly, reduce downtime of the airplane through preventative service interventions. Rolls-Royce calls this "Power-by-Hour". GE, its chief competitor in aircraft engines, offers a similar service. The Internet of Things (IoT) is accelerating this trend by enabling remote diagnostics for items such as locomotives and industrial tyres. In addition to diagnostics for after sales service, IoT supplies real-time location data. Firms can therefore use smart systems, powered by IoT data, to enhance their offers.

## Analytical (or Analytic) CRM

Analytical CRM, also called analytic CRM, is concerned with capturing, storing, extracting, integrating, processing, interpreting, distributing, using, and reporting customer-related data to enhance both customer and company value. Analytical CRM continues its rapid growth due to the proliferation of Big Data sets holding customer-related data.

Analytical CRM looks to harness a diverse array of customer-related data from multiple sources. Customer-related data is often accessible in enterprise-wide repositories: sales data (purchase history), financial data (payment history, credit score), marketing data (campaign response, loyalty scheme data), and service data. Data from external sources such as business partners with whom companies have data sharing agreements (subject to customer acceptance) and third-party organisations such as research firms that supply geo-demographic and lifestyle data can complement the internal data sources. These are typically structured datasets held in relational databases. A relational database is like an Excel spreadsheet where all the data in any row is about a particular customer, and the columns report a particular variable such as name, postcode, and so on. With the application of data mining tools, a company can interrogate the data and advance their customer relationship goals.

The expression ‘Big Data’ has been around since 2000, but it’s only since 2010 that businesses have been able to manage the large volumes of ever-changing data, which takes many different forms. According to technology giant IBM, “big data comes from everywhere: from sensors used to gather climate information, posts to social media sites, digital pictures and videos posted online, transaction records of online purchases, and from cell phone GPS signals to name a few”.<sup>12</sup> Big Data extends beyond structured data, including unstructured data of all varieties: text, audio, video, click streams, log files, and more. The tools for searching, making sense of, and acting on unstructured data differ from those available for data-mining structured datasets. Some technology firms offer ‘social CRM’ solutions that can help users understand and exploit ‘Big Data’.

Analytical CRM has become an essential part of many CRM implementations. Operational CRM struggles to reach full effectiveness without analytical information about customers. For example, an understanding of customer value or propensities to buy underpins many operational CRM decisions, thus helping to answer questions such as:

- Which customers shall we target with this offer?
- What is the relative priority of customers waiting on the line, and what level of service should we offer?
- Where should I focus my sales effort?
- Which customers are most influential in social media?

From the customer’s point-of-view, analytical CRM can deliver prompt, customised, solutions to problems, thereby enhancing customer satisfaction and loyalty. From the company’s point-of-view, analytical CRM offers the prospect of more powerful cross-selling and up-selling programmes, and more effective customer retention and customer acquisition programmes.



## CASE ILLUSTRATION 1.4

### ANALYTICAL CRM AT DR MARTENS<sup>13</sup>

Dr Martens began in 1947 as a wholesale business selling iconic footwear with a unique style. The British brand is now available to buy directly online, or through retail stores in over 60 countries.

Dr Martens has ambitious plans to expand its online and retail sales, recognising opportunities for growth and a need to evolve. Dr Martens was functioning with multiple legacy systems and applications, many of which were site specific and not integrated to share data.

Dr Martens replaced all its legacy systems with Microsoft Dynamics end-to-end solution. Visibility and access to unified global business data is allowing Dr Martens to realise benefits in all areas of the business. Accurate information is generating accurate reporting, allowing informed real-time decisions to be made.

Dr Martens' retail channel benefits from real-time visibility of stock levels through the supply chain, enabling the right products to be in the right stores at the right time. Customer satisfaction is also higher during peak trading periods such as through the Black Friday to Cyber Monday weekend, with stock levels efficiently scaled up using the data-driven technology.

### Where does social CRM fit?

We have highlighted three different types of CRM here – strategic, operational, and analytical. Another expression that has found widespread traction is 'social CRM'. This expression has its origins in the early 2000s when CRM technology companies began to develop stand-alone tools enabling their clients to manage their presence in social media. Today's more comprehensive CRM systems routinely incorporate such functionality.

Early CRM endeavours coincided with advances in database technology that allowed companies to create a single view of the customer. Companies would capture and integrate customer-related data from various organisational siloes (e.g., sales, marketing, services, operations, finance) to create a whole-of-customer overview.

Advances in CRM then led to the formation of data-sharing partnerships or alliances that allowed companies to access customer and other relevant data from their suppliers. Suppliers could also do the same from companies. This led to greater insight as to demand patterns, thus allowing companies to plan, along with their supply chain, to meet customer requirements in more efficient and effective ways.

The advent of social media (e.g., Facebook, TikTok, X (formerly Twitter), Instagram) created yet another source of customer-related data giving companies access to some of the richest customer-related data in history.

We do not regard social CRM as equivalent to strategic, operational, or analytical CRM. Interactions between members of social networks produce a colossal amount of data, often unstructured, which many businesses are now trying to collect, interpret, and use to create

and support long-term beneficial relationships with their customers. Sophisticated analytical techniques are enabling these companies to make sense of social media data and apply those learnings for strategic and operational CRM purposes. Hence, our view is that social media are providing yet another important data stream that can improve CRM performance.

## **THE CHANGING FACE OF CRM**

Since companies began to recognise the importance of CRM in the 1980s, there has been a gradual and ongoing evolution of CRM. This resembles shifts in managerial practice as well as technological advances. We can think of earlier forms of CRM as CRM 1.0, where companies were the creators and maintainers of customer-related data that informed CRM (strategic, operational, and analytical). The fact that the company handled the implementation of all CRM-related activities by drawing on its own data and resources meant that CRM 1.0 was ‘on-premises CRM’. CRM would normally sit in company databases, behind corporate firewalls, and would involve licensed software use.

CRM 1.0 did involve the use of data from some external third parties. Market research companies, for example, did supply customer-related data through customer surveys or focus groups. Government agencies were also useful for supplying demographic or geographic customer-related data. Companies could also tap into marketing or management consultancies to analyse the data and to produce recommendations. This complemented internal corporate analytics. Analyses tended to focus on several key statistical procedures, such as cluster analysis (for market segmentation), regression (to explain customer behaviour), and Neural Networks and other forms of Machine Learning (to predict customer behaviour) – which rely on structured data sets.

Over the past 40 or so years, CRM has continued to evolve. One of the biggest changes has been the shift from on-premises CRM to ‘cloud-based CRM’. About 75% of all CRM data is now stored in the cloud, not on corporate database servers.<sup>14</sup> This means that companies have become comfortable with outsourcing many of the traditional CRM activities (data cleaning, storage, analysis, presentation) to third parties. In return, companies have been able to use external expertise in data science and data analytics without having to invest significant resources themselves. This allows companies to focus on their core competencies, which often do not include CRM. Companies do, however, require internal resources, systems, and processes that allow them to manage CRM-related activities – this is the only way to ensure their investment in cloud-based CRM is worthwhile.

The prevalence of cloud-based CRM, or CRM 2.0, coincides with the ability of modern CRM tools and apps to handle broader, more diverse, customer-related data sets and to produce user-friendly insights from them. Analytics for unstructured data such as Natural Language Processing and Video Analytics are now widely available, and machine learning applications such as neural networks and artificial hierarchical processing are available to find meaning in large and amorphous datasets. This means that CRM 2.0 is much more useful than CRM 1.0. We summarise some of the differences between CRM 1.0 and CRM 2.0 in Table 1.4.

**Table 1.4** How CRM has changed over time

	CRM 1.0	CRM 2.0
Period	1990 >	2010 >
Customer data sources	Mostly internal corporate siloes	Internal siloes plus external 'Big Data' sources
Data character	Structured	Structured and unstructured
Data storage	Corporate servers	Cloud
Analytics	Standard multivariate statistics	Standard multivariate statistics plus Artificial Intelligence
Mobile CRM access	Rare	Common
Customer interactions	Pre-planned	Real-time
Dominant CRM model	On-premises	Software-as-a-Service

## DEFINING CRM

Against the background of the three types of CRM, it is no easy matter to settle on a single definition of CRM. However, we can name several core CRM attributes and integrate them into a definition that underpins the rest of this book.

CRM is an *'organisational capability'*. This clearly denotes that CRM is not just about IT. CRM is a basic business discipline that focuses on managing the company's relationships with customers. An organisational capability amounts to a set of inter-related systems, processes, procedures, and resources. To provide seamless CX, it is necessary for each of these elements to produce a coherent and cohesive means for the company to manage its customer relationships. This is consistent with strategic CRM, which looks to embed customer relationships into the culture of the company. It is also consistent with operational CRM since it acknowledges the systems, processes, procedures, and resources necessary to conduct CRM operations. It is also consistent with analytical CRM in that some of the systems, processes, procedures, and resources are necessary for CRM analytics.

CRM *'centres on the creation and maintenance of profitable customer relationships'*. This implies that customers go through a series of stages in their relationship with a supplier. CRM practitioners tend to think of customer relationships in terms of a life cycle or journey. The *'creation'* phase means that CRM is used to acquire or on-board a new customer. The *'maintenance'* phase means that managers use CRM to keep the customer. The qualification that the relationship should be *'profitable'* shows that not all potential customers are worth attracting or keeping. Some customers may be so costly to attract that a relationship with them has no chance of turning a profit; equally, the costs of keeping a relationship may prove insurmountable, meaning that it is better to conclude the relationship (ideally in an amicable way).

CRM is also about *'the design and delivery of superior value propositions'*. Companies develop value propositions (offers or offerings) and present and promote them to customers through communication and distribution channels. When customers own or use these offers, they experience value. Companies that succeed ensure that the value customers experience from use and ownership is superior to what they experience from competitors' value propositions.

CRM is ‘grounded in insights from customer-related data’. This element of our definition highlights the essential role of customer analytics and insight – as well as the importance of high-quality customer-related data that underpins these activities. As we outline earlier in the chapter, analytical CRM is a core aspect of CRM in that it produces the outputs (analytics) that inform customer insights. These then guide many CRM-related decisions. Of course, robust analytics and insights rely on customer-related data. Many recent developments in data processing methods and approaches mean that it is now possible to accommodate a broader variety of data and to overcome, at least to some extent, poorer quality data. Such data now originates from multiple sources, so our definition also implies the ability to access a diverse range of customer-related data from multiple sources, to process it (thus improving its quality), to analyse it (through a range of sophisticated algorithms and other analytical techniques), and to produce it in a user-friendly format (and thus render meaningful insights).

Given these attributes, we can therefore define CRM:

**CRM is an organisational capability that centres on the creation and maintenance of profitable customer relationships through the design and delivery of superior value propositions grounded in insights from customer-related data.**

## **MISUNDERSTANDINGS ABOUT CRM**

As with all major management initiatives, there are several common misunderstandings about the nature of CRM. We outline some common ones below:

1. **CRM is an IT system.** In the authors’ experience, this is the most serious of the misunderstandings. There is no doubt that IT is a necessary enabler of CRM in most organisations, given the need to store, analyse, and distribute huge amounts of data quickly throughout the organisation and its business partners. However, too many managers consider CRM implementations as IT initiatives, rather than broader strategic initiatives. The implication of this is that there is little deference to the actual purpose of the CRM system – to create, build, and sustain profitable customer relationships. Instead, there is a focus on the implementation of the CRM system – so managerial conversations tend to concentrate on time, budget, and resource allocations rather than the value that a CRM system can deliver to the company.
2. **CRM is the responsibility of the marketing and/or sales teams only.** The functionality of many CRM systems centres on marketing and sales process automation. This may allow the company to increase the efficiency and effectiveness of its sales and marketing activities. This then generates more demand for the company’s products and services. If the company does not prepare for this, then the outcome is an inability to service customer requirements, thus leading to customer disappointment. Without a coordinated approach to managing sales/marketing activities in line with the company’s ability to service the resulting new demand, the company’s CRM approach may in fact destroy customer relationships. It is important to recognise that CRM, while involving systems, is a whole-of-company responsibility.

3. **CRM automates ‘everything’.** Many companies embark on the implementation of a CRM system in the hope that it will replace the need for existing resources by automating those roles. For example, the sales automation capabilities of some CRM systems allow companies to compile proposals or quotes for customers and distribute them efficiently. Such systems allow the use of templates for documents, step-by-step ‘wizards’ that allow sales representatives to follow a workflow to generate pricing, and a distribution mechanism that sends the proposal or quote to the customer after sign-off. While such tools are attractive, there is a considerable amount of work necessary to calibrate them and refine them. The company must also be able to source data, which often requires busy sales professionals to enter data diligently and regularly. Such tools also do not equate to customer relationships. Instead, they can support customer relationship development, but they are not substitutes for good sales professionals practising and honing their craft. Automation both reduces the cost of low value-added routines and empowers customer facing people to deliver exceptional service.
4. **CRM is about loyalty schemes.** Loyalty schemes are but one part of a wide range of customer relationship management initiatives. They are common in many industries: car-hire, airlines, food retail and hotels, for example. Customers accumulate credits such as points from purchases. Customers can then redeem points for some benefits at some future time. Most loyalty schemes require new members to supply their personal details when they join the programme. Companies then combine this information with purchase records data to help calibrate their customer communications and customer-specific offers. Loyalty schemes allow real-time tracking of customer purchase behaviour. When combined with the other data in the CRM system, companies can then design approaches that result in customer acquisition, retention, and development. A major function of loyalty schemes is to incentivise customer retention. The accumulation of reward points can serve as a barrier for customers who may wish to exit the loyalty scheme. So, while CRM systems and loyalty schemes are both potent tools, CRM is much bigger in scope and capability than a single loyalty scheme.

## **CRM CONSTITUENCIES**

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CRM has a range of constituencies (i.e., stakeholders):

1. **Companies** implementing CRM. Many companies have implemented CRM. Early adopters were larger companies in financial services, telecommunications, and manufacturing, in the US and Europe. Medium-sized businesses have followed. The CRM message is reaching smaller companies, other worldwide markets, government agencies at local, regional or national levels, not-for-profits, and new business start-ups.
2. **Customers and partners** of those companies. The customers and partners of companies that implement CRM are a particularly important constituency. Because CRM influences customer experience, it can affect customer satisfaction, customer engagement, and customer loyalty.

3. **CRM software houses.** Major CRM brands at the time of writing include Oracle, Salesforce.com, Microsoft Dynamics, Adobe, and HubSpot. However, there are hundreds of other players, some of which specialise in sub-disciplines of CRM such as analytics, social CRM, marketing automation, and lead management. There has been considerable consolidation of CRM software developers over the years. IBM has been integrating analytic solution providers as it builds a comprehensive analytical CRM capability, and now offers Watson Campaign Automation. Oracle acquired and integrated many solutions providers into its Customer Experience cloud.
4. **IT vendors.** IT hardware and infrastructure vendors provide the technological foundations for CRM implementations. They supply technologies such as servers, computers, handheld and mobile devices, call centre hardware, and telephony systems.
5. **Social media companies.** Facebook, X (formerly Twitter), TikTok and other social media platforms are building enormous communities that generate huge amounts of potentially valuable data about people's preferences, activities, friends, and wants. Technology firms are competing to offer clients functionality that enables them to learn from and use social media data for customer management purposes.
6. **Management consultants.** Consultancies offer clients a diverse range of CRM-related capabilities such as strategy, business, application, and technical consulting. Consultants can help companies implementing CRM in several ways: systems integration, choosing between different vendors, developing implementation plans, and project management. Most CRM implementations are composed of many smaller projects, for example: systems integration, data quality improvement, process engineering, and culture change. Major consultancies such as McKinsey, Deloitte, KPMG, and Bain all offer CRM consultancy. Smaller companies sometimes offer specialised expertise.

## **COMMERCIAL CONTEXTS OF CRM**

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Companies use CRM in a wide variety in the commercial contexts. We'll consider four contexts: banks, automobile manufacturers, technology solution vendors, and consumer goods manufacturers.

**Banks** deal with many individual retail customers. They want CRM for its analytical capability to help them manage customer defection (churn) rates and to enhance cross-sell performance. Data mining techniques can be used to identify which customers are likely to defect, what can be done to win them back, which customers are hot prospects for cross-sell offers, and how best to communicate those offers. Data mining can also improve predictions of payment default. Banks want to win a greater share of customer spend (share of wallet) on financial services. In terms of operational CRM, most banks initially transferred service out of branches into contact centres and online; a second wave of CRM innovations have involved banks in delivering service by mobile applications (Apps). This is proving popular with some customer segments but introduces banks to non-banking competitors from

IT and telecommunications industries including Apple Pay, Google Wallet, PayPal, Simple, Moven, T-Mobile, and WeChat. Banks have been slow to introduce innovative technologies that digitise the mobile customer experience, allowing these nonbanking competitors to gain significant share of the fee stream associated with retail payments.

**Auto manufacturers** sell through distributor/dealer networks. They have little contact with the end-user owner or driver. They use CRM for its ability to help them develop better and more profitable relationships with their distribution networks and to help their dealers improve their customer management. Due to their physical separation from drivers, they have built websites that enable interactions with end-users and to generate qualified sales leads for the dealer network. This has improved their knowledge of customer requirements and their capability throughout their distribution network. They hope CRM will enable them to win a greater share of end-user spend across the car purchase, maintenance, and replacement cycle.

**Technology solution vendors** manufacture or assemble complex bundles of hardware, software, and implementation, sold by partner organisations. Historically, small innovative software developers have traditionally partnered with established companies to obtain distribution and sales. Dell's direct-to-customer (DTC) channel strategy for PC's and Apple's for smartphones have by-passed this practice. This process of avoiding established channels and going DTC is known as 'disintermediation'. CRM helps these DTC companies to collect customer information, segment their customer base, automate their sales processes with product configurator software, and deliver their customer service online. Modern solutions are often entirely web/software based so the DTC model is increasingly popular.

**Consumer goods manufacturers** deal with the retail trade. They use CRM to help them develop profitable relationships with retailers. CRM helps them understand costs-to-serve and customer profitability. IT-enabled purchasing processes deliver higher levels of accuracy in stock replenishment. Manufacturers can run CRM-enabled marketing campaigns that are highly cost-effective.

## THE NOT-FOR-PROFIT CONTEXT – THE 'THIRD SECTOR'

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The 'third sector', i.e., the not-for-profit community (Charity, Non-Government Organisation (NGO), Education, and Government), includes many instances of CRM usage. Universities wish to keep relationships with alumni, charities campaign to raise income, and government increasingly is interested in changing citizens' behaviour. It is sometimes difficult to translate concepts developed for commercial, profit-centric organisations to the third sector. One key element of strategic CRM is the customer selection and targeting process: there are some customers for whom a business does more, and some customers for whom it does less. Governments interact with citizens, not customers. Governments supply services to all citizens, but typically supply more services to the most vulnerable. Operational CRM solutions can help improve government service delivery. For example, New Zealand Trade and Enterprise (NZTE) uses operational CRM solutions to help domestic businesses expand internationally (see Case illustration 1.5).

## CASE ILLUSTRATION 1.5

### THE UK NEW ZEALAND TRADE AND ENTERPRISE AGENCY

New Zealand Trade and Enterprise (NZTE) is a New Zealand Government agency helping businesses expand internationally, to grow the New Zealand economy. The agency has employees in 50 countries, helping over 6000 businesses across all industries.

NZTE implemented CRM software to pool data from multiple sources into one system. New Zealand Trade and Enterprise boosted customer engagement by 400 per cent, through enhanced decision making due to improved data insights.

New Zealand Trade and Enterprise holds over 300 trade and marketing events each year, connecting businesses to information and contacts, to help them make more trade deals. The agency tailors its support for each customer by collecting a range of data at trade events and by analysing data from past events.

NZTE customer service, marketing, and events departments now all access the same customer-related data, ensuring the right events are run for the right groups of customers, in the right places at the right times, having a positive impact on business and the New Zealand economy.

## MODELS OF CRM

Several comprehensive models of CRM have been published. We introduce three of them here.

### The IDIC model

Peppers and Rogers developed the IDIC model.<sup>15</sup> The IDIC model suggests that companies should take four actions to build closer one-to-one relationships with customers:

1. **Identify** who the customers are and build a deep understanding of them.
2. **Differentiate** customers to find which customers have most value now and which offer most for the future.
3. **Interact** with customers to ensure that you understand customer expectations and their relationships with other suppliers or brands.
4. **Customise** the offer and communications to ensure that the expectations of customers are met.



## The CRM value chain

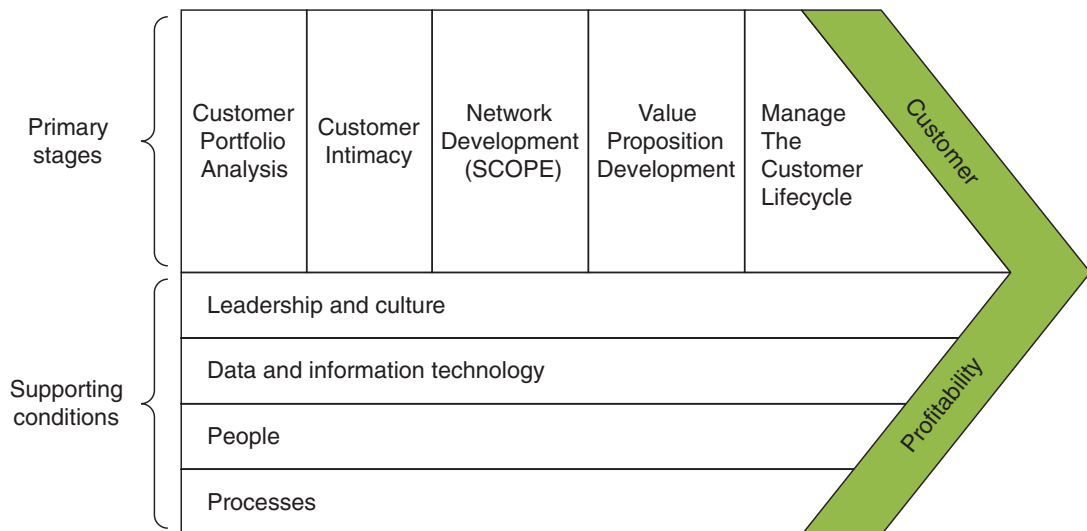
Buttle, Jones, and Stone's model of CRM, shown in Figure 1.1, consists of three core processes and five enabling conditions having the end goal of enhanced customer profitability. The core processes are:

1. Identify opportunity.
2. Develop offer.
3. Manage the customer journey. The customer journey consists of the three main stages we explore from the supplier's perspective in this book: customer acquisition, customer retention, and customer development.

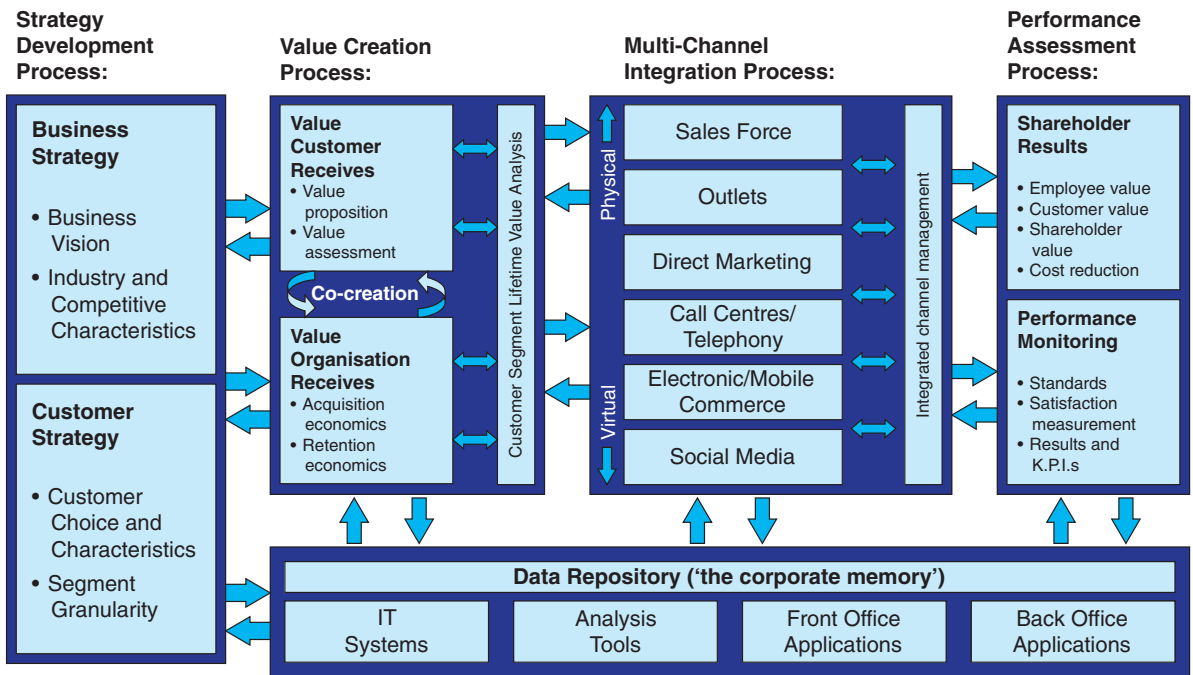
Five supporting conditions enable the three core processes:

1. Data and analytics.
2. Marketing, sales, and service processes.
3. Network relationships (with suppliers, distributors, service providers, etc.).
4. Organisational culture.
5. People.

When these enablers do not provide the necessary support the core processes are much more likely to fail.<sup>16</sup>



**Figure 1.1** The CRM value chain



**Figure 1.2** Payne and Frow's model of CRM<sup>17</sup>

## The Five-process model

Payne and Frow developed the five-process model of CRM.<sup>18</sup> This model (Figure 1.2) clearly identifies five core processes in CRM: the strategy development process, the value creation process, the multi-channel integration process, the performance assessment process, and the information management process. The first two represent strategic CRM; the multi-channel integration process represents operational CRM; the information management process is analytical CRM.

## CONCLUSION

This chapter introduces CRM. We begin with an overview of the major interpretations of CRM – the IT perspective and managerial perspectives. We also discuss how CRM and CX relate to one another. The chapter then presents three forms of CRM – strategic, operational, and analytical. Importantly, operational CRM encompasses marketing automation, sales automation, and service automation. We also argue that social CRM is not a distinct type of CRM, just a broader interpretation of customer-related data sources (i.e., particularly from social media sources), which then serves as an input to operational CRM and analytical CRM.

We next consider the changing face of CRM by contrasting CRM 1.0 and CRM 2.0. We then describe a range of common misunderstandings about CRM and then go on to offer our own definition of CRM, which underpins the rest of the book. The chapter then covers

multiple contexts where CRM is common, including a discussion of third-sector CRM contexts. The chapter then concludes with a description of three comprehensive models of CRM (the IDIC model, the CRM value chain, and the five-process model).

Overall, this chapter presents introductions to a range of CRM-relevant concepts and ideas. We delve into more depth in each of these areas in the chapters to follow.

### **DISCUSSION QUESTIONS**

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1. Define the three major forms of CRM. How might each CRM form apply to a pet food retailer?
2. Is social CRM a distinct form of CRM or something else? Explain your answer.
3. Provide a summary of core changes to CRM over time. What are the major differences between CRM 1.0 and CRM 2.0?
4. Name the common misunderstandings about CRM. How might managers overcome these?
5. How would you define CRM? What are the implications of your definition for an organisation that implements CRM with these properties?
6. Who are the major CRM constituencies? Do you foresee any major tensions between CRM constituencies? How might managers overcome such tensions?
7. How might different contexts influence CRM deployments?
8. Outline the three comprehensive models of CRM.

### **NOTES**

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# UNDERSTANDING CUSTOMER-SUPPLIER RELATIONSHIPS

## CHAPTER OBJECTIVES

After reading this chapter, you should be able to describe:

1. Customer-supplier relationships.
2. Properties of customer-supplier relationships, including trust, commitment, relationship quality, and relationship evolution.
3. Companies' motivations to start and develop customer relationships.
4. Companies' motivations to avoid or dissolve customer relationships.
5. Customers' motivations to start and develop company relationships.
6. Customers' motivations to avoid or dissolve company relationships.
7. The features of five major relationship management theories.

## INTRODUCTION

This chapter discusses customer-supplier relationships, the fundamental idea in CRM. The relationships of central interest are those of a commercial nature. Companies pursue relationships with customers to enhance sales and profitability (and other forms of value) over time. Customers also benefit from relationships with companies by receiving offers that align with their specific buying requirements. Despite the potential for mutual benefit, relationships are often difficult to sustain. If the relationship is too costly, if another, more attractive, partner comes along, or if partner goals change, relationship dissolution becomes a real prospect. This may be for the better. It is therefore important to understand the motives that drive companies and customers to engage in an ongoing relationship. This chapter unpacks these ideas. The chapter also presents a brief overview of five major theories, or schools of thought, which attempt to explain the nature of customer-supplier relationships.

## WHAT IS A CUSTOMER-SUPPLIER RELATIONSHIP?

The 'R' of CRM stands for 'relationship'. But what do we really mean by the expression 'relationship'? Certainly, most of us would understand what it means to be in a personal relationship, but what is a relationship between a customer and supplier?

At the very least a relationship involves interaction over time. If there is only a one-off transaction, like buying a vacuum cleaner from a specialist outlet, most of us wouldn't call this a relationship. Thinking in terms of a relationship between two parties, we take interaction-over-time as a critical feature and define the 'relationship' as:

**A relationship is a series of interactive episodes between two parties over time.**

Let's be clear about what is meant by 'interactive episode'. Episodes are time bound (they have a beginning and an end) and are identifiable; you can put names to the episodes. Within a sales rep–customer relationship it is often possible to identify multiple discrete episodes, such as making a purchase, enquiring about a product, making a sales call, negotiating terms, dealing with a complaint, resolving an invoicing dispute, and playing a round of golf. For consumers taking on a mobile phone contract, there is the enquiry-to-purchase episode, the on-boarding (getting connected), billing and other customer service episodes – mostly over the phone.

Each episode includes a series of interactions. Interaction consists of action and a response to that action. Within each episode, each participant will act towards, and interact with, the other. The content of each episode is a range of communicative behaviours including speech, deeds (actions), and body language. At each episode, the customer absorbs and interprets various cues in the environment and interaction. These cues are both of a functional and emotional nature and help form the customers' appreciation of the episode.<sup>1</sup>

Some authorities think that it is insufficient, even naïve, to define a relationship as 'interactions over time'. Barnes, for example, has suggested that there needs to be some emotional content to the interaction.<sup>2</sup> This implies some type of affective connection, attachment, or bond.

Similarly, some commentators argue a relationship exists only when the parties move from a state of independence to dependence or interdependence.<sup>3</sup> When a customer buys an occasional latte from a coffee shop, this is a transaction, not a relationship. If the customer returns repeatedly because they like the store's atmosphere, the way the coffee is prepared, or has taken a shine to the barista, this looks more like a relationship. And while in this instance there is dependence (of customer on coffee shop), there is no interdependence.

Parties may have very different ideas about whether they are in a relationship. For example, in a professional procurement context for a multinational organisation, corporate buying staff may think they are being tough and transactional. Their suppliers, however, may feel that they have built a relationship. Woodburn and McDonald have explored the potential mismatching of buyer and seller preferences for their relationship.<sup>4</sup> They name five hierarchical levels of relationship: exploratory, basic, cooperative, interdependent, and integrated. Suppliers and buyers each have their own preference of the level they wish to achieve. Ideally, they match, but often they don't. The zone of delusion is when a supplier is investing in building a higher-level partnership with the customer, while the buyer is merely interested in the

basic transaction. Conversely, the zone of frustration is where the buyer would like to partner but the supplier prefers discrete transactions instead.<sup>5</sup>

Of course, modern business relationships are typically more complex than simple dyads. In a business-to-business (B2B) relationship, there may be many interpersonal relationships formed between people on both sides. The CEOs may discuss building a formalised partnership; the customer's engineers may be talking with the supplier's product management about product quality; the customer's product users may be talking to the supplier's customer service team about product training, and so on. Sometimes, when buying large complex business solutions, a customer will build relationships with companies in the supplier's own supply chain, to ensure the right levels of product functionality, quality and innovation are in future offerings. And to make it even more complex, one can imagine many customers dealing with many suppliers in a collaborative network of relationships.

### **RELATIONSHIP COMPONENTS**

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So far, we know customer-supplier relationships involve interactive episodes over time, and that the context in which these interactive episodes take place has important effects. We can distil two main customer-supplier relationship components: trust and commitment.<sup>6</sup> The premise is that developing and keeping trust with a partner is a pre-requisite for ongoing commitment. Where commitment is present, partners are more likely to invest in partner-specific resources, to coordinate more effectively, and to take part in joint innovations.

#### **Trust**

Trust is an issue particularly in the early stages of relationship development when the parties have little knowledge about or experience with each other and feel vulnerable. This is not to say that the importance of trust declines through the relationship though. Maintaining trust is a key challenge. Trust takes considerable time and effort to build, but a single adverse incident can compromise trust.

If both parties clearly communicate their expectations to each other, and behave in a consistent manner over time, trust is more likely to develop. As trust develops, both parties' perceptions of relationship risk decline. This encourages both parties to engage with one another and to invest in the relationship to a greater extent. Many commentators characterise trust as the glue that holds a relationship together.<sup>7</sup>

Trust has three main components:

- **Benevolence.** A belief that one party acts in the interests of the relationship, not out of self-interest.
- **Integrity.** A belief that the other party's word is reliable or credible.
- **Ability.** A belief that the other party has the necessary expertise to perform as promised or expected.

Benevolence, integrity, and ability work closely with one another. If one party perceives their counterpart as compromising one trust component, it is likely that this will then cascade

to the others as well. For example, if one party acted in its own self-interest (i.e., jeopardising its benevolence), it is likely that this would also negatively affect integrity (i.e., because this might lead to a perception of lying). So, there is not a clear separation of each trust component.

## Commitment

A strong relationship can positively affect a range of desirable business outcomes including share of customer spending, word-of-mouth, and profit.<sup>8</sup> Commitment reflects a desire to maintain a relationship (indefinitely, some have suggested), a pledge of continuity between parties, a willingness to make sacrifices should the relationship end, or simply an absence of alternatives.<sup>9</sup> Morgan and Hunt, for example, define relationship commitment as:

**... an exchange partner believing that an ongoing relationship with another is so important as to warrant maximum effort to maintain it; that is, the committed party believes the relationship is worth working on to ensure that it endures indefinitely.<sup>10</sup>**

There are two major dimensions of relationship commitment: affective commitment; and calculative commitment. Calculative commitment is a more rational, economic-based commitment to a relationship due to a perceived lack of alternatives or high switching costs. Affective commitment is a more emotional, trust-based, form of commitment that develops through reciprocity or personal bonds between a customer and supplier.

Commitment, therefore, may arise from trust and shared values, or the belief that partners will be difficult to replace. Commitment motivates partners to cooperate to preserve relationship investments. Commitment means partners forego short-term alternatives in favour of more stable, long-term benefits associated with current partners. Where customers have choice, they make commitments only to trustworthy partners, because commitment entails vulnerability, leaving them open to opportunism. For example, a corporate customer that commits future purchasing of raw materials to a particular supplier may experience the downside of opportunistic behaviour if that supplier raises prices.

Evidence of commitment is in the investments that one party makes in the other. One party makes investments in the promising relationship and if the other responds, the relationship evolves. Investments can include time, money, and the side-lining of current or alternative relationships. Highly committed relationships have very high termination costs since some of these relationship investments may be irretrievable, for example, investments in capital equipment made for a joint venture. In addition, there may be significant costs incurred in switching to an alternate supplier, such as search costs, learning costs, and psychic (stress, worry) costs.

## RELATIONSHIP EVOLUTION

Relationships change over time. Because they evolve, they can vary considerably – both in the number and variety of episodes, and the interactions that take place within those episodes.



Dwyer describes five general phases through which customer-supplier relationships can evolve.<sup>11</sup>

1. **Awareness.** Awareness is when each party comes to the attention of the other as a potential exchange partner.
2. **Exploration.** Exploration is the period of investigation and testing during which the parties explore each other's capabilities and performance. Some trial purchasing may take place at this stage. If the trial is unsuccessful, one or both parties may end the relationship with few costs.
3. **Expansion.** Expansion is the phase in which there is increasing interdependence. More transactions take place and trust begins to develop.
4. **Commitment.** The commitment phase is characterised by increased adaptation on both sides and mutually understood roles and goals. Automated purchasing processes are a sure sign of commitment.
5. **Dissolution.** Not all relationships will reach the commitment phase. Many conclude before that stage. There may be a breach of trust that forces a partner to reconsider the relationship. Relationship termination can be bilateral or unilateral. Bilateral termination is when both parties agree to end the relationship. Unilateral termination is when one of the parties ends the relationship. Customers exit relationships for many reasons, such as repeated service failures or changed product requirements. Suppliers may choose to exit relationships because of the relationship's failure to contribute to sales volume or profit goals.

This discussion of relationship development highlights two attributes of highly developed relationships: trust and commitment. These have been the subjects of a considerable amount of research.<sup>12</sup>

### **RELATIONSHIP QUALITY**

Trust and commitment are dynamic and variable. From one day to the next, it is possible that actors gain or lose trust. An incident may occur which places the relationship in jeopardy. There may be a 'cheating' incident, where one partner chooses to do business with another partner in preference to their existing one. There may be a major disagreement. There may also be a substantial windfall, where both partners benefit. Where a partner acts in their own self-interest at the expense of the other partner, we call this opportunism.<sup>13</sup> Of course, where trust deteriorates, this also reduces the partner's level of commitment to the relationship.

While relationships shift and change over time, it is fair to say that some relationships are better than others. That is, some relationships reflect higher degrees of trust and commitment than others. The term 'relationship quality' appeared in the 1990s to explain this. Athanassopoulou's review of the relationship quality research suggests that trust, commitment, and relationship satisfaction are the core attributes of relationship quality.<sup>14</sup> The higher the levels of these three attributes, the higher the quality of the relationship.

There are also relationship attributes that moderate relationship quality. These include conflict, cooperative norms, opportunism, mutual goals, power, adaptation, atmosphere, and social and/or structural bonds. Each of these factors has the potential to compromise trust, commitment and/or satisfaction. This is particularly the case where partners do not share complementary beliefs or attitudes.<sup>15</sup>

The core role of CRM is to create more valuable customer-supplier relationships. Relationship quality is a nice way to think of this. If CRM can enhance relationship quality (i.e., by increasing trust, commitment, and partner satisfaction and/or by mitigating the effects of conflict, opportunism, dependency, etc.) then CRM has a positive effect. CRM can help manage the factors that contribute to these outcomes, such as the cooperative norms between partners, relationship atmosphere, the adaptability of partners and/or the social/structural bonds that exist.

### **CUSTOMER ENGAGEMENT, CUSTOMER SATISFACTION, LOYALTY, AND PROFITABILITY**

We suggest that positive customer-supplier relationships have four main ingredients, which we explore in terms of the customer engagement→customer satisfaction→customer loyalty→business performance link (see Figure 2.1).



**Figure 2.1** The customer engagement→customer satisfaction→customer loyalty→business performance link<sup>16</sup>

### Customer engagement

Customer engagement refers to the customer's psychological and emotional disposition towards a brand or company, and their interactions with associated brand touchpoints.<sup>17</sup> From a company's perspective, it is important to create means for customers to interact with brand touchpoints that lead to positive customer experiences while also avoiding excessive customer service costs. Where customers are delighted with their experience, they are more likely to engage with the company's brand touchpoints in ways that are meaningful and worthwhile.

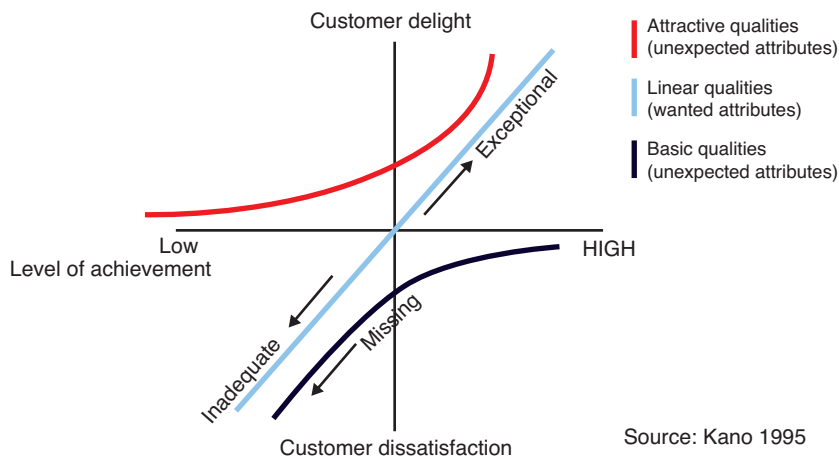
A customer that shows high, positive customer engagement with the company's brand touchpoints is more likely to interact with a wider variety of brand touchpoints and spend more time doing so. Some companies realise the benefits of this and design their offerings accordingly. For example, Disney has many brand touchpoints. Customers can watch Disney movies or shows (e.g., through Disney+), they can buy a wide variety of merchandise, they can visit Disney theme parks around the world, and they can stay at Disney-owned accommodation. At each stage, Disney uses its characters, such as Mickey Mouse and Donald Duck, as cues to remind customers of positive and engaging entertainment experiences. Disney has a valuation more than \$100 billion, making it one of the most valuable entertainment companies in the world.<sup>18</sup>

Positive customer engagement can also involve customer interactions with brand touchpoints according to a pre-defined path. There has been a dramatic increase in self-service technologies over the past 30 years. Starting with vending machines and ATMs, online shopping has now become the most prominent form of self-service. In this, customers access the company's products by interacting with machines, tools, or online portals to select products and to place orders. Self-service requires the customer to understand the process necessary to successfully complete transactions. If customers are unable or unwilling to comply, they are unlikely to experience benefits. If customers can successfully use self-service outlets, this can prove valuable to the company. There is significant scope to shift the time and effort necessary to receive the benefit on the customer, thereby reducing costs to the company while also creating customer benefits.<sup>19</sup>

So, the company must find a way to encourage the customer engagement that aligns best with its business model while also maximising the possibility of delighting the customer. This means understanding the implications of the business model that they use to deliver services from both the company's and the customer's perspective. If the company can optimise this mix, they are more likely to create customer satisfaction, customer loyalty, and positive performance.

### Customer satisfaction

To learn about the customer's perception of their consumption experience, companies often measure customer satisfaction. The most common way to operationalise customer satisfaction is to compare the customer's perception of an experience, or some part of it, with their expectations for that experience.<sup>20</sup> Where there is no gap between the customer's expectations and their perceptions, then they are satisfied. Where there is a gap, this means that there is a difference between customer expectations and perceived benefits. Where perceived



**Figure 2.2** Kano's model for customer delight<sup>21</sup>

benefits exceed customer expectations, then the customer is delighted. Where the opposite occurs (i.e., perceived benefits < customer expectations), then the customer experiences dissatisfaction. Kano's model of customer satisfaction helps illustrate this point.<sup>22</sup>

Many companies research customer requirements and expectations to find out what is important for customers, and then measure customers' perceptions of their performance compared to the performance of their competitors. The goal of this approach is to assess the gaps in the company's offering that affect customer experience. This can help the company calibrate their offerings according to their own goals. For some companies, this can involve uncovering serious deficiencies, while others might find areas where they are significantly exceeding customer expectations. If the goal is to improve customer satisfaction, the company must improve in areas where it is deficient while also reallocating resources where it is over-performing given its goals. The outcome is a more balanced offer that has the greatest potential to satisfy customers.

For example, a hotel chain may conduct a customer survey to find the areas where customers are satisfied, dissatisfied, and delighted. The outcome may show delight in terms of restaurant meal options, satisfaction with the quality of the bed linen, and dissatisfaction with the friendliness of staff. In this case, the hotel may choose to reduce the meal options available and to use the cost savings to train staff in customer service skills or to pay higher salaries to motivate staff.

Kano's model for customer delight assumes that customers have a pre-defined set of expectations which they maintain through the consumption experience, which then serve as the basis for judging the stimulus that emerges and forming their perceptions. This may not always be the case. Instead, customer expectations may shift along the way, and this means that an assessment of customer satisfaction does not always reflect the complexities of the customer's experience.<sup>23</sup> Where customer satisfaction judgements may have a strong emotional or affective content, it may not be possible to accurately assess the customer's experiences. Instead, the customer satisfaction measure is only a general reflection of the customer's attitudes at the point of measurement.<sup>24</sup>

Overall, customer satisfaction is an important goal for companies since it has a close relationship with customer loyalty. However, companies must consider the ways they assess customer satisfaction to ensure accuracy while also reducing undue burdens to both the company and the customer.

Customer loyalty

Depending on your perspective, customer loyalty refers to customer behaviours or customer attitudes or both. In terms of behaviours, customer loyalty involves repeat purchases of the company’s products/services over time rather than other, competing options. Many direct marketing companies use RFM measures of behavioural loyalty. The most loyal customers are those who have high scores on the three behavioural variables: Recency of purchases (R), Frequency of purchases (F) and Monetary Value of purchases (M) (see Table 2.1).

In terms of customer attitudes, loyalty reflects the beliefs and feelings that customers have with respect to their repeat purchase intention. If a customer has strong, positive attitudes towards the brand, the company and/or the company’s products and services, it is more likely that they will have a high repeat purchase intention. The reverse is also true. While attitudes are an important part of customer loyalty, they may not translate into customer behaviours. This is an important distinction since some companies measure purchase intention alone, and then are surprised when actual purchases are lower than expected. There is a need to ensure a validation of purchase intentions by examining actual purchase behaviours.

To capture the duality of customer loyalty, Dick and Basu suggest blending them into a two-by-two matrix (see Figure 2.3).<sup>25</sup> ‘Loyals’ are customers who have high levels of repeat buying and a strong relative attitude. Latent loyalty exists when a strong relative attitude, but not repeat buying. This might be evidence of weakness in the company’s distribution strategy, the product or service not being available when and where customers want. ‘Spurious loyals’ have high levels of repeat purchase but weak relative attitude. Their repeat purchasing could result from inertia, high switching costs, or indifference. An empirical test of this model found customers in three loyalty conditions only: (1) the no loyalty, (2) the latent loyalty, and (3) the true loyalty conditions. The spurious loyalty condition did not receive support, probably because switching costs are negligible in the grocery retailing industry, the context for this study.<sup>26</sup>

Table 2.1 The RFM criteria

<i>Behavioural dimension</i>	<i>Description</i>
Recency (R)	The time since the last purchase
Frequency (F)	The number of purchases in a period
Monetary value (M)	The monetary value of purchases in a period

		repeat purchase	
		high	low
relative attitude	strong	<b><i>loyals</i></b>	<b><i>latent loyalty</i></b>
	weak	<b><i>spurious loyalty</i></b>	<b><i>no loyalty</i></b>

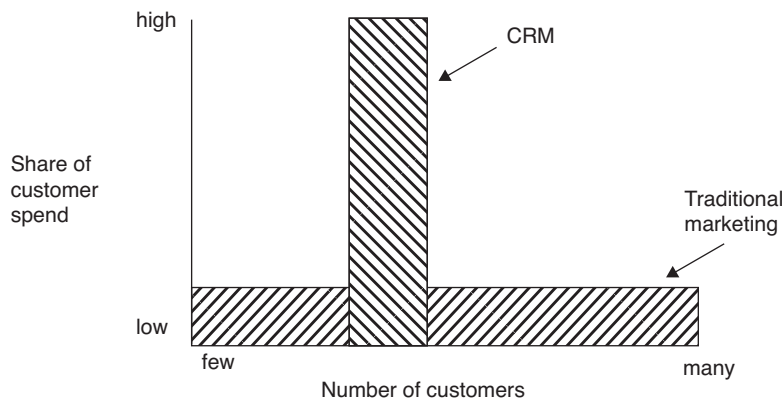
**Figure 2.3** Customer loyalty: a combination between attitude and behaviour<sup>27</sup>

## Business performance

If companies can create desirable customer engagement, customer satisfaction, and customer loyalty, it follows that they should experience positive performance outcomes. It is common to see performance in terms of sales revenue, profitability and/or market share, particularly for companies that look to satisfy shareholders. Other indicators of company performance include share of customer spend and Net Promoter Score®.

Share of customer spend (share of wallet or SOW) is a popular measure of CRM performance. That is, out of all customer spending on a particular product or product category, the company looks to understand what share its products/services have. Where the company focuses on a customer or customer segment that it perceives as most attractive, a core goal of CRM efforts is to maximise the SOW for the company. This means that the company looks to dominate sales for that customer or customer segment. The difference between winning a high SOW rather than high market share appears in Figure 2.4.

Another way to evaluate performance is to consider the company's Net Promoter Score (NPS®). NPS® has its origins in the work of Fred Reichheld and his colleagues at consultancy



**Figure 2.4** Share of market vs. share of customer<sup>28</sup>

**Table 2.2** NPS outcomes

<i>Label</i>	<i>Score range</i>	<i>Description</i>
Promoters	9–10	Loyal customers who will keep buying and refer others, fuelling company growth.
Passives	7–8	Satisfied but unenthusiastic customers who are vulnerable to competitive offerings.
Detractors	0–6	Unhappy customers who are at risk of switching, can damage a brand's reputation and impede growth through negative word-of-mouth.

Bain & Co.<sup>29</sup> NPS® is a single metric that measures how likely a customer is to recommend the company (and/or its products/services) to other people. For Reichheld, intent to recommend represents a higher bar than stated satisfaction and is therefore more indicative of the strength of the relationship. Where there is a high likelihood that they would make a positive recommendation, the customer is effectively saying that they would stake their own reputation on the likelihood that people who buy the product based on their recommendation will have a positive experience. The opposite is also true.

In response to the question “How likely is it that you would recommend [name] to a friend or colleague?” on a scale of 0–10, customers fall into one of three categories (see Table 2.2). To calculate NPS, you simply take the percentage of customers who are Promoters and subtract the percentage who are Detractors. So, if 40% of your customers score you at 9 or 10, and 20% score you at between 0 and 6, your NPS is 20. The maximum NPS is 100, and you'd only achieve this if 100% of your customers rated you 9 or 10. According to this model, it makes sense to focus business resources on building positive word-of-mouth (WOM) and reducing negative WOM. While there is significant adoption of the metric across manufacturing and service firms, it has also been subject to criticism.<sup>30</sup>

The focus on a single measure, particularly those that focus on financial outcomes alone, can create a short-term mindset, and this can be quite destructive. So, companies can take a broader view of performance. Indeed, there is evidence that multiple measures are more effective than single measures.<sup>31</sup> The Balanced Scorecard,<sup>32</sup> for example, employs four sets of linked key performance indicators (KPI): financial, customer, process, and learning and growth. The implied connection between these indicators is that people (learning and growth) do things (process) for customers (customer) that have effects on business performance (financial). Customer-related KPIs that can be used to evaluate business performance following the adoption of CRM include customer satisfaction levels, customer retention rates, customer acquisition costs, number of new customers acquired, average customer tenure, customer loyalty (behavioural or attitudinal), sales per customer, revenue growth, share of customer spending (wallet), and customer advocacy (word-of-mouth).

The Balanced Scorecard is highly adaptable to CRM contexts. Companies need to ask the following questions:

- What customer outcomes drive our financial performance?
- What process outcomes drive our customer performance?
- What learning and growth outcomes drive our process performance?

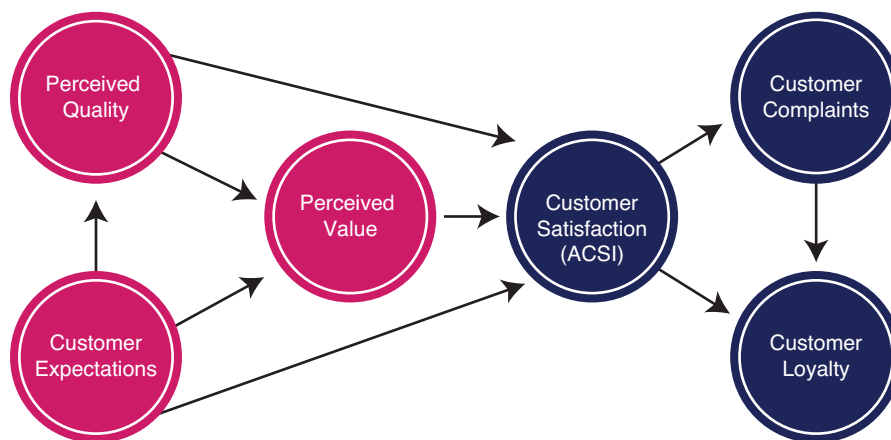
Overall, companies can evaluate their performance in many ways. If the fundamental ingredients of desirable customer engagement, customer satisfaction and customer loyalty are present, it is more likely that the company will experience positive performance outcomes. Research confirms this – customer satisfaction has a positive association with behavioural loyalty, which in turn has a positive association with customer profitability.<sup>33</sup> However, Anderson et al. note that “the satisfaction level has to pass a certain threshold if it to have any influence on customer loyalty”, and that as satisfaction increases it has a diminishing effect on loyalty. The same effects are evident in the relationship between loyalty and customer profitability.<sup>34</sup>

Another body of US-based research also shows that there is a significant correlation between American Customer Satisfaction Index (ACSI) scores and company performance. According to the ACSI organisation, “the reason is that a satisfied customer is more profitable than a dissatisfied one. If satisfaction declines, customers become more reluctant to buy unless the company cuts prices. If satisfaction improves the opposite is true.” An independent study, using data from the ACSI has also found that customer satisfaction had a considerable effect on business performance, although there was variation across sectors. Figure 2.5 illustrates the components of the ACSI.

Many studies in different industries and of various companies – telecommunications, banking, airline, and automobile distribution – support the relationship between customer satisfaction, loyalty, and business performance.

**Telecommunications.** One study of the telecoms industry found that a 10% lift in a customer satisfaction index predicted a 2% increase in customer retention (a behavioural measure of loyalty) and a 3% interest in revenues. The researchers concluded that customer satisfaction was a lead indicator of customer retention, revenue, and revenue growth.<sup>35</sup>

**Banking.** Another study found that customer satisfaction in retail banking correlates highly with branch profitability. Highly satisfied customers had balances 20% higher than satisfied customers, and, as satisfaction levels went up over time, so did account balances. The reverse was also true, as satisfaction levels fell, so did account balances.<sup>36</sup>



**Figure 2.5** The components of the ACSI<sup>37</sup>



**Airlines.** A study in the airline industry examined the link between customer dissatisfaction, operating income, operating revenue, and operating expense. The study found the drivers of dissatisfaction as high load factors (i.e., seat occupancy), mishandled baggage, and poor punctuality. The study concluded that as dissatisfaction rose, operating revenue (an indicator of customer behaviour) and operating profit both fell, and operating expense rose.<sup>38</sup>

**Car distribution.** A study of Volvo car owners examined the links between customer satisfaction with the car purchase experience, workshop service and the vehicle itself, and dealer business performance. The results showed that a 1 scale-point increase in overall customer satisfaction was associated with a 4% increase in dealer profitability at next car purchase.<sup>39</sup>

**Multi-industry.** Using 400 sets of matched corporate-level data obtained from two databases – the ACSI (see above, which provided customer satisfaction scores) and Standard and Poor's Compustat (which provided business profitability data) – Yeung and colleagues found a linear relationship between customer satisfaction scores and business profitability. They rise and fall together in the same period.<sup>40</sup> Another study shows that customer satisfaction improves cash flow and reduces its variability. Lower variability of cash flow is associated with lower risk. These two effects – improved cash flow and reduced risk – combine to enhance shareholder value.<sup>41</sup>

## WHEN COMPANIES WANT RELATIONSHIPS WITH CUSTOMERS

The fundamental reason that companies want to build relationships with customers is to enhance and sustain **profitability**. Profitability increases through customer relationships in three main ways.

### Improving customer retention

Improving customer retention rates has the effect of increasing the size of the customer base. Table 2.3 compares two companies. Company A has a churn rate (customer defection rate) of 5% per annum. Company B's churn rate is 10%. Put another way, their respective customer retention rates are 95% and 90%. Starting from the same position and attracting an identical number of new customers each year, company A's customer base is 19% larger than company B's after four years: 1268 customers compared to 1066 customers. The larger the customer base, the greater the demand for the company's offerings.

**Table 2.3** The effect of customer retention on customer numbers

Year	Company A (5% churn)			Company B (10% churn)		
	Existing customers	New customers	Total customer base	Existing customers	New customers	Total customer base
1	1000	100	1100	1000	100	1100
2	1045	100	1145	990	100	1090
3	1088	100	1188	981	100	1081
4	1129	100	1229	973	100	1073
5	1168	100	1268	966	100	1066

Churn rates vary between industries. Energy utilities that supply electricity and gas typically have very low churn levels because of their monopoly positions. In the UK, however, about 25% of utility customers changed suppliers within two years of industry deregulation. Most switchers were looking for better prices and to achieve a dual fuel (gas and electricity) discount. Switching stays high in many countries with almost 19% of all Australian households changing electricity providers in 2021.<sup>42</sup>

If a company focuses on growing its customer base only, this is normally unviable. If the company attracts and keeps unprofitable customers, this is not sustainable unless there is some other strategic reason for doing so. Not all customers are of equal importance. Some customers may not be worth recruiting or keeping at all. Customers with a high cost-to-serve, or who are debtors, are late payers or are promiscuous (in the sense that they switch often between suppliers) are not ideal.

## CASE ILLUSTRATION 2.1

### CUSTOMER CHURN IN THE AUSTRALIAN UTILITIES SECTOR<sup>43</sup>

Telecom and electricity companies now use machine learning to improve service levels and decrease customer churn. It is possible to detect network performance issues early through data that a sophisticated assortment of network sensors generate. These data are the basis for a series of algorithms that help predict the degradation of system components, which helps reduce and, even, prevent system outages.

When problems do occur, customers submit requests to a service system, which then classifies and prioritises issues. This helps improve resolution times and increases customer satisfaction levels. Predicting customer churn can improve customer retention by allowing early intervention such as a call to the customer from a support team member or sales team member.

Telecom and electricity industries are deregulated in many countries, allowing consumers to shop around for the best service and price for their needs. In Australia, while the electricity market is deregulated, the government introduced a default market offer, and made the publishing of a reference bill mandatory. Allowing customers to easily compare prices has seen most companies offer similar pricing with fewer discounts on offer to attract new customers. Australian households have also installed large numbers of rooftop solar systems, reducing the costs of their electricity bills.

The joint effects of reduced bills and a reduced incentive to switch to a rival electricity company has had a negative impact on customer churn rates in the electricity industry in Australia. Customer satisfaction is key to keeping customers long-term and to reduce customer churn metrics.

### Reducing marketing and customer service costs

Improving customer retention reduces a company's marketing costs since there is less of a need to replace churned customers.<sup>44</sup> Loyal customers, by behavioural definition, switch less

and reduce the heavy cost of new customer recruitment and on-boarding costs such as setting up a new account, and in some cases (e.g., Internet Service Providers) installing equipment or software. It can cost an advertising agency at least 20 times as much to recruit a new client than it does to keep an existing one. Major agencies can spend up to \$4 million on research, strategic analysis, and creative work in pitching for one major international client, with up to four creative teams working on different executions. An agency might incur these costs several times over as it pitches to several prospective clients to replace a lost client.<sup>45</sup> In addition to reducing the costs of customer acquisition, costs-to-serve existing customers also tend to fall over time.

As the customer-supplier relationship continues, it might become fully automated. Consider the direct debits you now have in place for your regular bills. Assuming there are no problems, the relationships you have as customer with many suppliers (e.g., utilities, TV streaming services) no longer require human intervention. This means that suppliers can cut many overhead costs due to automation.

Over time, as relationships deepen, trust and commitment between the parties is likely to grow. Under these circumstances, revenue and profit streams from customers become more secure. One study, for example, shows that the average online clothing customer spends 67% more, and grocery customers spend 23% more, in months 31–36 of a relationship than in months 0–6.<sup>46</sup> Retained customers are significantly less likely to shop around for a new auto insurance policy than newly recruited customers. Bundling multiple products and services can also enhance customer retention.<sup>47</sup>

As customer tenure lengthens, suppliers can develop a better understanding of customer requirements and expectations. Customers' buying histories offer important insights. Consequently, suppliers are better placed to identify and satisfy customer

**Table 2.4** The Customer Journey or Loyalty Ladder

<i>Customer Journey stage</i>	<i>Customer value implications for the supplier</i>
Suspect	Unclear – it is not certain the customer fits the company's target market profile.
Prospect	Potentially valuable – the customer fits the target market profile, and the company approaches them for the first time.
First-time customer	Transactional value – the customer makes a first purchase. There is potential for a longer-term relationship.
Repeat customer	Relational value – the customer makes more purchases. The company's offer plays a minor role in the customer's purchase portfolio.
Majority customer	Relational value – the customer selects the company's company as supplier of choice. The company occupies a significant place in the customer's purchase portfolio.
Loyal customer	Relational value – the customer is resistant to switching suppliers and has a strong positive attitude to the company or offer.
Advocate	Relational value, word-of-mouth value – the customer generates customer referrals through positive word-of-mouth.

requirements profitably. Some companies employ a value ladder<sup>48</sup> or value staircase<sup>49</sup> to help them understand where customers are in terms of their tenure with the company.<sup>50</sup> The idea is that customer behaviours change over time, so the length of their relationship with a given supplier is a determinant of changes in their behaviour. This is useful for the supplier since it allows them to adapt their offer. Climbing the value ladder often coincides with progress through stages in the customer journey. Table 2.4 characterises distinct stages in a customer journey as they progress, along with the impacts on the value of the customer to the supplier.

Not every customer progresses uniformly along the path from ‘never-a-customer’ to ‘always-a-customer’. Some may have a long maturity phase (i.e., loyal customer) and others will have a shorter life, perhaps never shifting from first-time customer to repeat customer; others might never convert from prospect to first timer.

CRM technology allows companies to trace where customers are on this pathway and to support resource allocations that advance suitable customers along the value trajectory with appropriate and timely offers.

Costs and revenues vary from stage to stage of the journey. In the early stages, a company may invest significant sums in converting a prospect into a first-time customer. These costs include marketing campaign costs, pay-per-click costs, touch costs (human interactions with prospects), commissions to third parties or corporate salespeople, referral fees, and even an allocation of brand advertising expenditure. The relationship initiation investments may not be recoverable for some time. For example, Reichheld and Sasser have shown that it can take a credit card company two years to recover the costs of customer acquisition.<sup>51</sup> Another study shows that the average online clothing customer takes four purchases (typically over 12 months) to recover the costs of their acquisition, while online grocery customers take 18 months to break even.<sup>52</sup>

## Improving customer lifetime value (CLV)

This leads to a core CRM idea: it is better to consider the income that a customer generates throughout their entire relationship with the company rather than to focus on the costs and benefits from single transaction(s). A customer relationship that endures and has a high CLV to the company, has a better chance of contributing to the company’s profitability than low CLV ones.

In the automotive industry for instance, several authors estimate that a General Motors retail customer is worth \$276,000 over a lifetime of buying cars (11 or more vehicles), parts, and service. Fleet operators are worth considerably more.<sup>53</sup> Further research has shown that the average Ritz-Carlton guest spends \$250,000 with the hotel chain over a lifetime of stays.<sup>54</sup> When a GM customer switches to Ford, or a Ritz-Carlton customer switches to Marriott, the revenue streams, and associated profit margins from that customer may be lost forever. This makes customer retention a strategically important goal for both firms. Customer lifetime value (CLV) is even more important if you consider that a small number of customers may account for a high proportion of the entire value generated by all customers. Tukel found that the top 28% of customers generate 80% of the total value of all customers.<sup>55</sup> If that small number of high value customers were to churn, there could be catastrophic outcomes for the business.

CLV is a measure of a customer's profit-generation for a company. It is possible to define CLV as follows:

**Customer life-time value is the present-day value of all net margins earned from a relationship with a customer, customer segment or cohort.**

CLV is relevant at multiple levels. If we consider an individual customer, then CLV calculations focus on the net present value of all net margins from that customer. Focusing on single customers makes sense in many situations, but particularly where there are few customers (e.g., where the company offers a specialist product or service). Companies can also apply CLV calculations to a customer segment or cohort – i.e., to a group of customers. This makes sense when the customer group is homogenous in terms of its purchase behaviours. This means it is possible to treat the customer group as a homogenous group. Where there is variance in customer purchase behaviours, it is necessary to treat customers as distinct when calculating CLV.

For most companies, it is important to find and attract those customers or segments that have the highest CLV *potential*. Research by Reichheld and Sasser shows why it is important to look forward to compute CLV.<sup>56</sup> Their data suggest that profit margins tend to accelerate over time. This has four causes.

1. **Revenues grow** over time, as customers buy more. Users tend to increase their consumption over time as they become more relaxed and confident in using the company's products and services. Satisfied customers tend to buy more product and service from a preferred supplier. An insurance company that has a loyal auto insurance customer is likely to experience some success cross-selling other personal lines, for example home, property, and travel insurance.
2. **Cost-to-serve is lower** for existing customers because both supplier and customer understand the other. For example, customers do not make demands on the company that it cannot satisfy. Similarly, companies do not communicate offers that have little or no value to customers.
3. **Loyal customers may pay more.** This could be because: they are not offered the discounts that are often promised to new customers, they exhibit inertia due to fears of high switching costs, or, they are satisfied with their customer experience, particularly the convenience that a relationship provides, which reduces their sensitivity to price-based offers from other potential suppliers.<sup>57</sup> Be aware that research evidence does not always support this assertion; for example, loyal business customers purchasing large volumes may negotiate deep discounts from their suppliers.<sup>58</sup> The ability to extract higher prices from loyal customers is perhaps the most contentious of the claims for the impact of loyalty on profitability and certainly needs to be assessed by each company in the context of their customers, brand, and reputation.
4. **Existing customers are more likely to make value-generating referrals.** Every customer not only has their own CLV, but also, potentially, a CRV or Customer Referral Value. That is, satisfied customers can generate added value for their supplier through referral behaviours, giving positive word-of-mouth to their friends and associates. If we add CRV to CLV, some estimates suggest this equates to 40% added value now available to the supplier.<sup>59</sup> Word-of-mouth can be powerfully persuasive when it is independent and unpaid.

The computation of CLV appears straightforward in principle, however doing so in practice can be complicated.<sup>60</sup> Companies need several pieces of information if they hope to produce accurate CLV calculations. For an existing customer, you need to know:

1. The probability that the customer will buy products and services from the company in the future, period-by-period.
2. The gross margins on those purchases period-by-period.
3. The 'real' cost of serving the customer, period-by-period. Ideally calculated through ABC – Activity Based Costing.

For new customers, another piece of information is necessary:

4. The acquisition costs for the customer.

To account for future inflation and the fluctuation in future margins, companies also need to understand:

5. The discount rate to apply to net margins.

As we know, predicting the future is impossible. This means that any CLV calculation is a 'best guess'. CLV calculations rely on a set of assumptions that the company makes about the future purchase behaviours of current or potential customers. While it may not be possible to predict customer behaviour perfectly, the more accurate the assumptions about future developments, the more confident management can be about CLV estimates. The parameters that serve as inputs to CLV analyses derive from historical observations of customer behaviours. The idea is that customers are creatures of habit and are therefore most likely to behave similarly in the foreseeable future. But the past does not necessarily foretell the future.

Recognition of the need to improve accuracy has led to suggestions for the inclusion of a wide array of other factors that could influence CLV. This includes attempts to broaden the notion of CLV to also include referral-based purchases that result from word-of-mouth (WOM) influence.<sup>61</sup> The ability for companies to access large customer-related datasets now means that their models that predict customer behaviours are now very exact. So, CLV calculations can now include more accurate estimations of the initial parameters through the interrogation of large customer-related datasets.

Overall, CLV offers some useful information to companies. Through CLV calculations, companies can categorise customers, or customer groups. This informs company strategy, thus allowing them to target and retain the high value, strategically significant customers and withdraw investment on recruiting low value, transactional customers.

## **WHEN COMPANIES DON'T WANT RELATIONSHIPS WITH CUSTOMERS**

Despite the potential benefits, companies sometimes don't want relationships with customers. Some of the most common reasons include:

**Loss of control.** A mature customer-supplier relationship involves give-and-take on both sides. In a relationship, a supplier may have to relinquish control over important aspects

of their own business. For example, a supplier of engineering services might not want to provide free pre-sales consultancy for a new project with an established client because of the high costs involved. However, they may have no choice if the customer expects this and if they are dependent on the customer.

**Sunk costs.** Not all relationships survive. This often means that any resource investments that a supplier makes in the customer are lost. Relationship investments vary from the insignificant (e.g., co-branding of promotional literature) to highly significant (e.g., setting up a new production line to service a particular customer's requirements). This means the potential loss varies depending on resource investments that the supplier makes.

**Resource commitment.** Relationships require the commitment of resources such as people, time, and money. Some relationships also require idiosyncratic investments, particularly where a relationship requires some form of specialisation. Companies cannot convert idiosyncratic investments for another use easily. This means that companies must decide whether it is better to allocate resources to customer relationships or some other area of the business such as operations or research and development.

**Opportunity costs.** The decision to focus on a specific customer relationship means that companies, by implication, also decide not to focus on other customer relationships – even if they have much greater potential. The decision to forego alternative opportunities is costly in terms of the added benefits that the company may accrue from the new partnership.

Where customers are individuals or small groups, companies often find it less attractive to build long-term enduring relationships with them. Benefits such as extraordinary profits are less likely and cost-to-serve is often high (i.e., due to customers' idiosyncratic preferences). Having said that, companies continue to explore means to alter these circumstances so that relationships with individuals or small groups are more attractive.

Many companies use 'mass customisation.' This involves offering a basic product or service with a set of standard features and then offering the customer an opportunity to customise one or more features to suit their own preference. For example, many automotive manufacturers offer several lines of a car, each with a basic set of features. If customers buy one new, they can select the colour scheme, the interior trim, and whether to include the sport package. By using mass customisation, the company controls costs (i.e., through the mass production of a standard set of models the company can gain economies of scale) while catering to customers' specific needs.

Advances in access to customer-related data analytics and insights means that companies can now, through sales and marketing automation, cater to a much broader set of simultaneous customer needs in an efficient, cost-effective way. It is now possible to simulate a unique customer experience for each customer that chooses to interact with online ordering facilities. By recognising customer profiles, companies can now deploy automated algorithms to help the customer navigate through the various options available, to place their orders, and to receive their orders. Companies such as Amazon and eBay are pioneers in this space. The use of automated, online means to fulfil customer requirements means that companies can simulate customer relationships at scale in an efficient manner and with minimal need for human interaction.



## WHEN CUSTOMERS WANT RELATIONSHIPS WITH SUPPLIERS

Customers can also derive benefits from close supplier relationships. Close supplier relationships reduce customers' perceived risk. The customer, therefore, has more scope to shape the relationship to suit their own requirements. A close relationship with a supplier can reduce several forms of perceived risk for a customer:

**Requirements fit.** The presence of a close supplier relationship increases the probability that the supplier understands the customer requirement and will address it comprehensively.

**Product complexity.** If the product or its applications are particularly complex, for example, IT networking infrastructure, a relationship can reduce the risk that the technology will not work as desired.

**Performance risk.** If the product is strategically important or mission-critical, for example, supply of essential raw materials for a continuous process manufacturer, performance risk may be high.

**Service requirements.** If there are downstream service requirements, for example, for machine tools, a relationship can ensure that the tools will remain serviced and functional.

**Purchase cost.** If a purchase is particularly costly, for example, purchases of large pieces of capital equipment such as earth-moving equipment, financial risk is high. A close supplier relationship increases the probability of favourable pricing and cost management.

**Reciprocity.** A financial audit practice may want a close relationship with a management consultancy, so that each party benefits from referrals by the other. The presence of a close relationship increases the probability that each will help the other.

Where customers are individuals or small groups, they may seek and value three different kinds of benefits from a relationship: confidence benefits, social benefits, and special treatment benefits.<sup>62</sup>

Confidence benefits amount to lower perceived risk. For example, an automobile owner may develop a relationship with a service station to reduce the perceived performance and financial risks attached to having a car serviced. The supplier is more likely to treat the customer well, and this results in a better standard of care.

Social benefits may accrue when a supplier relationship enhances the customer's power, status, or affiliation with others. A customer may value a barista addressing them by name at a coffee shop, for example. Relationships with suppliers can be empowering for some consumers. For example, a close relationship with a physician may lead to a sense of equality or empowerment rather than dependency in the eyes of the patient/customer. Customers may also sense an improvement in their status through a relationship with a supplier, such as an elite health club, hotel chain, or credit card company.

Special treatment benefits may take several forms. Relationships mean that suppliers are more likely to customise products or services for customers. For example, over time, a hairdresser may come to understand a customer's particular preferences or expectations. This means that the customer can use the same hairdresser's services repeatedly without the need to communicate their requirements. Other special treatment benefits may include prioritised service, better prices, and unique or limited offers.



## WHEN CUSTOMERS DON'T WANT RELATIONSHIPS WITH SUPPLIERS

Customers are much less likely to want long-term relationships with suppliers than do suppliers with customers. Some of the more common reasons include:<sup>63</sup>

**Fear of dependency.** Customers may be concerned that the supplier might act opportunistically by producing poor outcomes for the customer.

**Lack of perceived relationship value.** Customers may not believe that they will enjoy substantial savings in transaction costs, or that the relationship will help them create a superior competitive position, generate more revenue, or that there will be any social benefits. In other words, there is no perceived value above and beyond that obtained from the basic product or service.

**Lack of confidence in the supplier.** Customers may choose not to enter a relationship because they feel the potential partner is unreliable, too small, too large, has a poor reputation, or is insufficiently innovative. Consequently, the customer perceives higher relationship risk.

**Customer lacks a relational orientation.** Not all company cultures favour relationship building. Some are much more transactional. For example, some retailers make it a policy to buy a high proportion of their merchandise on special. This suggests a lack of willingness to invest in joint problem solving and value co-creation.

**Rapid technological changes.** In an industry with rapidly changing technology, commitment to one supplier might mean that the customer misses out on new developments available through other suppliers.

Research suggests that less than one-fourth of customers want to develop, or value, relationships with suppliers.<sup>64</sup> This depends on context, however. Whereas consumers might want a relationship with their financial service advisor or their physician, they can often find no good reason for developing closer relationships with the manufacturer of their household detergent, snack foods, or toothpaste. Many loyalty schemes (e.g., Frequent Flyer, Rewards Cards, etc.) attempt to shift the customer towards a relationship through a variety of incentives. Such schemes have seen considerable success by altering the terms of the relationship.

## RELATIONSHIP MANAGEMENT THEORIES

There are five main schools of thought that offer different perspectives on relationships between customers and suppliers. Although some schools are quite similar, they each describe relationships in different terms and have different implications for relationship management. The major schools of thought are the Industrial Marketing and Purchasing (IMP) School, the Nordic School, the Anglo-Australian School, the North American School, and the Asian (*Guanxi*) School. We briefly review each here.

### The Industrial Marketing and Purchasing School

The Industrial Marketing and Purchasing School (IMP) focuses on business-to-business (B2B) relationships. The IMP School emerged in the late-1970s when a group of European researchers began to investigate B2B relationships with the simple goal of describing them

accurately. Some of the major contributors to the IMP School are Malcolm Cunningham, David Ford, Lars-Erik Gadde, Håkan Håkansson, Ivan Snehota, Peter Naudé, and Peter Turnbull.<sup>65</sup>

The IMP School argues that B2B transactions occur within the context of broader, long-term relationships, which are, in turn, situated within a broader network of relationships.

The characteristics of B2B relationships, from an IMP perspective, are as follows:

- Buyers and sellers are both active participants in transactions, pursuing solutions to their own problems rather than simply reacting to the other party's influence.
- Relationships between buyers and sellers are often long-term, close in nature, and involve a complex pattern of interaction between and within each company.
- Buyer-seller links often become institutionalised into a set of roles that each party expects the other to perform, and expectations of mutual adaptation over time.
- Interactions occur within the context of the relationship's history and the broader set of relationships each firm has with other firms – the firm's network of relationships.
- Firms choose whom they interact with and how. The relationships that companies take part in can be many and diverse, carried out for different purposes, with different partners, and have different levels of importance. These relationships occur within a context of a much broader network of relationships.

The IMP School also suggests that any customer-supplier relationship can be characterised by actor bonds, activity links, and resources ties.

Actor bonds are interpersonal contacts between actors in partner firms that result in trust, commitment, and adaptation between actors.<sup>66</sup>

Actor bonds are a product of inter-personal communication and the development of trust. Social bonding influences partner adaptation.

*Activity links are the commercial, technical, financial, administrative, and other connections that are formed between companies in interaction*

Activities might centre on buying and selling, technical cooperation or inter-firm projects of many kinds. Activities such as inter-partner knowledge exchange, the creation of inter-partner IT systems, or the creation of integrated manufacturing systems such as Just-In-Time (JIT) and Efficient Consumer Response (ECR) are investments that show commitment.

IMP researchers have focused on two major streams of activity-related research: the structure and cost effectiveness of activity links, and the behavioural characteristics the enable relationships to survive. The reduction of transaction costs is an important consideration when customers form links with suppliers.

*Resources are the human, financial, legal, physical, managerial, intellectual, and other strengths, or weaknesses of an organization.*<sup>67</sup>

Resource ties form when these resources are deployed in the performance of the activities that link supplier and customer. Resources that are deployed in one B2B relationship may strengthen and deepen that relationship. However, there may be an opportunity cost. Once resources (for example, people or money) are committed to one relationship they might not be available to another relationship.

## The Nordic School

The Nordic School emphasises the role of service in customer-supplier relationships. The main proponents of the Nordic School are Christian Grönroos and Evert Gümnesson.<sup>68</sup>

The Nordic School emerged from research into services marketing that began in the late 1970s particularly in Scandinavia. The key idea that the Nordic School advocates is that service is a significant component of transactions between suppliers and their customers. Their work became influential in the development of the field of relationship marketing, which presents a challenge to the transactional view of marketing that has been dominant for so long. The Nordic School's approach has application in both B2B and business-to-consumer (B2C)) environments.

Grönroos defines relationship marketing as follows:

**Relationship marketing is the process of identifying and establishing, maintaining, enhancing, and, when necessary, terminating relationships with customers and other stakeholders, at a profit, so that the objectives of all parties involved are met, where this is done by a mutual giving and fulfilment of promises.<sup>69</sup>**

Gümnesson goes further, redefining marketing as follows:

Marketing can be defined as *“interactions, relationships, and networks”*<sup>70</sup>

Like the IMP School, the Nordic School suggests that inter-firm exchanges occur in a broader context of ongoing interactions. This is a significant departure from traditional notions of marketing where exchanges are conceptualised as discrete, unrelated events, as if there is no history. From the Nordic School's perspective, interactions are service-dominant. As customers and suppliers interact, each performs services for the other. Customers supply information, suppliers supply solutions.

Suppliers and customers are in dialogue with each other. Indeed, communication between partners is essential to the functioning of the relationship. Traditional marketing thinking conceives communications as one-way, from company to customer, but the Nordic School emphasises the fact that communication is bi-lateral.

The concepts of 'value', 'value creation', and 'value creation systems' have become more important to managers over the past 20 years. The Nordic School stresses the mutual nature of value. To generate value from customers, companies need to generate customer perceived value. Value creation therefore requires contributions from both customer and supplier. From the Nordic School's perspective, service performance is a key contributor to customer perceived value.

## The Anglo-Australian School

The Anglo-Australian School takes the view that companies not only form relationships with customers, but also with a wide range of other stakeholders, including employees, shareholders, suppliers, buyers, and governments. The main proponents of this School are Martin Christopher, Adrian Payne, Helen Peck, and David Ballantyne.<sup>71</sup>



**Figure 2.6** The Six-Markets Model<sup>72</sup>

Stakeholder relationships vary in intensity, according to the level of relationship investment, commitment, and longevity. Unlike the IMP School that takes a descriptive approach, the Anglo-Australian School takes a more prescriptive approach. Their work sets out to help managers to improve relationships with stakeholder groups.

A major conceptual contribution of this School is their Six-Markets Model (see Figure 2.6) of stakeholders: internal markets (employees), supplier/alliance markets (including major suppliers, joint venture partners and the like), recruitment markets (labour markets), referral markets (word-of-mouth advocates and cross-referral networks), influence markets (these include governments, regulators, shareholders, and the business press), and customer markets (both intermediaries and end-users).

Anglo-Australian researchers focus on customer retention, customer loyalty, customer satisfaction, customer relationship economics, and value creation. One of their major findings is that customer satisfaction and customer retention are drivers of shareholder value.<sup>73</sup>

## The North American School

The North American School receives less emphasis as a separate school of relationship management than other schools. Significant contributors to this School are Jeffery Dyer, Sandy Jap, Shelby Hunt, Robert Dwyer, Jan Heide, Robert Morgan, Kenneth Wathne, and Jagdish Sheth. A major theme flowing through this School's work is the connection between successful inter-firm relationships and excellent business performance. This School acknowledges that relationships reduce transaction costs,<sup>74</sup> and that trust and commitment are two very important attributes of successful relationships. Indeed, one of the more important theoretical contributions to come from the North American School is Morgan and Hunt's "Commitment-trust theory of relationship marketing".<sup>75</sup> This was the first time that trust was

explicitly linked to commitment in the context of customer-supplier relationships. According to the theory, trust is underpinned by shared values, communication, non-opportunistic behaviour, low functional conflict, and cooperation. Commitment, on the other hand, is associated not only with high relationship termination costs, but also with high relationship benefits.<sup>76</sup>

The North American School tends to view relationships as tools that a well-run company can manipulate for competitive advantage. They also focus on dyadic relationships rather than networks, most commonly buyer-supplier dyads, or strategic alliance/joint venture partnerships.

### The Asian (*Guanxi*) School

*Guanxi* (pronounced Gwan-She) is a philosophy for conducting business and other interpersonal relationships in the Chinese, and broader Asian, context. Therefore, its effects have a significant impact on how Asian societies and economies work.

*Guanxi* has been known to western businesspeople since at least 1978. This was the time when the Chinese market began to open to the west.<sup>77</sup> The foundations of *Guanxi* are Buddhist and Confucian teachings about the conduct of inter-personal interactions. *Guanxi* refers to the informal social bonds and reciprocal obligations between various actors that result from some common social context, for example families, friendships, and clan memberships. These are special types of relationship that impose reciprocal obligations to obtain resources through a continual cooperation and exchange of favours.<sup>78</sup> *Guanxi* determines who can conduct business with whom and under what circumstances. Business is conducted within networks, and rules based on status are invoked. Network members can only extend invitations to others to become part of their network if the invitee is a peer or a subordinate.

## CONCLUSION

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This chapter introduces a fundamental part of CRM – customer-supplier relationships. Customer-supplier relationships involve a set of interactions between both parties over time. For this to happen, and to benefit both parties, trust and commitment must exist. These allow both parties to feel comfortable investing in joint or complementary resources which help create benefits. As conditions change, the customer-supplier relationship evolves through different stages – each of which involve different levels of engagement between both parties. Some relationships are positive and beneficial. They can involve meaningful, broad customer-supplier engagement at multiple levels. They can involve significant resource investments. Other relationships involve little contact between both parties and can focus on a single dimension such as lowest cost. We use the idea of relationship quality to describe the different levels of trust and commitment evident in various customer-supplier relationships. We consider the customer engagement→customer satisfaction→customer loyalty→business performance link to capture the logic behind successful, positive customer-supplier relationships. We then consider suppliers' motivations towards creating and maintaining customer relationships as well as the drivers that favour relationship avoidance. Suppliers evaluate criteria like customer lifetime value (CLV) to make decisions in this regard. We also consider

the customers' motivations to want or not to want relationships with suppliers. Last, we provide an overview of five major schools of thought regarding relationship management: IMP, Nordic, Anglo-Australian, North American, and Asian (*Guanxi*) Schools of thought.

## DISCUSSION QUESTIONS

1. What is a customer-supplier relationship? Why are customer-supplier relationships important?
2. What are the characteristics of customer-supplier relationships? How might these apply in the banking industry?
3. What are companies' motivations to start and develop customer relationships? How might these differ between the IT industry and the retail industry?
4. What are companies' motivations to avoid or dissolve customer relationships? How might the level of dependency the company has on the customer influence these motivations?
5. What are customers' motivations to start and develop company relationships? How might these differ between the construction industry and an online store such as Amazon?
6. What are customers' motivations to avoid or dissolve company relationships?
7. What are the features of five major relationship management theories?

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## Section B

# STRATEGIC CRM

Strategic CRM refers to the aspects of company-level strategy that advocate a customer-centric approach to winning, developing, and keeping profitable customers. Core to this is the customer journey, which we cover in the next two chapters. Chapter 3 explores the first stage of the customer journey: customer acquisition. Chapter 4 considers two further stages of the customer journey: customer retention and customer development. Chapter 5 explores customer perceived value as a determinant of customer attraction and retention. Chapter 6 presents the customer portfolio as a key decision-making framework to help companies decide which customers to target and how.

# MANAGING THE CUSTOMER JOURNEY

## CUSTOMER ACQUISITION

### CHAPTER OBJECTIVES

After reading this chapter, you should be able to:

1. Define the core elements of a customer journey.
2. Define customer acquisition and new customer types.
3. Describe the conversion model and explain how it relates to customer acquisition.
4. Describe the prospecting approaches companies can use to recruit new customers.
5. Describe operational CRM applications relevant to customer acquisition.
6. Describe the key performance indicators (KPIs) that companies may use to evaluate their customer acquisition activities.

### INTRODUCTION

In this chapter, we consider the first stage of the customer relationship: customer acquisition. The purpose of this chapter is to define customer acquisition and to then consider the implications of customer acquisition for the company. This includes the idea of prospecting, converting prospects to customers, assessing the company's prospecting efforts and how these interact with operational CRM. We dedicate an entire chapter to customer acquisition since this is the customer journey stage in which companies normally have the most interest. While customer acquisition is important, it is usually not the customer journey stage that contributes the most to customer profitability. Later customer journey stages are more likely to generate profit.

In the next chapter, we consider two more approaches companies can use to generate profitable customer relationships: customer retention and customer development. Customer acquisition is necessary when a customer relationship does not yet exist, while customer

retention and customer development are possible only when the company has an established customer relationship. The distinction between this chapter and the next is the stage of the customer journey (i.e., early relationship versus established relationship).

## Customer journey: the basics

The customer journey is a representation of the stages that customers go through to achieve a desired outcome through their relationship with a supplier. A customer journey starts when a (potential) customer becomes aware of a supplier, makes a first purchase, uses the goods and/or services to achieve some desired outcome, and then, through repeat cycles of purchase-and-use, becomes more committed. Common indicators of this increasing customer commitment include higher purchase volume and value, repeat purchases, positive word-of-mouth, and engagement with the company. In this, the customer migrates up the Loyalty Ladder, which reflects their transition towards an ever-deeper relationship with the company. Some customer journeys last years and involve multiple repurchases; others are over in minutes as customers experience difficulties and decide to exit. The story of a customer journey centres on the touchpoints they encounter, their experiences at those touchpoints, and their responses to those experiences.

Some of the more notable touchpoints include websites, social media, service centres, warehouses, calls from and to contact centres, events, seminars, email, advertising, sales calls, and retail store visits. Customers may interact with a company's products, services, communications, places, people, processes, or technologies at each touchpoint, forming impressions that influence whether they buy now, not buy, delay purchase or buy from a competitor. Customers also interact with others, experts, friends, and colleagues who can form part of the overall experience with a company.

Consider how you initially became aware of a company – maybe it was in a social media post, in an advertisement when browsing the Internet, a friend told you, you saw its products in a shop display, a family member was using the company's brand, you heard about it when you called a contact centre about a different issue, or a salesperson mentioned it to you. Think now about the channels in which you might make a first purchase – a company's online store, an auction website, a department store, a specialist store, a home-shopping TV channel, as a direct response to an email campaign, or even from a direct-to-customer salesperson.

Potentially, therefore, every customer journey is unique. A customer may initially become aware at one touchpoint (say, a department store), gather information at another touchpoint (comparison website), and make an initial purchase at a third touchpoint (company online store); this is a journey that incorporates both physical and digital touchpoints. Other customers will have had different journeys towards that first purchase.

Shrewd businesses manage what happens at these touchpoints to try to influence customer impressions. We discuss this further in Chapter 7. Software enables businesses to prepare a visualisation or map of the customer journey, either as it is, or as they would like it to be. Tools such as Salesforce Journey Builder, Smaply, and Canvanizer are useful as tools to map the acquisition phase (or any other phase) of the customer journey from lead identification through to on-boarding and hand-over to sales and service personnel.

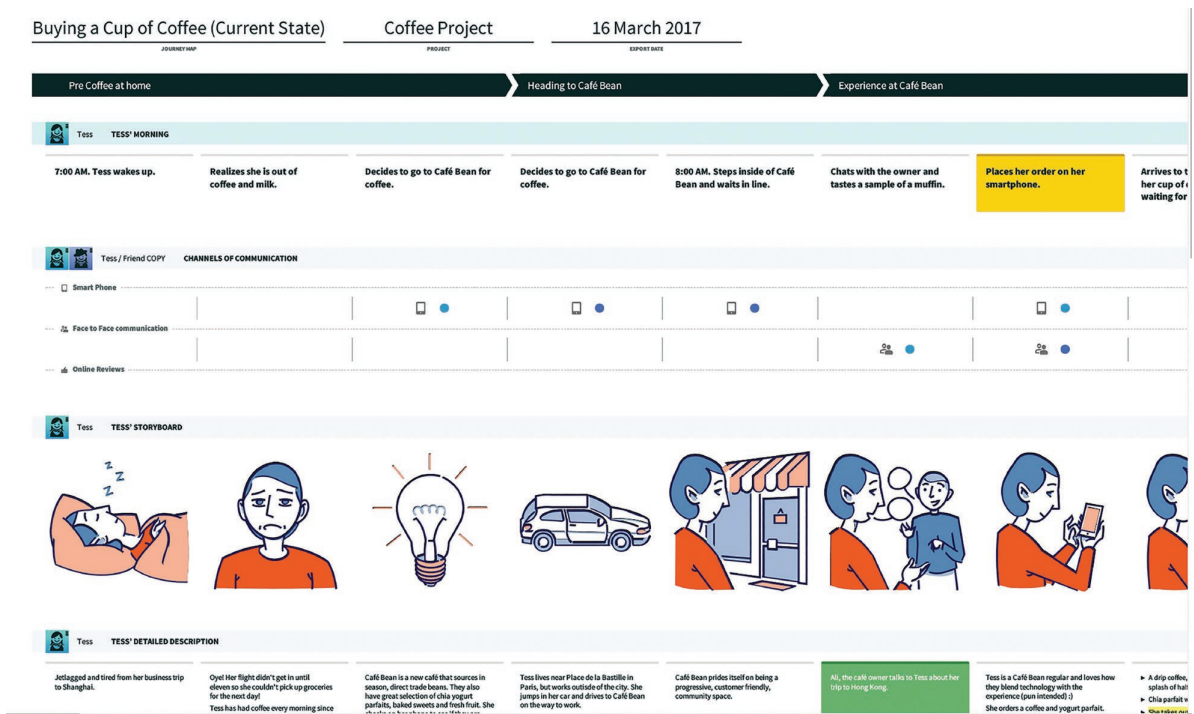


Figure 3.1 Customer journey example, copyright Smaply<sup>1</sup>

## Customer acquisition

From the company's perspective, the first task in managing the customer journey is customer acquisition.

Customer acquisition is always the most important goal during new product launches and for new business start-ups. For small businesses with ambitions to grow, customer acquisition is often as important as customer retention. A one-customer company such as BICC, which supplied copper cable to a single customer, British Telecom (BT), could double its customer base by attracting only one more customer, but on the other hand, the loss of that single customer could spell the end of the company. With such high stakes, all too often companies feel compelled to acquire as many new customers as possible only to find out that they face problems of retention, service demands that they cannot manage, and low margins.

Even with well-designed and implemented customer retention plans, churn is persistent, meaning that the company must constantly replace lapsed customers. This is another powerful motivation for customer acquisition. There are many reasons why customers decide to no longer buy from the company. In a consumer market context for example, customers may shift out of a targeted demographic as they age and progress through the family life cycle; their personal circumstances may change, and they no longer find value in your product; they may even die. In a B2B context, you may lose corporate customers due to merger with, or acquisition by, other company with alternative supplier preferences; they may have stopped



producing the goods and services for which your company supplied input; they may have ceased trading. The reasons for customer churn are often beyond the control of the company, and this means companies will always need to engage in customer acquisition to replace lapsed customers.

Ideally, the customer acquisition plan allows the company to attract profitable customers. So, understanding the factors that lead to customer profitability is important. This then leads the company to the following questions as part of its customer acquisition planning process:

1. Which prospects (potential new customers) will we target?
2. How will we communicate with these prospects?
3. What offer will we make, when, and how?
4. How will we nurture prospects until they are ready to buy?

Such considerations require the company to consider its tolerances. For example, engaging only profitable customers is ideal, but often unrealistic. The company often needs to invest in the early stages of the relationship so that the customer's behaviours are favourable in the longer term. Companies have different thresholds of tolerance, particularly in terms of resourcing and time. It may only be possible to invest a certain amount in each customer relationship. The company may need to transition the customer relationship to profitability before a cut-off date. Beyond these limits, the company then experiences loss.

The customer acquisition plan, therefore, must accommodate a set of specific plans to attract only those customers who meet the company's desired criteria. The customer acquisition plan must receive sufficient resource allocations to meet its goals. The customer acquisition plan is normally the responsibility of the company's marketing department. A lack of integration of customer acquisition activities across the company can be disastrous. This is particularly noteworthy since later parts of the customer journey, where the company needs to focus on customer retention rather than acquisition, are normally the responsibility of other departments of the company (such as customer service, distribution, and operations). This could lead to a disjointed and inefficient approach to customer journey management from the company's perspective and frustration from the customer's perspective.

### What is a new customer?

Since customer acquisition involves the attraction of new customers to the company, it is important to define what we mean by 'new' customer. A customer can be new in one of two senses.

1. New to the product category; and/or
2. New to the company.

#### *New-to-category*

New-to-category customers are customers who have a new need/want or who have found a new solution for an existing need from an alternative product or service category. Consider

the B2C context. When a couple have their first child, they have a completely new set of needs connected to the growth and nurturing of their infant. This includes baby clothes, baby furniture, baby food, and toys. As the child grows, the parents face more new-to-category decisions, such as pre-school and elementary education.

Sometimes, customers also become new-to-category because they find new solution for an existing need from an alternative product or service category. Smartphones have now largely replaced card or cash-operated pay phones in most of the developed world. Smartphones have also become a major conduit for entertainment through streaming services such as YouTube and Netflix, thus acting as a substitute for TVs. Additionally, smartphones have diary functionality, which replaces paper-based diaries.

Sometimes, customers beat marketers to the punch, by adopting established products for new uses. Marketers then catch on and begin to promote that use. For example, Church and Dwight found out that their Arm and Hammer brand of baking soda was used for several purposes other than baking. Their website, [www.armandhammer.com](http://www.armandhammer.com), now lists scores of other product applications including cleaning, deodorising, and personal care. The brand encourages customers to go online and describe novel applications for the product, which lifts customer-brand engagement.

The same distinction between new needs and new solutions also exists in the B2B context. A customer can be new-to-category if they begin an activity that requires resources that are new to the business. For example, when convenience food firm McDonald's entered the cafe market, they needed to develop a new set of supplier relationships. New-to-category customers may also be customers who find a new solution for an existing problem. For example, many clothing manufacturers now use robot-controlled sewing machines rather than manual sewing machines.

### *New-to-company*

The second type of new customers are those who are new to the company. New-to-company customers are those who switch to the company's products/services after experiencing those of competitors. They might switch because they've been offered a better solution or because they value variety.

New-to-company customers are the only option for growing customer numbers in mature markets where there are very few new-to-category customers. In developed economies, new players in grocery retail can only succeed by winning customers from established operators. Once the customer is in-store, the retailer will use merchandising techniques such as point-of-sale signs and displays to increase spending.

New-to-category customers are sometimes expensive to recruit, sometimes not. For example, when children leave home for university, banks compete vigorously for their patronage. They advertise heavily in media used by students, communicate direct-to-student, offer free gifts and low- or zero-cost banking for the duration of the studentship. On the other hand, supermarket chains, with established, well-known brands, may face lower marketing-related costs if they are in popular locations (e.g., next to student accommodation), so these same students shop at their local stores due to convenience.

New-to-company customers can be very expensive to attract, particularly if they are strongly committed to their current supplier. Committed customers have a strong positive attitude to, and/or high levels of investment in, the current supplier. A powerful commitment to a current supplier can be difficult, and often too expensive, to break. High potential

value customers are not always the most attractive prospects because of this commitment and investment. A lower value customer with a weaker commitment to their current supplier may be a better prospect.

## **THE CONVERSION MODEL**

Hofmeyr developed The Conversion Model<sup>2</sup> which serves as a guide to aid customer acquisition. The model presents a battery of questions designed to assess whether a customer is likely to switch. Hofmeyr's basic premise is that customers who are not committed are more likely to be available to switch to another provider. Commitment, in turn, is a function of satisfaction with the brand or offer, the attractiveness of alternatives, and involvement in the brand or offer. Involvement is low if the product or its usage context is unimportant to customers. The Conversion Model segments customers into four subsets according to their level of commitment: entrenched, average, shallow, and convertible. There are two clusters of committed customers and two of uncommitted customers, as follows:

### **Committed customers**

*Entrenched* customers are unlikely to switch in the foreseeable future.

*Average* customers are unlikely to change in the short term but may switch in the medium term.

### **Uncommitted customers**

*Shallow* customers have a lower commitment than average, and some of them are already considering alternatives.

*Convertible* customers are most likely to defect.

Hofmeyr suggests that companies can measure customer commitment by asking just four questions about the company, the brand, the product, the service, or some other brand touchpoint, which we denote as '<whatever it is>' here:

1. How happy are you with <whatever it is>?
2. Is this relationship something that you care about?
3. Is there any other <whatever it is> that appeals to you?
4. If so, how different is the one <whatever it is> from the other?

The model also segments non-customers according to commitment scores into four availability subsets: available, ambivalent, weakly unavailable, and strongly unavailable. There are two clusters that are open and two that are unavailable, as follows:

### **Open non-customers**

*Available* non-customers prefer the alternative to their current offer though they have not yet switched and are ready to switch.

*Ambivalent* non-customers are equally attracted to the alternative as they are to their current offer.

## Unavailable non-customers

*Weakly unavailable* non-customers prefer their current offers.

*Strongly unavailable* non-customers have a strong preference for their current offers.

Hofmeyr claims that these profiles are useful to guide both customer acquisition and retention strategies.<sup>3</sup> He suggests that where the number of open non-customers is greater than the number of uncommitted customers, companies should focus strongly on customer acquisition.

Companies need to nurture their relationships with committed customers, reassuring them that their decision is wise, and finding ways to enrich and enhance their customer experience. The strategy for uncommitted customers is to investigate why there is a low-level of commitment and address the causes. The purchase may fall into a low involvement category, or perhaps customers are dissatisfied with their experience. Whether companies should appeal to open non-customers depends upon the value they can potentially generate. Finally, there are many potential reasons why some market segments are composed of unavailable non-customers. They may have tried your offer and didn't find it satisfying; they may be committed to their current brand or supplier; they may be aware of your offer but find it unappealing; or they may simply be unaware of your offer. Businesses might be able to fix this last problem with advertising or other forms of customer communication, shifting these non-customers from the unavailable cluster to the open cluster. Customer experience research might reveal what customers do not like about your offer or doing business with you and give you some clues about how to make their experience more satisfying.

A core principle of CRM is to use customer-related data to precisely target customers with offers and messaging, thereby increasing the efficiency and effectiveness of customer acquisition efforts. By contrast, poorly targeted acquisition efforts waste marketing budget and may alienate more prospects than they gain through irrelevant and untimely messaging. We now turn to the practice of new customer prospecting.

## **PROSPECTING**

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Prospecting is, of course, a mining term. In that context, it means searching an area thought likely to yield a valuable mineral deposit. In CRM, it means searching for sales opportunities that might generate value for the company. To maximise both the efficiency and effectiveness of prospecting activities, the company needs to ensure it chooses the best target customers (who could be new to the category or new to the company). So, prospecting relies on correct target market selection. Through the company's market segmentation, it can then find those segments that it finds most attractive. Once the company confirms the target customers, it then has a variety of prospecting options.

It is usually the task of marketers to generate leads, for others to follow up and 'close', be it through automated processes online or through salespeople. Sales leads are indications that individuals or companies may have a requirement for the company's products/services

or those like them. Such indications can result from customer-related data analysis (i.e., by identifying prospects with profiles consistent with those already making a purchase), from customer responses to marketing communications (e.g., the prospect submits an online enquiry), and/or from direct approaches to the prospect.

The identification of a sales lead doesn't necessarily mean that the prospective customer will buy. It simply means that the customer is likely to make a purchase of products/services with similar benefits to those that the company supplies. So, it is necessary to qualify the prospective customer. That is, the company must confirm that the customer is indeed able and willing to make a purchase and (ideally) that the offer under consideration is well suited for that customer's needs and wants. If the company can find such evidence (i.e., the customer confirms this themselves or the company finds some other compelling evidence), then the sales lead becomes 'qualified'.

Once the company qualifies sales leads, there is then a need to communicate with customers effectively. The basic choice is to use **direct-to-customer** channels such as salespeople, online stores, direct mail, email, SMS and tele-marketing, or **indirect** channels such as conventional advertising, public relations, and sales promotions. We explore some of the sources of sales leads in the next section.

## Sources of sales leads

Sales leads originate from a variety of sources. We summarise the most common in Table 3.1 in terms of the method the company uses in its prospecting activities, any sub-categories that apply to that method, whether the method involves direct-to-customer or indirect customer communication, and which are more common in B2B than in B2C contexts (N.B. over the past ten years, many prospecting methods have evolved through the adoption of new technology and new practices – this means that there is now significantly less differentiation between prospecting methods available in B2B versus B2C contexts than there once was. For example, customised Google Ads are easily accessible to laptop customers conducting online searches – the laptop is useful for both personal and business purposes.)

We begin with prospecting methods that are the most direct in that they involve close interactions between company sales personnel and customers.

**Personal selling** involves a direct interaction between a sales professional and a prospect. The sales professional attempts to understand the prospect's requirements, proposes a solution, and deals with any issues the prospect faces. Sometimes the sales process involves multiple encounters. Personal selling is now common in both B2B and B2C contexts, although it used to be almost exclusive to B2B contexts. Personal selling involves recruiting skilled professionals familiar with the nuances of the products/services the company sells. Such professionals often bring added value to the company if they have an established list of sales leads. Recruiting and keeping such sales personnel often is a substantial cost to the company. Therefore, companies historically considered personal selling as best in situations where there are fewer, higher value customers – i.e., in B2B markets. The evolution in information technology (e.g., CRM systems), in sales methods, and the shift in focus away from highly skilled professionals to employees with lower skill sets who are able to follow standardised sales processes, has meant that personal selling is now a realistic prospecting method in both B2B and B2C markets.

**Table 3.1** Sources of sales leads

<i>Method</i>	<i>Sub-categories</i>	<i>Direct-to-customer vs. Indirect</i>	<i>B2B</i>	<i>B2C</i>
Personal selling		Direct	X	X
Networking		Direct	X	
Events		Indirect/Direct	X	X
Tele-marketing	• Canvassing			
	• Lead generation	Direct	X	X
Direct marketing	• Email marketing			
	• Direct mail			
	• SMS	Direct	X	X
Online sources	• Search engines			
	• Company websites			
	• Online portals			
	• Social media			
	• Blogs/content marketing	Indirect	X	X
Advertising		Indirect	X	X
Sales promotion	• Discounts			
	• Trial offers			
	• Competitions	Indirect	X	X
Public relations		Indirect	X	X
Merchandising		Indirect/Direct	X	X

**Networking** is the process of setting up and maintaining business-related, personal relationships. A network might include members of a business association, chamber of commerce, friends from university, or professional colleagues in other companies. Networks may interact face-to-face (for example, Chamber of Commerce), online (LinkedIn groups) or both. In some countries, it is essential to build and sustain personal networks. In China, for example, the practice of *Guanxi*, covered in Chapter 2, means that it is difficult to do business without some personal connections already in place. Referral networks are common in professional services. Accountants, banks, lawyers, auditors, tax consultants, estate agents will join into a cross-referral network in which they undertake to refer clients to other members of the network. Networking is more common in B2B contexts since, by definition, networking involves the development of professional relationships.

**Events** are social gatherings, normally for a specific purpose, in either face-to-face or online formats. Events provide opportunities for representatives of the company to interact with prospects. This allows the company to show their products and services, to receive feedback, and to find sales leads. Common events in B2B contexts include exhibitions, seminars, webinars, workshops, trade shows, and conferences. The company normally pays to sponsor

a booth at an exhibition, or a table at a luncheon. This allows for direct personal contact. A popular aerospace exhibition in the UK is the annual Farnborough Air Show. Aerospace manufacturers from around the world gather annually to show the latest aircraft and related technology. The event draws large crowds from across the sector, including both civilian and defence-related prospects. Events are also useful in B2C contexts. Lexus, the automobile manufacturer, invites up to 300 potential buyers to stylish events such as dinner-and-theatre shows or dinner-and-concert performances, where they have their latest vehicles on display. Lexus also invites current owners who sit among the prospects and talk to them. Lexus knows from customer satisfaction surveys which customers to invite. It is a very soft sell. Current owners receive no direct reward for participation other than the opportunity to enjoy the event itself.

**Tele-marketing** involves systematically contacting prospects using a telephone. Tele-marketing uses a core group of personnel in a call centre who follow a standard sales script to generate sales leads (i.e., canvassing). Outbound tele-marketers make outgoing calls to find and qualify leads. Inbound tele-marketers receive calls from prospective customers. In addition to prospecting, it is also possible to use tele-marketing for other customer management purposes – cross-selling, handling complaints, and winning back at-risk or churned customers, for example. While tele-marketing can be cost effective for companies, cold calling can unnecessarily annoy customers. This has led to some backlash in several countries. Australia, for example, now has a ‘do not call’ register, allowing people to record their details as someone who does not want to receive tele-marketing calls. Active mostly in B2B contexts, it is possible to outsource prospecting to lead generation companies. Such companies use available customer-related data to define and target customers. Tele-marketing is a common prospecting approach that they use (but this can differ, depending on the company).

**Direct marketing** involves targeting company communications to prospects in their own time and space. Whereas the direct sources of sales leads we have discussed so far involve human-to-human contact (albeit mediated by telephone in some situations), direct marketing involves less human contact. Instead, communications take other forms. The most common forms of direct marketing include email and physical mail delivered by the postal service – snail mail. SMS or text messages are also gaining in their popularity as a direct marketing tool. Over 95% of people having Internet access at home use it for email, often daily.<sup>4</sup> In the UK, organisations such as Dell Computers, Barclays Bank, Comic Relief, and Epson Printers have used email to acquire new customers. Smartphone penetration has also increased over the past decade. More than 70% of the population in developed countries now have access to smartphones.<sup>5</sup>

Email offers several clear advantages. Most business decision-makers have email, although this does vary by country and industry. It is very cheap, costing as about the same to send one thousand emails as it does to send one single email. It is quick and simple for recipients to respond. Content can be personalised. Email is an asynchronous prospecting tool in that prospects can open the email at a time separate to when the company sends it. When email is permission-based, response rates can be extraordinarily high.<sup>6</sup> However, resistance to spam – where a company sends a bulk email containing generic information that customers consider useless – has led to an overall decline in the effectiveness of email marketing. Many email recipients do not open their emails and email management programmes (such



as Outlook and Gmail) now have algorithms that automatically allocate incoming spam to a junk email folder.

SMS or text messaging is also useful for customer acquisition. Since it is text and not voice, a prospect does not have to 'answer' the text in the traditional sense. SMS messaging has the same advantages as email in that it is personalised, is asynchronous and is cost effective. SMS messaging has the added benefit of directly engaging with the customer through their smartphones. This is appealing to certain customer groups (e.g., Generation Y, Millennial and Generation Z consumers in particular) due to its immediacy. SMS messaging is useful when promoting short-term deals or offers, such as in cinema and retail contexts.

Direct mail or 'snail' mail is also enjoying a resurgence. Since many companies now use email or SMS messaging exclusively, this means that customers receive much less snail mail. While snail mail can be costly to produce and to send, and it is difficult to convey a physical letter as quickly as email or SMS, it is now starting to generate more favourable customer responses. The novelty of receiving a physical letter is, for many customers, a really engaging way to communicate with the company.

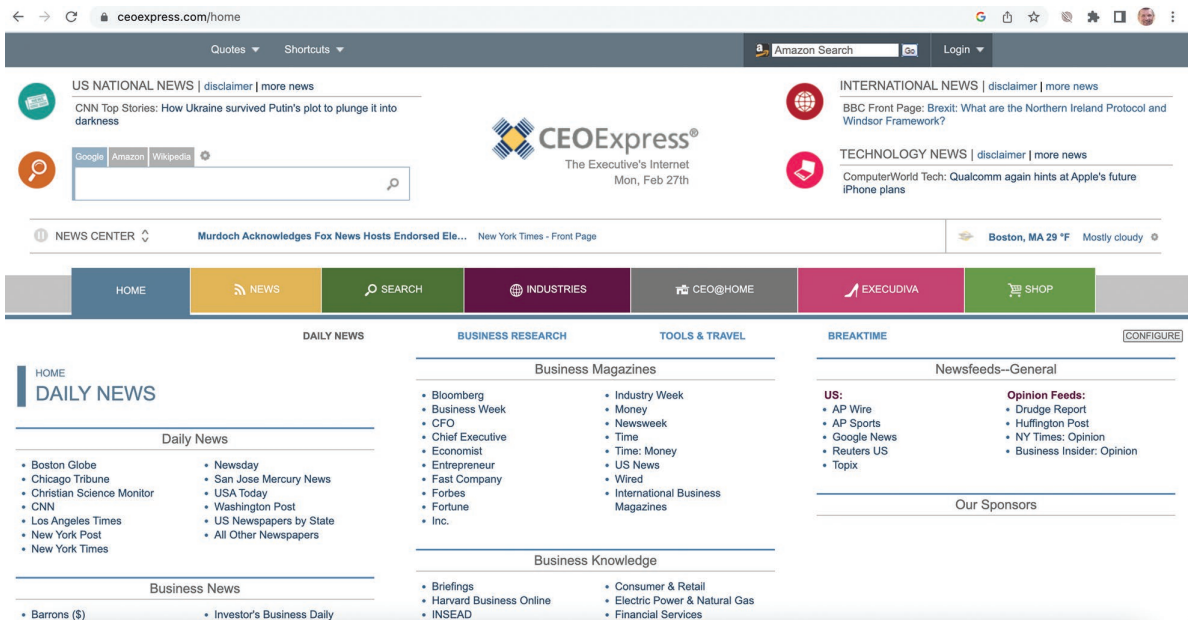
**Online sources** cover a variety of different options for prospecting.

**Search engines** provide an indexed guide to websites. Google is the most well-known search engine globally, although others do exist. Users searching for information type keywords into the search engine's webform. The engine then reports and lists the number of hits, that is, web pages that are associated with the keyed word or words. Users can then click on a hyperlink to take them to the relevant pages. The algorithm that produces the results decides the hyperlinks that the user sees. If a hyperlink appears closer to the top of the page, users are more likely to click it and view the content that emerges. This means that appearing closer to the top of the page is desirable for companies that seek the customer's attention. The main reason for Google's success is that its algorithms allow for a close match between a user's search terms and those that a company uses for its products or services. This means that a customer is more likely to enjoy a satisfying web search since the information they see matches their requirements closely. This is the goal of search engine optimisation (SEO), which involves calibrating the keywords used to describe a web page in a manner that increases the chances of a match.

In addition to designing your own online presence to attract and gather information from prospects, browsing other **company websites** can be a fruitful source of new customers. Company websites are particularly useful when the prospect requires more detailed information about the company's products and services. For example, professional services companies display the profiles of their key people online. This allows prospects to see who may be delivering the service for them, which can help them build confidence that they have made the correct purchase choice.

Related to the company's website is its **online portal**. Many companies now use an online portal to receive and manage orders. Some online portals act as information hubs since they store a variety of different information resources and other avenues for online support. This is particularly useful for companies that offer knowledge-based services. For example, the portal [www.CEOExpress.com](http://www.CEOExpress.com) provides a wealth of information and access to other sites that may be of use to busy Chief Executives. Figure 3.2 shows CEOExpress's home page customised for auto industry executives.





**Figure 3.2** The CEOExpress portal<sup>7</sup>

**Social media** is now the most ubiquitous form of online prospecting. There are now multiple platforms (e.g., LinkedIn, Facebook, WeChat, Weibo, TikTok, X (formerly Twitter), Instagram) where companies can prospect. Social media platforms, like search engines, act as a mechanism that channels company and customer interaction through a central online hub. Companies have several options that they can choose to use separately or simultaneously. One possibility is to develop a landing page on the social media platform. This is like a company web page but differs in that it exists only on the social media platform. This can be useful since company landing pages can help companies communicate directly with their customer base in a direct, cost-effective manner.

Companies can use their landing pages to promote content. Engaging, interactive content may motivate visitors to spend time on the page, raising awareness and engagement, and eventually leading to trial purchase. Some companies offer valuable downloads to visitors – apps, offers, or vouchers for example. Another possibility is to use social media as an advertising medium. It is possible to target Facebook ads, for example, according to user location, age, gender, and behaviours. Prospecting through social media involves maximising the exposure of the brand to the online community that uses the social media platform. This means attracting ‘likes’ and ‘shares’ of the content that the company creates. Otherwise known as ‘content marketing’, the company tries to create videos, text-based and other forms of content (e.g., games) to encourage high user engagement.

Without an established fan base, companies can struggle to attract user attention. While the creation of interesting and engaging content is one means to increase the likelihood that the company attracts more user interest, this might not be enough. This is one reason why

companies might choose to partner with an ‘influencer’ – an individual with an existing, large group of online followers. The company stands to benefit from the additional exposure and partnering with an influencer can be cost effective. However, the influencer may not have the followers that translate easily to prospects for the company. While intuitively appealing, few firms have the data and capabilities needed to map complex social networks to identify the key individuals and then track the subsequent cascading of influence. Some firms therefore pay celebrities to endorse their products in social media. For example, Calvin Klein used Justin Bieber to launch an underwear collection in 2015. The launch video has had more than 10 million views on YouTube; Bieber also has 114 million followers on X (formerly Twitter) who saw his Calvin Klein content, many of whom retweeted it to their own followers. A Marketing Science Institute report suggests that rather than targeting key influencers in social media, identifying a company’s revenue leaders – its most profitable customers – can produce a similar effect.<sup>8</sup> The MSI report finds that people with similar characteristics tend to form close friendships (a phenomenon known as homophily) and hence a customer whose needs and wants are satisfied by your offer will tend to associate with others whose needs and wants could be satisfied by your offer.

The company’s choice of social media platform is important. Each social media platform appeals to a different audience. For example, LinkedIn is a professional online community which focuses on career development. Instagram is oriented more towards sharing images and centres more on entertainment. This influences the choices that companies face when using social media for prospecting. For example, innocent Drinks is a London-based fruit juice and smoothie brand. innocent decided to select only the right platforms for its consumer demographic and then to build a strong interactive community, which through likes and shares, would spread word-of-mouth about the brand, encouraging friends to try innocent. innocent’s social media platforms include Facebook, X (formerly Twitter), YouTube, Flickr, Instagram, and Pinterest. The brand’s Facebook page has about 600,000 likes. innocent gives 10% of its profits to charity, including the innocent foundation that supports sustainable agriculture projects, and emergency relief.



**Case illustration 3.1** innocent Drinks – customer acquisition through social media

**Advertising** involves the creation and delivery of messages to targeted audiences through the purchase of time or space in media owned by others. TV commercials, radio commercials, ads in print media, billboards, online ads, and sky writing are common forms of advertising. In each case, the company tries to convey a coherent message about its products or services in a manner appealing to the customer.

Advertising can be successful at achieving two different classes of communication goal: cognitive and affective. Cognition is concerned with what audiences know; affect is concerned with what they feel. Cognitive advertising goals include raising awareness, developing understanding, and generating knowledge. Affective advertising, on the other hand, involves evoking feelings that compel the customer to respond.

Different advertising approaches work in different situations. In high involvement buying contexts, where products or their usage context are personally significant for the consumer, prospects will normally progress through a learn-feel-do process when making their first purchase. In other words, before they buy, they acquire information that helps them learn about and compare alternatives, thus reducing perceived risk. They then develop a preference for, and intention-to-buy a particular offer. Customers are engaged in problem-solving. Advertising is one of the sources they can use in the learn-feel part of that process. It is however not the only source of information, nor is it necessarily the most powerful. High involvement advertising can employ long copy because prospects use advertising to learn about alternatives. Comparison advertising and copy featuring endorsements by opinion formers may be influential. Media that help prospects to acquire and process information are those that have a long dwell-time such as magazines and newspapers.

Advertising can also evoke powerful emotional responses in audiences. The type of response that advertisers seek in prospects is 'I like the look of that; I really must try it'. This is an effective response linked to a buying intention. Ads for fashion items, jewellery, and vacation destinations often aim for an emotional response. TV ads evoke emotions by their clever mix of voice, music, images, movement, and sound effects. Advertisers can pre-test different executions to ensure that the ideal emotional response results. In low involvement contexts, where the product category or its usage context is unimportant, prospects are very unlikely to go through a complex and demanding learn-feel-do process. Rather, there will be little or no pre-purchase comparison of alternatives. The prospect is much more likely to simply become aware of the product and buy it. There may not even be post-purchase evaluation of the experience except in the most elementary of forms. Evaluation may only take place if the product does not deliver the benefits expected. The purchase model is therefore learn-do. The role of advertising for low involvement products is to build and keep brand awareness and recognition. Copy needs to be short – prospects won't read long advertising copy. Recognition is possible with the use of simple visual cues. Repetition of the ad in low involvement media such as TV and radio helps build awareness and recognition.

**Sales promotion** is any behaviour-triggering temporary incentive that the company aims at prospects, customers, channel partners, or salespeople. Here, we focus on sales promotions aimed at prospects. Given their temporary effects, sales promotions are often only useful to achieve short-term goals. There are many forms of sales promotion:

- **Sampling.** Sampling involves the provision of a free sample of the product. While potentially expensive, sampling can encourage the prospect to try the product for the first

time. To encourage further purchases, using a voucher for a discount can be a very effective accompaniment to free samples. Sampling is common in grocery retail contexts, for example.

- **Free trials.** Free trials see companies offer products to customers on an approval basis. If the customer decides they like the product they keep it and pay. A free trial is a powerful tool since it encourages the customer to adopt new behaviours that they find difficult to break after the trial period ends. Auto dealers offer test-drives to prospective purchasers. Charles Schwab, the execution-only stockbroker, offered a free trial of online share trading to attract new customers. It signed up 8,500 new customers; over 6,000 remained active clients once the three-month trial period ended. Netflix has also offered free trials for the same reasons.
- **Discounts.** Discounts or money-off deals are temporary price reductions. The temporarily lower price provokes customer purchases, sometimes in a frenzied manner. For example, the annual Black Friday sales that now take place in many countries have important influences on customer behaviour. Customers are more likely to wait for discounts or specials before making a purchase. Not only do customers save money, they perceive a lower risk since they have not had to spend as much.
- **Coupons.** Coupons are physical or virtual documents that give the customer access to an offer that is more attractive than the standard offer for the same product. This can include 'two-for-one' deals, unique discounts, or access to complementary products/services. Coupons are redeemable on purchase, at the point-of-sale. Mobile apps such as Cellfire give consumers access mobile coupons from many retailers.
- **Rebates.** Rebates or cash-back offers involve an offer by the company to return a portion of the purchase price to the customer. This normally involves the customer redeeming the offer by supplying their details via the company website. In this case, customers exchange some of their personal details for cash back.
- **Bonus packs.** Bonus packs see the customer receive a larger amount of the product for the same purchase price as a lesser amount. For example, a customer might get 2.5 litres of juice for the price of a 2-litre pack.
- **Banded or bundled packs.** A banded or bundled pack promotion involves more than one product sold together as a single item, at a lower price than the customer would experience had they bought each product separately. For example, it is common to bundle games with an Xbox and to sell it as a single package.
- **Free premiums.** A free premium is a gift to the customer. The gift may be offered at the point-of-purchase, in packaging, or require the customer to mail, email, text, or phone in a request. Free premiums may also be offered electronically, for example buy a particular mobile phone and download free ringtones or pay nothing to access voicemail.
- **Cross promotions.** These occur when two or more non-competing brands create a mutual promotion. For example, a proof-of-purchase from a theatre entitles the patron to a 25% discount on a restaurant meal, and vice versa.

- **Lotteries.** A lottery is a game of chance, not involving skill. Consumers are invited to buy the product and be entered into a draw for a prize. Prizes are highly variable. They range from low value items such as shopping vouchers to high value prizes such as personal makeovers, exotic vacations, and even fully furnished houses.
- **Competitions.** Unlike a lottery, a competition requires skill or knowledge. The prizes are varied, as in the case of lotteries. Other than that, they function in the same way as lotteries.

**Publicity (PR)** involves the generation of free editorial content that existing outlets disseminate on the company's behalf. Free publicity such as that obtained by Richard Branson, founder of the Virgin Group of companies, enables many companies to spend less than major competitors on advertising. Branson excels at gaining publicity. When Virgin launched its cola product in the USA, he hired a tank to roll into Times Square and take a 'shot' at Coca-Cola's illuminated advertising sign. Virgin invited all the TV networks to film the moment, along with 62 representatives of the press. This produced a huge amount of free publicity and led to growth in its customer base. Similarly, when Virgin launched Virgin Brides, Richard Branson dressed like a bride and paraded around the streets of London in an open-top car. These sorts of activities can create a significant amount of public interest in the brand.

While PR activities normally do not involve an expense to the company for the dissemination of content, they do involve other costs. Companies often need to hire a PR Manager and/or team to manage PR. The media outlets tend to run on a low-cost basis, so they focus on obtaining content from many sources, and this means that the company needs to provide newsworthy content. This also means that the media outlets have significant control over content. This can pose a risk to companies that seek public exposure, particularly if there is an interesting story that emerges about that might not be in the best interests of the company.

**Merchandising** involves the production and distribution of any tangible behaviour-triggering stimulus. The term 'merchandising' was originally the promotion of products at retail and other points-of-sale, for example with special displays, signage, and shelf tickets. Merchandising has now evolved to broadly mean any products that promote the company's brand and its products/services. This can include office stationery with the corporate logo, drink containers, backpacks/satchels, clothing, corflutes, banners, and cards, to name a few examples. Businesses use merchandising to create brand recognition through brand visibility. The fact that a prospect can take a coffee mug with them that has the company's logo embossed on it means that the prospect will have many exposures to the company's brand during the life of the mug, for example.

The contraction 'merch' is also a term used to describe products that carry the company logo and branding. Merch now accounts for a significant portion of income for sporting teams, bands, and entertainment companies such as Disney. Merch such as t-shirts can have a very, very long life. You may have seen Baby Boomers still wearing Beatles' merch! Influencers also monetise their followers by selling merch through their social media channels.

## Integrated prospecting

While it may be tempting to consider each sales lead source as independent, they are all inter-related. Understanding this inter-connectedness is important. Understanding integration can help:

- Promote better coordination across the company.
- Maximise resource efficiency.
- Maximise the effectiveness of prospecting activities.

We can think of integration, as this relates to companies, in four ways:

**Campaign-level integration.** Companies often organise their prospecting activities as a campaign – a coherent set of promotional activities that the company conducts over a defined period. Companies often select several of the prospecting activities we cover above and use them simultaneously, or as a sequence, where one prospecting activity leads to another. For example, companies can conduct tele-marketing and direct mail activities that encourage customers to attend an upcoming event. Event attendees then have exposure to various merchandise at the event.

Campaign-level integration often results from a set of clearly defined goals. For example, a campaign may focus on enhancing customer referrals. Eismann, the German frozen food manufacturer, estimates that it recruits 30% of its new customers through referrals from satisfied customers.<sup>9</sup> Research suggests that customers gained through his type of organic referral are somewhat more valuable than those recruited through advertising/promotion, partly because they themselves recommend more but mainly because they are retained longer.<sup>10</sup> Despite high levels of naturally occurring referral, companies may still choose to develop a Customer Referral Scheme (CRS). CRSs are also known as Member-Get-Member (MGM) and Recommend-A-Friend (RAF) schemes. These work by inviting existing customers to recommend a friend and rewarding the recommender with a gift. It is important to choose the right customer and the right time to invite a referral. Broadly, schemes are more effective when targeted at a relevant section of the customer base, for example customers who are satisfied or customers who have just experienced excellent service. For example, companies offering roadside aid to stranded motorists will ask for a referral after they complete the repair.<sup>11</sup>

While a clear set of goals helps, a second element that can support campaign-level integration is a clear and coherent message. The message serves as the core content of any prospecting activities. Prospecting activities are more efficient and effective if they communicate the same message consistently about the company, the brand, and/or product across all channels. Doing so increases the chances that a customer experiences high recall (through repetition across channels and over time) while also reducing the chances that they experience confusion.

Heavy media users experience up to one thousand ads per week.<sup>12</sup> So, it is important for any prospecting activities to convey a message that stands out (advertisers call this



cut-through). Without this, it is unlikely that a prospect will recall any messaging let alone act on it. Pre-testing messages on a sample of potential new customers is a way to improve the chances of an ad achieving its goals. Among the criteria useful when assessing the following dimensions:

- *Recall.* How much of the message can the sample recall?
- *Comprehension.* Does the sample understand the message?
- *Credibility.* Is the message believable?
- *Feelings evoked.* How does the sample feel about the message?
- *Intention-to-buy.* How likely is it that the sample will buy?

Research shows that creativity in advertising makes an important contribution to the visibility and impact of an ad.<sup>13</sup> There is no reason to suspect this is different when considering the variety of prospecting activities available to companies.

If the company has clear goals and a clear, distinctive message, it can then choose from the suite of prospecting activities available. Fundamental to the decisions underpinning prospecting activities is the context: B2B or B2C, as the following examples illustrate.

In a major IT system procurement by a large corporate, the prospecting options available could include personal selling, events, networking, advertising, and PR. This sort of approach allows the company supplying the IT system to develop a set of personal contacts with members of the large corporate while also building their brand. Brand-building activities are useful as means to provide reassurance to the large corporate since the added visibility of the brand means they are dealing with a legitimate company.

When a consumer buys an ice cream from a retail outlet, the prospecting options most appropriate could include advertising, merchandising (such as point-of-purchase displays), sales promotions (such as discounts and sampling), and personal selling (by the vendor). In this case, the prospect does not wish to develop a relationship with the ice cream retailer, so a heavier reliance on indirect prospecting methods makes more sense.

Campaign-level integration involves a coherent plan to use a specific combination of prospecting activities to achieve a set of goals. Campaign-level integration also accommodates the idiosyncrasies of customers by focusing on a core message across all prospecting activities through the duration of the campaign.

**Customer-level integration.** Companies can also organise their prospecting in terms of a specific customer or customer segment. This is the essence of account-based marketing (ABM). As such, the company uses its analytics and insight through its CRM system to identify attractive targets, to develop an appropriate suite of prospecting activities, to implement them and to track them in terms of customer responses.

While attracting new customers is often the focus for prospecting campaigns, there may also be other goals that the company has in mind. A growing number of companies try to attract new customers through word-of-mouth (WOM) influence, also known as buzz. Word-of-mouth equates to interpersonal communication about a product or organisation in which the receiver assumes the communicator is independent of commercial influence. Customer referral programmes, sponsoring influencers and using sales promotions such as free trials can all increase the chances that positive WOM spreads about the company,

its brands and/or its products. Marketers can galvanise WOM through activities that create ‘buzz’ – excitement and interest in the customer group and/or people they encounter on a daily business (i.e., family, friends, work colleagues) or who they hold in high esteem (such as celebrities and influencers). Brands such as Amazon, YouTube, and Krispy Kreme owe much of their success to WOM.

WOM has been shown to influence receivers’ knowledge, emotions, intentions, and behaviours, and because of its apparent separation from commercial influence is regarded as independent and trustworthy.<sup>14</sup> Advertising agencies, such as Buzzador, Soup, and Fizz now offer WOM marketing services. Typically, they create a panel of members who agree to sample new products, share them with friends, talk about them and post pictures and stories in social media. Brand owners contract these agencies to kick-start WOM. Sometimes, brand owners take a simple multiplicative approach to computing the effects of a WOM Marketing (WOMM) campaign. They assume that if 200 campaign participants each tell 15 people and each of those tells a further five people, then the campaign has reached 15,000 people. However, there is evidence that transitivity of social ties constrains campaign reach. The more ties there are between members of a social network, the more transitive it is. Groeger and Buttle found that these assumptions can overestimate campaign reach by over 57%.<sup>15</sup>

Customer-level integration is a useful way to ensure a close alignment between prospecting activities in such a way as there is a clear focus on the prospect or market segment. This increases the chances that the company engages with its target audience in an efficient manner (since there is scope to focus efforts only on a narrowly defined group of people) and one that is also effective (since there is more scope to develop and implement only those prospecting activities that are best for that customer or customer group).

**Product-level integration (making the right offer).** In addition to carefully targeting new customers for acquisition, companies need to consider what offer they will make. The company has a wide range of considerations in this regard. The company must decide on the best product design to ensure it has a combination of features and benefits most likely to attract the target customer. The company must manage the cost profile of the product so that they can offer it at a price that the target customer is willing to pay. The company must also ensure the product is available at an attractive time and place. The company must also ensure it communicates attractive messages to customers through its prospecting activities.

While there are many factors to consider in terms of what makes ‘the right offer’, one way to think about this is in terms of the ways in which the offer integrates the company’s prospecting activities. In designing an offer to attract new customers, a company must find ways to reduce the target’s perceptions of risk and cost. Some industries are consistent in their use of entry level products for customer acquisition, for example. Insurance companies use automobile insurance to attract new customers. Many developed countries require drivers to have at least third-party insurance, to protect other drivers in case of an accident. Since this type of insurance is mandatory, it is often the first experience a customer has with an insurance product. New customers often enjoy a heavily discounted product when they first buy third-party insurance, and customers normally sign up to a 12-month contract. In this instance, the insurance company gains significant customer insight by tracking the customer’s behaviour during the contract. This allows the insurance company to calibrate offers and to try cross selling or upselling (e.g., for home and contents insurance, health insurance and/or other financial products).



The prevalence of customer-related data now available allows companies to precisely calibrate their offers (within a small margin of error). Machine learning algorithms can find associations between unrelated customer-related datapoints. For example, if a customer drinks orange juice during breakfast, they may be more likely to have an interest in antique watches. This lateral and unexpected connection now allows companies to predict customer preferences. This precision then allows the company to also develop and implement an effective suite of prospecting activities.

**Systemic integration.** Companies can also think of their prospecting activities in terms of the use of systems and resources. Companies often look to perfect their resource use, and this leads to a need to adopt practices that achieve outcomes that align with this goal. Many companies use CRM systems for this purpose (we cover some specific uses in the following section). Moreover, prospecting may involve the coordination of activities by both the marketing and sales departments. Where marketing departments usually lead the company's indirect prospecting activities, sales departments spearhead direct prospecting activities. This means there is a need to find as many complementarities or synergies as possible.

A core resource that supports both marketing and sales prospecting activities, for example, are prospect lists. It is possible to develop lists from many data sources (e.g., online directories, telephone directories, professional association directories, and internal customer records). Lists of contacts are also available for purchase from multiple third-party suppliers. Lists of customer details are necessary for prospecting activities such as tele-marketing, personal selling, direct marketing, and events. Their criticality means that it is necessary to maintain customer lists fastidiously. Since customers are dynamic, customer lists become outdated regularly. Since there are multiple users across the company, there is also a significant risk of data duplication, missing data, and data errors.

## OPERATIONAL CRM TOOLS THAT HELP CUSTOMER ACQUISITION

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CRM tools are vital in prospecting activities. This becomes clearer as the company grows. Where the company moves from only a few marketing or sales professionals to one that has many, it can be very difficult to coordinate diverse prospecting efforts. CRM tools can help. Not only can they help figure out which customers to target, they can also help companies understand which prospecting activities are most likely to succeed while also helping to coordinate them. We explore some of the key CRM tools useful in these endeavours.

### CRM customer insight, analytics, and reporting

CRM systems, depending on how the company chooses to implement them, can now access many data sources. This then becomes the basis for a range of customer insights. As we touch on above, customer insights can result through the application of a range of analytical techniques. Cluster analysis, for example, is a statistical method useful for identifying coherent customer groups based on a set of common attributes evident in the data. This then becomes the basis of market segmentation. Mixing cluster analysis with further analytical techniques (e.g., latent class regression, multiple regression, covariance analysis, etc.) can yield further

customer insights that highlight purchase likelihood, likely customer payoff horizons (i.e., the length of time it takes for the returns from the customer's purchases to repay the costs of attracting and retaining them), association rules between different customer attributes, as well as a range of other insights. Each of these is potentially useful when planning prospecting activities and when designing customer offers.

Similar analytical techniques can help companies understand how effective and efficient their prospecting activities are. While companies are often interested in a range of key performance indicators (see the next section), CRM tools can help to uncover trends. For example, CRM analytics may reveal a tendency for customers with a certain profile to buy two related items at about the same time. This then helps when planning customer offers. Analytics can also support experimentation. Several CRM software packages allow marketers to compare two or more prospecting activities in an experimental fashion. Known as 'alpha/beta' testing, this might involve testing two email advertising messages by providing information on the relative impact of each message in terms of email opens, the timing of email opens, and the number of new customer enquiries. This is helpful when deciding on the best advertising message.

Most CRM tools have a range of built-in reports. These reports are particularly helpful when monitoring campaign performance. For example, Google Analytics allows account holders to see the number of page impressions a company web page generates, the click-through rate (where the user clicks the hyperlink to visit the company web page) and how closely the company's message aligns with the most popular search terms at a given time. Sometimes the insights provided by standard reports may not meet user requirements, however. In this case, more advanced ad hoc analytics are necessary. It is often possible to query current customer-related databases for clues to guide customer acquisition. Supermarket operators can mine transactional data for insight into the baskets of goods that customers buy. If you were to find that 60% of customers buying frozen apple pies also bought pre-mixed custard, you might think it worthwhile targeting the other 40% with an offer. A bank wanting to generate new customers for its savings account can develop a model predicting propensity-to-buy based upon current product ownership. In the B2B environment, salespeople may have entered data about prospects' satisfaction with competitors' offerings into their sales call records. Those who are less satisfied will show a higher propensity to switch and may be worth targeting with an offer.

## Campaign management

Campaigns are one of the main ways that companies can integrate their prospecting activities. CRM software packages often include campaign management functionality. Normally a campaign manager or a marketing manager designs a campaign as a coherent set of prospecting activities to take place over a defined period. Since these activities involve many stakeholders (marketing personnel, sales personnel, other company personnel, as well as external advertising agencies, lead generation companies, events management companies and so forth), there is a need to find a way to coordinate these stakeholders. CRM software often includes project management functionality that coordinates the diverse activities of multiple stakeholders and monitors milestone completion. The customer insight and analytics capabilities of CRM

software packages allow the company to monitor the impact of the various prospecting activities in the customer acquisition campaign.

CRM software packages also enable the partial or complete automation of campaign tasks. Where the company uses social media and content marketing, it is possible to develop content ahead of time and to use CRM software to release the content according to a pre-defined calendar. This means that the company can organise its activities and resources efficiently. The automation of social media content release means that a company can recruit a freelance blog writer or content producer to develop a suite of content as part of a short-term contract. This individual may only be necessary for a few months. As a result, the company can now access a considerable quantity and variety of content. The campaign manager or the marketing manager can then programme the CRM software to release this content according to a pre-defined timetable. This then frees up resources so that they can focus on other activities.

### Events as triggers for marketing

CRM software can often flag events as triggers for prospecting activities. In retail banking, for example, an event such as a large deposit into a savings account might trigger some new prospecting activities from the bank's investment division. A large deposit can show the customer needs help in managing larger-scale finances and that the company could stand to profit from this emerging customer need.

More broadly, companies can link new customer requirements to life stage events. For example, finance companies target mortgages at newlyweds and empty nesters whose children have left home. Clothing retailers target different offerings at customers as they age: branded fashion clothing at single employed females; baby clothes for new mothers and so on. Public events such as interest rate falls or hikes, tax law changes, and weather events or competitive events, such as new product launches might signal an opportunity. For example, an insurance company might launch a health insurance campaign following announcements in the press of an upcoming influenza epidemic.

### Lead management and the sales process

CRM software can also help companies to manage the selling process. An important part of that process is lead management. Of the many CRM and sales lead software packages available, many follow established sales methodologies, among them, Customer-Centric Selling, SPIN Selling, Miller Heiman, and Solution Selling methodologies. Lead management includes lead generation, lead qualification, lead allocation, lead nurturing, and lead tracking processes. The transition along this pathway helps the company to filter out sales leads according to a set of criteria and to then focus their prospecting efforts on those qualified leads that are the most attractive and the most likely to respond favourably to the company's offer.

When qualifying a need, companies should consider the following exemplar questions:

- Does our product or service solve a problem important to the customer?
- What is the time frame for the prospect's purchase decision?

- Can the prospect access the product or service?
- How difficult or costly will we find it to serve the prospect?
- What sort of relationship will the prospect seek with the company (if any)?
- How likely (and often) is the prospect to buy?
- Can the prospect pay?
- Does the prospect have authority to buy?

CRM software applications allow the company to score prospects against these and other relevant criteria. Where a prospect scores favourably, the company is then more likely to implement direct prospecting activities, such as deploying sales personnel to pursue the prospect with an offer. Prospects that score less favourably, but the company still considers worthwhile, may then become the targets of more indirect prospecting activities. Once the company prioritises prospects and has started prospecting activities, it then begins lead nurturing. Lead nurturing processes ensure that leads receive levels of service and support that help build trust and confidence prior to becoming buyers. Lead tracking processes trace the conversion of prospects into customers. Lead management software allows salespeople to customise their interactions by applying workflow rules that vary according to prospect attributes such as company size and level of qualification. Sales reps may want to reject leads, further qualify them, re-define (convert) them as opportunities, or take other actions as needed.

## **KEY PERFORMANCE INDICATORS OF CUSTOMER ACQUISITION PROGRAMMES**

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Since prospecting activities have the potential to consume considerable resources, companies require a means to assess whether they have the desired effects. At the outset of any prospecting activities, it is important for the company to establish a clear set of goals. These goals then translate into key performance indicators (KPIs) that the company then monitors, and which assess the degree to which the outcomes it sees over time are consistent with the goals it has set.

Broadly speaking, prospecting activities focus on three types of KPIs:

1. The number of new customers that the company acquires (e.g., new sales leads, new sales enquiries, conversion rates from prospect to purchase).
2. The cost of acquiring each new customer (e.g., the money invested in prospecting activities such as advertising).
3. The value of the new customer throughout the relationship (e.g., the total revenue the customer generates, the total cost of serving the customer).

If we consider each of the prospecting activities listed earlier in the chapter, many companies consider each one as a direct route to achieving one or more of these KPIs. Table 3.2 shows a set of the specific measures that companies use. It is interesting to note that while many prospecting activities do offer a direct way to achieve new sales, some do not.

**Table 3.2** Common metrics used to assess prospecting activities

<i>Method</i>	<i>Sub-categories</i>	<i>Some common KPI metrics</i>
Personal selling		<ul style="list-style-type: none"> <li>• New sales leads</li> <li>• New qualified prospects</li> <li>• New sales</li> <li>• Sales margins</li> </ul>
Networking		<ul style="list-style-type: none"> <li>• New sales leads</li> <li>• New qualified prospects</li> <li>• New sales</li> <li>• Sales margins</li> </ul>
Events		<ul style="list-style-type: none"> <li>• New sales leads/number of attendees</li> </ul>
Tele-marketing	<ul style="list-style-type: none"> <li>• Canvassing</li> <li>• Lead generation</li> </ul>	<ul style="list-style-type: none"> <li>• New sales leads</li> <li>• New qualified prospects</li> <li>• New sales</li> </ul>
Direct marketing	<ul style="list-style-type: none"> <li>• Email marketing</li> <li>• Direct mail</li> </ul>	<ul style="list-style-type: none"> <li>• Open rate</li> <li>• New sales enquiries</li> <li>• New sales leads</li> </ul>
Online sources	<ul style="list-style-type: none"> <li>• Search engines</li> <li>• Company websites</li> <li>• Online portals</li> <li>• Social media</li> <li>• Blogs/content marketing</li> </ul>	<ul style="list-style-type: none"> <li>• Number of hits/views/page impressions</li> <li>• Number of 'likes' and 'shares'</li> <li>• Number of user comments</li> <li>• New sales leads</li> <li>• Brand recall</li> </ul>
Advertising		<ul style="list-style-type: none"> <li>• Number of views/exposures per person (over time)</li> <li>• Brand recall</li> <li>• New sales leads</li> <li>• New sales enquiries</li> </ul>
Sales promotion	<ul style="list-style-type: none"> <li>• Discounts</li> <li>• Trial offers</li> <li>• Competitions</li> </ul>	<ul style="list-style-type: none"> <li>• Open rate</li> <li>• New sales enquiries</li> <li>• New sales leads</li> </ul>
Public relations (PR)		<ul style="list-style-type: none"> <li>• Number of views/exposures per person (over time)</li> <li>• Brand recall</li> </ul>
Merchandising		<ul style="list-style-type: none"> <li>• Normally not measured separately</li> </ul>

Indeed, some prospecting methods are means to ends. For example, PR may not lead to new customers directly. Instead, PR may only contribute to higher brand recall. This higher brand recall may be a necessary, but insufficient, condition for customer acquisition. Some prospecting activities rely on the success of other prospecting activities. For example, the success of an event derives from how many people accept invitations and attend. Inviting the right people through the right channels is normally a responsibility for

tele-marketing, direct mail and/or advertising. It is therefore necessary to consider KPIs in terms of all current prospecting activities. At this level, it is then possible to understand whether they are effective.

It is at this comprehensive level that the total cost of customer acquisition is visible. Most companies prefer to minimise the cost of new customer acquisition while also maximising the effectiveness of their prospecting activities. Efforts to achieve this balance affect the company's choice of prospecting activities. Companies can compare the relative costs of customer acquisition per channel before deciding how to spend their acquisition budget. For example, a British motoring membership organisation knows that its member-get-member scheme has a direct cost per new customer of £22 compared to £100 for Direct Response TV and £70 for door drops. The average is £35. A British telecoms company reports that it costs £52 to win a new customer through its recommend-a-friend programme, compared to an average of £100 and an advertising-generated cost of £200.<sup>16</sup> The costs of acquiring new customers online are variable over time and across categories. Amazon claimed it was costing them US\$29 to acquire each new customer;<sup>17</sup> credit card operators thought it cost US\$50 to US\$75, and mortgage customers cost US\$100 to US\$250 to acquire.<sup>18</sup>

Companies have a choice of acquiring new customers through relatively costly but fast-acting marketing investments or through slower but low- or zero-cost WOM processes. Julian Villanueva and colleagues have researched the effects of marketing-induced versus word-of-mouth customer acquisition on firm performance. Using data from an Internet firm that provided free web-hosting to registered users during a 70-week-long observation period, they found that customers acquired through WOM were themselves productive at generating new customers through their own WOM. They also generated more word-of-mouth activity than those acquired by marketing-induced channels. Each customer acquired through marketing was expected to bring around 1.59 new customers throughout his or her lifetime, while a customer acquired through WOM was expected to bring 3.23 customers (including self).<sup>19</sup>

Companies are normally better-off using several prospecting activities in unison. We see this in marketing campaigns. A campaign can include advertising, sales promotions, PR, and tele-marketing (as well as other combinations). The context and the goals of the company help to decide the most appropriate mix. The fact that the company uses more than one prospecting activity at once increases its chances of achieving its KPIs, particularly if it can ensure a tight integration. The use of multiple prospecting activities simultaneously means that the cost per customer acquisition relates to the total cost of all prospecting activities. Historically, however, it has been more common to compare the cost of a specific prospecting activity with customer acquisition benefits. For example, it is common to look at an industry event in terms of how many people were in attendance. This may only be part of the puzzle.

Once the company has a sense of the cost of customer acquisition, it is then possible to use this as part of a customer lifetime value calculation, which we covered in Chapter 2.

## CASE ILLUSTRATION 3.2

### SOLARQUOTES.COM.AU

Technology companies and companies selling goods and services where the buyer requires extensive information before making a purchase decision, are more often turning to 'recommendation' or 'quote' sites, which combine learning from targeted advertising, networking, online sources, tele-marketing, and relationship marketing, to produce qualified leads for subscribing businesses.

The customer acquisition process begins with a 'recommendation site' advertising on social media in a targeted way, to a specific group of potential customers. The advertising usually includes non-branded information and education about the product or service. 'Things to look for' and 'things to avoid' are often eye-catching headlines to attract the attention of prospects.

Clicking on the 'recommendation site' advertising brings up further information to both educate and reassure the prospect that the site is a non-biased platform, highlighting many businesses with the capability to provide the goods or service. Along with this information is a form for the prospect to complete, which then enables customised information.

The prospect is asked to provide basic details about their requirements, without any commitment to purchase. Using this information, the 'recommendation site' can provide more specific details about purchase options and suggest that the prospect speak to a small number of qualified practitioners or salespeople for further information, costs and time frames, and to gather detailed quotes.

To maintain a consistently non-biased approach, the prospect is then presented with a list of local service providers (and their review scores) and asked to nominate three companies from the list. Those three companies are sent the prospect's details along with the answers provided to the qualifying questions.

A salesperson from each of the three companies will contact the prospect, answer any questions, and provide a detailed quote, within a few days of the online enquiry.

The 'recommendation sites' CRM tool maintains a relationship with the prospect too, asking for feedback on each of the three recommended companies within the first few days, again once the quotes have been received, again when a purchase or non-purchase decision has been made, and finally post-purchase. All this information is used collectively to build up the worth of the 'recommendation site', both for potential customers and for companies considering using the site as a customer acquisition tool.

For example, Australian company Solar Quotes ([www.SolarQuotes.com.au](http://www.SolarQuotes.com.au)) promise to provide "unbiased solar power info".

Installing a rooftop solar system can seem a daunting task. As a one-off business purchase, likely to last 15–20 years, the right system needs to be bought to ensure value for money is achieved.

There are many variables to consider including system capacity, panel brand, panel positioning, inverter brand, inverter capacity, and possibly battery capacity and brand. Once the customer selects the hardware components, there is also the installation service and ongoing maintenance to consider.

Independent electricians are unlikely to have the advertising budgets or marketing teams needed to generate high-quality targeted advertising to bring in qualified leads, so companies such as Solar Quotes bridge the gap between uneducated customer and busy practitioner.

## CONCLUSION

Customer acquisition is the first issue that managers face as they try to build a profitable customer base. There are three major decisions that managers face: which prospects to target; how to communicate with them; and what offer to communicate to them. New customers are either new to the product category, or new to the company. In principle, the best prospects are those that have potential to become high CLV customers, but any customer that generates value over and above their acquisition cost is a net contributor. Companies will certainly want to recruit new customers that generate more profit than they consume in acquisition and retention costs. As customers move up the loyalty ladder, they become more valuable to the company, so it is in the company's interests to ensure customers follow this trajectory.

Companies have many prospecting options available to them as means to generate qualified sales leads. Depending on whether the company targets individual customers (more common in B2C markets) or groups of customers (more common in B2B markets), companies can choose from customer referrals, interpersonal networks, online including social media, promotional activities, trade shows and conferences, advertising, email marketing, social media publicity, canvassing, tele-marketing as well as a variety of others.

Operational CRM applications such as lead management, campaign management and event-based marketing are useful tools for customer acquisition. CRM analytics underpin the success of these applications. Monitoring the outcomes of the company's prospecting activities is core to operational CRM, and this allows companies to assess performance through a variety of KPIs (which the company can use according to their needs).

## DISCUSSION QUESTIONS

1. What are the core elements of a customer journey? How might a customer journey differ between an individual customer looking to buy a refrigerator versus a company looking to buy a new IT system?
2. What is customer acquisition? What are the types of new customers companies can consider as targets for their customer acquisition activities?
3. What is the Conversion Model? How does it relate to customer acquisition?
4. What prospecting approaches can companies use to recruit new customers? How might these differ between B2C and B2B contexts?
5. What operational CRM functionality can be used for customer acquisition?
6. What are major key performance indicators (KPIs) that companies can use to evaluate their customer acquisition activities?

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# MANAGING THE CUSTOMER JOURNEY

## CUSTOMER RETENTION AND DEVELOPMENT

### CHAPTER OBJECTIVES

By the end of this chapter, you will be able to:

1. Define customer retention and customer development.
2. Describe how companies can measure customer retention and the issues they need to consider when doing so.
3. Describe the options that companies can use to enhance customer retention by increasing customer engagement.
4. Describe the options that companies can use to enhance customer retention by increasing switching costs.
5. Describe why companies choose to end some customer relationships and the approaches they can use to do so.
6. Describe the role of CRM in customer retention, customer development, and in ending customer relationships.
7. Describe the common KPIs that companies use to assess customer retention, customer development, and customer termination.

### INTRODUCTION

In the last chapter, we explained that the customer journey is a representation of the stages that customers go through in their relationship with a company. The core stages in the customer journey, from the company's perspective, are customer acquisition, customer retention, and customer development. After considering customer acquisition in the last chapter, we now turn to customer retention and development in this chapter. While customer acquisition focuses on attracting new customers, customer retention involves encouraging customer commitment to the company, and customer development centres on expanding the value

of the customer to the company. Customer retention and customer development are only options once the customer is no longer ‘new’.

While customer retention and customer development involve some of the same activities as customer acquisition, the fact that there is an existing customer history means that the company now has even greater insight into the customer. This can help companies reduce customer churn (i.e., improve customer retention). We discuss the options the company has in this respect. By expanding or deepening the customer relationship (i.e., customer development), the company can gain more from the customer relationship while the customer also can experience greater value from the company. We also consider KPIs that companies use to evaluate customer retention and customer development activities.

Many companies have no explicit customer retention plan in place.<sup>1</sup> Most companies spend most of their time, energy and resources chasing new business, with 75% of most marketing budgets focusing on new customer acquisition.<sup>2</sup> While there are many reasons for this, the outcome is that a customer often has a different experience with the company once they are no longer a new customer. Customers can then face a gap between their expectations (which the company sets through its customer acquisition activities) and their perceptions (which customers form through their ongoing interactions with the company).

This chapter also considers customer relationship termination. Not all customer relationships are worth continuing. As we will see, bad customer relationships can lead to significant costs for the company. So, companies must consider when to end a bad customer relationship and how to do so, ideally without significant emotional or financial cost.

## **WHAT IS CUSTOMER RETENTION?**

Customer retention occurs when a company sustains continuous trading relationships with the same customers over the long term. While relationships vary, the loyalty of the company to the customer and vice versa can produce mutually beneficial outcomes. Drawing from their consulting experience, Dawkins and Reichheld report that a 5% increase in customer retention rate leads to an increase in the net present value of customers by between 25% and 95% across a wide range of industries including credit cards, insurance brokerage, auto services, and office building management.<sup>3</sup> Customer retention is the mirror image of customer defection or churn, so it is common to interpret high customer retention as equivalent to low defection/churn.<sup>4</sup>

### **Measuring customer retention**

Companies often measure customer retention (in terms of defection/churn rates) on an annual basis by comparing the number of active customers on the company's books at the start of the year with those still on the books at the end of the year.<sup>5</sup> However, the appropriate time horizon for measuring customer retention is not always defined by the arbitrary time frame of a calendar year. The customer re-purchase cycle may differ between types of products or services. Automobile, housing, and several other forms of insurance tend to involve an annual re-purchase cycle. Customers replace smartphones and laptops every two to four years. Fast food, snacks, beverage re-purchases may be weekly or monthly. In such categories, customers rarely only patronise one company (brand) and retention is operationalised as the

share of past <number chosen by management> purchases. Each of these re-purchase cycles then implies a different time frame, and sometimes basis, for measuring customer retention.

Loyal customers can change the frequency of their purchases, the value of purchases, and the type of purchases which can differ over time. The portfolio of the customer's purchases might also alter. For example, if a new competitor enters the market, the customer may still buy from their existing supplier, but the relative portion of spending from the customer's perspective (i.e., the 'share of wallet') that the company has may fluctuate. According to the annual customer loyalty measurement approach, the customer may still be loyal, but the changes in their buying behaviour may mean that they do not feel a deep attachment to the company.

Companies must consider their customer retention measures carefully. For example, the use of aggregates and averages in calculating customer retention rates can mask a deeper understanding of customer retention and defection. Aggregates and averages may not capture the detailed nuances of customer retention performance. Customers differ in their sales, costs-to-serve, and buying behaviours. It is not unusual for a small number of customers to account for a large proportion of company revenue. If you have 100 customers and lose 10 in a year, your raw defection rate is 10%. But what if these customers account for 25% your company's sales? Is the true defection rate 25%? Consideration of profit makes the computation even more complex. If the 10% of customers that defected produce 50% of your company's profits, is the true defection rate 50%?

What happens if the 10% of customers lost are at the other end of the sales and profit spectrum? In other words what if they buy very little and/or have a high cost-to-serve? It could be that the churned 10% contributes less than 5% of sales and generates a negative profit, i.e., they cost more to serve than they generate in margin. The loss of some of these customers might enhance the company's profit performance. It is conceivable that a company could keep 90% of its customers, 95% of its sales, and 105% of its profit!

Obviously, calculations such as these require careful consideration. If the company focuses exclusively on reducing customer defection or churn, this may overshadow the bigger picture – thus leading to a poorer overall outcome.

A solution to this problem is to consider three measures of customer retention:

1. **Raw customer retention rate.** This is the number of customers doing business with a firm at the end of a trading period expressed as percentage of those who were active customers at the beginning of the period. The 'period' is variable in that the company can choose to set one that it feels is most appropriate and useful.
2. **Sales-adjusted retention rate.** This is the value of sales achieved from the retained customers expressed as a percentage of the sales achieved from all customers who were active at the beginning of the period.
3. **Profit-adjusted retention rate.** This is the profit earned from the retained customers expressed as a percentage of the profit earned from all customers who were active at the beginning of the period.

These calculations can allow the company not only to compute how many customers it keeps over a certain period, but also to measure how much they contribute to the company's sales

and profits. This enables the company to assess whether it is keeping the right customers. By accounting for the differences in customer profiles (e.g., relative re-purchase rates, cost-to-serve, profitability, etc.), the company can appraise its customer retention initiatives in a more granular way.

## Measurement challenges and information sharing

Ideally, the company can access the necessary sales and customer-related data to calculate customer retention easily once it settles on its measurement approach. This is not often the case, and may be due to inefficient and/or ineffective data sharing. We see this when considering the various silos that create, store, and manage customer-related data across the company:

- **Product information silos.** In this case, the company structures its information around products or product groups. Consider personal insurance. Insurance companies often have product-based information systems. This means they look at customers as policy holders. The policy is then the subject of customer retention assessments – if the customer renews their policy, the insurance company considers this as customer retention (and vice versa). If the policy expires, but the customer buys a new or different insurance policy, the insurance company considers the customer a new customer. This is despite the longer-term relationship that already exists.
- **Channel information silos.** In this case, the company structures its information around its distribution channels. This means that companies may register a customer defection if a customer switches their buying channel from one distribution channel to another. Telecommunications companies acquire customers through many channels. Consider a customer who buys a 12-month contract from a Verizon-owned retail outlet. Part way through the year Verizon launches a new pay-as-you-go product with no contractual obligation. The customer allows their current contract to expire, then buys the new pay-as-you-go product not from a Verizon outlet but from a supermarket. Verizon regards this person as a lost customer because the customer did not renew their old contract, despite the ongoing customer relationship.
- **Functional information silos.** In this case, the company structures its information around in its various functional silos. This means that a company treats its customer interactions differently, depending on the nature of the customer touchpoint. As we mentioned earlier, the sales and marketing teams normally focus on customer acquisition, while other parts of the company focus on delivery (such as the operations, finance, production, and distribution departments). Each functional silo then maintains its own customer records that are purpose specific. Given this, it is likely that any customer retention assessment is incomplete if it derives from only one or two customer-related data sets held by various functions. For example, a customer might not have made a product purchase for several years and is regarded as a churned customer on the sales database. However, the same customer might have several open queries or issues on the customer service database and is therefore still active.

While each of the issues here highlight affect how companies manage their customer data, there are of course many others. Missing, inaccurate, and duplicate data are always

problematic. These issues may stem from the way data input occurs, or they could result from broader issues such as the structure, processes, and systems the company uses. It may also be the case that the company has poor customer-related data access.

CRM can help companies overcome these challenges. If the CRM system sits at the company level and harnesses all the customer-related data from across the company, it can help the company make robust customer retention assessments. CRM can also provide added insights into customer retention and churn through associations with other customer profile data.

## The role of research in reducing churn

Companies can reduce levels of customer churn by answering the following questions:

1. **Why are customers churning?** In this, the company tries to understand the reasons that customers choose to stop buying the company's products/services. The firm could survey former customers to find out why they took their business elsewhere. Customers defect for many reasons. It is not possible for the company to foresee or prevent all of these. For example, Keaveney identified eight causes of switching behaviours in the service industries: price, inconvenience, core service failures, failed employee responses to service failure, ethical problems, involuntary factors, competitive issues, and service encounter failures.<sup>6</sup> User trials of new products and beta testing of services can help companies eliminate some of the product and service reasons for customer churn. There may be industry-specific patterns for churn. One retail study, for example, found that between 20% and 25% of supermarket shoppers changed their primary store in a 12-month period. Twenty-four percent of switchers changed allegiance because a new competitive store had opened, 14% because they had moved home, 11% for better quality, and 10% for better choice.<sup>7</sup>
2. **Are there any lead indicators of impending defection?** In this, the company tries to find out if customers give any early warning signals of impending defection. If these were identified the company could take pre-emptive action. Signals might include the following:
  - Reduced RFM scores (Recency – Frequency – Monetary value) or other changes in customer behaviour that predict defection.
  - Failure to log in to a website.
  - Non-response to a carefully targeted offer.
  - Reduced levels of customer satisfaction.
  - Dissatisfaction with complaint handling.
  - Reduced share of customer spending.
  - Inbound calls for technical or product-related information.
  - Late payment of an invoice.
  - Querying an invoice.
  - Customer touch points are changed e.g., store closes, change of website address.
  - Customer change of address.

These indicators can help the company predict likely customer defections.

3. **What can we do to address the root causes?** Identifying the root causes of customer defections can help companies develop pathways to substantial and meaningful improvement particularly if it can control or influence those forces that encourage customer defections.<sup>8</sup> For example, if customers churn because of the time taken to deal with a complaint, management can audit and overhaul the complaints management process. This might involve identifying the channels and touchpoints through which complaints enter the business, introducing complaints-management software to ensure issues are resolved to the customer's satisfaction, or training and empowering frontline staff. Root causes can be analysed by customer segment, channel, and product. The 80:20 rule may be applicable. In other words, it may be possible to eliminate 80% of the causes of customer defections with relatively few changes and at reasonable cost.

To address each of these questions can help companies develop a more insightful and robust pathway to customer retention. In some cases, investigations that stem from posing questions such as those listed here can also lead the company to conclude that it might need to allow (some of) those customers to churn. So, it then becomes crucial to focus customer retention efforts only on those customers that are the most beneficial for the company.

## **DECIDING ON THE BEST CUSTOMERS TO RETAIN AND/OR DEVELOP**

The prime targets for a company's customer retention efforts should be those customers who have greatest strategic value to the company. These are the customers who have high future CLV (customer lifetime value), or are otherwise strategically significant as high-volume customers, benchmarks, inspirations, or door openers.

- **High future lifetime value (CLV) customers.** These high CLV customers will contribute significantly to the company's profitability in the future.
- **High volume customers.** These customers may or may not have high CLV, but they may be strategically significant because of their absorption of fixed costs, the economies of scale they generate to keep unit costs low, and their ability to make your brand seem ubiquitous.
- **Benchmark customers.** These are customers that other customers follow. For example, Nippon Conlux supplies the hardware and software for Coca-Cola's vending operation, which has allowed them to gain access to many other markets. 'If we are good enough for Coke, we are good enough for you', is the implied promise. Some IT companies create 'reference sites' at some of their more demanding customers and invite prospective new customers to visit or talk with them.
- **Inspirations.** These are customers who bring about improvement in the supplier's business. They may identify new applications for a product, product improvements, or opportunities for cost reductions. They may complain loudly and make unreasonable demands, but in doing so, force change for the better.

- **Door openers.** These are customers that allow the supplier to gain access to a new market. This may be done for no initial profit, but with a view to proving credentials for further expansion. This may be particularly important for entering new markets.

Clarifying the reasons for and against keeping customers is an important step when deciding on how and where to invest in customer retention.

Some companies prefer to focus their retention efforts on recently acquired customers. Newer customers often have greater future lifetime value potential than longer tenure customers. There is some evidence that retention rates rise over time, so if the company can prevent defections in the early stages of a relationship, there will be a pay-off in terms of future revenue streams and profitability.<sup>9</sup> Another justification for focusing on recently acquired customers comes from research into service failures. When customers experience service failure, they may be more forgiving if they have a history of good service with the service provider. In other words, customers who have been recently acquired and let down are more likely to defect or reduce their spending than customers who have a satisfactory history with the supplier.<sup>10</sup>

There is also some evidence that the most valuable customer relationships change over time. The UK retail organisation John Lewis Partnership, for example, has found that 5% of their customers contribute 50% of their profits, but that the composition of the 5% changes year on year. The company uses data from its loyalty programme and credit card to identify the 5% and directs their retention efforts accordingly.<sup>11</sup>

The level of commitment between customer and firm will figure in the decision about which customers to keep. If the customer is highly committed, they will be impervious to the appeals of competitors, and the company may not need to invest so much in their retention. On the other hand, if a company has highly significant customers who are not committed, they may want to invest considerable sums in their retention.

Retention efforts where there is portfolio purchasing can be very difficult. Portfolio purchasing occurs when a customer buys from a more or less equal set of alternative suppliers. Should you direct effort at retaining the high-share customer with whom you have a profitable relationship, the medium-share customer from whom you might lose additional share to competitors or the low-share customer from whom there is considerable potential to grow? The answer will depend on the current value of the customer, the potential for growing that value, and the cost of maintaining and developing the relationship.

## **APPROACHES TO MAXIMISING CUSTOMER RETENTION**

Once the company decides on the customers it wishes to prioritise for retention, it then has a range of approaches it can consider. On the one hand, customer retention approaches can focus on rewarding customers for their ongoing patronage. In this case, the company tries to delight customers through added benefits, and these convince customers to remain with the company. On the other hand, the company tries to raise the perceived costs of switching to alternative suppliers. It is also possible to use combinations of rewards and perceived costs simultaneously.



When deciding on the best customer retention approach, companies must also consider context. Some of the more noteworthy factors include:

- **Number of competitors.** In some industries, there is a notable lack of competitors, meaning that companies have higher retention rates. This typically applies in state-provided services such as education and utilities such as gas, electricity, rail, and telecoms, whether deregulated or not. When customers are dissatisfied, they have few or no competitors to turn to. Customers may also believe that the competitors in the market are very similar in terms of their service standards. In other words, each supplier is as bad as the others. The result is inertia; customers do not churn.
- **Corporate culture.** In corporate banking, the short-term profit requirement of both management and shareholders has resulted in a lack of commitment to relationship banking. Banks have been very opportunistic in their preference for transactional credit-based relationships with customers.<sup>12</sup>
- **Channel configuration.** Sellers may not have the opportunity to support direct relationships with the final buyers and users of their products. Instead, they may rely on their intermediaries. Caterpillar, for example, does not have a relationship with the contractors who use their equipment. Instead, it works in partnership with over 160 dealers in 193 countries to supply customer service, training, field support, and inventories of spare parts. That said, technology is now making it possible for such suppliers to see the entire supply chain and we can foresee supply chain innovations that will enable companies such as Caterpillar to manage relationships down to the level of an individual farmer for example.
- **Purchasing practices.** The purchasing procedures adopted by buyers can also make the practice of customer retention futile. Customers do not always want relationships with their suppliers.
- **Ownership expectations.** The demands of business owners can subordinate customer retention to other goals. Some manufacturers manage their channel strategy through quotas, requiring their distributors to buy large volumes to hold in inventory irrespective of market conditions and customer requirements. This is a form of ‘push marketing’ wherein inventory pressure pushes distributors to focus on selling your offer rather than competitors.<sup>13</sup>
- **Ethical concerns.** Public sector medical service providers cannot simply focus on their most profitable (or lowest cost-to-serve) customers. This would result in the neglect of some patients and a failure to address other areas of disease management. Private sector providers do not necessarily face this problem. The Shouldice Hospital in Ontario, Canada, specialises in hernia repairs. Their website, [www.shouldice.com](http://www.shouldice.com), reports that they successfully repair 66,500 hernias a year. They even organise annual reunions attended by 1,000 satisfied patients.

We explore some of the more common approaches companies use to motivate customer retention below. These approaches cluster into two categories: methods that promote customer engagement; and methods that raise switching costs.

## Customer retention approach #1: building customer engagement by broadening and deepening the customer relationship

Customer engagement refers to a psychological and emotional state that the customer experiences through their interactions with brand touchpoints.<sup>14, 15</sup> Low customer engagement occurs in situations where customers interact with few brand touchpoints and/or their brand touchpoint interactions do not have significant psychological or emotional impacts. High customer engagement is the opposite. Highly engaged customers are more likely to have deep relationships with the company, the brand, and/or products/services.

Customer engagement is a multi-dimensional construct, involving four elements: cognitive engagement, affective engagement, behavioural engagement, and social engagement. The cognitive and affective elements reflect the experiences and feelings of customers, and the behavioural and social elements capture brand or organisational participation by consumers, beyond merely buying the company's offerings. Consumers who are engaged do more than just buy. They may perform acts of 'corporate citizenship', through active participation in a member-get-member referral scheme, publishing reviews of their customer experiences, taking part in company research, attending events, viewing branded online content, registering for a newsletter, contributing to new product or service development, and taking part in brand communities and user groups. Engaged customers are therefore likely to have many more touchpoints and activities connecting them to the brand.

It should be no surprise that high customer engagement equates to broader and deeper customer relationships. Consider sporting fans. Deeply engaged fans not only regularly attend major sporting events, but they also buy merchandise, engage in rituals with other fans (e.g., meeting up for a meal at a restaurant before a game), place bets through gaming websites, and proudly promote their association with the team through various social interactions. Fans often have a lifelong relationship with their team and dedicate significant time and resources to this pursuit. To move a customer to this level of customer engagement, it is often necessary to delight the customer.

Customers have expectations of many attributes, for example product quality, service responsiveness, price stability, and the physical appearance of people and vehicles. These attributes are unlikely to be equally important to customers. It is critical that businesses meet customer expectations on attributes that are important to the customer. Online customers, for example, look for rapid and correct order fulfilment, fair price, high levels of customer service, and website functionality. Online retailers must meet these basic requirements. Dell Computers believes that customer retention is the outcome of their performance against three variables that are critical for customers: order fulfilment (on-time, in full, no error (OTIFNE)), product performance (frequency of problems that customers face), and after-sales service (percent of problems fixed first time by technicians). The comments in parentheses are the metrics that Dell uses. Customer research is critical if firms are to name and understand the important attributes. Managers' intuitions about this might well be wrong.

To satisfy customers, companies must ensure they meet customer expectations. This means the customer is not unpleasantly surprised when they make the purchase and experience its benefits. The customer gets what they pay for. If the company underperforms the customer's expectations, the customer will not be satisfied with the outcome. If the company

matches the customer's expectations, the customer is satisfied. Customer satisfaction is a crucial part of a high-quality customer relationship.

Various studies show that customer satisfaction is a necessary but insufficient condition of customer longevity. For example, Reichheld reports that 65% to 85% of recently churned customers claim they are satisfied with their previous suppliers.<sup>16</sup> Another study reports that one in ten customers who said they were completely satisfied, scoring ten out of ten on a customer satisfaction scale, defected to a rival brand the following year.<sup>17</sup> Having satisfied customers is increasingly no more than a basic requirement of being in the game. Today, many commentators emphasise the need for companies to lift levels of customer engagement instead of only focusing on customer satisfaction.

Some companies have incorporated 'customer delight' in their missions, including Audi Group, IHS ([www.ihs.com](http://www.ihs.com)), and Kwik Fit. One study found that nearly 90% of customer service centre heads said their aim was to exceed customer expectations.<sup>18</sup> Others pay homage to the goal but do not organise to achieve it. Delighting customers, or exceeding customer expectations, means going above and beyond what would normally satisfy the customer. This does not necessarily mean being world-class or best-in-class. It does mean being aware of what it usually takes to satisfy the customer and what it might take to delight or pleasantly surprise the customer. Consistent efforts to delight a customer show commitment to the relationship. Commitment builds trust. Trust leads to relationship longevity.

Companies can create customer delight by managing expectations down or by managing performance up. To manage customer expectations down, companies may start promoting their offer as 'for customers on a budget' and use this to reduce the number of costly features while also trying to appeal to a wider audience. For example, Van Heusen, a well-established men's business shirt brand, decided to reposition from an upmarket brand to a mid-market brand.<sup>19</sup> It did so by shifting its promotions to focus on three shirts for a discounted price rather than on premium outlets and high product quality. This allowed Van Heusen to tap into a larger market. To manage performance up, companies need to enhance their offer. This often means adding new features and benefits but keeping the same or similar pricing. This choice is much more difficult since it involves significant investments in new capital, new marketing activities and other costs – all for less margin.

Companies also have the option to incentivise customer loyalty. If the company is particularly interested in customer retention, it must calibrate its activities in such a way as they encourage repeat customer behaviours. While companies can use the prospecting activities we outline in the previous chapter to boost customer retention, some of the most popular options that companies use are sales promotions. Sales promotions seek to encourage repeat purchases by offering some sort of incremental benefit. Some examples include:

- **Vouchers.** Companies can include vouchers as part of their packaging or in other formats, such as emails. Vouchers normally entitle the holder to a discount on later purchases of the same product/service. In some cases, vouchers entitle customers to a free product after a certain number of purchases.
- **Rebates/cash back.** Companies can offer customer rebates or cash back after they register their purchase with the company, normally through an online portal or app. Much

like vouchers, rebates and cash back serve as rewards for a longer history of repeat purchases of the same product.

- **Patronage awards.** In this case, companies encourage customers to collect proof of their purchases, such as store receipts or barcodes from packaging, which the company then redeems for awards, gifts, or other favourable treatment.
- **Free premiums for continuous purchases.** Much like patronage awards, companies encourage customers to collect proofs of their purchases which the company then redeems for awards, gifts, or other favourable treatment. The main difference here is that free premiums have a tiered reward structure that looks to motivate customers to continue their participation in the scheme.
- **Collection schemes.** These are long-running schemes in which the customer collects items with every purchase. Kellogg's ran a promotion in which they inserted picture cards of carefully chosen sports stars into packets of cereals. Customers didn't know what card they had until they bought and opened the pack. These became collectible items.
- **Self-liquidating premiums.** A self-liquidating promotion is one that recovers its own direct costs. Typically, the company invites consumers to collect proofs-of-purchase and to surrender them together with a sum of money. This entitles the customer to buy a discounted premium such as a camera or gardening equipment. The promoter will have reached a deal with the suppliers of the premiums to buy in bulk at a discounted rate. Margins earned from the sale of product, plus the money paid by the consumer cover the costs of running the promotion.

Building customer engagement to deepen and broaden the relationship presents some notable advantages and disadvantages (see Table 4.1). On the plus side, the customer devotes more of their attention towards the company, its brands and/or its products. This creates a significant perceived investment from the customer's perspective, which they may see as a positive addition to their lives. They are more active in promoting the company, its brands, and its products to their social network, and they become more entrenched in their own buying behaviour. On the cost side, the company must work hard and creatively to delight and engage the customer – and this requires investments in time and effort. It also involves opportunity costs since investments in more customer engagement for one group of customers can detract from investments in other customers. It can also be difficult to continually delight customers. This is particularly the case in competitive market contexts and where product innovations are common.

**Table 4.1** Advantages and disadvantages of building customer engagement for customer retention

<i>Advantages</i>	<i>Disadvantages</i>
✓ Deeper customer relationships	✗ Significant direct investment requirements
✓ Broader customer relationships	✗ Opportunity costs
✓ More customer referrals	✗ Sustaining customer delight

## CASE ILLUSTRATION 4.1

### USING BUSINESS ACCOUNTS TO INCENTIVISE CUSTOMER LOYALTY IN HARDWARE SALES

Many hardware manufacturers and wholesalers foster customer relationships and develop customer engagement by offering financial incentives through business accounts.

They can create a point of difference and competitive advantage by offering more favourable financial terms than their competition even though the product offering is very similar.

Homebuilders, for example, continually need hardware and tools as construction proceeds. While large components are sourced in bulk through large manufacturers, tools, and smaller items such as screws and nails, are bought as needed.

Tools and small hardware items are available widely at similar prices, so retailers can foster customer engagement and loyalty by offering trade accounts linked to finance options. Trade accounts allow builders to make an unlimited number of purchases and receive a total invoice statement at the end of each month.

The statement can detail varied terms of trade, customised depending on the profitability of the customer. Customers who regularly make large purchases may be offered added time to pay their invoice, or different finance rates for deferred payments. For example, all customers may by default be given 7 days to pay, with interest charged after 7 days. Large customers may qualify for 30 days to pay, or even 60 or 90 days if the account is profitable for the retailer. Interest charges can also be tailored to provide incentives for larger purchases.

Understanding the length of time between when the business customer makes a purchase and when they receive income to cover the cost of the purchase is a valuable piece of CRM intelligence that can foster customer engagement.

### Customer retention approach #2: securing customer relationships by increasing switching costs

Switching costs are often important considerations in a customer's decision not to churn to a competitor. In this case, the supplier looks to increase the customer's expectations of cost or loss should they choose an alternative supplier. A key approach to achieving this outcome is by increasing the bonds the customer has with the company, which can be social and/or structural.<sup>20</sup>

**Social bonds** are positive interpersonal relationships between people. Positive interpersonal relationships involve high levels of trust and commitment. Customers can become highly attached to a company's people. Customers may talk about 'my banker' or 'my mechanic' or 'my builder'. They feel a sense of personal identification with that individual. Often, these are employees who 'break the rules' or 'go the extra mile'. They are reliable, competent, empathetic, and responsive. It is common for individuals to form social bonds if they share common backgrounds, interests, and/or experiences. As individuals spend more time together, the degree of commonality they have increases – and this contributes to higher trust and commitment.

An emotional bond may form with an individual person, a work group, or the entire company. Social relationships between a customer and the company can be single-level or multi-level. A single-level relationship might exist between the supplier's account manager and the customer's procurement officer. The more points of connection with a supplier, the more hesitant the customer is to find other suppliers. When technicians, quality control officers and operations people are working effectively with their supplier counterparts, the greater the social bonds between teams and indeed, the greater the structural bonds that will develop.

It is important to note that robust social bonds take time and effort to develop. Companies must invest considerable 'face time' with customers to achieve social bonds. Having said this, social bonds are often pre-requisites for more extensive customer relationships. That is, social bonds precede structural bonds.

**Structural bonds** appear when companies and customers commit resources to a relationship to realise mutually beneficial outcomes. For example, a joint customer-supplier quality team can work on improving quality compliance, which helps both companies. A key feature of structural bonding is investment in adaptations to suit the other party. Suppliers can adapt any element of the offer – product, process, price, and inventory levels, for example – to suit the customer. Customers on the other hand also make adaptations. For example, they can adapt their manufacturing processes to accommodate a supplier's product or technology.

Resources committed to a relationship may not be recoverable if the relationship breaks down. For example, investments made in training a customer's operatives are sunk costs. On the other hand, a chilled products manufacturer that has installed refrigerated space at a distributor's warehouse may be able to dismantle and retrieve it when the relationship breaks down. Power imbalances in relationships can produce asymmetric adaptations. A major multi-outlet retailer might force adaptations from small suppliers while making no concessions itself. It could insist on unique shipping containers, sizes, co-branding of point-of-sale material, or insist on exclusive supply arrangements.

Companies use many types of structural bonds for customer retention, including:

- **Financial** – where the seller offers a financial inducement to retain the customer. Insurance companies form bonds with customers by offering no-claims discounts, tenure related discounts, and multi-policy discounts.
- **Legal** – when there is a contract or common ownership linking the relational partners.
- **Equity** – where both parties invest to develop an offer for customers. For example, the owners of airports invest in the shells of the duty-free retail outlets. The retailer invests in the internal fixtures and fittings.
- **Knowledge-based** – when each party grows to know and understand the other's processes and structures, strengths, and weaknesses.
- **Technological** – when the technologies of the relational partners are aligned, for example, with Just-in-Time (JIT) logistics and manufacturing.
- **Process** – where the supplier looks to align its processes and procedures with those of the customer. For example, the supplier aligns its quality assurance programme with the quality inspection programme on the customer side. Some suppliers manage inventory levels for their customers, to optimise cost and stock-on-hand for the customer. This is

known as Vendor Managed Inventory (VMI). The chemicals company, Solvay Interlox, uses telemetry systems to perform VMI for its customers. These systems report inventory levels in storage vats and tanks, and automate their replenishment.

- **Geographic** bonds exist when companies in a common trading area prefer to do business with their close neighbours. We see this in terms of business parks, hubs, and clusters. For example, Macquarie University in Australia has its own health precinct, which includes a teaching hospital as well as headquarters of several emerging biotech companies (many of which are spin-offs from the university).
- **Project** – when the partners engaged in some special activity outside of their normal commercial arrangements, for example, a new product development project. This involves resource exchange, such as between key individuals or as access to partners' specialist facilities. In this case, the partners pursue a joint or complementary set of goals.
- **Multi-product** – when a customer buys several products from a supplier, the relationship is more difficult to break. There are economies for customers when they deal with fewer suppliers. When a relationship with a supplier of several products is dissolved, the customer may incur significant transaction costs in identifying one or more replacements. Further, the level of perceived risk attached to a new relationship may become uncomfortable.
- **Values-based** – Some companies are renowned for their strong values. Values are core beliefs that transcend context and serve to organise and direct attitudes and behaviours. Customers may develop a deep sense of emotional attachment when their personal values align with those of their supplier. Customers have many and varied core beliefs such as sustainability, honesty, child protection, independence, family-centredness and so on. Many of these values reflect cultural norms. Where these values coincide with those of an organisation, the customer may develop a strong sense of emotional attachment to the organisation. Some examples of values-based switching costs include:
  - o **Body Shop International** is a health and beauty retailer that is opposed to animal testing, supports fair trade and empowerment of women and girls, and strives to reduce its environmental footprint. Body Shop's core customers align themselves with these values and feel a strong sense of brand affinity. Body Shop has influenced other retailers to become more sensitive to these issues.
  - o **Harley-Davidson**, the US motorcycle manufacturer, has a phenomenally committed customer base. When Harley riders replace their bikes, 95% buy another Harley. The bike is a central part of a lifestyle that is grounded on fraternity, independence, and rebellion. Image is critical to the Harley rider. In the USA, the typical Harley rider is a married man in his early 50s (up from 38 in the late 1980s), and a big challenge for Harley is to develop value propositions that appeal to a younger customer.<sup>21</sup>
  - o The **Virgin Group** is diversified across multiple asset classes and geographies with majority and minority investments in listed companies, private companies, venture capital and real estate in both Virgin branded and non-branded companies. The organisation defines success not only by building successful, profitable businesses but also by the long-term value created for people and the planet. Avoiding the impacts of climate change is therefore a key priority for the Virgin branded businesses. Virgin Group is chaired by its founder, the renegade but highly visible Sir



Richard Branson. Customers are attracted to the brand because of its reputation for fairness, simplicity, and transparency. Customers trust the brand and rely on it in markets that are new to them. For example, Virgin was a late mover into the UK's indexed linked mutual fund marketplace. It still managed to become market leader in 12 months despite having no history as a financial institution.

Just as customers can align themselves with brands consistent with their own values, it is equally true that they can reject opposing or incompatible brands. Companies that are accused of using child labour, damaging the environment, or otherwise acting unethically have experienced customer rejection. Nestlé had been accused of marketing infant formula in countries where the infrastructure made its use dangerous, even fatal. This is estimated to have cost the company \$40 million.<sup>22</sup> When BP's Deepwater Horizon oil rig exploded, claiming 11 lives, and releasing 4.9 million barrels of crude oil into the Gulf of Mexico, consumers responded by boycotting BP's products. This resulted in a 52% fall in BP's share price in the 50 days following the catastrophe.<sup>23</sup> Research supports the claim that there is a hierarchical relationship from core values to attitudes to purchase intention and ultimately to purchase.<sup>24</sup>

While also central to customer retention approach #1, companies can additionally build social and structural bonds through loyalty schemes and customer clubs. As such, companies make it more difficult for customers to switch between suppliers or brands due to the strong affinity they feel, and which they cannot substitute, with alternative offerings.

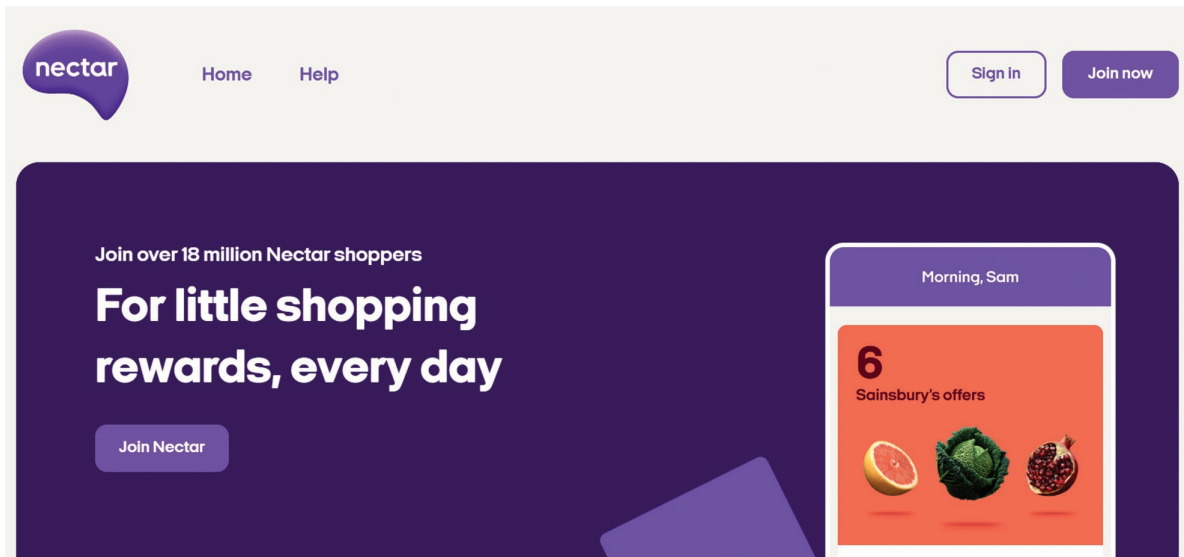
A **loyalty scheme** is a customer management programme that offers delayed or immediate incremental rewards to customers for their cumulative patronage. The more a customer spends, the higher the reward. Loyalty schemes have a long history. In 1844, the UK's Rochdale Pioneers developed a co-operative retailing operation that distributed surpluses back to members in the form of a dividend. The surpluses were proportional to customer spend. Shoppers in the 1950s and 1960s collected S&H Pink stamps and Green Shield stamps, and redeemed them for gifts selected from catalogues. In the 1970s, Southwest Airlines ran a 'Sweetheart Stamps' programme that enabled travellers to collect proofs of purchase and surrender them for a free flight for their partner.<sup>25</sup>

Today's CRM-enabled loyalty schemes owe their structure to the frequent flier programmes (FFP) that started with American Airlines' Advantage programme in 1981. The airline made a strategic decision to use its spare seating capacity as a resource to generate customer loyalty. Airlines are high fixed cost businesses. Costs do not change much, regardless of whether the load factor is 25% or 95%. American Airlines knew that filling the empty seats would have little impact on costs but could significantly influence future demand. The airline searched its reservation system, SABRE, for details of frequent fliers to offer them the reward of free flights. Customer loyalty schemes are now present in many sectors (e.g., hotels, restaurants, retail, car hire, gas stations, and bookstores).

Many customers take part in modern loyalty schemes through apps or through cards with embedded microchips or magnetic strips. On each purchase, the customer swipes their card or smartphone app to receive benefits. Customers can view their progress by checking the app or looking up a website. Rewards can include discounts, special promotions, and free offers. While many companies use loyalty programmes, the most popular loyalty programmes tend to involve many participating companies and provide customers with a wide assortment of benefits. For example, Nectar is a consortium loyalty scheme that operates



in the UK, with over 80 million cards in circulation. It has 300 retail participants, most of whom are numbers one or two in their respective markets such as Sainsbury's, Homebase and BP. Customer can also earn points from over 500 online retailers. Shoppers register in the scheme, then use their loyalty card to collect points that are redeemable in a wide range of retailers including supermarkets, liquor stores, catalogue retailers, restaurants, hotels, cinemas, travel outlets, and tourist attractions.



**Case illustration 4.2** The landing page of the Nectar loyalty programme<sup>26</sup>

Loyalty schemes work by incentivising repeat customer behaviours. Loyalty schemes can be positive influences in customers' lives. Loyalty schemes provide a sense that customers belong to a social group. Customers can also experience significant rewards through their loyalty. For example, Frequent Flyer programmes allow customers to accumulate points which they can then use to 'purchase' flights and accommodation.

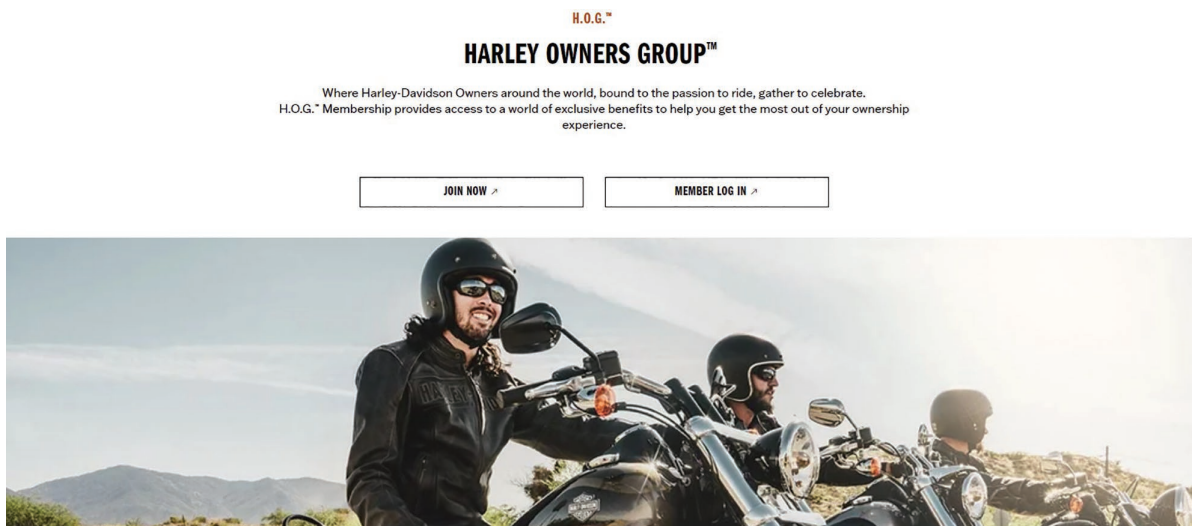
Loyalty schemes are also subject to criticism. Rather than creating true customer loyalty to the companies participating in the scheme, it may be that the customer is loyal to the scheme (and the rewards it offers) instead.<sup>27</sup> Loyalty schemes can also pose significant costs to the company.<sup>28</sup> The costs of providing the rewards and supporting the scheme through appropriate systems can be insurmountable. Shell spent up to £40 million to develop its smart card scheme.<sup>29</sup> Loyalty schemes are now ubiquitous. This means that customers now can access multiple schemes simultaneously. Many supermarket shoppers carry loyalty cards from more than one supermarket.<sup>30</sup> If companies choose to change the terms of their loyalty schemes, this can also be problematic. Many customers spend years and significant amounts of money to accumulate benefits. When QANTAS periodically reviews its QANTAS points scheme, this creates customer consternation – usually because it involves devaluing QANTAS points or reducing the duration of their valid period.

Loyalty schemes are important sources of customer-related data, and this supports customer analytics and insight. To become members of loyalty programmes, customers must

register their details through an app or a website. Each time they use their loyalty card or app, this creates a purchase record at the point of purchase. This record includes the timing, the value, the contents of the customer purchase, and the store location (among other details). If the customer makes an online purchase, the website collects similar data. The company can then use this data to reveal customer purchase-related insights.

A **customer club** is a company-run membership organisation that offers a range of value-adding benefits exclusively to its members. Customer clubs differ from loyalty schemes in that they only involve members who are passionate about the product or service and who want to engage with the company, the brand, or the product on a deeper level – through shared experiences with like-minded people. There are a huge number of customer clubs. One report estimates that there are “several hundred” in Germany alone.<sup>31</sup> B2C clubs include:

- Swatch the Club ([www.swatch.com](http://www.swatch.com)).
- The Harley Owners Group (HOG) ([www.harley-davidson.com/au/en/content/hog.html](http://www.harley-davidson.com/au/en/content/hog.html)).
- The Subaru Owners Club ([www.subaruownersclub.com](http://www.subaruownersclub.com)).
- Nestlé’s Baby and Me Club ([www.nestlebaby.com](http://www.nestlebaby.com)).
- Friends of Laphroaig ([www.laphroaig.com/en/friend-of-laphroaig-plots-programme](http://www.laphroaig.com/en/friend-of-laphroaig-plots-programme)).



#### Case illustration 4.3 The Harley Owners Group

Established in 1983, there are now over a million paid-up members of the HOG worldwide. Modelled on the idea of outlaw motorcycle clubs, the HOG tries to capture the camaraderie that outlaw motorcycle club members enjoy in a safe, legal, and civilised way. HOG chapters operate in many cities across the world. HOG membership includes invitations to club rides, rallies, and other events. Other benefits include a membership manual, a touring handbook, a dedicated website, magazines, a mileage recognition programme, a theft reward programme,

a safe riding skills programme, and a selection of pins and patches. The one condition: members must own a Harley-Davidson motorcycle.

In terms of customer retention approach #2, securing customer retention by raising switching costs, companies face some notable advantages and disadvantages (see Table 4.2). The biggest advantage of this approach is that it can boost customer tenure. This also supports opportunities for the company to cross-sell and to up-sell its other product offerings. This approach also involves the collation of significant amounts of customer-related data, particularly through loyalty schemes and customer clubs. This approach does involve some important disadvantages also. The biggest of these is the coercive nature of many of the tools available to companies that increase switching costs. For example, if a contract obliges a customer to honour a 12-month commitment to the same company, this can reduce their sense of freedom. Raising switching costs also brings into question the genuineness of the customer relationship. If the company forces the customer to remain loyal, can the company really count on this customer? Raising or maintaining switching costs can also lead to significant costs for the company.

**Table 4.2** Advantages and disadvantages of securing customer retention by increasing switching costs

<i>Advantages</i>	<i>Disadvantages</i>
✓ Increased customer loyalty	✗ Adverse customer reactions
✓ Opportunities for cross-sell and up-sell	✗ Non-genuine customer relationships
✓ Customer data access	✗ Significant direct investment requirements

## CASE ILLUSTRATION 4.4

### CREATING SOCIAL BONDS IN B2B SETTINGS

Many manufacturers and wholesalers foster customer relationships and develop customer engagement through business-to-business incentive schemes. Consumer goods manufacturers may for example run promotions where trade buyers qualify for one entry into a prize draw each time, they make monthly purchases over a specified value.

A paint manufacturing company may buy ten tickets to a major sporting even such as the FIFA World Cup, with trade customers given one entry to win two tickets each time they spend \$500 on paint within the competition period. At the end of the period, large loyal customers will have accumulated more entries than smaller, potentially less profitable, customers.

Four customers will win two tickets each, with the remaining tickets to be used by the most successful company salesperson. At the event, the salespeople will have time to build valuable relationships with the successful customers, further engaging the delighted winners.

Small and large companies use this engagement strategy. Companies with limited resources can purchase tickets to local events, while companies such as Coca-Cola can incentivise customers with tickets to the Olympics or Super Bowl for example.

## APPROACHES TO MAXIMISING CUSTOMER DEVELOPMENT

While customer retention focuses on reducing customers' temptation to take all or some of their business to an alternative supplier, customer development centres on opportunities to enhance the value of the customer to the company. In this, the company tries to find ways to sell the customer more products/services and to increase the total income that the company receives through their dealings with the customer. So, the company has two options:

- **Cross-selling** involves selling more products and/or services to an existing customer. This option is available for companies that have multiple products/services on offer. In this case, the company identifies an existing customer. The company then targets them with one or more of the prospecting approaches we cover in the last chapter. Prospecting focuses on additional offers to the customer from the company's product portfolio. Through this, the company hopes to increase the customer's expenditure by encouraging them to buy a wider variety of the company's offers.
- Blindly targeting existing customers for cross-selling activities can pose a risk to the company. If the customer has no interest in the alternative offers that the company pushes, then there is a risk that they will become annoyed. If this continues, this may be a reason for customer defection. So, the company must target customers only with offers it believes have a high chance of success. This means that the company must develop a clear sense that the customer is likely to respond favourably to any cross-selling attempts. Comprehensive CRM systems contain predictive modelling capabilities that analyse customer behaviour and characteristics to accurately determine which customers are most likely to respond to such initiatives.

Many online portals and websites now have inbuilt 'recommender' systems. When browsing Amazon, for example, if the user selects a certain product, the Amazon site also displays a section entitled 'Other users who bought this item also bought' which includes a display of several complementary or similar products to the one that the user is currently browsing. This amounts to an inbuilt cross-selling mechanism. Underpinning this mechanism is a set of sophisticated algorithms that use association rules based on the purchase history data that Amazon stores and collates for all its online purchases. Amazon first began to develop this database in the early 2000s. It now holds billions of records.

- **Up-selling** is selling higher priced or higher margin products to an existing customer. This process involves encouraging customers to 'climb the value ladder'. Customers may buy a cheaper option from the company's portfolio of offers initially. The low cost of the purchase may reduce the customer's risk perception at the outset of their relationship with the company. Over time, as the customer builds trust in the company through multiple purchases, they become more amenable to trying more expensive options. It may also be the case that the customer's ability to pay increases. They may see a steady rise in their income as they receive pay rises from their employer, they take better-paying jobs, or they receive promotions. These conditions increase the chances that the customer's

tastes change, and their purchasing power increases. Through the various prospecting activities available, the company can then try to encourage the customer to buy a higher value, higher margin option from the company's portfolio of products/services.

Up-selling is a standard sales and marketing practice. Most retailers now try an up-sell as a matter of course. Anyone who buys fast food is familiar with pitches like "Would you like fries with that?" or "You can upgrade to the larger size for only a dollar more". In this, the retailer tries to encourage the customer to focus on the saving they will make compared to the smaller size. This then influences pricing. Where a small soft drink may sell at \$1.50, a medium soft drink may sell at \$2.40, and the large soft drink may sell at \$3.20. At each step, the customer pays proportionately less for the larger size. In our example, the difference between a small and medium soft drink is 90 cents, while the difference between the medium and large soft drink is 80 cents – both amounts are less than the \$1.50 cost for the small soft drink.

Up-selling is a less-risky choice than cross-selling. There is normally less of a need to understand the customer intimately since the up-sell can be part of a standard sales pitch. Many sales techniques involve up-selling as a matter of course. The main pitch focuses on ensuring customers are aware of another product option that, while a higher cost, may suit their requirements more comprehensively.

While not necessarily enhancing the quality of the customer relationship, companies have a third option to improve the value of the customer relationship – **reducing cost-to-serve**. This involves improving efficiency by reducing the resources necessary to sustain a positive customer relationship. Companies can achieve this by understanding customer behaviours to the extent where it is much more predictable. For example, a company might notice that customers are more likely to buy on a Friday. By reducing the amount of prospecting activity on other days of the week, the company may be able to save money while continuing to benefit from the same customer behaviours. Where customer behaviour is less predictable or more complex, companies can design systems that accommodate diverse customer requirements while also streamlining the delivery process. For example, banks now commonly use apps as their main customer service portals. Through the design of apps, banks can now accommodate a broad range of customer issues. Banks now have significantly fewer human-to-human interactions than they did at the turn of the century, and this means there is less of a need to have human bank tellers or other customer service personnel. The lower requirement for staff had led to lower cost-to-serve for banks.

## **APPROACHES FOR ENDING CUSTOMER RELATIONSHIPS**

Customer relationships are not always worth keeping. McKinsey reports that many customers are not profitable. Between 30% and 40% of a company's revenues can derive from customers who are not profitable when considering the costs that the company incurs to serve them.<sup>32</sup> To avoid this, companies should review their customer portfolio regularly. Further analyses may reveal customers that will never lead to consistent profits and who serve no other purpose for the company. It may be that the company's products and services do not align neatly with the customer's requirements. It may be that a customer is unable to benefit

fully from the company's products or services. Some customers may also pose difficulties for the company – they may be persistent late payers, serial complainants and/or bargain-seekers. Customers may also be impervious to the company's attempts to build more engagement, or to raise switching costs. These reasons all serve as motivations for the company to end the customer relationship.

If the company chooses to end the customer relationship, it must do so carefully and with their reputation in mind. Ending a customer relationship on bad terms is undesirable. For example, Sprint Nexus, the US telephony company, ended as many as 2000 relationships with customers that it said were making excessive demands on its customer service resources.<sup>33</sup> While this rationale may have made sense from the company's perspective, the recently separated customers were not happy. The business press reported this incident widely. The company then faced increased difficulty to attract new, desirable customers due to their mistrust. By ending customer relationships naturally and subtly, companies stand to benefit in the long-term. For example, Nypro, a plastic injection moulder, had 800 customers and sales of \$50 million when it decided to move out of low value-add manufacturing. Many customers no longer fit with the new strategy. Ten years later the company had only 65 customers, all of whom were large, and willing to buy higher priced, value-added solutions. Sales revenue reached \$450 million.<sup>34</sup>

Companies should consider some of the following approaches when ending a customer relationship:

- **Make customers profitable by raising prices.** A company may be able to increase prices to improve margin; customers who pay the higher price become profitable. If the company keeps most customers at the higher price, this shows that the company was not charging enough in the first place! Customers unwilling to pay the higher price find insufficient value in your offering given the higher price, and effectively remove themselves from the customer base when they stop transacting.
- **Cutting the cost-to-serve.** Often customers are unprofitable because their cost-to-serve is greater than the margin they generate. Encouraging marginally profitable or unprofitable customers to self-serve using apps and websites might make many of them profitable. Most retail banks strongly encourage customers to use apps rather than telephone or branch banking. Indeed, they are closing branches to reduce the cost-to-serve. Customers that insist on higher cost-to-serve channels can be charged for this, thus aligning costs with customers' willingness to pay for the service.
- **Unbundle the offer.** A company could take a bundled offer, comprising a set of products and services, and un-bundle it to its component products/services. The company can then reprice the individual components and reoffer it to the customer. This makes transparent the value in the offer and enables customers to make informed choices about whether they want to pay the unbundled price for each item.
- **Respecify the product.** This involves redesigning the product so that it no longer appeals to the unprofitable customers you want to terminate. For example, the airline BA made a strategic decision to target frequent-flying business travellers who they regarded as high value. They redesigned the cabins in their fleet, reducing the number of seats in economy class.

- **Align** sales, marketing, and service strategies with customer profitability. Firms should not focus on segments or customers they no longer wish to retain. Skilled CRM practitioners can use predictive analytics to focus customer acquisition on those most likely to be profitable/least likely to be unprofitable.

Empirical evidence on how companies end customer relationships is sparse. However, one study of German engineering companies reports that very few firms have a systematic approach to managing unprofitable customers. Most respondents confirm that unprofitable relationships are commonplace; indeed, a fifth of firms have a customer base more than half of which is not, or not yet, profitable. Companies fall into three clusters of the customer-sacking behaviours:<sup>35</sup>

1. *Hardliners* take an active and rigorous stance in ending unprofitable relationships, including the regular evaluation of their customer portfolio. Qualitative implications, such as a potential loss of trust in relationships with other customers or negative word-of-mouth do not seem to hinder their willingness to sack unprofitable customers.
2. *Appeasers* take a more cautious approach concerning the termination of unprofitable relationships, due to strategic considerations such as not playing customers into competitors' hands.
3. *The undecided* cluster is reluctant to end unprofitable relationships, mainly because they fear the costs of attracting new customers.

## **THE ROLE OF CRM IN CUSTOMER RETENTION, CUSTOMER DEVELOPMENT, AND CUSTOMER TERMINATION**

As with customer acquisition, operational CRM has a range of functions useful for customer retention, customer development and customer termination. They are very similar, although their purposes differ.

1. **Analytics and insight.** CRM systems draw on and collate large volumes of customer-related data, which supports a range of analyses. Some of the most crucial insights useful for customer retention, customer development, and customer termination include:
  - o **Customer profiling.** Helps companies recognise customers worth keeping and/or developing, while also flagging those customer relationships worth ending.
  - o **Predicting customer behaviour.** Part of the customer analyses is an evaluation of buying (and other valuable) customer behaviours. This can help inform customer retention, development and termination decisions while also planning for alterations to the company's products and services.
  - o **Identifying cross-sell and up-sell opportunities.** Interrogation of customer-related data can help show where customers are more likely to respond favourably to cross-selling and up-selling attempts.



- o **Identifying potential customers that resemble your current customer portfolio.** Comprehensive CRM systems offer this 'look alike' service that identifies prospective new customers.
  - o **Trend analysis.** CRM tools can help unpack customer responses to marketing stimulus over time. This allows to recognition of consistent patterns of customer behaviour. This then helps calibrate the offer and the use of prospecting activities.
2. **Campaign management.** CRM software can help coordinate, manage, and evaluate the various prospecting activities the company uses to keep and develop customers. CRM software is useful for testing and evaluating the various prospecting activities that companies use for customer retention and development. Sophisticated tools allow companies to plan sophisticated campaigns with multiple iterations of "if this response, then this action". At scale, this was just not possible prior to marketing automation.
  3. **Marketing optimisation.** Optimisation software enables marketers to enjoy optimal returns from up-sell and cross-sell campaigns across multiple channels and customer segments, taking account of issues such as budget constraints, communication costs, contact policies (e.g., no more than two offers to be communicated to any customer in any quarter), and customers' transactional histories and propensities-to-buy.
  4. **Event-based marketing.** CRM software can also help identify significant events that change customer buying behaviours. This can signal opportunities for customer retention, development, or termination.
  5. **Customisation.** CRM software can help uncover the precise combination of prospecting and offer what is most likely to create a sale from a given customer. This then allows the company to present only those offers most consistent with the customer's preferences and propensity-to-buy. This capability can reduce the risk of failure at cross-selling. It also allows the company to communicate a personalised offer to the customer.

## **KEY PERFORMANCE INDICATORS OF CUSTOMER RETENTION, CUSTOMER DEVELOPMENT, AND CUSTOMER TERMINATION**

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To evaluate the company's efforts to retain or develop current customers, or, to end them, they have a variety of KPIs to choose from:

- **Customer retention.** Earlier in the chapter, we covered some of the considerations when it comes to measuring customer retention. The company must figure out:
  - o The measurement time horizon.
  - o Whether to look at customer retention in aggregate across the company's customer portfolio or to conduct a more nuanced analysis by segments, cohorts, channels, or product types.
  - o Whether to focus on financial metrics only (such as revenue and profit) or to include a broader range of customer relationship benefits (such as customer referrals,



provision of positive reviews, shares/likes for the company's social media). A focus on customer profitability will require the company to compute, or estimate, the cost-to-serve customers or customer segments or cohorts (inclusive of promotional costs, service costs and other related costs).

- o Whether there are any longer-term trends in customer behaviour that the company must be mindful of.
- Measuring and tracking these indicators over time can help the company understand whether its customer retention initiatives are effective.
- **Customer development.**
  - o **KPIs for cross-selling** could include:
    - Share of wallet over time.
    - Customer basket size (i.e., number of items at the time of purchase and their value).
    - New product sales to existing customers over time.
    - Re-purchase rates for the new product sales.
    - Recency-Frequency-Monetary value.
  - o **KPIs for up-selling** could include:
    - Numbers of customers upgrading to higher value products/services.
    - Increasing margin/profit per customer relative to past sales.
    - Sales volumes.
  - o **KPIs for customer engagement:**
    - Customer satisfaction.
    - Net Promoter Score.
    - Number of recommendations made.
    - Activity on your website/app.

In addition to these metrics, companies should also consider those related to cost-to-serve and trends over time, as we have outlined.

- **Ending customer relationships.** Since the goal of ending customer relationships is to reduce the number of customers to only those in the company's customer portfolio that are attractive, the company should focus on indicators like:
  - o Gross margin/profit per customer.
  - o The cost-to-serve each customer (inclusive of promotional costs, service costs and other related costs).
  - o The strategic value of the customer to the company.

## **CONCLUSION**

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In this chapter, we look at how companies can retain, develop, and if necessary, end customer relationships. Companies must first develop a suitable interpretation of customer retention that meets their strategic goals while also harnessing available data. Companies can face considerable challenges in obtaining and analysing customer retention data.

Broadly speaking, companies have two options when trying to enhance customer retention. First, companies can focus on enhancing the value customers derive from the relationship/offer and the level of overall customer engagement. This means understanding and delivering against customers' ever-changing needs and wants while finding ways to develop more meaningful and profound customer relationships. There are many different tools that companies can use for this. Second, companies can focus on raising switching costs. This means increasing the economic and social cost: benefit or continuity in the relationship. This normally takes the form of continually enhancing the structural and social bonds with customers to make it more costly, economically, and emotionally, to switch suppliers.

We also consider customer development. This involves finding ways to enhance the value of the customer to the company. Some approaches can include encouraging positive word-of-mouth, finding cross-sell and up-sell opportunities, and encouraging greater customer patronage (by employing one or more of the prospecting activities we consider in Chapter 3).

The chapter considers a variety of approaches that companies can use to end customer relationships on amicable terms.

CRM can help with customer retention, development, and termination by highlighting customers that are ripe for one of the options here, through targeted marketing and prospecting activities, and by flagging major trends. Companies can select from a variety of KPIs to evaluate the performance of their customer retention, development, and termination efforts.

## **DISCUSSION QUESTIONS**

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1. What is customer retention? What is customer development? What are similarities and differences between both concepts?
2. How can companies measure customer retention? What issues might they need to consider in this regard?
3. What options do companies have to enhance customer retention by increasing customer engagement?
4. What options do companies have to enhance customer retention by increasing switching costs?
5. Why do companies choose to end some customer relationships? What approaches can they use to do so?

6. What is the role of CRM in customer retention, customer development, and in ending customer relationships?
7. What are the common KPIs that companies use to assess customer retention, customer development, and customer termination?

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# MANAGING CUSTOMER PERCEIVED VALUE

## CHAPTER OBJECTIVES

By the end of the chapter, you will be able to:

1. Define customer perceived value.
2. Differentiate between value-in-exchange and value-in-use.
3. Describe the nature of the company's value proposition and its role in creating customer perceived value.
4. Describe how the company can use the marketing mix to convey customer perceived value.
5. Describe how the company's operations relate to the provision of customer perceived value.

## INTRODUCTION

A core assumption in CRM is that customers are more likely to experience benefits or achieve their purchase goals, and less likely to experience costs, if they have a strong relationship with a company. As we outlined earlier in the book, a strong customer relationship allows the company to gain more insights into customer preferences, attitudes, and behaviour. This information allows the company to design, develop, and offer superior value propositions to the customer. Moreover, the company has a greater incentive to develop and sustain a strong customer relationship due to the specific investments the company makes in the relationship and the prospect of receiving repeat business from the customer.

In this chapter we explore a key concept relevant to CRM – customer perceived value. Through interactions with the company, customers are subject to a range of stimulus. This includes through the company's prospecting activities (e.g., advertising, public relations, etc.), their fulfilment activities (i.e., taking orders, dispatching orders), and communications with the customer. We unpack two main types of customer perceived value – when benefits exceed costs, and when the customer achieves their purchase goals.

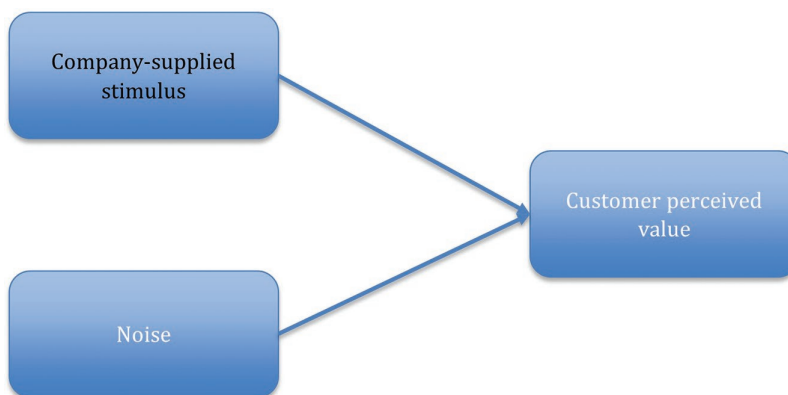
We also consider *when* the customer perceives value. In this, we explore the ideas of value-in-exchange and value-in-use. Through the combination of these, we suggest that customer experience is much broader than either of these concepts alone, so articulate the idea of customer-experienced value as a more holistic approach to understanding the relationship between customer perceived value and customer experience (CX).

CRM systems can help identify the relationships between different company stimuli that impact customer-experienced value and perceived value. This then allows the company to implement provisions that align with its overall CRM strategy, and which result in strong customer relationships with desirable customers.

## CUSTOMER PERCEIVED VALUE

The term 'value' is one of the most widely used in business circles and, so, it has a range of different meanings.<sup>1</sup> For our purposes we are most concerned with the customer's perception of value. More specifically, we are interested in understanding the relationship between the customer's exposure to, and appraisal of, the stimulus they receive through interactions with the company. Having said that, it is important to acknowledge that stimulus from other sources also affects customer perceived value. For example, the customer may encounter some negative word-of-mouth about the company's products and, while the company is not the source of this information, it does affect customer perceived value. This is one example of 'noise' that affects the effects of company-supplied stimulus on customer perceived value, as we illustrate in Figure 5.1.

Companies must create and communicate stimulus that conveys superior customer value while also overcoming the noise that influences the customer. The ability both to create and communicate superior customer value are vital components of competitive advantage. If the company can do this consistently, the customer has an incentive to keep their relationship with the company. So, this is then a key determinant of relationship stability, at the very least, and, more ideally, relationship development.



**Figure 5.1** Company-supplied stimulus, noise, and customer perceived value

There are two major perspectives on customer perceived value:

1. Benefits minus costs (“What I get for what I give”), and
2. Goal achievement/non-achievement.

These different perspectives draw on the work of Sheth,<sup>2</sup> Woodruff<sup>3</sup>, and Khalifa.<sup>4</sup> Let’s explore these ideas further.

## Benefits less costs

The most popular way to conceptualise customer perceived value is in terms of benefits and costs. To unpack this idea, we examine the differences between benefits and costs from the customer’s viewpoint. Where benefits exceed costs, we can say that customer perceived value is positive. Where costs exceed benefits, we can say that customer perceived value is negative. Where benefits and costs are equal, we can say that customer perceived value is neutral. Looking at customer perceived value in this way is appealing in that it allows companies to identify product features and to define them as benefits or costs. This then allows the company to adjust their offer so that it aligns with customer requirements. Assessing benefits and costs also allows the company to compare its offer against competitor offers in the same way.

While this seems straightforward, the challenge arises when we try to unpack benefits and costs. In both cases, customer perceptions are subjective. What one customer perceives as a benefit, other customers may not. What one customer perceives as a cost, other customers may not. For example, some customers enjoy full-sugar soft drinks due to the flavour while other customers avoid full-sugar soft drinks because they are too sweet. Given the nuances of customer perceptions, it can be useful to unpack the main types of customer perceived benefits and costs.

## Customer perceived benefits

We draw on Sheth’s<sup>5</sup> framework here to define different types of customer perceived benefits. They include:

1. **Functional benefits.** Functional benefits relate to the capabilities and the performance of the company’s products/services. For example, if a customer buys an iPhone, they expect it to work flawlessly.
2. **Conditional benefits.** Conditional benefits refer to the context, situation, or circumstances of that shape the customer’s perceptions of value, where some conditions lead to higher value for certain products/service attributes. For example, ice cream sales peak in the warmer months as a refreshing treat.
3. **Social benefits.** Social benefits derive from the customer’s ability to associate with a social group and/or to improve their social status. For example, a customer may buy an upmarket house to entertain and impress friends and work colleagues.
4. **Emotional benefits.** Emotional benefits are associated with the customer’s experience of emotional states when they buy or use a company’s products/services. For example, a customer may buy tickets to a concert to experience the joy of a live performance.

5. **Epistemic benefits.** Epistemic benefits relate to the ability for the company's products/services to arouse feelings of curiosity, novelty and to address the customer's desire for knowledge. For example, you're reading this book to understand CRM (hopefully!).

While Sheth's original framework centres on physical goods, it is relevant to CRM in that it allows companies to identify and analyse the types of benefits that customers typically seek beyond simple product offerings. Therefore, we see it as a more universally applicable framework.

### Customer perceived costs

Of course, everything comes with a cost. While we often think of costs as the purchase price only, customers also experience non-financial costs. Some of the most common costs include:

- **Time.** The human experience is such that time is a finite resource. For any action we take, we cannot undertake another at the exact same time. This means that time is precious. Indeed, customers are often willing to pay premium prices for convenience. For example, grocery items available at service stations are normally more expensive than the same items in a large-chain grocery store since they are available in a time and place that is more convenient to the customer. So, customers value their time, and this means that any unnecessary or unexpected time consumption can result in unhappy customers.
- **Emotional costs.** Purchasing can be very stressful and frustrating, especially for customers who lack experience and confidence. Making decisions, choosing, can be exhausting. It demands a cognitive effort that consumers often wish to avoid.<sup>6</sup> Inertia may be a consequence. For example, people are often reluctant to switch between banks even if they are not satisfied with their current bank's performance.
- **Physical costs.** Customers may also need to exert significant physical effort when making a purchase. For example, they may have to travel a long distance to access the company's outlets. The effort that this entails may be difficult to overcome.
- **Perceived risk.** Customers may perceive risks when making a purchase or using the product, particularly those related to performance, physical, financial, social, and psychological factors. Performance risk occurs when the customer is not fully sure that the product will deliver its functional benefits. Physical risk is when the customer feels that there may be some bodily harm done by the product. Financial risk results from a danger of economic loss from the purchase. Social risk emerges when customers feel that their social standing or reputation is at risk. Psychological risk is when a purchase has the potential to damage the customer's self-esteem or self-image. When perceived risk is high, cost is high.
- **Adaption or switching costs.** Often, incorporating new goods and services into a solution involves costs in terms of reconfiguring existing assets. For example, a company implementing a new finance package will have considerable costs in 're-engineering' systems that feed into it.

The idea of 'total cost of ownership' (TCO) has become a popular way to think of the costs that a customer experiences throughout their total involvement with the company's products/services. Oliver Williamson<sup>7</sup> argues that customers experience costs before the purchase, during the



purchase, during the use of the product, and post-purchase during product disposal. In many B2B contexts, the purchasing process may include exhaustive pre-purchase work in searching for solutions and comparing alternatives, negotiations, contract development and performance monitoring. Major tenders for IT systems or infrastructure may take years to complete and cost both selling and buying organisations millions of dollars. Negotiations and performance monitoring can also be complex and costly to conduct and monitor. Once the customer signs the contract, this starts the implementation phase, which itself involves costs. Once the implementation is complete, the transition of the new product to the customer can also incur costs.

## Goal achievement/non-achievement

An alternative way to think about customer perceived value is in terms of goal achievement (see the work of Woodruff<sup>8</sup> as well as Bettencourt and Ulwick<sup>9</sup>). When customers buy a product, they do so to address a need or a want. We can think of this as a goal. A good example is university study. While students may enjoy classes and the social life that university study often entails, they wouldn't be there unless they wanted to receive a degree. So, the qualification is the goal of student behaviour in this case. We can see goal-oriented behaviours in many human endeavours. Buying a house normally requires customers to save a deposit, and this can take years. Buying a car can be similar. People also have career goals, such as, securing a promotion or receiving a better employment offer. Goals are important foci for customer behaviours.

Whether the customer succeeds in achieving their goal or not influences their perceptions. If a customer strives to accomplish a purchase outcome, but this is not successful, it is easy to imagine the feelings that this arouses. For example, if a customer lines up overnight to secure their spot in line at the Apple store so that they are among the first to own the latest iPhone, but the store is out of stock by the time the customer enters the store, the customer will experience significant disappointment. If the store had enough stock on hand for the customer to succeed in their purchase, they would experience elation.

This perspective leads us to view high customer perceived value as goal achievement, and low customer perceived value as goal non-achievement. Neutral customer perceived value equates to partial goal achievement.

It is important to note that the goal achievement/non-achievement perspective is complementary to the benefits less costs approach to understanding customer perceived value. For example, when a customer buys an electric scooter, their goals may include achieving a low price for an aesthetically attractive scooter that has a long recharge cycle. In their journey, the customer may find that there are many convenient options which are readily available. These are benefits. The option the customer chooses may involve interactions with an obnoxious sales representative and the chosen option may not come with after-sales service. These are costs.

## Other customer perceived value conceptualisations

There is now an extensive body of research on customer perceived value. Some of the most useful studies have developed typologies or taxonomies that comprehensively categorise customer perceived value. We describe several of the more comprehensive frameworks here.

Zeithaml's early work identified four different forms of customer perceived value: value as low price; value as delivery of what the customer wants; value as the quality: price ratio; and value as the ratio of give: get, that is, what customer receives compared to the sacrifices the customer makes.<sup>10</sup>

More recently, researchers have come to appreciate customers don't just experience functional value from the products they buy; they also experience hedonic or affective value such as pleasure, fun, amusement, and entertainment. Functional value might take the form of price-savings, service excellence, time-savings and choice, and hedonic value takes the form of entertainment, escape, and interaction.<sup>11</sup>

Holbrook proposed a typology of consumer value with three dimensions, First, value can be either extrinsic or intrinsic – the consumer perceives value in using or owning a product or service to achieve a goal (extrinsic) or as a goal in itself (intrinsic). Second, value can be either self-oriented or other-oriented – consumers perceive value for their own benefit or for the benefit of others. Third, value can be active or reactive – the consumer experiences value through direct use of an offering in contrast to apprehending, appreciating, or otherwise responding to it. These three dimensions give rise to eight types of consumer-experienced value: efficiency, excellence, play, aesthetics, status, esteem, ethics, and spirituality, as shown in Table 5.1. Holbrook argues that all eight types of value tend to occur together to varying degrees in any given consumption experience (CX).<sup>12</sup>

**Table 5.1** Holbrook's typology of consumer value<sup>13</sup>

		<i>Extrinsic</i>	<i>Intrinsic</i>
Self-oriented	Active	Efficiency (output/input, convenience)	Play (fun)
	Reactive	Excellence (quality)	Aesthetics (beauty)
Other-oriented	Active	Status (success, impression management)	Ethics (virtue, justice, morality)
	Reactive	Esteem (reputation, materialism, possessions)	Spirituality (faith, ecstasy, rapture, sacredness, magic)

In summary, customer perceived value is a concept with multiple interpretations. Adopting one that aligns with the company's CRM strategy is an important step since this then helps decide how the company tries to satisfy target customers.

## **CUSTOMER EXPERIENCED VALUE – WHEN DO CUSTOMERS EXPERIENCE VALUE?**

The discussion thus far focuses on customer perceived value as a relationship between external stimulus and customer perception, which then amounts to CX. This begs the question as to when a customer experiences value. Fundamentally, there are two main ways to understand this idea (which derive from the early works of Adam Smith<sup>14</sup>). They are 'value-in-exchange' and 'value-in-use'. We can look at the combination of value-in-exchange and value-in-use in terms of 'customer experienced value'.

## Value-in-exchange

Value-in-exchange involves trading one form of value for another. It is most common to look at value-in-exchange in terms of a customer paying money to receive a product. Bartering is also a form of value-in-exchange. In this, one person provides a product in exchange for a product from another person. In both cases, the subjects of the exchange (money, products/services) are both valuable to each person making the exchange.

Value-in-exchange focuses on the specific exchange (i.e., the transaction) that takes place and holds that this is the time and context where each person realises value. This logic leads to the idea that the form of the product dictates customer perceived value. Using this idea, companies tend to focus on product features or attributes as the main determinants of customer perceived value. If the company can create and deliver a product with better features or attributes and/or for a better price, they will be more competitive. This thinking leads to the idea that customer value, and the value that the company realises, are synonymous with the transaction. This is a common way of thinking, but also one which does not completely acknowledge the importance of a long-term customer relationship.

## Value-in-use

Value-in-use holds that customers experience value when they use, consume, or interact with the product.<sup>15</sup> Until customers perform these actions, goods are simply inert bundles of attributes – they have no value whatsoever. This perspective suggests that value is “not what the producer puts in, but what benefits the customer gets out”.<sup>16</sup> As such, value-in-use acknowledges CX in a much broader sense. Not only do customers perceive value when they make the purchase, they also perceive value through multiple stages in their customer journey.

Value-in-use takes a more pervasive idea of customer perceived value. Not only do customers focus on product features or attributes, but they also consider the broader context.<sup>17</sup> The context includes all the stimulus the customer accesses (including company-supplied and ‘noise’). It is important to note that context is dynamic in that it changes over time.<sup>18</sup> The stimulus that the customer can access changes so that no two points in time create the same experiences. Moreover, the customer can also change. Customers may undergo differences in their attitudes, their beliefs, and their behaviours. Each of these develops then influence customer perceived value. This is consistent with the position taken by adherents of service-dominant logic, who claim that ‘Value is always uniquely and phenomenological determined by the beneficiary’.<sup>19</sup>

## Customer experienced value

Where we focus on value-in-use to understand customer perceived value, we also subsume value-in-exchange. We can think of value-in-exchange as occurring in line with a specific transaction. As such, it occurs at an instant in time. We can see that value-in-exchange also contributes to the broader consumption context. As such, we can see that value-in-exchange is part of value-in-use. Value-in-exchange and value-in-use occur in tandem with one another to shape CX in a more comprehensive sense. For example, a customer may buy a large screen TV at a discount, and, in which case, they receive value-in-exchange through the

discount and in terms of the attributes/features of the TV. When they experience the higher quality, more feature rich new TV, the customer then receives value-in-use. Should the customer sell the TV later, they will then go on to experience value-in-exchange. We can think of the interactions between value-in-exchange and value-in-use as part of the broader CX and, in which case, it is possible to describe this as customer-experienced value.<sup>20</sup>

## COMMUNICATING AND DELIVERING CUSTOMER PERCEIVED VALUE

If we accept that the goal of the company is to build and sustain strong customer relationships, and that creating superior customer perceived value is the means to do this, we can draw on the ideas of value-in-exchange and value-in-use. Fundamentally, companies must communicate and deliver outcomes so that customers receive the stimulus that contributes to customer perceived value. While it is attractive to think of the company as an arbiter of customer perceived value, we know that all the company can really do is to offer a value proposition and fulfil it. This doesn't account for the noise that the customer also experiences. So, here we focus on the value proposition and use the marketing mix as a device to unpack the value proposition in terms of the ways it can help influence customer perceived value.

### The value proposition

A value proposition is the explicit or implicit promise made by a company to its customers that it will deliver a particular bundle of value-creating benefits.<sup>21</sup> Companies communicate their value propositions using the prospecting techniques we describe earlier in the book.

### The role of the brand

The company's brand is the most instrumental device when conveying a value proposition. A brand is any name, design, style, words, or symbols that distinguish a product from its competitors. Brands reduce transaction costs by clearly identifying the value proposition and underwriting the quality of the goods or services. For example, what do you think of when you think about Microsoft? Google? Apple? Ford Motor Company? Hyundai? The list goes on. Each of these brands evokes different associations. Consider the types of products/services these companies offer. How much would you expect to pay for these products/services? Where might you find these products/services? A customer who understands what the brand means experiences less risk than the customer who does not. Brands offer an implicit assurance of a particular customer experience. When you buy any of the products carrying the Virgin brand it may be because you believe that Virgin's brand values are service excellence, innovation, and good value.

Brands help companies convey all information about their value propositions in a succinct, coherent, and memorable way. Customers obtain brand knowledge from experience, word-of-mouth, online brand communities or social media, or marketer-controlled communication. Brands represent this information in the customer's mind. Brands are important devices that help set customer expectations and therefore shape customer perceptions.

## The marketing mix

We can look at the brand as a summation of the value proposition. If we explore the elements of the value proposition further, however, we start to gain more insights into how companies can create customer perceived value. The marketing mix is a useful tool to unpack elements of the value proposition. The marketing mix has its origins in the 1960s. Each marketing mix component amounts to a lever or stimulus which marketing managers can activate to create a desired response from the company's target market. McCarthy grouped these components into a classification known as the 4Ps – product, price, promotion, and place.<sup>22</sup> The original 4Ps centres on tangible product offerings. Where the company offers a service, it makes sense to broaden the 4Ps to account for the intangible, perishable, and variable nature of services. More recent iterations of the 4Ps include another 3Ps – people, physical evidence, and process.<sup>23</sup> Figure 5.2 illustrates the 7Ps.

While each marketing mix component is a tool available to a marketer, each one also represents a distinct part of the company's value proposition. We can look at each marketing mix element as a signal that the company sends to the customer. Table 5.2 illustrates how each marketing mix component contributes to the company's value proposition.

### Value from products (and services)

Companies may make products and deliver services, but customers do not buy products/services. Customers buy benefits and/or solutions to their problems. It can be useful to unpack the types of customer problems that products/services can help address. A useful tool for this purpose is the customer value hierarchy.<sup>24</sup> We can show these three levels by considering demand for MBA-level education. The core product is the basic benefit that customers buy. MBA students typically are buying one or more of three basic benefits: salary enhancement, career



**Figure 5.2** The Marketing Mix<sup>25</sup>

**Table 5.2** Marketing mix components as parts of the company value proposition

<i>Component</i>	<i>Description</i>
Product	The goods, services, and ideas that the company offers for sale.
Price	The value that the company receives in exchange for the product, and a component of the costs experienced by the customer in the exchange.
Promotion	The messages, the channels, and forms of customer communications the company uses.
Place	The time, location, and context where the company's products are available.
Physical evidence	The tangible elements that coincide with, or result from, service delivery.
People	The company's individuals and teams who interact with customers before, during, or after purchase.
Process	The procedures that the company uses to fulfil elements of the value proposition. Processes may be performed by people and/or technology.

development or personal growth. Companies must be able to meet the customer's core benefit requirements to be a market participant or competitor. The second level is the enabling product. This consists of the physical goods and services that are necessary for the delivery of the core benefit. In the MBA case, this includes buildings, classroom fixtures, faculty, and educational technology. Universities and colleges offering MBA's often try to distinguish themselves from competitors using dimensions of the enabling product, such as highly qualified faculty or modern campuses. A third level, the augmented product consists of those factors that in highly competitive markets refine and confirm the differentiation between competitors. In the MBA illustration this might be teaching method, for example, learning through real-life projects, or an extensive international exchange programme, or a leafy out-of-town location.

Companies offering the same core benefit must compete using the enablers and the augmentations. As renowned marketing guru Ted Levitt noted, competition is not between what companies produce in their factories, but between what they add to their factory output in the form of packaging, services, advertising, customer advice, financing, delivery arrangements, warehousing, and other things that people value.<sup>26</sup> Customers experience product-based value through product innovation, incremental benefits, product-service bundling, and service quality. We explore these below.

### Product/service innovation

Most 'new' products are, in fact, modifications of existing offers, cost reductions or line extensions. Very few products are 'new-to-the-world' or create new product categories. New products in all these categories can improve customer value perceptions, but it is the dramatic ground-breaking inventions that create leaps in customer value. History has many examples – Stephenson's locomotive, Edison's incandescent light bulb, Hargreaves's spinning jenny, Newcomen's steam engine, Noyce's silicon microchip, and Motorola's first mass-produced mobile phone. Friends Reunited, founded in 1999, pioneered social media. It was

set up to help old school friends to find each other online. Facebook was the first major social media success story, but it was a me-too follower, set up in 2004. Facebook did not create the category. That honour goes to Friends Reunited.

Occasionally, old technologies provide a platform for value-delivering modern-day solutions. Bayliss invented the wind-up radio after seeing a programme about the spread of AIDS in Africa. The programme highlighted the difficulty that health professionals faced getting safe sex messages to rural and poor areas where there were no power sources for conventional radios. Large-scale manufacturing of the Freeplay wind-up radio began in 1995. The product has created value for all concerned: the manufacturers, investors, resellers, employees, Bayliss, and of course, radio audiences.

Sometimes products morph into services. Software as a Service (SaaS) offerings are replacing on-premises enterprise software solutions, for example. This is an important product innovation and one which leverages related product innovations such as cloud-based access to computing and improvements in computer processing power. The functionality of the product stays constant but through online delivery the offer is radically different, being presented as a service.

In short, product innovation can lead to new ways to realise customer perceived value.

### Incremental benefits

Companies can generate customer perceived value by claiming added benefits for their offers. For example, a lawnmower does not just cut grass beautifully but runs more quietly. A car comes with a ten-year unlimited mileage warranty. A company can add hedonic value to already satisfactory functional value. Apple has done this through the excellent design of its MacBook Pro computer, iPhone, and iPad products.

Sometimes added benefits contribute to the repositioning of the product to a different segment of the market. Originally positioned as a convenient supplier of low-cost staple foods such as burgers and fries, McDonald's sales began to falter in the 1990s and early 2000s as the brand fell out of step with changing consumer tastes, became implicated in the obesity epidemic, and featured unhappily in the 2004 film documentary *Super Size Me*. McDonald's responded by repositioning the brand so that it appealed to customers seeking a healthier choice. Menu innovations including salads and fresh foods, and cleaner, modern, stylish restaurants helped support the repositioning.

Low involvement product categories have low personal significance or relevance to customers. Customers feel very little sense of engagement with any brand and switch easily to competitors. Adding benefits helps brand owners to increase the level of customer involvement. There are two main approaches: product modification and product association. Product modification means changing the product in some way so that it ties in more closely to the customer's needs, values, and interests. Detergent manufacturers, for example, have reformulated their brands so that they are more environmentally friendly. Product association means linking the brand to some issue or context that is of high importance to customers. For example, US retailer Home Depot, supports veterans who have served in the military. Since the Home Depot Foundation was founded in 2011, it has contributed half a billion dollars to veteran-related causes. "When it comes to supporting the brave men and women of our armed forces, we're all in."<sup>27</sup>

## Product-service bundling

Product-service bundling is the practice of offering customers a package of goods and services at a single price. Tour operators routinely bundle several elements of a vacation together – flights, transfers, accommodation, and meal plan, for example. For the customer, bundling can reduce money, and transaction costs. For the company, there are economies in selling and marketing.

Adding or removing elements from the bundle can increase customer perceived value. Adding elements to the bundle increases the benefits side of the value equation. For example, supermarket operators can offer a bagging service at checkout at no extra cost to the customer. If the people performing this task are diverted from other tasks, then there may be no added costs for the operator. Removing elements from a bundle enables the company to set a new price point, therefore adjusting the value equation for customers. For example, a training college with its own IT department may ask the supplier of its IT equipment for a lower price in return for not using the supplier's help desk and IT support facilities. If the price is reduced by \$5,000 and the saving to the supplier is \$6,000 then both parties win.

## Service quality

An important aspect of the 'product' is its service component. This incorporates the actions and activities that a company takes to solve the customer's problem. Some 'products' are primarily intangible-dominant services. For example, air travel, accommodation, insurance, banking, consulting, maintenance, architecture, and many other offers involve humans performing actions for customers. Most tangible products also require services to support the problem-solving process for the customer. For example, a retail assistant is often necessary to help a customer decide on the right large-screen TV for their living room.

As such, an important source of customer perceived value is service quality. There are two major perspectives on service quality:

1. **Quality is conformance to specification.** This is consistent with Crosby's view of quality.<sup>28</sup> Businesses adopting this approach specify what counts as quality and measure its performance to that standard. Conformance to specification might mean producing error-free invoices, delivering on time and in full as promised to customers, or acknowledging a customer complaint within 24 hours.
2. **Quality is fitness for purpose.** Juran claimed that quality means meeting customer expectations. It is the customer, not the company, who decides whether quality is right.<sup>29</sup> If you are a farmer, a Land Rover is the right quality vehicle. If you are an Executive Limousine company, a Mercedes is the right quality vehicle. In the services sector, fitness for purpose might mean offering savings plans that help first-time home buyers get on the property ladder, recruiting customer contact staff who are highly empathic and responsive, or customising service delivery for customers.

These perspectives on quality can happily co-exist. Specifications for service performance can be based on customer expectations. If customers decide the standards, there need be no conflict between these two approaches.



Service quality theories

Two service quality theories have dominated management practice as companies try to improve their service performance: the SERVQUAL model and the Nordic model.

The Nordic model, originated by Grönroos and developed by others, identifies three components of service quality: technical, functional, and reputational (see Table 5.3).<sup>30</sup>

**Table 5.3** Grönroos model of service quality<sup>31</sup>

Technical	The quality of the outcome of a service performance
Functional	The quality of the performance of a service
Reputational	The quality of the service organisation’s image

The significance of the Grönroos model is that it stresses the importance of understanding and meeting customer expectations of both the ‘what’ (technical) and the ‘how’ (functional) forms of service quality.

The SERVQUAL model, developed by Parasuraman and colleagues in North America, names five core components of service quality: reliability, assurance, tangibles, empathy, and responsiveness, defined as in Table 5.4.<sup>32</sup> You can remember them through the mnemonic RATER.

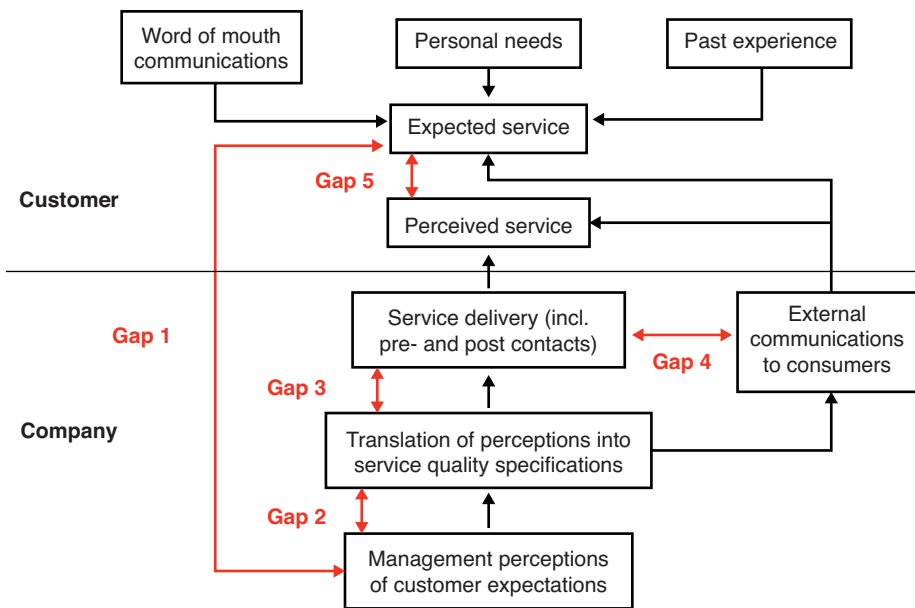
**Table 5.4** SERVQUAL components<sup>33</sup>

Reliability	Ability to perform the promised service dependably and accurately
Assurance	Knowledge and courtesy of employees and their ability to convey trust and confidence
Tangibles	Appearance of physical facilities, equipment, personnel, and communication materials
Empathy	Provision of caring, individualised attention to customers
Responsiveness	Willingness to help customers and to provide prompt service

The SERVQUAL authors have also developed a measurement and management model to go with the conceptual model. The measurement model uses a 44-item questionnaire to measure customers’ expectations and perceptions of the RATER variables.<sup>34</sup> The questionnaire also captures the relative importance of these RATER variables. This enables users to compute the relative importance of any gaps between expectation and perceptions. Management can then focus on strategies and tactics to close the important gaps.

The management model, which we reproduce in Figure 5.3, identifies the reasons for any gaps between customer expectations and perceptions (gap five). Gap five is the consequence of the four other gaps. If these four gaps, all of which appear below the line that separates the customer from the company, are closed gap five will close. The gaps are as follows:

1. Gap 1 is the gap between what the customer expects and what the company’s management think customers expect.



**Figure 5.3** The SERVQUAL gaps model<sup>35</sup>

2. Gap 2 occurs when management does not design service quality specifications that meet customer expectations.
3. Gap 3 occurs when the company's service delivery systems – people, processes, and technologies – fail to deliver to the specified standard.
4. Gap 4 occurs when the company's communications with customers promise a level of service performance that the service delivery system cannot deliver.

The importance of SERVQUAL is that it offers managers a systematic approach to measuring and managing service quality. It emphasises the importance of understanding customer expectations, and of developing service quality standards and service delivery systems that meet customer expectations.

There is growing evidence that investment in service quality improvements pays off in enhanced customer satisfaction and customer retention, although like other investments, there does appear to be a point at which diminishing returns set in.<sup>36</sup>

The SERVQUAL model has been contested<sup>37</sup> but it is still in widespread use in original and customised forms.<sup>38</sup> One criticism is that customers often do not have clearly formed expectations, and therefore that the expectations-disconfirmation approach is inappropriate. Some of these critics have developed an alternative, perceptions-only, model of service quality that they have dubbed SERVPERF.<sup>39</sup> Others criticise service quality theory for its bias towards assessing single episodes or customer encounters. They suggest that customers assess the quality of their customer experiences over an extended period, throughout the entire customer journey (pre-, during, and post purchase), across multiple channels and form emotional responses as well as a cognitive evaluation of service experience.<sup>40</sup>

## Service guarantees

From the customer's perspective, guarantees of service performance on attributes that are important to customers can be an effective way to reduce risk, and thereby increase customer perceived value. A service guarantee is an explicit promise to the customer that the company will deliver a prescribed level of service. Service guarantees can be either specific or general. Specific service guarantees apply to one or more parts of the customer experience. For example, Green Training, a US firm training contractors and tradespeople, promises that students will pass their certification examinations:

**Our students have over a 90% first-time pass rate for certification exams, but should you not pass for whatever reason, you have unlimited access to all your online training course and supplementary materials with no additional charge for as long as you require it. You also get continued email and phone support access to our staff and instructors.**

**Green Training USA<sup>41</sup>**

General service guarantees apply to the entire customer experience, as illustrated in this example from online retailer Bombas:

**The Happiness Guarantee ensures that we will do what it takes for you to be satisfied with your Bombas, whatever it takes. If your socks don't fit, we'll help you return or exchange them. If your shirt develops a hole, we'll replace it. Dog chewed up your socks, we'll replace them.<sup>42</sup>**

**Bombas<sup>43</sup>**

Although these examples are of service guarantees that companies offer to external customers, service guarantees can also target internal customers. For example, the housekeeping supplies department at Embassy Suites guarantees that its internal customer, the housekeeping department, will get supplies on the day of request. If not, the department is fined by the housekeeper. Service guarantees are customisable, so can accommodate individual customers or segments. An IT service centre guarantees a three-hour service to priority-one customers, and 48-hour service to all others. Should the company not honour these guarantees, it 'fines' itself by issuing a credit note to the customers.

## Service level agreements

A service level agreement (SLA) is a contractual commitment between a service provider and customer that specifies the mutual responsibilities of both parties with respect to the agreed services and the standards to which they will adhere. SLAs can apply to both internal and external customer relationships. For example, it is common for utility companies to outsource their customer contact function to a contracted service provider. An SLA defines both parties' expectations of the agreed services, the service processes, the service standards, and pricing. The SLA may well form part of an enforceable legal contract. Several metrics

are useful when measuring performance of the supplier and compliance with SLA service standards. These include:

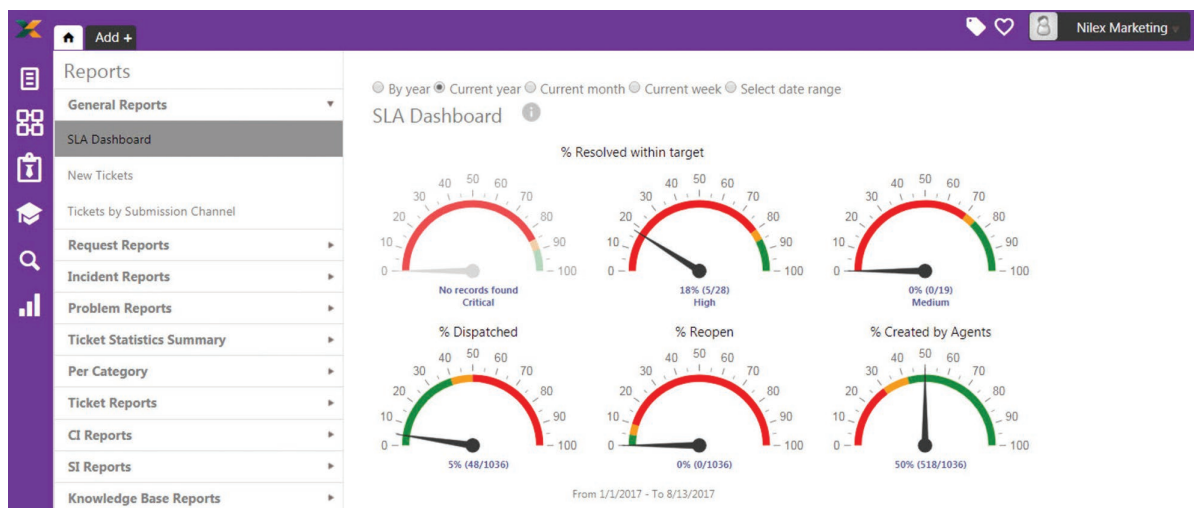
- **Availability** – the percentage of time that the service is available over an agreed period.
- **Usage** – the number of service users and usage patterns that the service accommodates.
- **Reliability** – the instances of service failure in the period.
- **Responsiveness** – the speed of service fulfilment.
- **User satisfaction** – the degree to which the customer agrees that the service meets their expectations.

Many companies also have internal SLAs between service departments and their internal customers. An IT services department, for example may establish different SLAs with different internal customer groups; it might undertake to process payroll for the human resource department, or to maintain and service desktop devices for a contact centre. This is unlikely to be a formalised contract.

### Service recovery programmes

Service recovery includes all the actions taken by a company to resolve a service failure. Services fail for many reasons.<sup>44</sup> Sometimes technical service quality fails; other times the failure is in functional service quality. Sometimes the fault lies with the company, sometimes with the customer and sometimes with a business partner. Typically, customers are not concerned with who is to blame; they just want the situation resolved.

Research shows that when companies resolve problems quickly and effectively there are positive results for customer satisfaction, customer retention and word-of-mouth.<sup>45</sup> Customers who experience service failure and then experience quick and effective service recovery



**Figure 5.4** Service level agreement dashboard<sup>46</sup>

may also be more satisfied than customers who do not experience service failure in the first place.<sup>47</sup> Conversely, customers who experience service failure, only to experience unsatisfactory recovery, can become detractors and actively look for opportunities to spread bad word-of-mouth.<sup>48</sup> When customers experience service failure, they have the choice of doing nothing or voicing their displeasure. Customers who choose to voice can complain to the service provider, complain to friends and others in their personal network, or complain to a third party such as a consumer affairs organisation or industry ombudsman.

Equity theory suggests that customers who complain are seeking justice and fairness.<sup>49</sup> Equity theory explains that customers evaluate the ratio between sacrifices they incur and the benefits they experience (as in the value equation) and compare their ratio to that of other customers. When customers pay the same price but experience an unsatisfactory level of service compared to other customers, they feel a sense of inequity or unfairness. By complaining, they hope for the company to restore such imbalance. In other words, they want justice.

Research suggests that there are different types of justice that complainants look for: distributive, procedural, and interactional justice.<sup>50</sup> Customers experience distributive justice if they get the outcome they want. Customers might be satisfied with an apology (i.e., psychological compensation), or a credit note against future purchases (i.e., monetary compensation). Alternatively, a customer may want the service to be repeated, but to their expectations. If distributive justice is concerned with what is received, procedural justice is concerned with the customers' evaluation of the processes and systems they experience during the service recovery process. Customers do not want to complete forms, provide difficult-to-find proofs of purchase, or write formal letters confirming their complaint. These requirements do not suggest that a company is willing to resolve the problem quickly. Interactional justice occurs if the customer judges that service recovery-related interactions with the provider's people are satisfactory. They want employees to be responsive and empathic.

## **Value from promotions (and communications)**

Companies can enable customer perceived value from communication and promotional practices that were impossible only ten years ago. A significant change is that companies can now enable multilateral communication: company-to-customer, customer-to-company, and customer-to-customer. Traditionally, customer communication has been one way – from companies to customers. The conventional tools for company-to-customer communication are unilateral: advertising, sales promotion, publicity, public relations, and personal selling. Except for personal selling, these communication channels are non-interactive. Companies can now combine social media, email, webforms, chat, instant messaging, phone as well as traditional correspondence to communicate in a rich and interactive manner with customers. Companies can also facilitate customer-to-customer (peer-to-peer) communication by weblogs (better known as blogs), chatrooms, newsgroups, online communities, and increasingly by using social media such as Facebook and X (formerly Twitter). Collectively, these are known as customer-generated media (CGM). Southwest Airlines, for example, uses Facebook, X (formerly Twitter), and Instagram for multi-lateral communication to, from, and between customers in order to interact with customers.

Three processes enhance the power of communication to create value for customers: disintermediation, personalisation, and interactivity.

- **Disintermediation.** Disintermediation refers to the removal of intermediaries such as broadcast and print media from the company's communication channels with customers. Today, technologies enable direct-to-customer (DTC) communication via email, direct mail, and SMS and MMS messaging to smartphones. Companies can now get their message direct to customers. Equally, customers can get their messages direct to companies, and to other customers in the ways already described.
- **Personalisation.** High quality customer-related data, CRM technologies, and DTC channels in combination enable companies to tailor offers and communications to individual customers. This is what Don Peppers and Martha Rogers have called one-to-one marketing.<sup>51</sup> Data on customers' buying history and propensities-to-buy can be used to develop offers that meet with a much higher response rate and conversion rate than conventional mailings. The content, timing and delivery channels for communications can be based on customer preferences. CRM technologies allow customers to personalise web pages. For example, you can also create your own daily newspaper at [www.ft.com](http://www.ft.com) based on your personal interests and preferences. CRM technologies used in contact centres allow for personalised interactions between customers and customer service agents. For example, scripts can be tailored to enable agents unfamiliar with a product or customer segment to perform competently in telephone interactions.
- **Interactivity.** Interactive technologies have been around since the advent of the telephone. However, the Internet has revolutionised the scope for interactivity through technologies such as email, instant messaging and html, the computer language that allows us to navigate the web. Email enables customers and company to interact effectively though not necessarily in real-time. For example, customers can email for information that is unavailable on the Frequently Asked Questions (FAQ) pages of corporate websites. Email gives customers access to a specific named person or work group such as [help@](mailto:help@) or [info@](mailto:info@). Contact with a name gives customers the sense that there is an individual who is taking care of them. Instant messaging enables communications to take place in real-time, which is not always possible in email.

## CASE ILLUSTRATION 5.1

### PERSONALISED COMMUNICATIONS AT COCA-COLA<sup>52</sup>

Coca-Cola realised that their brand message was becoming familiar and predictable when big campaigns were making people love Coke, but the love wasn't transferring to sales.

In 2011, Coca-Cola launched its 'Share a Coke' campaign in Australia. Starting with 150 popular and generic names, printed on Coke cans and bottles, Coke encouraged customers to 'give' a Coke to someone else to share the experience. Customers could send a virtual Coke via Facebook or customise a can of Coke in a pop-up kiosk and even customise the iconic Coca-Cola

digital billboard in Sydney's Kings Cross. Due to its success, Coca-Cola launched the campaign in over 70 countries.

You would be amused to consider the number of hours that very senior Coca-Cola executives spent brainstorming swear words to add to filters to ensure this campaign aligned with their brand image and spread positive word-of-mouth.

## Value from place

The task of distribution is to supply time and place utilities to customers. This means getting products and services to customers when and where they want. The emergence of online shopping and location-based services (e.g., Uber) has reshaped the nature of place. Technology allows customers to access value propositions from their smartphone, tablet or laptop at a time and place of their choosing. The rise of Google, Amazon, and Alibaba are testament to modern shopping behaviours and the value of convenience.

There are many instances where convenience is not the main driver of customer perceived value from the place component of the marketing mix. Entertainment, hospitality, and recreation-related pursuits all depend on customer interaction. In this case, customer perceived value emerges from the experiences they encounter. Customers may experience emotional, psychological, and social benefits. For example, dining at a nice restaurant is enjoyable not only due to the quality of the menu, but also the ambience, the wait staff, the location (including views of the great outdoors), the aromas, and the décor. While we discuss place, processes, and people in the next few sections, entertainment, hospitality, and recreation are examples of consumption experiences where place is synonymous with context.

In other industry settings, place is a function of form. In the manufacturing sector, for example, the Just-in-Time (JIT) production method is common. JIT follows the logic that producing an item just at the time that the customer needs it is better than the alternative. If the manufacturer produces the item too early, then this increases costs since it then becomes necessary to store the item in a warehouse – which gives rise to support costs and to opportunity costs. If the manufacturer produces the item too late, then this causes delays in the customer's own processes. So precision is the most important factor here.

Overall, place contributes to customer perceived value by ensuring the product is available at the right time in the right place and in the right format.

## Value from processes

If we extend the idea of place to also include processes, people, and physical evidence, we can then gain a more granular understanding. These variables are most relevant in service-intensive settings. Indeed, our earlier discussion on services considers these issues in brief. In our more in-depth coverage, we start with processes.

A **process** is set of inter-related activities performed by people and/or technology to achieve a particular outcome. Processes are time bound, they have a defined start and end point. Normally the end of one process is the starting point for the next process. Processes can be high-level, such as 'order to cash' and they will consist of nested smaller processes.

Processes are more than simply workflow; they use and deploy resources and assets that help firms compete more effectively and create more value for both customers and company.<sup>53</sup> Xerox has identified 14 key domains where business processes are important, as we detail in Table 5.5. Many impact CX or value perceptions, and encompass customer engagement, market management, product maintenance, and product design and engineering processes.

Process innovation can significantly enhance customer-experienced value. For example, First Direct started out as a telephone bank with no branch network, with customer service originating from several call centres. First Direct now offers banking through other channels – online and app – and has developed relationships with non-bank service providers such as Apple Pay, Android Pay and Samsung Pay. The bank's customer satisfaction ratings have been consistently higher than competitors who have branch operations. Low-cost airline, Easy Jet, speeded up customer service by improving plane turnaround times from 50 minutes to 33 minutes, through improved teamwork.

**Table 5.5** Xerox's 14 key domains that use business process

1. Customer engagement	8. Supplier management
2. Inventory management and logistics	9. Information management
3. Product design and engineering	10. Business management
4. Product maintenance	11. Human resource management
5. Technology management	12. Leased and capital asset management
6. Production and operations management	13. Legal
7. Market management	14. Financial management

## CASE ILLUSTRATION 5.2

### OPERATIONAL PROCESS INNOVATION AT WAL\*MART<sup>54</sup>

Operational innovation has been central to some of the greatest success stories in recent business history, including Wal\*Mart, Toyota, and Dell. Wal\*Mart is now one of the largest organisations in the world, and one of the world's strongest brands. Between 1972 and 1992, Wal\*Mart went from \$44 million in sales to \$44 billion, powering past Sears and Kmart with faster growth, higher profits, and lower prices. How did it score that hat trick? Wal\*Mart pioneered a great many innovations in how it purchased and distributed goods. One of the best known of these is cross-docking, in which goods trucked to a distribution centre from suppliers are immediately transferred to trucks bound for stores – without ever being placed into storage. Cross-docking and companion innovations led to lower inventory levels and lower operating costs, which Wal\*Mart passed on to customers in lower prices, which in turn reflected in the brand's customer satisfaction and customer retention performance. Although operational innovation wasn't the sole ingredient in Wal\*Mart's success – its culture, strategy, human resource policies, and a host of other elements (including its commitment to the operational excellence value proposition we describe later in this chapter) were also critical – it was the foundation on which the company was built.



The **complaints management process** (from complaint receipt to resolution) can have significant effects on customers. No business likes receiving complaints, but they are unavoidable. Even the best companies sometimes fail customers and give cause for complaint. Therefore, it makes sense to implement a policy and processes to receive, handle and resolve customer complaints. Customers who complain are giving the firm a chance to win them back and retain their future value. Not only that but complaints provide information that can help companies identify, and correct, root causes of problems. The presence of a documented complaints-handling process has been shown to be strongly associated with excellent customer retention.<sup>55</sup> Worryingly, customers who don't complain may already have taken their business elsewhere.

A successful complaint to resolution process enables companies to capture customer complaints before customers start spreading negative word-of-mouth or take their business elsewhere. Research suggests that negative word-of-mouth can be very influential on the behaviour of others.<sup>56</sup> Up to two-thirds of dissatisfied customers do not complain to the responsible company.<sup>57</sup> They may, however, complain to their social networks. Unhappy customers are likely to tell twice as many people about their experience than customers with a positive experience.<sup>58</sup>

Many customers who are unhappy don't complain. Why? There are several reasons:

- They feel the company doesn't care. The company or the industry has a reputation for treating customers poorly.
- It takes too much time and effort.
- They fear retribution. Many people are reluctant to complain about the police, for example.
- They don't know how to complain.

Companies can address all these issues by informing customers about the complaints policy and processes and making those processes simple and easy to engage. Some companies go so far as to reward complainants. Stew Leonard's, the Connecticut retailer, is known to reward in-store complainants with an ice cream.

Complaints enter companies at many different customer touchpoints throughout the customer journey, even before a customer has been on-boarded, but more commonly after a disappointing customer experience with the product or service. A well-designed complaints-handling process will capture complaints from various touchpoints, then aggregate and analyse them to find root causes. This should enable the company to achieve a higher level of first-time reliability, reduce the amount of rework, and lift levels of customer satisfaction and retention. An international standard – ISO 10002 – is available to help companies find and implement best practices in complaints policy and processes. Ideally, complaints should be resolved to the satisfaction of the complainant.

Issue, case, or incident management functionality available in CRM software is useful to facilitate complaints-handling and resolution. In addition, there are several dedicated complaints-management software packages, such as Resolve. Complaints that stay unresolved can become serious disputes. An International Standard for Dispute Resolution, ISO 10003, gives guidance on how to manage and resolve disputes. Many industries, including

financial services and telecommunications, operate Ombuds schemes to tackle complaints that remain unresolved after escalation through corporate complaints-handling processes.

Some ideas for improving complaints management processes include:

1. Make the complaints-handling policy and processes visible and accessible to customers and employees.
2. Strive to resolve complaints at first point-of-contact.
3. Empower employees to resolve complaints.
4. Create clear guidelines for escalation of complaints to senior staff.
5. Design the complaints-handling policy and processes around ISO 10002.
6. Go mobile – use app to capture complaints as they occur.
7. Go social – scan social media for complaints and resolve them quickly.
8. Enable web-based and telephone (free-phone) complaints capture.
9. Link complaints to customer satisfaction and retention goals.
10. Appoint a complaints management executive.
11. Teach customers how to complain; publish your process.
12. Reward customers who complain.
13. Ensure customers are satisfied with resolutions.
14. Collect complaints data; analyse and fix root causes.
15. Use technology to support complaints-handling and deliver useful management reports.

## Value from people

Many companies claim that people are their key differentiators, and a major source of customer perceived value. This is especially so in professional services such as counselling, consulting, and coaching. The UK-based home improvement retailer, B&Q, has also added value to the shopping experience by recruiting former building tradesmen such as carpenters, electricians, and plumbers to help customers diagnose their problems and choose the right products in-store.

One of the more important jobs in CRM is the customer contact role. The customer contact role is a boundary-spanning role. That is, the role occupant sits in the space between an organisation and its external customers. The company pays them, but they work closely with customers. Boundary spanners have two fundamental and interdependent roles: information management and relationship management. Boundary spanners handle customer information collection. What are the customer's requirements, expectations, and preferences? What are the customer's plans? Who is involved in the customer's buying decisions? The boundary spanner may have responsibility for maintaining the currency of the customer-related data record. This information enables the role occupant to perform the second role, managing the customer relationship. This might involve winning, growing and maintaining the customer's

business, handling customer queries and complaints, representing the customer's interests to their employer, and ensuring the customer's satisfaction.

Customer contact personnel have direct roles in creating customer perceived value since they are major customer touchpoints with the company. It is important to note, however, that non-customer-facing roles are also crucial since their roles all contribute to customer outcomes albeit indirectly.

## Value from physical evidence

Some companies enable customers to perceive value by their management of physical evidence. This is especially important for service companies with service-heavy offerings. In the absence of physical evidence, customers may find it very hard to figure out whether they are experiencing value or not. Physical evidence consists of the tangible facilities, equipment, and materials that companies use to communicate value to customers. Physical evidence includes a company's premises, and their internal and external environments, print materials, websites, apps, corporate uniforms, and vehicle livery.

Banks traditionally have occupied buildings with columns, portico, steps, and large, heavy doors. Banks use this to communicate conservative values, security, and probity. McDonald's uses primary colours, bright lights, and the ubiquitous golden arches in the form of the letter M. Hospitals convey impressions of hygiene and care through white uniforms, immaculately clean premises, and well-maintained gardens. You only need to reflect on the traditional clothing, livery, and appearance of funeral services to understand the significance of physical evidence.

## THE COMPANY'S OPERATIONS – CHOOSING THE RIGHT PATH

The value proposition stands for the customer promise. Through the signals that the company conveys with each marketing mix element, the company sets customer expectations. While it makes sense to promise the customer superior value, there is a risk that the company will not be able to deliver on that promise. That's why the company must have a service delivery capability that is at least consistent with the customer promise made by the value proposition.

Treacey and Wiersema suggest that successful companies focus on excellence in one of three approaches for value creation: operational excellence, product leadership, or customer intimacy.<sup>59</sup>

- **Operational excellence.** This is about offering the best value for time, value for money. Operationally excellent firms do a limited number of things extremely efficiently. Typically, they are lean, focused and cost-aware businesses that can offer very low prices to customers and or fast service delivery. Companies renowned for this are Wal\*Mart, Giordano, McDonald's, Aldi, and Lidl. Unexpectedly, Toyota might also fit this strategy. If customers take a total cost of ownership view of price, then Toyota, with its reputation for reliability, durability, and competitive service costs fits the operational excellence model well. Companies offering this value proposition tend to operate lean manufacturing and efficient supply chains, have close cooperation with suppliers, rigorous quality

and cost controls, process measurement and improvement, and management of customer expectations. An alternative perspective on operational excellence is convenience (reflected in low transaction costs for the customer). Many online companies compete to offer products and service requiring minimal customer effort. Examples include Amazon, for its outstanding logistics that minimise the time from consumers identifying products they want to receiving them (Order to delivery process). Another might be Federal Express and similar delivery firms that offer both reliability and minimise the effort expended by customers.

- **Product leadership.** Product leadership aims to offer customers the best product/service/solution/experience. Continuous innovation underpins this strategy. Companies renowned for this are Apple, BMW, 3M, Intel, GSK, LG, and Singapore Airlines. Product leadership is associated with companies that have a culture that encourages innovation, a risk-oriented management style, and investment in research and development.
- **Customer intimacy.** Companies that offer this value proposition can adapt their offers to meet the needs of individual customers. Customised solutions must be based on customer insight. Companies renowned for customised solutions include Saatchi and Saatchi, McKinsey, and the US department store, Nordstrom. Customer intimacy is different from 'good service': it is creating truly personalised solutions for individual customers.

**Customisation** is an outcome of customer intimacy. Customisation involves tailoring a value proposition precisely to a customer's specific (sometimes idiosyncratic) requirements. This means that companies must be aware of, and responsive to, customers' differing requirements. CRM systems are useful for this purpose. By collating and analysing customer information, CRM systems can help the company develop tailored value propositions and communicate these to target customers. If customer information on the CRM system is comprehensive and the analyses that emerge from the CRM system are accurate, companies are more likely to create and offer a value proposition that aligns precisely with customer requirements.

Customisation is more likely where the company has only a few customers, who are each more powerful than the company. If a company wants to use customisation, it often faces significant costs. Customisation often leads to the loss of economies of scale, which increases unit costs. Where there is the need for significant customisation, the company may need to undertake an extensive design, development, and testing process. It may need to find new suppliers, it may need to find ways to integrate or reconfigure the ways it does business, and the new inputs it requires may not be readily available. Each of these factors can increase costs.

CRM has an important role in helping companies understand whether customisation will work. Key questions for CRM practitioners considering customisation include:

1. Do customers want customised products and services?
2. What degree of customisation do customers desire?
3. Will customers pay a premium for customisation?
4. How do you take advantage of the disruptive nature of local manufacturing?

Piller and Müller review the research on these questions in the shoe manufacturing industry.<sup>60</sup> They found that consumers are aware of and value the benefits of customisation (for shoe customers, better fit is the single most important benefit, followed at some distance by style and functionality), and the majority are willing to pay a premium – particularly women. Willingness to pay more varies across brands and customer segments. Adidas, for example, can command a 50% price premium for customised sports shoes. Customisation, however, does not universally mean that customers pay more. Some customised products drop features that have no value for customers, resulting in lower costs passed on in reduced price.

The term **mass** is used to describe the customisation of value propositions at scale. Mass customisation requires the use of flexible processes and organisational structures to create varied and even individually tailored value propositions to order. That is, the company adopts systems, processes and procedures that enable efficiency by producing enough base components to experience economies of scale while also allowing enough variants to cater to a wider range of customer requirements. So, the company can capture some of the cost advantages consistent with commoditisation while also attracting customers with more diverse needs.

Table 5.6 illustrates some types of mass customisation.<sup>61</sup> A minor form of mass customisation involves match-to-order. This simply involves finding a match from a range of standard products to a particular customer's requirements. At the other extreme is engineer-to-order. This involves the co-design, in a joint enterprise between customer and supplier, of a unique solution to that customer's problem.

**Table 5.6** Forms of mass customisation

<i>Scope</i>	<i>Type of mass customisation</i>	<i>How it works</i>	<i>Example</i>
Minor	Match-to-order or locate-to-order	Selection of existing standard products or services to match customer requirements	Cars
	Bundle-to-order	Bundling of existing products and services to suit customer requirements	Conferences
	Assemble-to-order	Assembly of products or services from existing standardised components or processes	Insurance
	Make-to-order	Manufacture of customised products including components	Tailored suits
Major	Engineer-to-order	Customer co-designs products or services which are then made-to-order	Aircraft

The need for mass customisation depends on market context. If the company is the only supplier of a product and there are many customers, the company can normally stick with a commoditisation strategy. Where the company is one of many suppliers, but there are few customers, customisation is necessary. Where the company is one of many competing suppliers and there are many customers, this is where mass customisation makes the most sense particularly since companies can experience cost advantages through mass customisation while also producing a differentiated offer.

The ability for companies to mass customise is increasing with advances in manufacturing, order-taking/management, and analysis-related technologies. For example, 3D printing

can offer companies a means to produce low-cost, customer-specific, and local products. 3D printing is commonplace in the aerospace industry because it can design complex parts with less material and weight than traditional manufacturing.<sup>62</sup> Customers can print new components on demand so long as they have the correct software, the necessary part designs, and the input materials.

## CASE ILLUSTRATION 5.3

### RETAIL BRANDS AND MASS CUSTOMISATION<sup>63</sup>

Mass customisation is becoming more common into the clothing industry. For example, Nike has enabled customers to personalise products through their Nike By You and NIKEiD programmes, while Ralph Lauren enables customisation through 'The Polo Custom Shop'.

A mass customisation example that you might be more familiar with is Paris Miki, one of the world's largest eyewear retailers. Paris Miki incorporates collaborative customisation into their service offering to make it easier for their customers to choose from the myriad of options available.

Using a digital picture of the customer's face, combined with information provided by the customer about the kind of look they are after, the Paris Miki design system will recommend a frame size and shape. With the recommended design displayed on the customer's face, the optician and customer can tweak the design until the customer is happy with the final look.

To complete the customer service process, an in-store technician will cut the lenses and assemble the final product for the customer within as little as an hour.

## CONCLUSION

This chapter centres on managing customer perceived value. There are several ways to conceptualise customer perceived value, but the two most common focus on the differences between customer perceived benefits and customer perceived costs, and, whether customers achieve their purchase goals. We also consider when customers experience value. The distinction between value-in-exchange and value-in-use is useful when trying to understand customer experience as it unfolds. By understanding customer perceptions, and the underlying motivations for buying decisions, managers have a better chance of offering value propositions that customers prefer. Understanding that this is important both at the point of purchase and during product use can potentially broaden the company's view as to how it can use customer perceived value to generate competitive advantage.

The chapter delves into the various tools that companies can use to create positive customer perceived value. This begins with the value proposition. Calibrating the value proposition in terms of the benefits it offers and its format can help companies adapt to differences in customer perceived value. As a multi-faceted idea, the value proposition also involves elements from the 7Ps of marketing (product, price, place, promotion, process, people, and physical evidence). Ensuring the company's operations can deliver on the value proposition

in such a way that is beneficial to the company as well (i.e., by generating profits and achieving efficiencies) is an art form but is also the crux of customer perceived value management.

## DISCUSSION QUESTIONS

1. What is customer perceived value? What are the two most common ways to conceptualise customer perceived value? Which one of these might be more relevant to a retail outlet? Explain your answer.
2. What is the difference between value-in-exchange and value-in-use? What are the implications of each idea of value for a bank? Explain your answer.
3. How does the company's value proposition create customer perceived value? Use an example of a company's value proposition with which you are familiar to illustrate your response.
4. How can a company use the marketing mix to convey customer perceived value?
5. How do the company's operations relate to the provision of customer perceived value?

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# CUSTOMER PORTFOLIO MANAGEMENT

## CHAPTER OBJECTIVES

After reading this chapter, you should be able to:

1. Define a customer portfolio, a customer segment, and customer portfolio management (CPM).
2. Describe how the company's vision, mission and objectives relate to CPM.
3. Describe how the company's risk appetite relates to CPM.
4. Describe the main reasons for analysing the company's customer portfolio.
5. Describe the common portfolio models useful for CPM.

## INTRODUCTION

In this chapter we consider an important idea relevant to CRM: customer portfolio management (CPM). CPM requires companies to view their customers as a set of assets. Each asset has a different risk/reward profile, and this allows the company to make decisions as to which customers to target for retention, development, and termination. CPM has significant strategic implications for the company. CPM allows the company to develop and implement a CRM approach that accounts for the differences between customers in the company's customer portfolio. This implies the company must be able to communicate targeted offers and to fulfil the resulting customer orders. It is often difficult to assemble the resources and capabilities necessary in the short-term, so the company must take a strategic approach that involves long-term and deliberate investment. As such, CPM is a core part of Strategic CRM. In this chapter, we begin by exploring a set of ideas and practices that relate to CPM.

## WHAT IS CUSTOMER PORTFOLIO MANAGEMENT (CPM)?

We normally associate the idea of a portfolio as a group of assets held by a single owner (which may be an individual, a group, or a company). Each asset has a different profile (i.e., set of attributes) and poses different potential risks and rewards to the owner. For example, an owner may hold an investment portfolio that includes property, shares, and bonds. Each of these asset classes has different implications. Property generates a return to the owner through rental income and growth/decline in capital value. Shares produce dividends and share price growth/decline. Bonds produce interest. Each asset class has its own risk/reward profile.

We can follow a similar logic when considering customers. Customers are sources of income to the company so, in this respect, they are assets. If we assume that a company has more than one customer, we can start to view customers more like a portfolio of assets. We can also see that, as with different assets, customers have different risk/reward profiles.

*Therefore, a **customer portfolio** is the collection of mutually exclusive customers or customer groups that make up a company's entire customer base, where each customer or customer group varies in terms of its risk/reward profile.*

Companies operating in business-to-business (B2B) environments often treat each strategically significant customer to a unique offering; in business-to-consumer (B2C) environments where there may be millions of customers, businesses tend to develop offerings for groups of customers that share certain requirements. This idea has the following implications:

- **Customers are diverse.** While customers all contribute income to the company, they are all potentially distinct. Some differences may have profound effects on customer buying behaviours and revenue or profit impacts on the company. For example, customers in remote locations may be more costly to access and to serve than urban customers and are therefore potentially less valuable to the company.
- **It is often possible to cluster customers into groups based on some shared attributes.** Even though customers may differ widely, the fact is they all buy the company's products/services. This means, at the very least, they have a common set of needs, but this also implies they could be similar in some other important ways. Marketers call this practice 'customer segmentation'. For example, some customers may prefer to buy online; other customers may prefer to buy in staged payments using Buy Now Pay Later (BNPL) apps. There are many other ways to cluster customers into groups, which we explore later in this chapter.
- **The company must choose how to engage most effectively with each customer or cluster of customers.** In most markets, a single, generic product offering is unviable. With increasing competition, companies face growing pressure to differentiate their products/services or face unprofitability. Having said this, it is up to the company to choose how, when, where, and with what to target customers. This means it is possible to develop and navigate a path that is attractive to the company, and one that aligns with only a chosen customer or cluster of customers. The alternative is bankruptcy.

With these principles in mind, we can start to apply portfolio management ideas popular in investment management to managing customer portfolios.

*We can define **customer portfolio management (CPM)** as the the optimisation of risks and returns from its customer portfolio over the long-term.*

We consider CPM a long-term, strategic endeavour. It normally takes a long time, and considerable resource investments to build the capabilities to serve customers. It can also take a long time to attract customers and to move them into the more profitable phases of the customer relationship (which normally coincides with relationship maturity). So, the company must realise that they are in for the long haul.

CPM has a close relationship with Strategic CRM. Since CPM involves evaluating the differences in the company's customer profile and then deciding on the value proposition it offers to each customer/customer group, these analyses and resulting decisions have company-wide impacts. It is therefore necessary to ensure the company understands the implications. There are two important lenses through which the company may want to consider CPM outcomes.

**Company objectives** are the goals or aims the company has for itself. The company must ensure their objectives are consistent with their vision and mission. For example, if the company vision focuses on achieving Net Zero carbon emissions, an objective that implies sourcing energy from fossil fuel sources (such as maintaining a lowest possible cost) may be inconsistent. We can evaluate CPM in a similar way. If the company mission is to 'delight customers' and a key company objective is to 'achieve 99% customer satisfaction', then CPM can help the company identify which customers/customer groups its most value its offer and capabilities and hence are most likely to be delighted. This then implies focusing away from relationships with customers where this is not possible or much more difficult. Similarly, if the company seeks overall revenue growth, this might mean that CPM is less important to the company. Company objectives that focus on revenue growth may not require a nuanced analysis of customer profitability, so this implies that the company may indeed experience revenue growth while also compromising profits.

It is important to understand that consistency between company vision, mission, and objectives is an important first step in understanding how and when CPM can help. Of course, this implies that the company has articulated a clear vision, mission, and objectives in the first instance. Moreover, it is important that the company's vision, mission, and objectives are consistent with one another. If they aren't it becomes difficult to ensure a clear path forward. CPM is useful as a tool or a lens through which to evaluate vision, mission, and objectives. By highlighting the implications inherent in the company's vision, mission, and objectives in terms of the customer portfolio, the company is more likely to adjust or adapt so that it behaves consistently.

**Company risk tolerance** is another important consideration in CPM. Company risk tolerance reflects the degree of comfort it experiences in turbulent, ambiguous, and uncertain environments. If contexts with these characteristics do not hamper the company in its attempts to achieve its vision, mission, and objectives, then it is probably very risk tolerant. The reverse is also true. Part of the company's risk tolerance also relates to its adaptability – if the company can ride out difficult conditions through innovation and problem-solving, it is more able to tolerate risk. We see this when we consider entrepreneurial new companies in their start-up phase. Normally, a founder has an idea for a new business and decides to invest.

The common advice that many entrepreneurs receive is that new start-ups have less than a one in ten chance of surviving more than five years.<sup>1</sup> Entrepreneurs that succeed are more likely to accept this risk and work adaptably to pre-empt, overcome, or manage difficulties as they arise. Established ventures, particularly with long-serving management teams are much less likely to adopt a similar mindset to that of the entrepreneur. Instead, they are often more conservative. This means they are normally reluctant to invest in new ideas or concepts and prefer environments that are stable and predictable.

The company's risk tolerance then affects CPM. If the company is more risk-tolerant, it is more comfortable working with customers/customer groups that are less predictable and/or more difficult to understand. If the company is more conservative, it will prefer predictable, easier-to-understand customers. CPM normally tries to strike a balance between those customers/customer groups. High-risk customers are attractive if they offer high rewards while low-risk customers are attractive if they help produce reliable income streams. While the company's vision, mission, and objectives can help when selecting customers/customer groups, CPM can help design a customer portfolio that optimises the company's risk/return profile.

## **ANALYSING CUSTOMERS FOR CPM**

Effective CPM requires a means to understand customers/customer groups in the company's customer portfolio. In this section, we introduce you to some of the main ways that companies can conduct customer portfolio analysis. We detail topics such as obtaining customer data and relevant analytical techniques in Chapter 10.

### **Customer portfolio segmentation**

Customer portfolio segmentation involves dividing the company's customer portfolio into distinct groups. Each customer group (segment) includes customers that have similar needs and/or characteristics which make them likely to respond the company's offers in similar ways. Each customer segment differs from other customer segments so that a company might target the most attractive segment, the ones most likely to respond to its offer and where it has some competitive strength. Customer portfolio segmentation is conceptually like market segmentation but differs in that it focuses only on the company's customer portfolio, while market segmentation involves an assessment of the whole market.

**Customers in each customer segment have similarities in terms of how they respond to the company's offer.** This normally stems from a common set of customer characteristics that shape their buying requirements. Customers in a customer segment, for example, may live in the same city, or, their life stage may be similar, or, they may have similar income levels. Any of these similarities can lead to the same responses to the company's prospecting activities.

**Each customer segment differs from other customer segments.** While customers in the same customer segment share important characteristics, this also distinguishes them from other customer segments. The basis of customer segment differences is then a potentially useful device when categorising and analysing customer segments with respect to one

another. For example, the company may use a characteristic such as life cycle stage. The easiest way to understand customer life cycle age is to partition customers in terms of their age. We can see that customers aged 0–16 years often live with one or both of their parents, normally attend school regularly, and are cash poor. Customers aged 17–25 are normally establishing themselves as independent adults, so tend to be in the final years of school and/or tertiary education, they frequent bars and nightclubs, and occupy low-skilled occupations. Different age brackets then imply variance along key customer requirements.

So, the purpose of customer portfolio segmentation is to identify customer segments in the customer portfolio and to understand the differences and similarities between each customer segment. These analyses are important inputs to company decision-making. Customer portfolio segmentation helps the company to take steps towards:

- **Identifying customer segments to grow.** Customer portfolio segmentation can help the company find those customer segments that are the most attractive as sources of new revenue and/or profitability.
- **Identifying customer segments to withdraw from.** Customer portfolio segmentation can help the company find those customer segments that are the least attractive and are potentially worth terminating.
- **Identifying customer segments to retain.** Customer portfolio segmentation can help the company find those customer segments that are attractive and worth keeping.

To conduct customer portfolio segmentation, companies tend to adopt one of two approaches (both extremes of a continuum). **Intuitive segmentation** approaches rely on the perceptions, beliefs, and instincts of decision-makers in the company. The experiences of the company's executive team can often lead to useful insights as to how to evaluate the customer portfolio. For example, the Sales Director may draw on personal experience to inform beliefs as to the key drivers of customer decision-making, so choosing to focus on segmentation dimensions that they believe are most useful. Of course, reliance on intuitive segmentation alone can be problematic. The bias of executives can play an important role. Each individual faces constraints on their time. Individuals also tend to focus on only that information which is most relevant to their role or their interests. Time limitations and information constraints mean that no one individual can offer a complete view of the customer portfolio, which limits the accuracy and relevance of intuitive segmentation.

**Analytical segmentation** involves collating customer portfolio-related data from multiple sources across the company and using this as the basis for a diligent analytical process. The idea is to overcome the limitations that any one individual faces in terms of their time and information access by accessing a much larger customer-related data set. Analytical approaches are also more 'scientific' in that related techniques normally involve high levels of rigour. There are multiple checks and balances in terms of data quality, analytical technique(s), reporting and verification. This means that the company can develop a higher level of confidence in the insights produced by analytical segmentation. Of course, the main drawback of analytical segmentation is the time and effort that companies must invest to collect, clean, analyse and interpret customer-related data. Many leading companies now invest in data analytics teams, along with a set of related analytical software, physical infrastructure,



and other resources. While customer portfolio analysis may only account for a small part of the activities of individuals in data analytics teams, the need for specialist skills sets can pose significant challenges to the company in terms of employee recruitment and retention.

Companies often try to gain the benefits of both intuitive and analytical customer portfolio segmentation approaches while also minimising associated costs. This means adopting a focused customer portfolio segmentation approach that blends techniques that rely on intuition with those that rely on rigorous analysis. To understand how to focus the customer portfolio segmentation process, the company must begin by understanding its vision, mission, and objectives (as we outlined above). This supports a choice as to the ideal customer portfolio segmentation approach, as well as the ideal characteristics on which to base the categorisation of customer segments.

### Customer variables as bases to define customer segments

There are various characteristics that companies can use to conduct a customer portfolio segmentation. If the customer portfolio contains segments that comprise multiple individuals, such as in B2C market contexts, common customer portfolio characteristics tend to concentrate on the features or attributes of those individuals. There are four main bases on which companies can identify customer segments when customers are individuals. These include behavioural, geographic, demographic, and psychographic dimensions (see Table 6.1).

In B2B markets customers in the customer portfolio are other companies, government bodies or not-for-profit organisations. This means that segmentation methods used for B2C markets don't work, and the business must find other ways to perform customer portfolio

**Table 6.1** Bases for customer portfolio segmentation – where each customer segment includes multiple individuals (common in B2C markets)

<i>Customer segmentation base</i>	<i>Focus</i>	<i>Example variables</i>
Behavioural	The major patterns of activity that members of the customer segment exhibit as these relate to purchases	Benefits sought, usage and purchase occasion, volume consumed, loyalty status (recency-frequency-monetary spend, share of category spend)
Geographic	The locations where members of the customer segment are most likely to make purchase decisions	Country, region, TV region, city, city size, post-code, residential neighbourhood
Demographic	The structural attributes of members of the customer segment likely to impact purchases	Age, gender, occupational status, household size, marital status, terminal educational age, household income, stage of family life cycle, religion, ethnic origin, nationality, language group
Psychographic	The psychological and lifestyle characteristics of members of the customer segment likely to impact purchases	Attitudes, beliefs, views, lifestyle, personality, values



**Table 6.2** Bases for customer portfolio segmentation – where each customer segment includes organisations (common in B2B markets)<sup>2</sup>

<i>Customer segmentation base</i>	<i>Focus</i>
International Standard Industrial Classification	An internationally agreed standard for classifying goods and service producers according to standard industry descriptors
Size	The number of employees, number of customers, profit and/or turnover of the organisation compared to other organisations
Buying approach	The ways in which the organisation approaches suppliers to solicit offers – common approaches can include open tender, sealed bid, and Internet auction
Buying process control	The degree to which the organisation uses a central procurement and/or contract management approach as opposed to a delegated one
Buying process formality	The degree to which the organisation uses a strict, formal buying process involving multiple stakeholders as opposed to an informal one
Market position	The position where the organisation sits with respect to its competitors in their customer markets
Organisational health	The likelihood that the organisation will continue to survive, noting their anticipated financial performance, the status of their target markets, and the degree of competition they face (among other factors)

segmentation. B2B companies therefore rely on different variables. We capture some of the more common in Table 6.2.

### Risk/reward variables as bases to define customer segments

While understanding customer segment characteristics can involve useful insights, particularly in terms of the degree of alignment between the company's vision, mission, and objectives with the customer segments in the customer portfolio, there is a need to consider the risk/reward profile of each customer segment. In this section, we focus on a few of the more common approaches that companies use to understanding relative risk/reward.

**Sales forecasting** involves estimating the revenue that a customer segment will produce for the company over a specified period (such as quarterly or annually). This then allows the company to plan for the orders it expects to receive, and this helps the company to run efficiently. One major issue with sales forecasting is that the data available takes a historical or, at best, a present-day view. The data identifies those customers who have been, or presently are, important for sales, profit, or other strategic reasons. If management believes the future will be the same as the past, this presents no problem. However, if the business environment is changeable, this does present a problem. As we know, the COVID-19 pandemic gave rise to suddenly unexpected circumstances for many companies. If the company were to base its plans for 2019–2022 on the sales figures it saw during the five previous years (which is a

reasonable approach), they were in for a major surprise. Indeed, many companies did not survive the COVID-19 pandemic.

Sales forecasting is still worthwhile in many cases. The core challenge is in ensuring as clear and accurate understanding of the customer segment, the customer portfolio, and the market as possible. This understanding can support company plans and ensure they are not 'flying blind'. Sales forecasting also helps companies understand segment attractiveness since it also involves revenue and profitability projections. These are useful parameters when making CPM-related decisions.

**Activity-based costing (ABC)** can help companies understand the relative costs to serve each customer segment. ABC provides a basis for understanding the costs to serve individual customers, cohorts, or segments. It does this by classifying costs as either volume-based costs or order-related costs. Volume-related (product-related) costs are variable against the size of the order but fixed per unit for any order and any customer. Material and direct-labour costs are examples. Order-related (customer-related) costs vary according to the product and process requirements of each customer, cohort, or segment. Cost-to-serve is an important dimension of customer strategy. Different customers absorb resources at different rates. Most companies do not attribute overhead costs to individual customers and thus mask the impact of differential costs-to-serve and fail by spreading them equally across all customers.

Imagine two retail customers, each buying the same volumes of product from a manufacturer. Customer 1 makes no product or process demands. The sales revenue is \$5,000; the gross margin for the vendor is \$1,000. Customer 2 is a different story: customised product, special overprinted outer packaging, Just-in-Time delivery to three sites, provision of point-of-sale material, sale or return conditions, and discounted price. Not only that, but customer 2 spends a lot of time agreeing these terms and conditions with a salesperson who has had to call into the account three times before closing the sale. The sales revenue is \$5,000, but after accounting for product and process costs to meet the demands of this customer, the margin retained by the vendor is \$250. Other things being equal, customer 1 is four times as valuable

General ledger: claims processing dept.				ABC view: claims processing dept.	
	\$ <u>Actual</u>	\$ <u>Plan</u>	\$ <u>Variance</u>		\$
Salaries	620,400	600,000	(21,400)	Key/scan claims	31,500
Equipment	161,200	150,000	(11,200)	Analyse claims	121,000
Travel expenses	58,000	60,000	2,000	Suspend claims	32,500
Supplies	43,900	40,000	(3,900)	Receive provider enquiries	101,500
Use & Occupancy	<u>30,000</u>	<u>30,000</u>	•••••	Resolve member problems	83,400
Total	914,500	880,000	(34,500)	Process batches	45,000
				Determine eligibility	119,000
				Make copies	145,500
				Write correspondence	77,100
				Attend training	<u>158,000</u>
				Total	914,500

**Figure 6.1** ABC in a claims processing department<sup>3</sup>

as customer 2. Whereas conventional cost accounting practices report **what** was spent, ABC reports **what the money was spent doing**. The conventional general ledger approach to costing identifies resource costs such as payroll, equipment, and materials, but the ABC approach shows what was being done when those costs were incurred. Figure 6.1 shows how an ABC view of costs in an insurance company's claims processing department gives an entirely different picture to the traditional view.<sup>4</sup>

ABC gives the manager of the claims-processing department a much clearer idea of what activities have created cost. The next question from a CPM perspective is "Which customers create the activity?" Put another way, which customers are the cost drivers? If you were to examine the activity cost item 'Analyse claims: \$121,000' and find that 80% of the claims were made by drivers under the age of 21, you'd have a clear understanding of the customer group that was creating that activity cost for the business.

ABC is useful in CPM since it helps companies gain a real understanding of the cost of each customer, cohort, or segment. When a company evaluates each customer, it can see the revenue that the customer generates. By comparing this against the costs the company incurs when serving that customer, this can support the company in its decisions to retain, develop or terminate that customer relationship. Companies are likely to see, when considering revenue and ABC for each customer segment across the customer portfolio, the Pareto principle in play – where the top 20% of customers account for 80% of company profits. Research offers some support for the 80:20 rule.

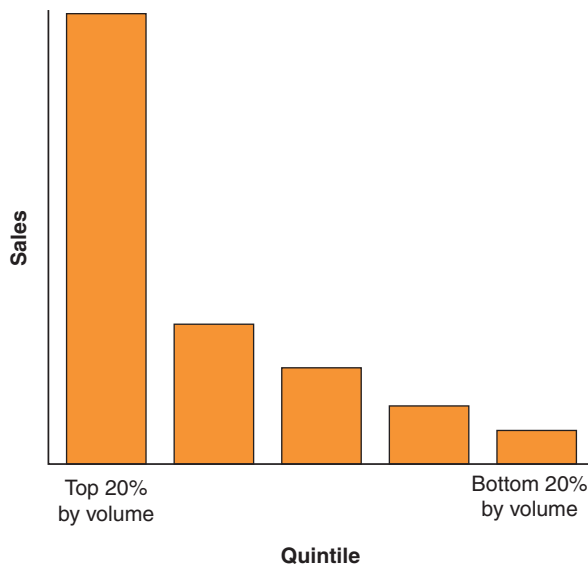
**Customer lifetime value (CLV)** is useful when analysing customer relationships. This is also the case when considering customer segments. CLV blends an estimate of the total income that a customer (customer segment) generates during the total course of the customer relationship with an analysis of their value to the company (by including an estimate of margin and a discount rate) while also including an estimate of risk (in terms of retention rate). CLV is elegant in that it is a simple way of assessing customer segment risk/reward, but it still suffers from the limitations of other methods in that estimates of future events are extrapolations of historical data.

## COMMON PORTFOLIO MODELS USEFUL FOR CPM

The main benefit of CPM is to be able to distinguish between different customer, cohorts, or segments and to implement plans that are useful for the company through their acknowledgement of differences. This section presents a series of portfolio models that may be useful for this purpose. As you will see, many portfolio models not only distinguish between different customer segments, but also offer guidance useful for strategic decision-making. As we consider each approach, it is interesting to consider the number of variables in each model – while fewer variables make interpretation easier, more variables help communicate a greater amount of information.

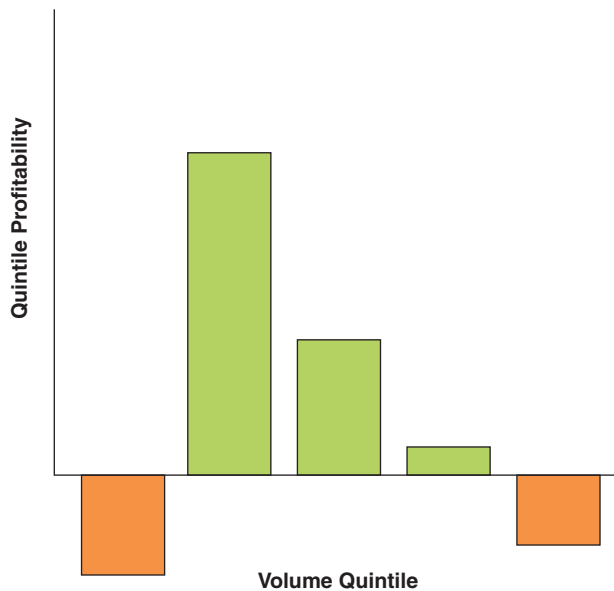
### Univariate customer portfolio models

The simplest customer portfolio model uses a single, dominant variable. In Figure 6.2, we use sales volume as that single variable. Here we can see a breakdown of sales volume by quintiles.



**Figure 6.2** A univariate portfolio model with sales volume as the dominant variable

Figure 6.2 shows that about 80% of sales for this company come from the top 20% of customers. This contrasts with the long tail end, where 80% of customers account for only 20% of sales. This is the Pareto principle at work. The implication of this is that the company can consider how it manages customers in each quintile. Should it offer the same value proposition to all customers in every quintile or differentiate the offer? The company may think it



**Figure 6.3** A univariate portfolio model with profitability as the dominant variable

makes sense to invest more in the top quintile – those 20% of customers who produce 80% of sales revenue – and less in the other 80% of customers.

If we use an alternative single variable, such as profitability, we might find some interesting differences. Figure 6.3 plots the same customer portfolio as in Figure 6.2, this time looking at the profitability of each quintile. If we compare both figures, we find that the customers responsible for the highest sales volume are also unprofitable. Many companies assume that the customers that account for the highest sales revenues also produce the highest profits. Comparing sales revenues and profitability per quintile can challenge long-held beliefs such as these. There are many reasons why companies may discover that high sales volume does not equate to high profitability. Large customers may create significant burdens in administration and through their other account-servicing requirements. The company may require many resources to fulfil such requirements (e.g., sales manager, customer service executive, and applications engineer among others). The customer might demand and receive a customised product, delivery in less-than-container loads, Just-in-Time, extended due dates for payment, and deep discounts on price. These costs-to-serve erode margin and might make the big customers unprofitable. It is often the mid-range sales volume customers that are the most profitable.

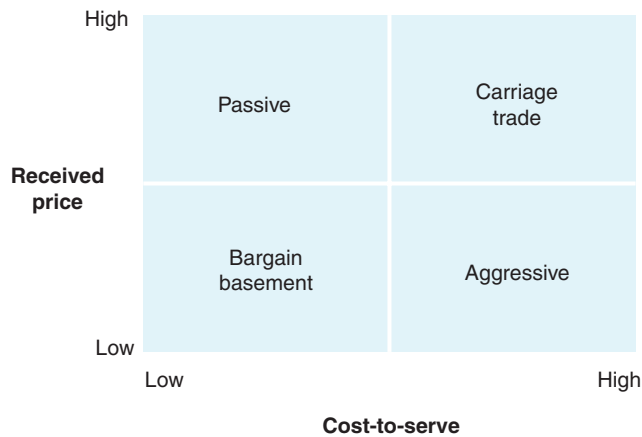
## CASE ILLUSTRATION 6.1

### KANTHAL AND ACTIVITY-BASED COSTING

When Kanthal, a Swedish manufacturer of electrical resistance heating elements, introduced Activity-Based Costing, they found that only 40% of their customers were profitable. Two of their top three customers by sales volume were among the most unprofitable. The most profitable 5% of customers generated 150% of profits. The least profitable 10% lost 120% of profit. The challenge for Kanthal was deciding what to do with the unprofitable customers.<sup>5</sup> Their options included implementation of open-book accounting so their customers could see how much it cost to serve them, negotiation of service levels with customers, introducing transparent rules for migrating customers up and down the service level ladder, simplifying and standardising the order process, introducing a self-service portal, negotiating price increases, sorting product lines into those that could be delivered ex-stock and others for which advance orders were required, and rewarding account managers for customer profitability – both per cent margin and total Krona (Crown) value.

### Bivariate customer portfolio models

Shapiro and his colleagues developed a bivariate customer portfolio model that incorporates both received price and cost-to-serve into the scoring of customer value (see Figure 6.4).<sup>6</sup> This model compares the price the customer pays (received price) with the cost-to-serve per customer (which can derive from pre-sales activities, production, distribution and/or post-sale activities). If we look at each axis as low/high distinctions, four customer profiles appear: carriage trade (often newly acquired customers who are costly to serve but pay a relatively high price), passive customers, aggressive customers, and bargain basement customers.



**Figure 6.4** Shapiro et al.'s customer portfolio matrix<sup>7</sup>

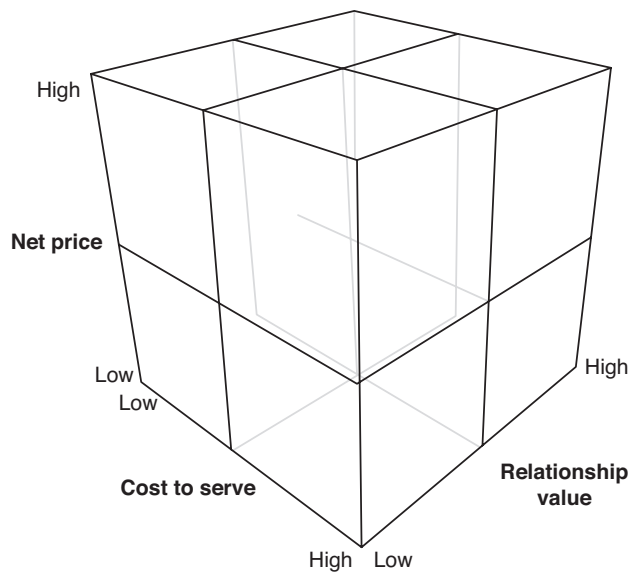
This model delivers more decision-making power than a univariate model. The distinctions between each type of customer in the company's customer portfolio imply the company could vary the resources it allocates to each customer segment differently. In this case, the company could trim the resources allocated to its aggressive customers while focusing more attention on keeping its passive customers. Other things being equal this would have a positive impact on the company's profitability. It would also be beneficial for the company to shift its carriage trade customers into the passive category, by, where possible, reducing cost-to-serve. As we mentioned earlier in our discussion of strategically significant customers, customers may also offer value and/or costs in non-financial terms.

With this in mind, we introduce two Trivariate models.

### Trivariate customer portfolio models

As with the other customer portfolio models, companies can select from a variety of customer variables to compose trivariate customer portfolio models. As we can see in Figure 6.5, Turnbull and Zolkiewski suggest net price, cost-to-serve and relationship value as three important criteria to consider when building a customer portfolio. The company may want to consider questions such as the following to assess relationship value:

- Are the goods or services critical to the customer? If the customer is dependent on the company, there may be more scope for the company to extract value from the relationship.
- Is the customer a major generator of non-financial value for the supplier? If the customer is not profitable, but they offer value in other ways, they might be worth keeping. Customers can create indirect value, for example, by spreading positive word-of-mouth, making referrals, and/or by collaborating to create new products/services.



**Figure 6.5** Turnbull and Zolkiewski's 3D Customer Classification Matrix<sup>8</sup>

- Would the customer be hard to replace if they switched to another supplier? If there are few viable customers for the company's products, the company may have no choice but to work with the customer.
- Does the customer generate cost savings for the supplier? If the customer has attributes that reduce their cost-to-serve or do so for customers across the company's customer portfolio more broadly, then they may be worth keeping. For example, a customer may order large volumes at low cost. The large order volumes can allow the company to realise economies of scale, and this can lead to lower cost-to-serve for other customers as well (who may pay higher prices).

Once the company assesses relationship value, they can then categorise their different customer segments.

Another trivariate model is Ritter and Andersen's<sup>9</sup> customer portfolio model, which includes customer profitability, growth potential and level of commitment. Assessing these variables, particularly the second two, is also the result of a subjective appraisal process. Assessing growth potential can draw on a variety of data sources, but often relies on the expert opinions of sales professionals. Commitment is a little more straightforward. Companies can see whether their customers have signed a contract, if they have invested in resources specific to the relationship (such as specific employees, facilities and/or infrastructure), and whether they share mutual goals. The degree to which the customer faces switching costs can also prove a useful indicator of relationship commitment.



**Figure 6.6** Ritter and Andersen's six-pack model<sup>10</sup>

Ritter and Andersen's customer portfolio model (see Figure 6.6) produces six different customer segments. Each customer segment varies in terms of its profitability, growth potential and level of commitment. This then has implications for the company's strategy.

### Multivariate customer portfolio models

The advent of business intelligence tools such as MS PowerBI and several CRM packages with built-in business intelligence capabilities now makes it possible to include many customer portfolio variables in a customer portfolio assessment. Companies can evaluate customers in terms of variables such as cost-to-serve, repeat purchase behaviour, average margin per sale, product types bought responses to offers and so forth.

### THE STRATEGIC IMPLICATIONS OF CPM

The purpose of CPM is to help companies make decisions about which customers it serves, and how it serves them. The customer portfolio models we have considered are useful tools when profiling the customer portfolio. We already touch on some of the strategic implications



of some of the customer portfolio models above. The main strategic choices that the company faces include:

- Choosing the right customers; and,
- Choosing the right relationship management strategy.

## Choosing the right customers

A recurring theme in this book is that the company must choose the ‘right’ customers. The ‘right’ customer is a customer who:

- Aligns with the company vision, mission, and objectives. This means the company needs a clear strategy as to who it wants to serve, how it wants to do this, and how this corresponds with its capabilities.
- Has a right risk/reward profile consistent with the company’s risk appetite. This means the company must agree on how it evaluates risk and how it considers reward.

While assessing individual customers, cohorts, or customer segments in these terms makes sense, it may be the case that more than one type of customer fits the profile above. At different times of the economic cycle, for example, the company may choose to pursue customers with different attributes. During times of recession, the company’s survival may depend on its ability to support relationships with less affluent customers while in times of boom, the company is better off focusing on those customers more likely to pay higher prices.

## Choosing the right relationship management strategy

The implications flowing from customer portfolio analysis are a set of strategic options for the company. By way of recap, the company can choose to:

- Grow their business with the customer. For customers that show potential, the company chooses one or more up-selling or cross-selling activities to try to encourage the customer to buy more or higher margin products/and services from the company.
- Retain the customer. For some customers, the company may choose to keep them due to their belief that a longer term, valuable relationship will evolve. It may be that the company tries to find ways to enhance its profitability (or value) from that customer by reducing cost-to-serve or by finding up-sell or cross-sell opportunities.
- Terminate the customer. Where the customer is no longer attractive to the company, and where there is no possibility to change this, the company may choose to end the customer relationship.
- Reconfigure how it services customers, this may involve reducing cost-to-serve by introducing low-cost product options or selling and servicing the customer using lower-cost channels and technologies.

## CONCLUSION

This chapter considers CPM, a powerful way to look at the suite of customer relationships that the company has. Using CPM, companies can identify those customers it wants to prioritise. To make these decisions, the company must consider its vision, mission, and objectives as well as its risk appetite. These serve as basis for defining the customer attractiveness factors that appeal most to the company. This then helps the company distinguish between attractive and unattractive customers. CPM involves analysing customer-related data from a variety of sources. This allows the company to categorise customers into customer segments. Companies also have a range of portfolio models to use through their analyses. Starting with simple, univariate models and increasing in their complexity with the inclusion of each added variable, companies must strike a balance between producing meaningful insights and creating an excessive data-gathering burden for the company.

## DISCUSSION QUESTIONS

1. What is a customer portfolio? How does this concept differ from a customer segment?
2. What is customer portfolio management (CPM)? What are the benefits of CPM? What are the costs?
3. How might a company's vision, mission, and objectives affect CPM? How might a company's risk appetite influence CPM?
4. What are the main tasks that companies seek to accomplish through analysis of customer-related data?
5. What sorts of customer portfolio analysis models can companies select from?

## NOTES

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## Section C

# OPERATIONAL CRM

Section C of the book explores operational CRM. Operational CRM focuses on the integration and automation of customer-facing processes including marketing, selling, and customer service. Technology is in wide use for operational CRM, and customers interact with these technologies in many ways, for example when they receive an emailed offer, buy online, or ask a chatbot for information. Section C consists of three chapters, one for each customer-facing process. Chapter 7 explores marketing automation; Chapter 8 looks at sales force automation; and Chapter 9 centres on service automation.

# MARKETING AUTOMATION (MA)

### CHAPTER OBJECTIVES

After reading this chapter, you will be able to:

1. Define marketing automation (MA).
2. Describe the benefits and costs of MA to companies.
3. Describe the types of marketing campaigns possible with MA software.

### INTRODUCTION

This chapter centres on marketing automation. Many practitioners consider this the main function of CRM since this is the most visible. Managers typically access CRM systems through an online portal. Later in the chapter, we cover some of the more common aspects of CRM systems by looking at a couple of company's approaches. This allows us to distil the main attributes of CRM systems, most of which exist in a cloud environment and run on a Software-as-a-Service (SaaS) basis. Before delving into this content, however, we begin with a discussion of the main functions of MA.

### WHAT IS MARKETING AUTOMATION?

Marketing practices have historically been ad hoc. Some of the largest companies and high media spending, fast-moving consumer goods companies (e.g., Unilever, Diageo, Procter & Gamble), have well developed marketing processes which brand managers, segment managers, and marketing managers follow. However, mostly we find that marketing practices vary enormously within companies across divisions and certainly between companies. Some of this is naturally due to the desire of each company to respond to its unique circumstances with a differentiated marketing approach. That said, we believe that marketers should be more structured in the way that they plan, implement, evaluate, and control marketing

strategies and tactics. Modern competitive contexts have changed and put pressure on this adhocery. Gone are the days when an organisation might run a handful of campaigns every year. The modern, information-enabled marketer runs thousands of highly targeted, unique, campaigns based on complex data mining and predictive analytics. CRM technologies enable marketing campaigns for individual customers.

***Marketing automation** involves the software-based application of rules and algorithms that execute marketing activities with little or no human intervention.*

Breaking this definition down, we see that MA has three main components:

- **Software.** MA relies on a variety of software; CRM-specific software plays a central role here. Software allows the company to coordinate diverse resources, systems and processes while also enabling data gathering and analysis.
- **Rules.** For MA to work, the company must be able to articulate a set of rules that govern its function. Rules allow managers to automate tasks. Rules should align with the CRM strategy. Typically, these rules outline the customers to target, the offers made to target customers with the timing of prospecting activities, the sequencing and reporting. Sequencing involves creating campaigns with if-then logic; if the customer does not respond to offer one, then we make offer two, etc.
- **Algorithms.** Algorithms are the processes embedded in CRM systems. Once the company establishes its rules, it can then automate activities through algorithms. Algorithms codify the specific steps necessary to fulfil the company's CRM goals through MA. Once each step is clear, it then becomes repeatable. Management designs the rules, develops the algorithms and then marketing campaigns proceed without further human intervention except for post campaign assessment and learning. Algorithms are useful for allocating customer-specific messaging according to rules, for implementing prospecting activities, and for analysing customer-related data.

## CASE ILLUSTRATION 7.1

### MARKETING AUTOMATION AT TESCO<sup>1</sup>

UK business Tesco faced uncertain times and sales declined during the mid-2010s. To turn things around, Tesco overhauled several of its approaches, including how it advertised. Big retailers with a large market share traditionally advertise through media such as TV, radio and in the press. While Tesco continues with this strategy, they have shifted to spending at least 30% of their advertising budget on digital marketing. Using automated marketing, Tesco can produce highly targeted ads for individual customers, a service that traditional methods cannot. Birthday emails including personally relevant deeply discounted offers are just one example of the customised marketing approach that marketing automation has allowed Tesco to implement. Tesco's financial rebound is due, at least in part, to its innovative use of marketing automation.

## BENEFITS OF MA

Companies invest in MA to experience a range of benefits. MA benefits can include the following:

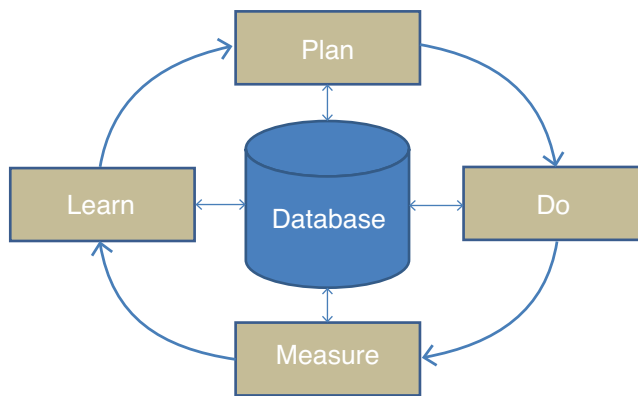
- **More effective marketing.** MA allows companies to calibrate their prospecting activities to cater to customer needs more precisely. Through an understanding of customer needs and behaviours, MA can offer:
- **Improved CX and customer engagement.** A common goal of MA is to provide a coherent customer journey that is consistent with the firm's value proposition (brand). The rules that govern algorithms enable the company's marketing activities to generate more coherent and effective CX thus enhancing customer engagement. Through MA, customers receive personalised, relevant communications and offers at desirable times. Customers are more likely to act on the company's offers if tailored to their specific needs and appreciate this enhanced experience. By doing this consistently, the company stands a better chance of creating and sustaining positive customer relationships.
- **Improved accountability** for marketing expenditure. MA provides better data and analysis on which to judge the commercial return from marketing activities, improved transparency, and faster (almost real-time) information for management. The ability to track expenditure and performance metrics using CRM software allows companies to understand whether their marketing campaign is effective in real-time.
- **Enhanced responsiveness.** Marketers have traditionally created and implemented annual marketing plans with campaigns and promotions planned and scheduled many months ahead. MA allows marketers to respond instantly to opportunities, even if not part of a plan. MA functionality enables companies to engage in real-time marketing, responding immediately to an identified opportunity. For example, when a female customer buys baby clothes from a catalogue for the first time, marketers can send an automated offer inviting the customer to join a mother-and-baby club which offers added customer benefits to new mothers.
- **Better alignment of customer-facing people and processes.** To create seamless CX, companies must find ways to align customer-relevant activities so that they appear as a cohesive whole from the customer's viewpoint. For example, many marketing activities aim to create sales leads. The company's sales personnel must follow these leads up. If marketing activities creates too many or too few leads, this creates problems for the sales team in that they are either inundated with work or are underemployed. Downstream, too many new customers in a short time frame can stress operational capacity and create poor CX, thus defeating the purpose of customer recruitment. MA can help companies manage optimise the number of leads so that they align with Sales, Operations and Service capacity. Part of this involves profiling leads and using predictive analytics to score them in terms of the likelihood that they will translate into profitable sales outcomes.<sup>2</sup>
  - **More efficient marketing.** MA can help companies fulfil their CRM aims more efficiently by minimising resources while improving the effectiveness of those



resources that are available (as we outline above). Specifically, MA can help improve marketing efficiency by:

- o **Enabling replication of marketing activities.** Where a company designs a marketing campaign once (i.e., by designing the content, setting a calendar of communication activities, and inputting the reporting requirements), CRM programmes store this information to enable further use. The CRM manager then faces a much less daunting task when designing and implementing later campaigns – rather than starting from scratch, they may only need to tweak a few parameters before implementation. This feature of MA allows companies to reduce the time and effort necessary in marketing campaigns. New CRM managers without knowledge of earlier campaign can also use the existing campaign framework without the need for extensive training.
- o **Improving marketing productivity.** It follows from the last point that it is possible for CRM managers to conduct many campaigns simultaneously. Without MA, it is necessary for marketing managers to have intimate involvement with every marketing campaign. This means it is only possible for the company to run a few marketing campaigns at a time. MA allows marketing managers to run many more campaigns simultaneously. Using the rules and algorithms embedded in MA, marketing managers can create different messages and deploy communications with few resources while also reporting on many hundreds, if not thousands, of marketing campaigns. The gold standard is to conduct individualised campaigns that adjust to the specific needs of each customer.
- **The ability to scale marketing activities.** If the organisation is entering new markets and or wants to increase the number of offers to its customers, MA enables bigger and more comprehensive marketing campaigns.
- **More efficient and effective information management.** Central to MA is the ability to gather and analyse information from multiple sources in real-time. This allows the company to refine and calibrate its marketing approach. MA allows marketers to employ what is known as closed-loop marketing (CLM). CLM is based on a Plan-Do-Measure-Learn cycle, as illustrated in Figure 7.1. Marketers plan a campaign or event, implement the plan, measure the outcomes, learn from the outcomes, and subsequently modify the next campaign or event. CLM ensures that companies learn continuously from their marketing activities, achieving higher levels of marketing effectiveness over time. Companies can also identify and abandon failing marketing initiatives before they drain financial resources.
- **Better intelligence.** MA's embedded reporting and analytics functionality supplies valuable management insights into markets, customers, campaigns, events and so on, leading to both enhanced efficiency and effectiveness.

Research by Aberdeen Group suggests that 'best-in-class' marketers are significantly more likely to adopt MA than are other marketers. 'Best-in-class' is defined as the top 20% of firms as shown by an index of marketers' performance against three criteria: marketing campaign productivity, year-on-year fall in customer acquisition cost, and year-on-year lift in customer retention rate.<sup>3</sup>



**Figure 7.1** Closed-loop marketing

## **COSTS OF MA**

While MA offers many benefits, it is worth considering its costs.

- **Implementation costs.** For companies to benefit from MA, they must acknowledge the time and effort necessary to implement and embed the system. Some of the most common implementation costs include:
  - o **Licensing.** While it is now easy to access ready-made CRM systems with MA capabilities (e.g., HubSpot, Salesforce, Oracle CRM), companies must pay to use those systems. CRM software suppliers normally offer a subscription service, which involves varying features depending on the subscription level the company chooses. Costs are often determined on a per-user (also called per-seat) basis. The greater the number of users logging on, the greater the cost.
  - o **Process configuration.** A major cost which often does not receive much consideration is the need to align company resources, processes, and systems so that they can deliver MA outcomes. For a company that currently uses a manual approach to managing sales leads, for example, it can take a lot of time and effort to understand how and when to use a CRM system appropriately. This means change management, process reengineering, retraining people and overcoming resistance to change.
  - o **Set-up and systems integration costs.** In addition to process reconfiguration, there is often a need to migrate from an existing approach to the new CRM system. This means transferring existing data from its current locations to ones that align with the new system. This is challenging when different people use different data management approaches. For example, salespeople are more likely to store customer details in their head and experience frustration when they then need to input these into a system. Moreover, set-up processes can require time and effort from IT personnel or contractors to ensure the new CRM system aligns with existing systems and does so securely.

- **Maintenance costs.** In addition to the subscription costs of the CRM system, the company must also ensure it supports the system. This means ensuring they can access suitable personnel to ensure the system functions appropriately and does not pose undue risks to the company. This can involve the direct recruitment of support personnel or paying for access to a helpdesk. Maintenance costs also arise through the need to ensure that data content is current, error-free, and complete. This means that many people working for the company must show diligence in the upkeep of the system.
- **Data protection risks.** While many CRM systems are robust, they can also pose risks to the company. The fact that the company relies on a CRM system to manage all its customer details and interactions, means that if the system were compromised, the company would not be able to manage its customer relationships. This could send the company bankrupt. If the system were subject to a cyber-attack, it is possible that the company's customer details fall into the wrong hands. Indeed, this has happened to companies like LinkedIn, Sony, and Ubisoft. Without a sufficiently robust system, companies do face risks when implementing MA. It is therefore necessary to ensure risk prevention and mitigation provisions are in place, including robust procedures to inform affected customers following data breaches, cyber security, recovery processes, backups of customer-related data and ensuring the company has enough insurance cover.
- **Brand risks.** Automated systems rely on algorithms which managers can find too complex to understand, and may be based upon data that reflect historical circumstances or opaque assumptions that are questionable. The decisions made by automated systems remain the responsibility of management; it is not good enough in practice nor in law, to offer in defence that the system made choices, not the company.

## **MA AND MARKETING CAMPAIGNS**

MA is possible through a variety of software tools, and these are often highly integrated in the discussion of Martech – Marketing Technology. Scott Brinker, a renowned commentator, has followed the growth of Martech solutions for many years his Marketing Technology Landscape graphic identifies over 10,000 solutions.<sup>4</sup>

The technology landscape changes so quickly that these numbers are certain to be different at the time you read this, with venture capitalists and major tech brands chasing profitability from MA, and new entrants, mergers and acquisitions being commonplace.<sup>5</sup> We consider those MA applications that cluster broadly around two themes: support for marketing campaigns and events, and support for strategic CRM.

## **MA FOR MARKETING CAMPAIGNS AND EVENTS**

**Marketing campaign** management is the technology-enabled application of data-driven strategies to select customers or prospects for customised communications and offers, often in real-time. Campaign management automates the processes involved in planning, implementing, measuring, and learning from communication programmes targeted at prospects

or customers. Marketing campaigns target a variety of customer learning, feeling and behavioural aims, as outlined here:

- **Learning:** inform customers of the launch of a product upgrade; alert customers to a payment-due date; raise brand awareness.
- **Feeling:** thank customers for becoming customers; tell case histories of successful product applications so customers feel good about their purchase.
- **Behavioural:** promote brand engagement; cross-sell; up-sell.

The key elements of campaign management software are workflow, segmentation and targeting, personalisation, execution, measurement, modelling, and reporting.

- **Workflow.** Marketing campaigns involve a series of related tasks, which correspond to workflow allocations between team members. MA can help manage workflows that include setting measurable goals, setting a budget, getting approvals, creating a database of contacts, selecting contacts, creating a core message, testing the core message, customising the message for individual recipients, selecting communication channel(s), executing the campaign, measuring response, reporting outcomes, and reviewing and learning from the campaign. Workflow functionality allows managers to plan, design, manage, monitor, and report specific marketing campaigns, which are often complex and follow event-based next step rules (if this – then that).
- **Segmentation and targeting.** MA can help divide customers into segments and to then target customer segments with customised messaging. A well-established approach to segmentation is to partition customers based on recency of purchase, frequency of purchase and monetary value, targeting different offers at different subsets. A more advanced approach uses MA to assess the probability of purchase dynamically and to target those customers in real-time. As customer insight increases companies target individual customers with uniquely structured messages and offers based on learning from wider data sets inclusive of operational systems, channels, and social media.
- **Personalisation.** MA helps assign customer-specific messages and offers according to their customer journey stage and their readiness. MA, when supported by customer insight, helps develop a picture of every customer on an individual basis, rather than relying on demographic stereotypes, for example. Personalisation can happen in real-time depending upon the individual's revealed preferences or behaviours.
- **Execution.** Campaign execution involves scheduling and delivering personalised messaging through the selected communication channels. It is possible to run campaigns through many channels, independently, consecutively, or simultaneously: direct mail, email, social media, website, outbound or inbound telephone, programmatic advertising, chatbot, text message or multimedia message. It is also possible (and advisable) to integrate marketing campaign management activities with related, customer-facing activities such as sales and distribution.
- **Measurement.** MA can help measure marketing campaign performance in real-time. Common measures include the time between the distribution of a marketing message

and customer response, the percentage of customer responses relative to the number of customer contacts, the number of new sales leads that emerge through the campaign, measures of customer engagement (such as likes and shares on social media) as well as many others. The type of measure relates to the unit of analysis (which could be at the campaign level, at the media channel level, and/or at the individual customer level) as well as the original marketing campaign aims.

- **Modelling.** Modelling involves investigating the data that relates to the marketing campaign to explain the relationship between the company's prospecting efforts and customer responses. Marketing models adopt a cause-effect logic in that they look to understand and then predict the relationships between the company's prospecting activities (e.g., advertising, sales promotions) and customer behaviours (e.g., buying frequency, price paid). These models represent reality as closely as possible, with accuracy improving in lockstep with the amount of data the company can access.
- **Reporting.** It is important to report on the performance of the marketing campaign, and this is a core function of MA. For marketing managers, regular reports help calibrate marketing campaign activities in real-time. For senior management (e.g., the CEO, CFO and COO), as well as board members, reporting becomes an important due diligence activity. MA can involve the production of a series of reports. It is also common for CRM software to include dashboards which replace the need for formal reporting. Dashboards involve regular, real-time updates that marketing managers can access through the laptops or mobile phones.

## Multi-channel vs omni-channel marketing campaigns

Companies in certain industries have long used multiple channels of communication such as print, TV, poster, radio, social media, and direct mail. Marketing campaigns that involve more than one of these communications channels are 'multi-media' or 'multi-channel'. New technology has increased the number of channels through which companies communicate and transact with customers. Think back to the 1990s and marketers and technologists were talking about eCommerce (selling online through websites), then mCommerce (selling through mobile devices), then social media marketing. With the proliferation of channels, the marketing community needed a new conceptual framework for understanding channel management; both for customer communications and transaction. To underline this shift from what was a well-defined multi-media environment to the current channel proliferation, the term 'omni-channel' developed. It frames channel and campaign management comprehensively across any point of access that a customer might have so that the brand image and messaging is consistent, and the firm can capitalise on any opportunity to sell. The ability to run integrated marketing campaigns over multiple channels, optimise campaigns, and integrate with sales and service applications are important considerations for large-enterprise users of campaign management. MA helps coordinate across channels.

According to Gartner Inc., leading solutions for multi-channel campaign management include SAS, Adobe, IBM, SAP, Salesforce, and Oracle.<sup>6</sup> There are many other challenger and niche campaign management software offerings. Multi-channel campaign management (MCCM) processes enable companies to construct and deliver offers and other content to

individual customers or customer segments across multi-channel environments. Gartner Inc. names the following as core MCCM capabilities:

- Basic campaign management, including functions for segmentation, campaign creation, campaign workflow, and campaign execution.
- Advanced analytics functions, including campaign optimisation and predictive analytics (ability to predict churn, next most likely purchase, and propensity to buy).
- Integration with loyalty management, content management, event triggering, and real-time offer management in both inbound and outbound environments.
- Integration across silos for execution, including fulfilment of offers by dispatch, and delivery of leads to sales.

## CASE ILLUSTRATION 7.2

### UNDER ARMOUR'S MULTI-CHANNEL MARKETING<sup>7</sup>

Fitness fashion brand Under Armour integrates its brand messages through its multi-channel marketing strategy. Through the Under Armour website, customers receive personalised recommendations. The Under Armour mobile shopping app replicates this experience. In this case the personalised offers function to engage and keep existing consumers.

Under Armour offers several other inter-connected apps aimed at fostering repeat use and community through gamification, for example the 'Map My Run' app. The app enables users to connect with other app users. This engagement fosters motivation and in-turn builds community and further engagement with the brand.

To complement the shopping and community engagement experiences, the Under Armour social media platforms encourage fitness and provide motivation to 'meet your fitness goals' while showcasing their latest fashion ranges.

This multi-channel marketing approach has built brand awareness, customer engagement, and retention very successfully for Under Armour.

### Marketing campaign channels

Marketing managers have a variety of options to choose from when directing their campaigns. It often makes sense to use a primary channel to access target customers. This allows the company to structure its activities, to budget for them and to assess their performance. Marketing managers can choose to use a primary channel as a distinct marketing effort, as part of a multi-channel campaign, or as part of an omni-channel campaign.

#### *Direct mail marketing campaigns*

Direct mail is a prospecting option available to companies. MA helps companies manage direct mail campaigns. Direct mail campaigns typically aim at either prospects or current customers, and therefore direct mail serves many different purposes, including lead generation, lead

nurturing, building awareness, sales, customer service, customer retention, database building, or reputation enhancement. Important contributors to direct mail success are list quality, the creative execution, the offer, and the timing. Making the right offer to the right person at the right time in a creatively compelling way will produce greater success. Automated processes can help deliver all these outcomes. A high-quality list that is clean and contemporary, a creative execution that catches the eye and promotes action, and a personalised offer will achieve greater success than the conventional mass mail-outs that have been marketing's tradition.

In most developed markets, direct mail volumes have been stabilising or declining as marketers opt for digital media. According to the DMA (Data and Marketing Association), although volumes are falling, response rates are rising because direct mail is increasingly being guided by digital intelligence such as online browsing behaviour and predictive analytics.<sup>8</sup> Consumer preferences also figure in the decision to use direct mail. Consumers typically prefer to receive offers from local stores and suppliers by direct mail but prefer email for competitions. The old cry that 'it's a numbers game' is now obsolescent in that a clear focus on customised, personalised offers is now more common. Response rates range from well below 1% for poorly constructed direct mail campaigns, to over 30% (for government mailings). Many companies choose to outsource direct mail campaigns to third party service providers who are themselves big users of marketing automation.

### *Email campaigns*

Email is another means for distributing targeted marketing communications. Email is cheap, easy to use, and ubiquitous. There are over four billion email users worldwide,<sup>9</sup> and over 90% of Internet users have one or more email addresses.<sup>10</sup> Over 300 billion emails are reportedly sent daily.<sup>11</sup> The email marketing industry is massive. In 2020, the global email marketing market was valued at US\$7.5 billion and is projected to increase to US\$17.9 billion by 2027.<sup>12</sup> Marketers use email for a number of reasons: most individuals have at least one email account, notifications alert users that email has arrived prompting them to visit their email inbox, email is easily customisable, it is not much more expensive to send 10,000 emails than a single email, email is potentially viral when it uses embedded social sharing buttons, and its performance is measurable using open and click-through rates.

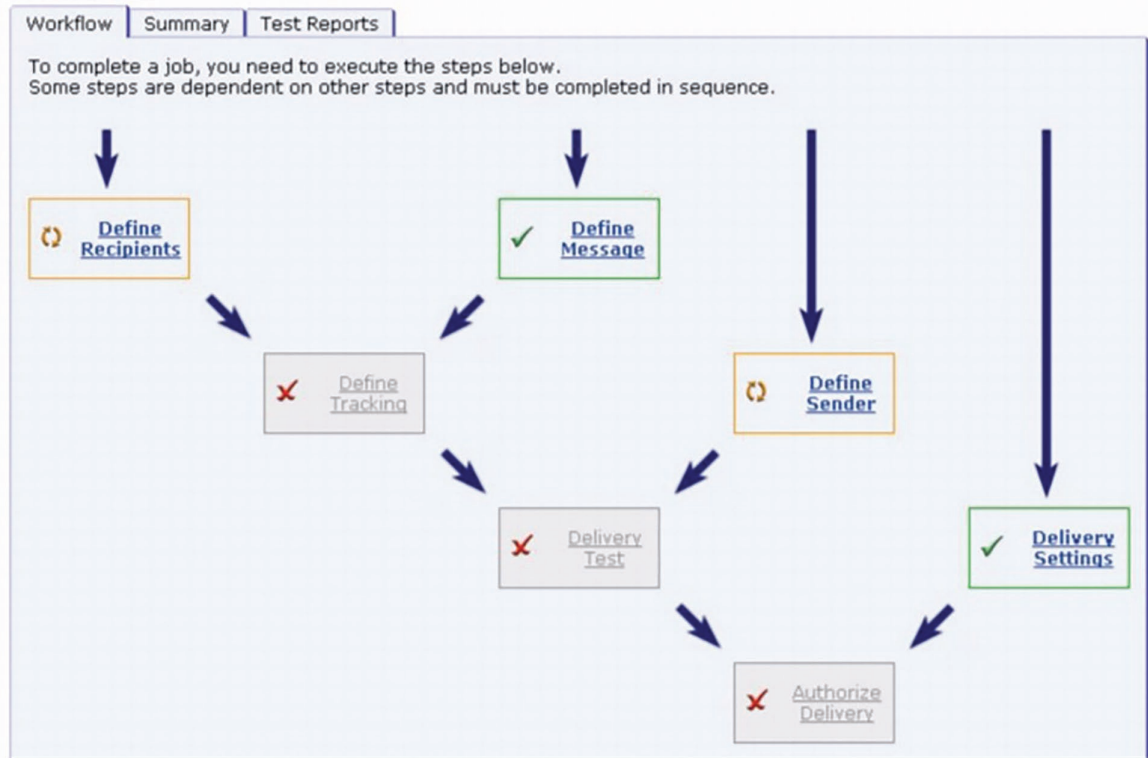
There are hundreds of email campaign management software packages, either stand-alone or integrated into more comprehensive campaign management or MA offerings. Basic functionality available in these packages includes campaign workflow, implementation, tracking and reporting, and a user interface suitable for marketers. Advanced functionality includes predictive analytics and event triggering. It is possible to calibrate email campaigns to respond to a significant event in the customer relationship, as we discuss in the text that follows. Figure 7.2 is an example of email campaign management workflow in LISTSERV Maestro. Many email marketing software suppliers offer customisable workflow for widely experienced customer events. For example, MailChimp has developed email messaging workflow for corporate response to abandoned online shopping carts.

### *Tele-marketing campaigns*

Tele-marketing is the use of the telephone to identify and qualify prospects, and to sell and service the needs of customers. Tele-marketing takes two forms: inbound and outbound.



## Job Details



**Figure 7.2** Email campaign management workflow<sup>13</sup>

Some call centres perform a blended function with agents both making and receiving calls. Tele-marketing is widely employed in both business-to-consumer (B2C) and business-to-business (B2B) environments but can be subject to legislative control due to its intrusive nature. For example, both the USA and Australia run a Do Not Call register on which telephone account holders can list their numbers. With a few exceptions – charities, political organisations, research firms – marketers cannot call listed numbers. Penalties apply.

Tele-marketing software applications offer a wide range of functionality over landlines, mobile networks, and VoIP (Voice over Internet Protocol) (see Table 7.1).

Auto-diallers queue a list of calls and automatically dial the next number either when the current call ends, or the agent presses a hot key. Predictive diallers predict when an agent is about to conclude a call, and auto-dials the next number in anticipation. Automated voice-messengers (also called robo-callers) will make telephone calls automatically to a contact list and convey a message to them. This supports lead generation, debt collection, political canvassing, and reminding customers about appointments. Tele-marketing software that integrates with marketing campaign management and event-based marketing applications enables agents to make real-time offers to customers. In-call online access to a searchable knowledge base enables agents to resolve issues and enquiries quickly. IVR systems allow



**Table 7.1** Technology support for tele-marketing

<i>Agent management</i>	<i>Contact list management</i>
Auto-dialling	Do Not Call compliance
Automated call distributor (ACD)	Interactive Voice Response (IVR)
Automated voice-messaging	Predictive dialling
Call recording	Screen pop with caller ID
Call monitoring	Scripting, including objection response
Computer Aided Telephone Interviewing (CATI)	Skills-based routing

customers to interact with a company’s host system by voice or telephone keypad, giving them the opportunity to service their own inquiry by following the IVR menu.

Tele-marketing generally focuses on outbound calls. However, there is also considerable interest in improving customer experience when receiving in-bound calls, a practice called in-bound marketing. Customer calls are an opportunity to build the relationship either through service recovery or a customer revealing needs that you can fulfil or improve the value-in-use you can provide. Chatbots, or fully automated response tools, are increasingly at the front end of in-bound experiences and serve to deal with routine matters while routing complex matters or opportunities quickly and cheaply to the right person. We do caution that anecdotally, we are not convinced that this technology is fully matured, and firms should take care not to frustrate customers nor lose the opportunity to provide a great service recovery through human interaction.

*Social media marketing campaigns*

Social media marketing is the practice of using social media for customer management purposes. Social media are “a group of Internet-based applications that build on the ideological and technological foundations of Web 2.0 and that allow the creation and exchange of user-generated content”.<sup>14</sup> Social media include collaborative communities (e.g., Wikipedia), blogs and micro-blogs (e.g., X/Twitter), content-sharing communities (e.g., YouTube), and social networking communities (e.g., Facebook). Social media users create share, discuss, and change user-generated content using web-based and mobile technologies. Major social media platforms include Facebook, YouTube, Instagram, Tumblr, X (formerly Twitter), Pinterest, TikTok, Wikipedia and LinkedIn. The social media landscape changes at a remarkable pace. Social media can support significant and pervasive changes to communication between organisations, communities, and individuals. Marketers no longer control brand-related communication. Communication is now multi-lateral, not unilateral. Consumers use social media to communicate with each other and organisations, and organisations in turn are using social media to help them start, nurture, support and monetise relationships with customers.

*Digital marketing campaigns*

Digital marketing involves the process of creating value by building and sustaining online customer relationships. Online marketing is also known as Internet or digital marketing, so it is broader than social media marketing *per se*. Where social media marketing focuses just

on social media platforms, digital marketing incorporates all online channels available to the company. There are many digital marketing practices, and more become available each year. Software enables users to perform a wide range of online activities designed to generate and monetise website and mobile traffic. Users can develop and manage online content, establish a blog, develop and promote mobile apps, obtain search engine listings, perform search engine optimisation, implement keyword marketing, generate customer reviews, obtain and verify customer information, customise web pages (known as dynamic web pages) and site visitor communications, run online advertising campaigns using the likes of Google AdWords, manage pay-per-click programmes, operate or join affiliate marketing programmes and perform web analytics. We explore some of these options below.

**Content management.** Applications such as WordPress, Drupal, Joomla, Sitecore, and Contentful allow marketers to manage digital content throughout its life cycle, including creation, editing, approval, storage, publishing, versioning (updating) and deletion. Marketers deploy content in many different environments, including media advertising, corporate website, blogs, marketing campaigns, social media, user manuals, training documentation, and print materials for example. Content management systems, of which there are hundreds, offer marketers a number of benefits: conformance of content with brand values, consistency of appearance and messaging across all customer touch points, asset security (see asset management below), reduced duplication of effort in content creation, streamlined production and approval processes offering better cost control, better control of versioning and updates thereby ensuring not only that content is always current but there is a historical record, and creation of content in appropriate formats, for example html for web applications. Consumers rely increasingly on digital content to inform their buying decision, and it is therefore critical that marketers sustain the quality and relevance of that content. Research suggests that content must meet targeted audiences' needs, rather than simply trying to sell products.<sup>15</sup> MA software now includes a broad range of content management functions.<sup>16</sup>

**Programmatic buying.** Programmatic buying (also called programmatic media buying, and AdTech) involves Artificial Intelligence (AI) buying advertising space in digital media. When someone visits a website, the owner of that site sends a request to an advertising exchange that begins an auction to deliver a message (impression) to that visitor in real-time. The data contained in that request might find what the visitor has previously clicked on, what they buy, where they are, and so on. The more data about the individual, the more valuable the impression because potential auction bidders can make more intelligent decisions about how much to bid. The exchange auctions that impression to potential bidders. The bidders use the data they have about this unique impression to decide the value of the impression. The bidder for whom the impression is most valuable will most often bid the highest and therefore win that auction.<sup>17</sup> The bidder typically has signed up with a Demand Side Platform (DSP) that manages the bidding process on its behalf. The media property owner typically signs up to a Media Supply Platform. All this happens in nanoseconds so that the web surfer is hardly aware. Thus, the online platform manages the stock of advertising algorithmically to perfect the revenue for media property owners as well as maximise the marginal value of each dollar spent among the advertisers.

Programmatic buying is necessary in the modern environment where marketers confront a huge number of media choices for getting their messages in front of chosen audiences, across online and mobile publications and platforms of many different kinds. Before

programmatic advertising, advertisers would compare audience profiles and advertising costs across a range of digital media and make their choice based on the apparent cost-effectiveness of each channel at delivering a desired number of impressions. The advertiser would then issue an order to run a campaign that specified the websites or networks to carry the ad, the ad content, ad sizes or lengths, when the ads would appear, and the duration of the campaign. Marketers have traditionally done this manually, well in advance of the ad's appearance in media. This is still the practice in many parts of the world, but programmatic media buying is disrupting these established practices. Programmatic advertising has become possible – even necessary – because of the availability of massive amount of customer-related data. Data quantities are simply too great for the human brain to process quickly. Brand owners have their own customer-related data – earlier purchases, R-F-M data, and segmentation profiles, for example. Media have customer-related data such as cookies, user log-in ID's, page visits, search terms and onsite behaviours. Third parties such as Experian and Acxiom have a rich variety of additional market, competitor, and customer-related data. AI can analyse this data and serve ads to a target, in real-time.

Programmatic advertising can deliver several benefits to brand owners such as:

- **Precise targeting.** AI can deliver the exact audience (even individuals) that the advertiser wants to reach. Moreover, the most sophisticated tools will perfect a media budget against those potential customers most likely to convert to purchase.
- **Timeliness.** Ads delivery can occur at the right time, and in real-time.
- **Efficiency.** Using a DSP linked to many Ad Exchanges give the advertiser the best chance of buying ad space for the best price from the widest selection of inventory.
- **Message personalisation.** Message personalisation can occur through customer insights delivered by AI.
- **Learning.** AI enables advertisers to learn about what works best and improve ROI over time.
- **Agility.** Ad spend can focus on wherever and whenever there is an opportunity, rather than according to some predetermined plan. Legislation, however, is inhibiting the use of tracking cookies that feed the programmatic systems and, in some countries, marketers can no longer harvest cookies, and this impacts the deployment and effectiveness of programmatic advertising.

**Search engine optimisation.** Search engine optimisation (SEO) is the practice of improving the quantity and quality of website traffic generated by search engines. Whereas companies can pay for their web page to appear on the first page of a listing generated by a browser's keyword search, SEO aims to get high organic (unpaid or free) visibility. Higher ranking results that appear earlier in the listings are more visible and therefore generate more click-through visitors. SEO aims to get web pages listed on the first or second pages. The major search engines use web crawlers, also known as web spiders or web robots, to browse the world wide web methodically. Crawlers such as Googlebot and Baidu Spider visit websites, read the site's sitemap, text, images and meta tags, and visit linked sites, reading content there too. It also checks for page speed and mobile friendliness. The crawler dumps all the data into a central

indexed depository. The crawler returns to the sites to check for any changed content or dead links periodically. Unlike visible content, meta tags supply information about who created the page, the freshness of its content, what the page is about, and the keywords that describe the page's content. The search engine's ranking algorithm decides a website's position on the results page that the user sees. Google's algorithm considers over 200 variables for this purpose. These criteria are subject to periodic review. Each search engine has its own algorithm that is a trade secret.

SEO software can help users tailor their website so that it meets the criteria that the search engine algorithms employ, therefore giving the site a high ranking. Successful websites employ methods such as the following: responsive website design that renders well on all devices, strategic keywords that are well matched to the content of the site, strategic meta tags, website structure (each page having its own keyword/s), continually refreshed content, removal of dead links, search engine placement, and link relevance. Web masters need to understand the site's marketing goals, the products that sold on site, the targeted geographies, and the keywords employed by users of search engines. They can ensure that they use the best keywords, meta tags, and links while also ensuring that the site is sent to search engines that do not use web crawlers.

## CASE ILLUSTRATION 7.3

### EVENTBRITE IMPLEMENTS SEARCH ENGINE OPTIMISATION<sup>18</sup>

Eventbrite is a world leading event management technology platform. Eventbrite's SEO team works to increase the visibility and discoverability of the events listed on their platform. By incorporating structured event data with location information in Google Maps, search results in Google have become enriched for consumers.

Consumers can now browse for things to do by location and date, enabling a discovery experience and allowing Eventbrite to promote its events to a more engaged audience. As a result, Eventbrite has seen about a 100% lift in click-through rates from Google Search pages to their event listing website pages. The added traffic has most certainly led to more ticket sales for the event creators.

#### *Event-based campaigns*

One particular form of marketing campaign is event-based marketing, also known as trigger-marketing. Companies identify events that trigger marketing responses such as an outbound communication or offer. Events often reflect some change in customer behaviour that affects their purchase likelihood. MA helps to recognise and respond to these events. Some example scenarios include:

- A customer who uses a credit card fewer than six times in a three-month period will receive an invitation to participate in a frequency reward programme designed to encourage repeated use.

- A bank customer who deposits \$50,000 or more into a savings account receives an offer of investment advice from a licensed financial planner.
- A customer buys gardening gloves online. This triggers an automated email confirming purchase, providing tracking information and offering a related product purchase – gardening tools.
- An online shopper abandons a shopping cart before payment. This triggers a follow-up reminder email aimed at converting the lapsed browser into a purchaser.

MA can also respond to contextual events associated with the customer's profile. For example:

- A customer's birthday triggers a congratulatory message with a customised offer.
- A change of address triggers an approach to update other contact details.
- Religious festivals such as Eid, Christmas, Diwali, and Hanukkah trigger marketing campaigns.

Event-based marketing ensures that the communication is relevant to the recipient because it is a contextualised response to the customer event.

## **MA AND STRATEGIC CRM**

Some MA applications reflect strategic CRM in that they help companies implement marketing strategy. MA can do this in several ways:

### **Integrated marketing management (IMM)**

MA applications offer a means to coordinate a diverse set of marketing content and marketing campaigns in a holistic, integrated way. MA applications, through their dashboards and reports, involve visibility of the various marketing activities the company is planning to conduct, as well as those currently underway. Marketing managers can use this information to understand whether messaging and marketing activities are consistent with the company's marketing goals. MA applications include integrated marketing management (IMM) solutions that help marketers align their analysis, planning, implementation, and control activities so that they can become more effective, efficient, and accountable. According to Gartner Inc. IMM includes "the marketing strategy, process automation and technologies needed to integrate people, processes, campaigns, channels, resources, and technologies across the marketing ecosystem. IMM supports closed-loop marketing by integrating operational, executional, and analytical marketing processes".<sup>19</sup> IMM functionality includes campaign management, lead management, marketing resource management, analytics, and much more. However, vendors of these comprehensive IMM applications, such as IBM, SAS, SAP, and Teradata, not only deliver marketing functionality, but also offer the architectures and platforms necessary for the role-based distribution of information, content, and functionality. IMM provides an integrated set of marketing functionality that supports CRM objectives.

## Partner marketing

MA applications enable companies to coordinate and work collaboratively with channel partners and others. Relationships are often crucial for the company to access inputs under favourable conditions, and, for companies to achieve their distribution goals. Systems integrators in the IT industry are good examples. While the systems integrator specialises in project management, implementation, and technical design, they rely on suppliers (e.g., software vendors) for the content of the solution that they implement for a client. Partner marketing solutions allow companies to synchronise the planning and execution of local, regional, or global marketing activities by providing partners with controlled access to brand and marketing resources through a portal.

Partner marketing solutions are useful when managing processes such as partner qualification, recruitment, on-boarding, development of joint business plans and goals, cooperative advertising and promotions, lead management, co-branding of collateral and point-of-sale materials, measuring partner performance, partner training and support, administration of marketing funds, and specialist partner incentive schemes. Microsoft Canada, for example, describes the value of partnering with this message to their partners: “Your goals: Increase profitability. Decrease business costs. Our goal: To provide the resources to reach yours.”<sup>20</sup> Figure 7.3 is an example partner management dashboard.

## Product life cycle management (PLM)

Products, like people, have life cycles. The product life cycle traces the phases of a product's life from first development and market introduction to its withdrawal from the market. MA applications help marketers manage life cycle stages effectively and profitably. PLM applications aim to accelerate time-to-market, ensure that development and engineering processes are optimal, and lift the probability of the product being successful. PLM software solutions



Figure 7.3 Pega partner management screenshot<sup>21</sup>

**Table 7.2** Product life cycle management software functionality

Action item management	Project management and scheduling
Channel member qualification and recruitment process	Product compliance process (compliance with legal, regulatory, and voluntary standards)
Collaborative extra-enterprise product development and engineering processes	Product costing process
Computer Aided Design (CAD)	Product portfolio management
Computer Aided Engineering (CAE)	Product record
Computer Aided Manufacturing (CAM)	Product sourcing process
Concept evaluation process	Product withdrawal process
Document management	Quality assurance process
Engineering data management	Quality function deployment (QFD) process
Environmental impact management	Workflow management
New product launch process	

support collaborative intra- and extra-enterprise engineering, product development, and improved management of projects, product portfolios, documents, and quality. PLM applications can provide a single source of all product-related information to use in the innovation, design, engineering, feasibility, launch, market development and market withdrawal processes. PLM applications offer a wide range of functionality (see Table 7.2). MA-based analytics help managers find bottlenecks in the product approval process that slow down time-to-market, or detect components or sub-assemblies with high cost, quality, or compliance risks that hurt new product success.

**With the right PLM solution in place, a company is in a strong position to create and manage product design ideas, oversee the production pipeline, maximise collaboration efforts across the physical and global borders of the enterprise, and significantly reduce the cost associated with regulatory compliance.<sup>22</sup>**

## Asset management

MA applications help companies find, manage, track, and control the assets that customers purchase, licence, use, install, or download. Assets can be tangible, intangible, or blended. The pallet hire company, CHEP, uses asset management to track where its tangible assets – pallets – are in their network, whether at customer sites, depots or in transit, and to ensure that the bill customers only for the periods when the pallets are in use by that customer. Beam Inc. uses asset management to track the use of its intangible asset – the Jim Beam brand – by other manufacturers. Dolby Laboratories uses asset management to track the licensed use of its blended tangible and intangible assets – manufacturing processes and technologies – by other companies that want to exploit Dolby’s audio, image, and voice capabilities.

Asset management functionality is also useful when managing digital assets used by a company’s own employees or partners such as advertising agencies, PR firms, web designers



and content producers. These assets include product images, logos, marketing collateral, presentations, and video clips. Digital assets are commercially valuable and form the basis of brand strategy. Creating and supporting a secure library of these assets is essential. Collaborative tools allow virtual teams to work on content, create new versions and support asset currency.

Companies generate and use many documents in their marketing activities. These include brochures, product specifications, price lists, and competitive comparisons.

**Document management** software allows companies to manage these documents, keep them current and ensure that they are available to marketing or other people when needed. Typically, these documents are held in a central repository and made available to users in their browsers. Document management software applications deliver similar functionality to asset management applications (see above). However, document management systems focus on text documents rather than digital content such as images and movie files, and stress versioning, storage, search, and retrieval rather than publishing to the web.

## **CONCLUSION**

MA involves using software to manage and execute marketing activities with minimal human intervention. A set of rules govern marketing activities and algorithms decide on when and how to implement them. In this chapter, we consider the role of MA in two areas: campaign management and strategic CRM. Campaign management applications allow marketers to plan, execute and evaluate single-, multi- or omnichannel marketing campaigns and events across multiple channels including direct mail, email, tele-marketing, social media, and digital. MA may also take a more strategic role in a company's marketing function, for example by enabling integrated marketing management, partner marketing, product life cycle management, and asset management. The main benefit of MA is the reduced need for human engagement (which reduces potential costs), the greater effectiveness of marketing activities, and the heightened ability to monitor marketing outcomes. The main costs include the reduced human interaction that customers experience, the high cost of MA systems, and difficulties in the integration of MA systems with existing company systems.

## **DISCUSSION QUESTIONS**

1. What is marketing automation (MA)? Why might a company choose to adopt MA?
2. Describe the benefits and costs of MA to companies? What recommendations would you make to a company considering MA?
3. How might companies use MA software? What functionality might support a company operating in a B2C setting? How might this differ for a company operating in a B2B setting?

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# SALES FORCE AUTOMATION

### CHAPTER OBJECTIVES

By the end of the chapter, you will be able to:

1. Define sales force automation (SFA).
2. Describe the members of an SFA ecosystem.
3. Describe SFA functionality relevant to salespeople.
4. Describe SFA functionality relevant to sales managers.
5. Describe the benefits and costs of SFA.

### INTRODUCTION

Operational benefits are normally the first returns from IT-enabled CRM programmes.<sup>1</sup> Customer-facing processes in marketing, selling, and service areas become more efficient because they are formalised and standardised, generating operational cost savings.

It is important to realise that a company's operational capabilities limit the CRM strategy options it can deploy.<sup>2</sup> Typically, a company moving towards a customer-centric strategy invests first in building a single view of the customer (SVOC). The SVOC integrates data from all operational units that touch customers, including sales, marketing, customer service and accounts to create a coherent and complete picture of the customer's interactions with the business. Once the SVOC is available, CRM users can interact with customers on a one-to-one basis, in full knowledge of their history with the business, thereby enhancing customer experience throughout the customer journey.

This chapter centres on the technologies salespeople and their managers use to manage the sales process. Sales force automation (SFA) involves technological support to salespeople and managers by facilitating sales processes and associated workflows. Sales personnel can use the SVOC to gain a more complete picture of the customer. This helps them find new sales opportunities. As they pursue these opportunities, SFA helps coordinate workflows across the company as these relate to prospecting activities and the conversion of sales

opportunities to sales. Companies that adopt SFA see it as a ‘competitive imperative’<sup>3</sup> that offers ‘competitive parity’.<sup>4</sup> In other words, SFA is just a routine feature of the selling landscape. Indeed, it is difficult to imagine a contemporary sales rep working without technology support, whether selling to regular or key accounts.

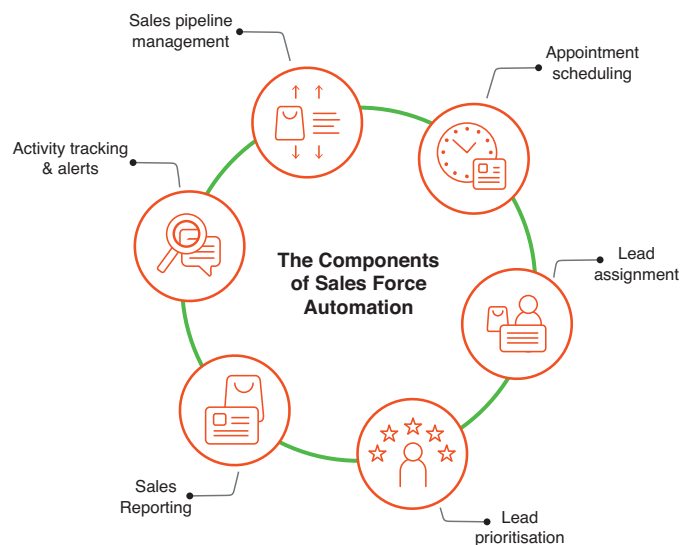
## WHAT IS SALES FORCE AUTOMATION (SFA)?

**Sales force automation (SFA)** involves the application of technology to the management of a company’s selling activities.

SFA software allows companies to collect, store, analyse, distribute, and use customer-related data for sales purposes. Customer-related data is key to customer orientation<sup>5</sup> and the development of long-term mutually beneficial relationships with customers<sup>6</sup> because the data allows companies to organise the business around, and meet, the expressed requirements of each customer, segment, or cohort. SFA technology enables reps and their managers to manage sales pipelines, track contacts and configure products, among many other things. Most SFA solutions offer a suite of applications or tools for sales management such as pipeline management, territory allocation and performance reporting specific to defined sales force roles. SFA software also offers standardised reports and analytics for sales reps and their managers. Figure 8.1 illustrates the components that are available in act! CRM’s SFA solution. Other solutions may offer a similar, narrower, or wider range of functionality. The principal benefits expected from SFA are higher efficiency and effectiveness from salespeople and sales managers.

### The SFA ecosystem

We suggest that SFA ecosystems include three main components: SFA solutions providers, hardware and infrastructure vendors, and associated service providers.



**Figure 8.1** Components of act! CRM’s SFA solution<sup>7</sup>

## SFA solutions providers

SFA often requires a custom combination of software, hardware, infrastructure, and services (e.g., support). SFA solutions providers are companies that offer combinations of at least two of these elements. We can classify solutions providers in terms of the scope of offerings they make to customers. Specialists focus on a narrow scope of functionality. For example, an app that centres on contact management is a component rather than the full suite. SFA is also part of many CRM suites. This means that integration options with other CRM processes are much simpler and broader. Broader still is when SFA becomes part of the enterprise suite, so the company then has seamless integration across all its activities. Table 8.1 highlights several examples from each category of SFA solutions provider.

While there are many SFA solutions providers, there has been a trend towards consolidation in recent years. It is now less common for SFA solutions providers to specialise in a specific component. Instead, companies can access ready-made CRM packages via the cloud (on a Software-as-a-Service (SaaS) basis) which include SFA, marketing automation, and service automation in a cost-effective manner. This is the outcome of a longer-term evolution, which has seen many SFA solutions providers add functionality to their platforms, or, through mergers and acquisitions, SFA solutions providers now offer more comprehensive solutions. For example, there is a sound logic behind the integration of lead-generation (from marketing automation) and lead-nurturing (from service automation) into sales force automation offerings. The advent of business intelligence platforms such as Microsoft PowerBI means that there are now many options available to companies that allow them to get the most from SFA.

## Hardware and infrastructure

The performance requirements of SFA applications can create significant challenges for both hardware and technology infrastructure. It is now common practice for companies to issue sales personnel with mobile data devices. The robustness of the apps and programmes the salesperson uses for communication and for managing workflows can pose risks if they are not sufficiently robust. These challenges can characterise the salesperson's experience of SFA while also encouraging the company to invest in SFA as well as to take provisions to ensure that any supporting infrastructure is workable.

## Services

Many CRM platforms that incorporate SFA operate on a Software-as-a-Service (SaaS) basis. This business model yields many benefits, but it also means that the company is reliant on the vendor for services and support. While most support is now available through helpdesks,

**Table 8.1** Classification of SFA vendors (sample only)

<i>SFA specialists</i>	<i>SFA as part of CRM suite</i>	<i>SFA as part of Enterprise suite</i>
Pipedrive	Microsoft Dynamics	IBM
Ortoo	Salesforce.com	Oracle
Salesmate	Sage CRM	SAP

the online delivery of CRM services means that it can be difficult for companies to receive satisfactory support. This problem becomes more acute when considering the implications of SaaS business models. It is common for CRM vendors to have their primary software development and support operations in the USA, Europe, or India. This means that customers may not be able to access convenient support in their language or in their time zone. SFA providers that recognise this problem can implement processes and procedures that improve the support available.

SFA functionality

SFA applications offer a range of functionality, as we list in Table 8.2, with some in common use by salespeople, and others by sales managers. The table lists tools that apply over all stages of the sales cycle, from lead generation and scoring, through opportunity identification to proposal generation and order management. Not all SFA solutions supply the full complement of sales-related functionality.

SFA tools used by salespeople

We describe SFA functionality later in more detail. First, we cover the tools principally used by salespeople, in alphabetical order.

**Account management** offers sales reps and managers a complete view of the customer relationship including contacts, contact history, completed transactions, current orders, shipments, enquiries, service history, opportunities, and quotations. This allows sales reps

Table 8.2 Functionality offered by SFA software	
<i>Tools for salespeople</i>	<i>Tools for sales managers</i>
Account management	Document management
Activity management	Incentive management
Collaboration	Product catalogue
Contact management	Sales analytics
Contract management	Sales forecasting
CPQ (Configure-Price-Quote)	Territory management
Event management	Workflow development
Lead management	
Opportunity management	
Order management	
Pipeline management	
Product configuration	
Product visualisation	
Proposal generation	
Quotation management	

and account managers to keep track of all their obligations in respect of every account for which they are responsible, whether this is an opportunity, an order, or a service enquiry.

**Activity management** keeps sales reps and managers aware of all activities, whether complete or pending, related to an account, contact, or opportunity, by showing to-do lists, setting priorities, monitoring progress and programming alerts. Activities include preparation of quotations, scheduling of sales calls and following up enquiries, for example.

**Collaboration** between salespeople can be a major contributor to selling success – sharing leads, customer communications, opportunities, sales tips, customer-related data and cooperating on other sales-related tasks. Collaboration tools allow reps to chat to each other, videoconference, share or build files and cooperate on projects, and managers to engage in multi-lateral communication with their sales teams.

**Contact management** functionality includes tools for building, sharing, and updating contact lists, making appointments, time setting, and task, event, and contact tracking. Contact list data includes names, phone numbers, addresses, images, preference data, and email addresses for people and companies, as well as a history of in-bound and out-bound communications. Contact management apps allow users to communicate with customers over multiple channels including voice, email, and text. Contact management functionality is a cornerstone of most SFA applications. When contact management functionality supports the goal of having a single view of the customer, customer-facing staff in all parts of the business – sales, marketing, service, customer accounts – can see the history of communications with the customer. It means that a late-paying customer can be speaking to an accounts receivable team member who will know that the customer is in negotiations with a sales team member for a large contract. Rather than demanding payment, the clerk may take a more judicious approach that does not put the opportunity at risk.

**Contract management** functionality enables reps and managers to create, track, progress, accelerate, monitor, and control contracts with customers. Contract management applications aim to manage a contract's lifespan by shortening approval cycles for contracts, renewing contracts sooner, and reducing administrative costs. The software may use security controls to ensure only approved people have access to contracts.

**CPQ – Configure-Price-Quote** – functionality integrates three tasks that salespeople often must perform when generating a proposal for a client. Configuration functionality enables sales reps and clients, either alone or in collaboration, to select and combine product and service attributes that meet specific client requirements. Pricing is based on the components in the product-service bundle, and other conditions such as the status of the customer, assembly or manufacturing costs and competitor's offerings. This information underpins a customised quotation, which the system then sends the client for approval.

**Event management** functionality enables sales reps, managers, and others to plan, implement, control, and evaluate events such as conferences, seminars, trade shows, exhibitions, and webinars, whether run solo or jointly with customers or other partners. Some events, such as conferences, can be very complex and involve many stakeholders such as sponsors, exhibitors, security partners, police, accommodation partners, travel partners, catering partners, lighting and sound contractors, guest speakers, invitees, and the public. Indeed, some planning for major events can begin many years in advance – you only need to consider the Olympics or FIFA World Cup to appreciate the grand scale of some major events. Sales-related events don't reach a comparable level of complexity or scale, but events

with customers and key partners on the invitation list must run smoothly, or the company risks tarnishing its reputation.

Event management software offers a range of functionality that can be used by event organisers across the event cycle, from event development and marketing to attendee registration and event operations, evaluation, and reporting. The tools include event calendaring, event website design, event marketing, integration with social media, online registration, contact management, online payment and refund, partner management tools, event reports and analytics, attendee communications and management tools, badge and event documentation creation and venue management tools.

## CASE ILLUSTRATION 8.1

### EVENT MANAGEMENT AT THE BUBBLE TEA FACTORY<sup>8</sup>

The Bubble Tea Factory offers visitors an enchanting multi-sensory journey through all things bubble tea. The first event of its kind was designed to excite all five senses and be a one-stop happy place. Built in Singapore, The Bubble Tea Factory offers more than ten visually spectacular installations, providing a transformative experience like no other.

To streamline the management of this event, The Bubble Tea Factory used Eventbrite technology to ensure the event would run smoothly. The software easily enabled The Bubble Tea Factory staff to post information about the event, generate event tickets with QR codes, process payments, and then perform contactless visitor check-in at the event.

Eventbrite software is a complete event management solution, also offering a suite of marketing tools for event managers to promote their events. Features include public listings on their Eventbrite app, social media notifications, social sharing tools, abandoned order emails, ticket sales through Facebook and integration with The Bubble Tea Factory's email marketing, CRM, and paid advertisements.

The software has also enabled The Bubble Tea Factory to track and measure the events performance, using detailed ticket analytics and Google Analytics.

**Lead management** (see, e.g., Figure 8.2) allows companies to capture, score, assign, nurture, and track sales leads. Effective lead management processes are important because a significant proportion of leads, estimated at between 40% and 80%, lapse before the completion of the sales cycle.<sup>9</sup> Leads can appear from various touchpoints – webform or registration page on a company website, or a Facebook page for example – and automatically feed into the lead management system. Some SFA systems integrate with external databases, thus enabling searches for relevant leads across multiple sources. Lead management software enables the assessment of leads against a set of criteria that sales managers design, so that the company can focus its limited sales resources where they are likely to generate most return. Scoring criteria might include consideration of bad data in the database record (e.g., a digit appears in the 'name' field), source of contact (referrals might be preferable to cold calling), and whether a personal or a corporate email appears in the email address field.



User-defined rules allow the automatic assignment of leads to reps and account managers according to their role, territory, product expertise, or other variables. Lead nurturing is the practice of supporting a healthy bi-lateral relationship with the lead until ready to buy. This is achievable through the delivery of relevant, useful, and personalised content via the lead's preferred communications channels. This may mean email, but there may also be a role for events and pre-sales consulting. Lead nurturing is a demonstration of the seller's commitment to the lead. Interactivity between lead and supplier is an indicator that the company is succeeding in its attempts to nurture the lead. Lead management software allows fairer workload distribution across a sales team and implements security controls to ensure that reps can only access their own leads.

**Opportunity management** applications (see, e.g., Figure 8.3) enable reps and managers monitor progress of an opportunity against a predefined selling methodology, ensuring that opportunities are advanced towards closure. An opportunity is a record of a potential sale or any other type of revenue generation. There are several selling methodologies such as:

- SPIN (Situation, Problem, Implications, Needs pay-off).
- NEAT (core Needs, Economic impact, Authority to act, Timeline).
- SNAP (keep it Simple, be iNvaluable, always Align, raise Priorities).
- Miller Heiman Strategic Selling.

The screenshot displays the Salesboom software interface. At the top, there's a navigation bar with links like Home, E-mail, Documents, Reports, Dashboards, Users: 1/2, Messages (0), Trash, and Create... Below this is a secondary navigation bar with tabs for Campaigns, Leads, Accounts, Contacts, Opportunities, Forecasts, Contracts, Invoices, Quotes, Cases, and Solutions. The main content area is titled 'Leads' and features a 'Featured Leads' section with an 'Add Lead' button and a 'Lead Search' field. Below this is a table of leads with columns for Created Date, Lead Name, Company Name, Phone, Email, Status, and Owner. The table lists 10 leads, with the first 10 rows visible. To the right of the table is a 'Manage Leads' section with a 'Generate Reports' button and a 'Quick Lead' form. The 'Quick Lead' form has fields for Lead Owner, First Name, Last Name, and Company. On the far right is a sidebar with a 'Search' field, a 'Recent Records' list, and a 'My Calendar' section showing a calendar for June 2006.

Created Date	Lead Name	Company Name	Phone	Email	Status	Owner
2006-06-18 02:50:53 PM	Willsons, Conarr	Peaceful Agenda Inc			Qualified	Hartman, To
2006-06-18 02:51:45 PM	Francis, Jill	ToothPaste Gone Wild			Open	Hartman, To
2006-06-18 02:52:57 PM	Salomon, Jim	Israeli Artists			Qualified	Hartman, To
2006-06-18 02:54:16 PM	Jefferson, Kathy	Lights & Things Limited			Qualified	Hartman, To
2006-06-18 02:55:06 PM	Holy, Moses	Holy Stuff Inc			Qualified	Hartman, To
2006-06-18 02:56:27 PM	Hillman, Jacob	Hillman & Associates			Qualified	Hartman, To
2006-06-18 02:58:03 PM	Golden, Sami	WorldWide Furniture			Unqualified	Hartman, To
2006-06-18 02:59:03 PM	Nabolsi, Kim	Furniture Designs Ltd			Qualified	Hartman, To
2006-06-18 02:59:47 PM	Somkey, Jeff	Salmon Gifts			Qualified	Hartman, To
2006-06-18 03:00:29 PM	Axer, Thomas	Furniture Smarts			Qualified	Hartman, To

Figure 8.2 Lead management screenshot from Salesboom<sup>10</sup>



Selling methodologies typically involve several stages, such as:

- Lead qualification.
- Initial approach.
- Understanding the customer's requirements.
- Developing a solution.
- Crafting a proposal, and
- Closing the sale.

Some SFA tools come pre-configured against several selling methodologies from which the user can then choose. It is common to customise SFA modules to meet the selling method of a particular industry, or company. Salespeople follow the steps of the method as if following a checklist, so that they handle all opportunities consistently. Sales reps can associate their own opportunities with more information such as contacts, activities, pricing rules, products, proposals, projects, presentations, quotations, competitors, estimated revenue, cost-of-sales, probability of closure, sales stage and so on. Managers can receive reports on the progress of opportunities as they move towards closure, broken down by salesperson, territory, type, date, or other criteria. Figure 8.3 shows an opportunity management report from Pipeliner CRM. Note the selling model at the top of the page: Leads, Engage, Scope, Proposal, Negotiating, Commitment, Closed/Won, and the associated probability of closing the opportunity as the sales process advances.

**Order management** functionality allows reps to convert quotations and estimates into orders once a customer has made the decision to buy. Order management software may include a quotation engine, a pricing module, and a product configurator. Order management

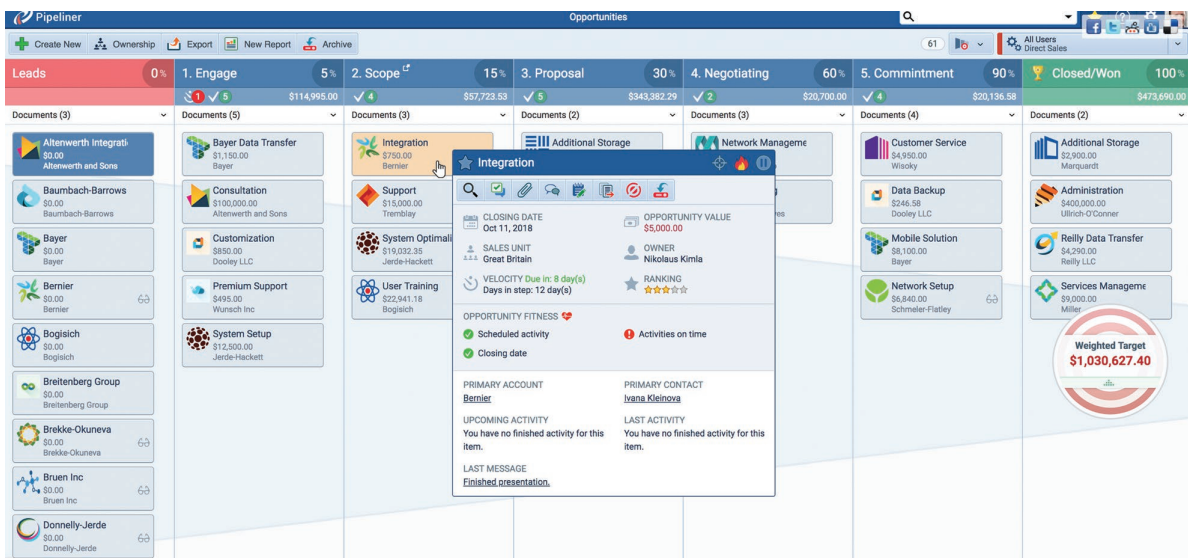


Figure 8.3 Opportunity management report<sup>11</sup>

functionality accelerates the order-to-cash cycle by cutting manual processing and errors, and by quickly advancing the status of a sales quotation to approved order. The order management process can be integrated with back-office fulfilment, invoicing, and payment processes, thereby accelerating cash flow for the seller. If order management processes are performed with the customer, order approval can take place on the spot; this then generates a workflow, which reduces lead time for order filling. With visibility through a portal, the customer, rep, and manager have access to the same, up-to-date order information. Some order management systems allow customers to manage their bills and other information online, thereby reducing account management costs for the seller.

**Pipeline management** is the process of managing the entire sales cycle from finding prospects, estimating sales potential, managing leads, forecasting sales, starting, and supporting customer relationships, right through to closure. A well-defined sales pipeline helps minimise lost opportunities and breakdowns in the sales process. Sales pipelines typically have between five and seven defined stages such as lead generation, lead qualification, initial meeting, send quotation, sales presentation, and closure. As opportunities move through the pipeline the probability of making the sale increases. For example, a sales rep might assign a 5% probability of closing the sale to an opportunity that reaches 'initial meeting' stage, but a 60% probability to an opportunity at the 'sales presentation' stage. Because these probabilities show that not all opportunities will progress down the pipeline, sales reps know that they must have three to four times the value of their target or quota in the sales pipeline. Figure 8.4 shows a pipeline dashboard from SuperOffice CRM that summarises one sales rep's progress in each stage of the sales cycle described in the top left box: first meeting, proposal, open, second meeting, verbal acceptance.

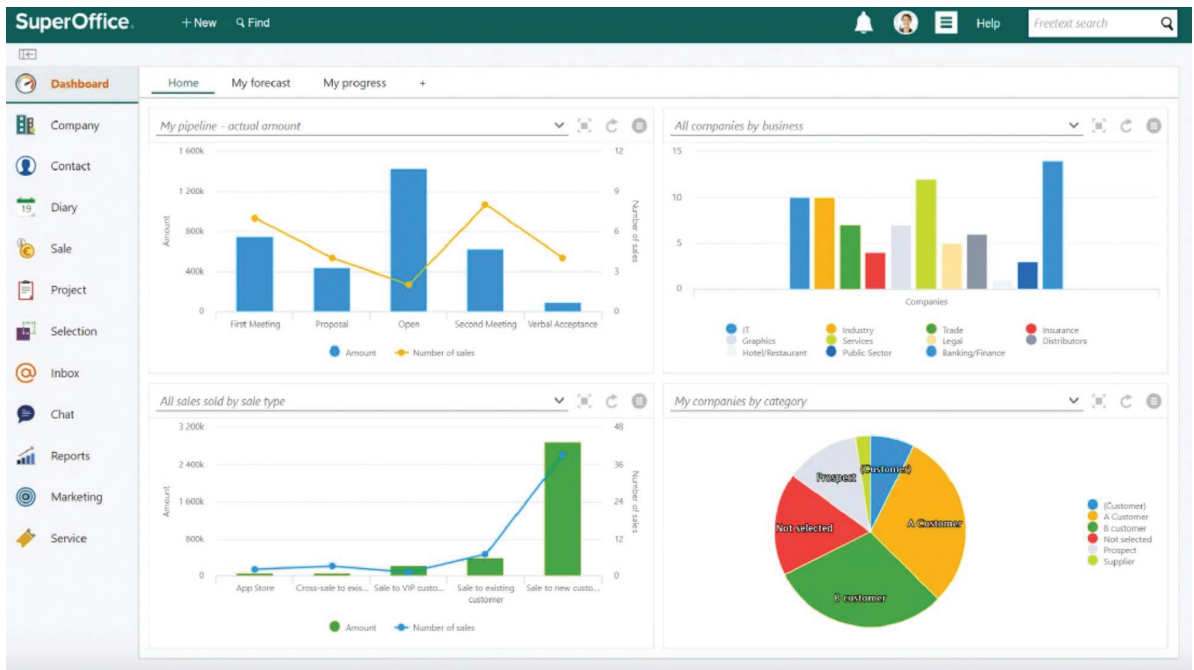
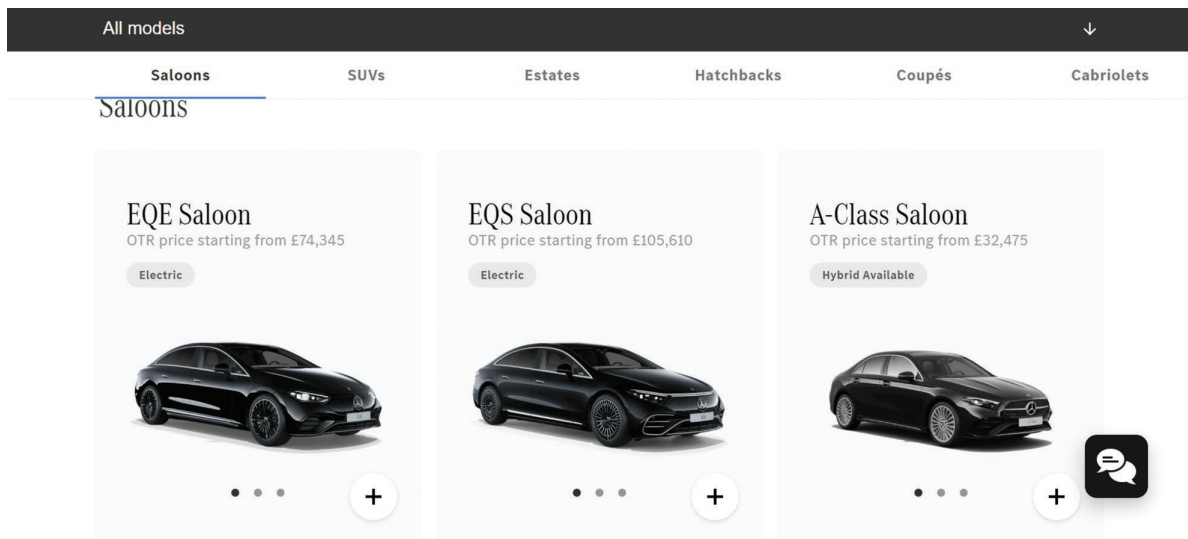


Figure 8.4 Oracle pipeline overview screenshot<sup>12</sup>

**Product configuration** applications enable salespeople, or customers themselves, automatically to design and price customised products, services, or solutions. Configurators are useful when the product is particularly complex or when customisation is an important part of the value proposition. Configurators guide users through the buying and specification process, offering only valid options and features at each step. This can deliver benefits to customers, salespeople, and management. Customers can define and build their preferred customised solutions, reducing cost and meeting specifications. Sales people no longer need master comprehensive product or service technical data because these are in the engine. Consequently, training costs for salespeople are lower. The potential for incorrectly specifying a solution for a customer is lower, meaning less need for after-sales service. Configurators enable mass customisation. Case illustration 8.2 shows how customers can build and price their own Mercedes-Benz online. Customers select a model, fuel type, exterior options, interior options, equipment packages, chassis options and more. The configurator calculates a customised price and offers payment options. The customer immediately receives a list of nearby dealers carrying inventory that matches the specification. The customer can then place the order through the dealer's website. More advanced configurators enable customers to approach configuration from any starting point and in any sequence. For example, a buyer might make engine capacity the entry point, not the model.

**Product visualisation** solutions enable sales reps and customers to produce realistic computer-generated images or animations of products prior to their manufacture. This is a useful application when linked to a product configurator. Static images can take the form of a simulated photograph, 3D model, or technical drawing. Animated visualisations can be rendered in different ways to show how products are built, installed, or used. Visualisation software often allows users to change certain parameters, for example models, colours, fabrics, and sizes, as in the Mercedes-Benz example. Sales personnel can also augment information such as specifications or prices with visualisations.



**Case illustration 8.2** Product configurator; build and price your own Mercedes Benz online

**Proposal generation** solutions allow users to create customised branded proposals for customers. Users draw on information held in one or more databases to create customised proposals which, typically, are composed of several parts. These include cover page, opening letter, introduction, goals, products, product features, services, benefits, prices, specifications, pictures, drawings, embedded video, people, experience, resumes, references, approach, schedule, organisation, scope of work, and appendices. Proposal templates can speed up the creation of proposals and hasten the internal approval and dispatch of proposals to customers. They also ensure consistent branding across all customers. Templates exist for different types of proposals such as Statements of Work, Grant Applications and Service Level Agreements. Some can even be co-created on the fly in real-time as customer and salesperson collaborate to identify what is required. One survey suggests that proposals produced with software have a much higher win rate (46%) than proposals produced manually (26%).<sup>13</sup>

### SFA tools principally used by sales managers

**Document management** software allows companies to manage sales-related documents, keep them current and ensure that they are always available to reps, managers and partners when needed. Companies generate and use many documents to support the sales process – brochures, product specifications, installation instructions, user manuals, case studies, white papers, price lists, warranties, competitive comparisons, spreadsheets, email templates, and templates for preparing quotations, for example. External agencies, including government departments, may require companies to keep records of compliance with standards or regulations relevant to the products and services they sell. The company can store documents securely online, manage document versions to ensure they are traceable and current, and that they are downloadable on-demand. Document metadata, that is data about data, is useful for ensuring that correct materials are easy to find.

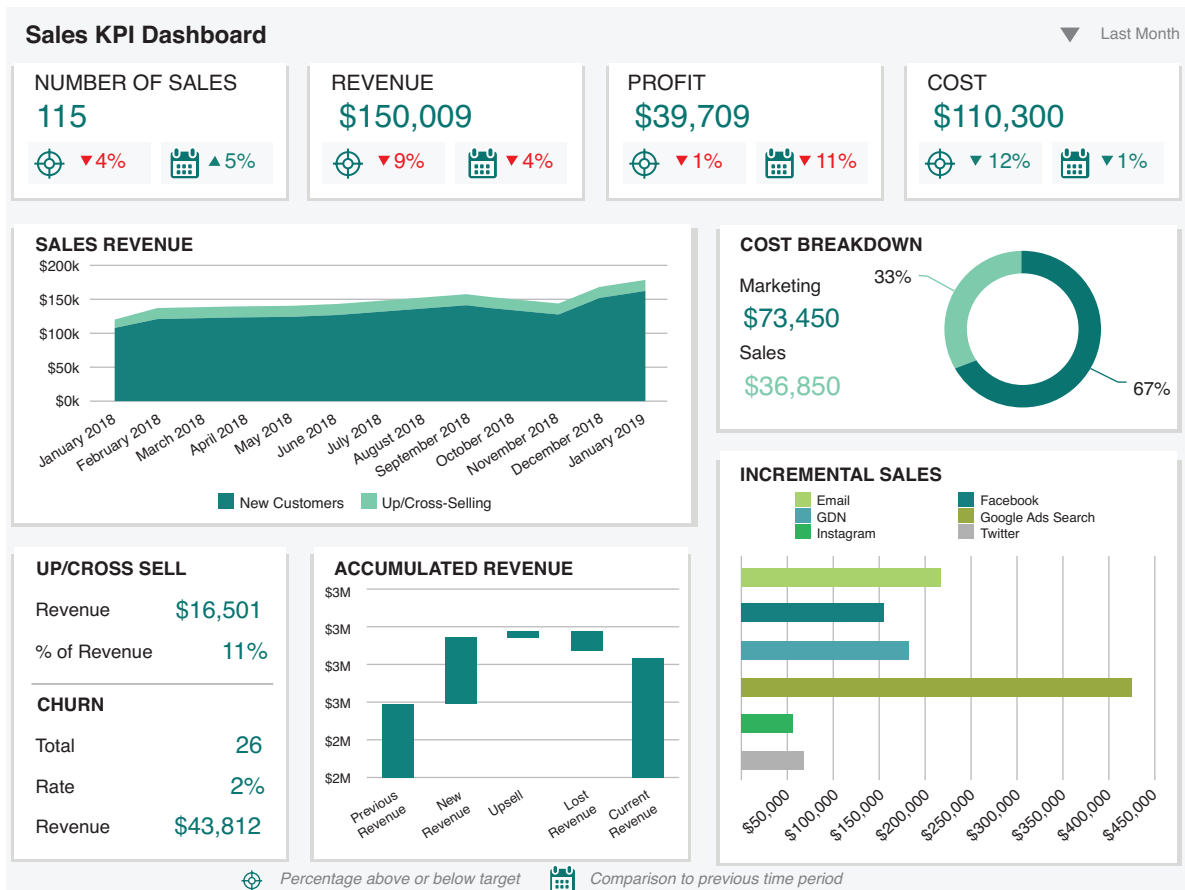
**Incentive management** allows sales managers to assign performance rewards, such as bonuses and commissions aim to encourage greater efforts from sales reps. Many companies use standalone spreadsheets for this purpose. When part of an SFA solution, incentive management tools reduce the need to re-enter or transfer data from spreadsheets, leading to better visibility, accuracy, and higher efficiency. The company can create incentive management models that consider quotas, sales volumes, customer profitability, customer satisfaction, customer retention, Net Promoter scores, and other performance criteria. Sales managers can use incentive management tools to improve visibility to sales personnel, and this often helps create internal competition while also helping to explain why some salespeople receive more rewards than others. The company can also integrate incentive management applications with back-office payroll applications that automate payment.

**Sales analytics** generate reports for management as they strive to influence salesperson performance. All SFA systems include reporting functionality. This enables managers to view pre-defined, standardised reports that deliver insight the effectiveness and efficiency of their sales team. In addition, managers can create ad hoc reports on any variable or mix of variables kept in the sales database – this can include reports on all the issues we are discussing here: contacts, contracts, orders, opportunities, proposals, sales pipeline, and so on. Table 8.3 includes a selection of reports that sales managers can request.

**Table 8.3** Examples of reports available from SFA software

Closed opportunities	Sales cycles
Customer profitability	Sales by close date
Lead conversion by source	Salesperson productivity
Pipeline progress	Unresolved cases

Salesforce.com, for example, enables users to construct their own customised reports and offers integration with data visualisation software. These deliver simple charts, dials, histograms, funnels, leader boards, pie-charts, tables, other graphics, and text to receivers' devices. Dashboards deliver real-time sales data to executives. Customised dashboards ensure that people receive reports matched to their roles and responsibilities. Drill-down capabilities mean that users can thoroughly investigate the reasons behind results in dashboard reports. Furthermore, dashboards can also utilise third-party analytics to deliver deeper analysis of sales performance and problems. Figure 8.5 is a sample sales manager's dashboard from third party analytics business, Datapine.



**Figure 8.5** Sales management report<sup>14</sup>

Sales forecasting applications offer managers and sales reps several qualitative and quantitative processes to help forecast sales revenues and close rates. Among the qualitative methods are sales team estimates, and among the quantitative methods are time-series analysis and regression models. Some sales forecasting methods project historical sales into the future. Other methods draw on and interpret the sales opportunity and pipeline data kept in CRM systems. Another method is to import data from external sources and apply quantitative methods to forecast sales. Accurate sales forecasts help resource allocation throughout the business.

**Territory management** applications allow sales managers to create, adjust, and balance sales territories, so that sales reps have equivalent workloads and/or opportunities. Territory management applications usually come with a territory management method that users can follow when setting up sales territories.<sup>15</sup> Some applications integrate geographic mapping or geo-demographic data into the application. Applications enable companies to match sales coverage to market opportunity, create sales territory hierarchies (cities, states, regions) and reduce the cost of selling by reducing travel time. Call cycle scheduling, calendaring, and lead management are often enabled by the software. Eligibility and exception rules can be set up in and monitored by the software. A sales rep might be eligible to sell some products but not others, to service all customers in their territory except for certain named accounts, or to sell into certain accounts in another territory because they have a well-established customer relationship.

**Workflow development** software can help in the design of sales-related processes including the lead management process and the event management process. A simple automated workflow spells out the actions necessary when the company receives a webform inquiry. A more complex project is to automate the workflow in the selling process itself – the series of steps that a sales rep must follow in shifting a prospect from first awareness to the close and on to after-sale relationship management. Workflow applications automate business processes, so that process owners know what to do, the necessary order of actions, and the responsible person for each action. Automated processes are much easier to monitor for process failure. When a process fails often this shows that the process needs simplification, user training needs refreshing, or technological support for the process requires upgrading.

Although we have thus far discussed a generic set of sales-related functionality, SFA software can also include context-specific applications. For example, sales reps selling liquor to a retail store might employ software that recommends planograms, optimises the allocation of retail display space, audits inventory levels, recommends prices, and controls cooperative promotional support. In some contexts, graphics, video, and sound support are important. Leading SFA vendors offer functionality designed for salespeople in particular industries. SAP CRM and Oracle CRM, for example, both offers customised SFA solutions for different industries ranging from aerospace and defence to wholesaling. These solutions come with industry-specific database models.

## **BENEFITS AND COSTS OF SFA ADOPTION**

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SFA is an attractive option for many companies. Just as marketing automation enables marketing-related processes and reporting, so SFA does the same for sales teams. SFA implementations can occur simultaneously with a CRM package implementation or on a

standalone basis. It often makes sense for companies to focus on other aspects of CRM as priorities in the first instance. For example, some companies may begin with a service automation initiative. SFA, along with MA, become added extras. This situation is common where the company has a small sales team compared to their service delivery teams. Where sales teams are larger and more complex, SFA becomes more attractive. For SFA to work, the sales team also needs to show maturity in terms of its state of development. The sales team needs a clear sense of purpose, a clear organisational structure, a set of codified processes and procedures, and skilled sales personnel. Both groups – senior management and users – will expect net benefits from SFA, and unless those benefits materialise, the company may abandon SFA.<sup>16</sup> It is worth considering some of the benefits and costs of SFA.

## Benefits from SFA

Vendors and consultants claim several benefits from SFA implementation, which appeal to different stakeholders:

- Salespeople benefits include:
  - o higher quality leads,
  - o shorter sales cycles,
  - o more closing opportunities, and
  - o higher win rates.
- Sales manager benefits include:
  - o improved salesperson productivity,
  - o improved customer relationships,
  - o more accurate reporting,
  - o fewer lost opportunities, and
  - o reduced cost-of-sales.
- Senior management benefits include:
  - o improved visibility into the sales pipeline,
  - o reduced risk of unexpected variations from sales forecasts,
  - o accelerated cash flow,
  - o faster inventory turnover,
  - o increased sales revenue,
  - o market share growth, and
  - o improved profitability.

Software vendor case histories of SFA implementations offer testimonials to SFA's impacts, which include other types of company benefits as well (see Case illustration 8.3).



## CASE ILLUSTRATION 8.3

### BELKIN'S SFA<sup>17</sup>

Belkin manufactures home and business networking solutions and as sales continue to grow, they also expect their team to have high levels of connection. Belkin partnered with Salesforce.com to streamline their CRM and SFA processes.

Through Salesforce Chatter employees can share important files, reducing the need for emails. This simple change has reduced special order turnaround times from up to 72 hours, down to less than 24 hours. Belkin's competitiveness improved dramatically, along with its bottom line.

Belkin also uses Salesforce to support their social media profiles and pull in customer information from LinkedIn so that the sales team can know more about their customers and engage on a more personal level. Facebook and X (formerly Twitter) are also useful as support channels.

The major benefit of incorporating Salesforce Chatter into Belkin processes is the streamlined communications providing visibility to all staff of all key events, eliminating noise and email traffic.

Independent research, summarised in Table 8.4, suggests that the primary motivation for senior management's decision to invest in SFA solutions is improved efficiency, although not every SFA implementation has specified formal goals.<sup>18</sup>

There have been several independent assessments of the effects of SFA on sales performance.<sup>19</sup> One empirical investigation of a pharmaceutical company's operations in three countries finds a clear relationship between SFA adoption and salesperson performance. The researchers conclude that 16.4% of the variance in sales is explained by the SFA solution.<sup>20</sup> Another investigation found that use of SFA was associated with improvements in sales reps' targeting and selling skills, market, and technical knowledge, call productivity and sales performance.<sup>21</sup>

### Costs of SFA

Not all research indicates positive outcomes from the implementation of SFA.<sup>22</sup>

Why users adopt technology has been a topic for sustained research since Fred Davis first advanced his Technology Acceptance Model (TAM) in the late 1980's.<sup>23</sup> The model, as

**Table 8.4** Motivations for implementing SFA<sup>24</sup>

<i>Motivation</i>	<i>% of sample reporting</i>
Improve efficiencies	72
Improve customer contact	44
Increase sales	33
Reduce costs	26
Improve accuracy	21



originally formulated, suggests that people consider two main factors as they decide whether to use new technology:

1. Perceived usefulness: the degree to which the person believes that using a particular technology would enhance their job performance.
2. Perceived ease-of-use: the degree to which the person believes that using a particular system would be free from effort.

The more useful the technology people think the technology is, and the easier to use, the stronger their intention to use the technology.

There has been wide verification of TAM in several contexts. Venkatesh and Davis proposed an extension of TAM – TAM2 – by exploring several determinants of perceived usefulness, including subjective norm (from the Theory of Reasoned Action), image, job relevance, output quality, result demonstrability, and perceived ease of use.<sup>25</sup> Table 8.5 includes definitions of these determinants of perceived usefulness.

They found that social influence processes (subjective norm and image) and cognitive instrumental processes (job relevance, output quality, result demonstrability, and perceived ease of use) both significantly influence user acceptance. Studies of technology acceptance are ongoing.<sup>26</sup>

Several studies draw conclusions on SFA acceptance. They suggest that SFA adoption is most likely when:<sup>27</sup>

1. Salespeople find that the SFA application is easy to use.
2. Salespeople find the technology useful because it fits their roles well.
3. Appropriate-to-role SFA training is available.
4. Users have accurate expectations about what SFA will deliver.

**Table 8.5** Determinants of Perceived Usefulness in the Technology Acceptance Model<sup>28</sup>

<i>Determinants</i>	<i>Definitions</i>
Perceived Ease of Use	The degree to which a person believes that using the technology will be free of effort
Subjective Norm	The degree to which an individual perceives that most people who are important to him or her think he/she should or should not use the technology
Image	The degree to which an individual perceives that use of an innovative technology will enhance his or her status in his or her social system
Job Relevance	The degree to which an individual believes that the technology is applicable to his or her job
Output Quality	The degree to which an individual believes that the technology performs his or her job tasks well
Result Demonstrability	The degree to which an individual believes that the results of using a technology are tangible, observable, and communicable

5. Users have a positive attitude towards innovation.
6. Users have a positive attitude towards technology.
7. User support after roll-out is readily available (e.g., a help desk).
8. The implementation process involves user groups comprising sales reps and managers during SFA project planning and technology selection.
9. The company uses a multi-disciplinary team in the SFA project planning phases.
10. Senior management supports the SFA implementation.

Some ease-of-use considerations include screen design, the use of a graphical user interface, system navigation, online help, user documentation, data synchronisation and system support, screen layouts that are clean and bright appear uncluttered and are easier to read. System navigation is good if users can move from field to field, tab to tab, screen to screen, module to module and function to function with no difficulty. The basic components of a device's graphical user interface (GUI, pronounced goo-ee) are a pointing device and graphical icons. The pointing device can be a mouse, a touch-sensitive screen or pad, ePencil, voice command, or even just a finger. Before GUI's, SFA users had to remember commands that involved using ctrl, alt, del, and other keys in various combinations. Online help means users can resolve questions quickly. User documentation that includes screenshots, text or instructional video clips is appreciated, as is simple, fast, data synchronisation and general system support through training and a help desk.

## **CONCLUSION**

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SFA is a competitive necessity which involves the application of technology to support salespeople and their managers., SFA enables members of sales teams to become more efficient and effective in their job roles. The SFA eco-system includes a wide range of software, hardware, infrastructure, and service organisations. SFA software offers an enormous range of functionality. SFA offers a range of benefits to companies. SFA allows greater efficiency when it comes to finding and pursuing sales opportunities. SFA helps coordinate a diverse set of resources when pursuing sales opportunities while also managing customer-related data to gain the most benefits from this resource. The higher efficiencies possible through SFA can also reduce the need for large numbers of sales personnel.

## **DISCUSSION QUESTIONS**

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1. What is SFA? Why might a company choose to adopt SFA? Why might they choose to avoid SFA?
2. Who are the main stakeholders in the SFA ecosystem? What vested interests do they have when considering a company's decision to implement SFA?
3. What are the main functions of a SFA system most relevant to salespeople?
4. What are the main functions of SFA most relevant to sales managers?

## NOTES

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# SERVICE AUTOMATION

## CHAPTER OBJECTIVES

By the end of the chapter, you will be able to:

1. Define customer service and explain how it relates to service quality and service standards.
2. Define service automation (SA).
3. Describe the main contexts where SA is in common use.
4. Describe the benefits and costs of SA to organisations.
5. Describe the functionality available within SA software.

## INTRODUCTION

This chapter centres on service automation (SA). Whereas Marketing Automation (MA) helps manage the company's prospecting activities, and Sales Force Automation (SFA) helps companies manage their attempts to convert sales opportunities and into new business, SA focuses on managing the delivery of the value proposition. While having a small role prior to the sale, SA is most crucial at those stages of the customer journey that take place after the sale. In this chapter, we explore SA. Exemplary customer service draws on SA. Without robust SA, the company may be unable to fulfil its customer promise. SA systems may act as a substitute for frontline service personnel or may exist as a support mechanism, so that frontline service personnel are able to fulfil customer requirements more efficiently and effectively. The discussion next considers customer service as well as how companies develop customer service standards. We next delve into the benefits and costs of SA before reviewing some of the more common SA software applications.

## WHAT IS CUSTOMER SERVICE?

As customers, we all understand and appreciate excellent customer service. We experience excellence when the people who serve us are friendly, responsive, empathic, and they do the

right things well, whether that is answering a question, offering advice, or accepting the return of faulty merchandise. In terms of self-service technology, excellent service equates to the technology working as we expect – for example, the bank's app is faultless and offers all necessary functionality, and the website is informative, engaging, and easy to navigate. Equally we can all recognise poor customer service, where frontline personnel are surly, unapproachable, dogmatic, and inflexible, do not have correct or complete information, or use outdated technology.

Customer service occurs at any stage of the customer journey: before, during, or after purchase. For example, a company buying new manufacturing equipment might need pre-purchase engineering advice, help during purchase with drawing up precise specifications for the equipment, and post-purchase assistance with operator training. Customers can evaluate service standards both during service delivery and afterwards. The service experience as perceived from the dentist's chair during service delivery might be very different from the assessment a few days later!

We can define customer service as the company's efforts to deliver their value proposition, to address customer problems and to create positive customer experience (CX) throughout the customer journey. Since each customer has a different customer experience, companies cannot guarantee positive CX. Customers apply subjective evaluations of their experiences with company touchpoints. While the company can control many aspects of each touchpoint, they cannot control many of the factors that influence customer experience such as customer mood, customer purchase capacity, and other customer-related factors, as well as those factors that shape context such as weather, timing, purchase situation, and so forth. Companies that perform customer service well find ways to control as many of these factors as possible. A big part of this is ensuring the customer promise made through the value proposition slightly undersells the resulting CX. For example, if a company promotes itself as offering low cost but also delivers moderate quality in a convenient location, this is more likely to delight customers than if the company delivered low cost only.

## Service quality

There has been some debate as to how companies can create and deliver high quality service offerings. Grönroos has identified three components of service quality: technical (does the outcome of service performance meet customer expectations?), functional (how is the service performed?), and reputational (influence of the image of the service provider on quality perceptions).<sup>1</sup> Customers experience high quality service when all three forms are excellent. Customers who receive service from companies that have successfully implemented CRM technology experience a further form of quality – integrative quality. High integrative quality means that a business's processes, people, and technology complement each other, working efficiently and effectively to deliver excellent customer service coherently. When customers make a purchase in response to a marketing campaign, they often expect rapid order fulfilment. This requires the company to integrate its MA to back-office payment and fulfilment processes. When these work in harmony, the customer experiences high integrative quality. Good people either working with ill-defined processes or supported by dated or siloed technologies find it very difficult to deliver excellent customer service. Customer service is a key part of customer experience. Customers rarely report excellent experience if customer service encounters do not meet their expectations.

Wiersema, a noted practitioner authority on customer service, identifies six common attributes in companies known for their excellent service.<sup>2</sup>

1. Customer service is pervasive. It is everyone's responsibility; it is neither delegated nor relegated to a single department or function.
2. Their operations run smoothly with minimal product and service defect rates, allowing them to focus on pleasing customers.
3. They are always looking for ways to improve.
4. Customer service lies at the heart of the value proposition. Customer service is the main selling point.
5. They build personal relationships with customers.
6. They employ the latest technologies that allow their customers to interact with them more conveniently, help them develop a profound understanding of what customers need and want, and enable them to track activities and processes that influence customer experience.

From a CRM perspective, these are all important, but particularly the last three. Customer service is the key element of these renowned companies' value propositions – an important component of Strategic CRM. They understand that customers are responsive to excellent customer service, whatever the basic product or service they offer. They also build personal relationships with customers. They understand the needs and requirements of customers at an individual level, and they recognise and respond to events in the customer's life – delivered by analytical CRM. Finally, they employ the latest IT that allows customers to interact with them whenever they want through multiple channels – an important component of operational CRM. IT also enables them to learn about and respond to customer requirements, and to track interactions and processes that connect them to their customers.

### Customer service standards

While service quality models such as that of Grönroos tell us something about the major elements of customer service excellence, whether companies choose to adopt these is up to them. In some situations, the nature of service is ambiguous or so variable that it is hard to tell whether service outputs are acceptable. This sort of quandary led the UK Government to develop and implement the Customer Service Excellence (CSE) standard. The CSE provides guidance to public and private sector organisations that want to make a significant difference to the quality of their customer service.

The CSE standard aims to deliver three outcomes for adopters. First, it aims to promote continuous improvement by enabling organisations to find opportunities for improvement, through a process of self-assessment against the standard. Second, it aims to promote skills development by allowing individuals and teams to learn new skills in customer focus and customer engagement, thus building their capacity for delivering improved service. Third, it aims to be an independent validation of achievement by allowing organisations to seek formal accreditation to the CSE standard.

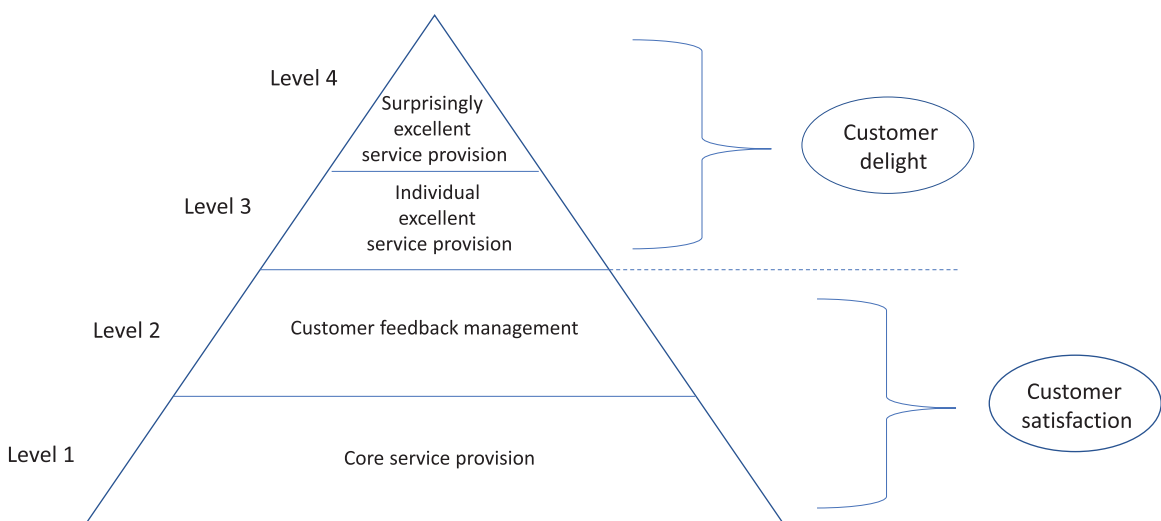
The CSE standard names five key criteria for assessment, each composed of several elements, as we show in Table 9.1.

**Table 9.1** Customer Service Excellence standard criteria and elements<sup>3</sup>

Key assessment criteria	Elements
Customer insight	Customer identification; customer engagement and consultation; customer satisfaction
Culture of the organisation	Leadership, policy, and culture; staff professionalism and attitude
Information and access	Range of information; quality of information; access; co-operative working with other providers, partners, and communities
Delivery	Delivery standards, achieved delivery and outcomes; deal effectively with problems
Timeliness and quality of service	Standards for timeliness and quality; timely outcomes; achieved timely delivery

Much of the language in this standard is compatible with CRM principles – using customer insight to improve customer experience, applying that insight to build a customer-focused organisation, putting the customer first (as in Strategic CRM), learning from customer feedback (as in closed-loop marketing) and focusing on customer engagement and satisfaction.

Recently, an International Standard (ISO BS 23593: 2021) has been developed to help organisations understand what they need to do to deliver outstanding service and customer experiences.<sup>4</sup> The Standard presents this as a hierarchy consisting of four levels of performance, as shown in the Service Excellence Pyramid (see Figure 9.1). Level 1 focuses on successful delivery of the service promise in the customer value proposition; the organisation does what it says it is going to do. Level 2 is concerned with how well the organisation deals well with problems and queries. Level 3 emphasises how important it is for service to be seen

**Figure 9.1** Service Excellence Pyramid



by customers as warm, genuine, personalised, tailor-made and value-creating. When this is successfully delivered, the customer experiences an emotional response of feeling valued. “Surprisingly excellent service provision” (Level 4) results in emotions of surprise, joy, and delight. It is created by exceeding customer expectations.

## DEFINING SERVICE AUTOMATION (SA)

*SA is the application of computerised technologies to support and manage the service activities of the company whether these be through customer-facing staff or through self-service channels.*

Companies deliver customer service across multiple channels – face-to-face, telephone, email, mail, SMS, multimedia messaging (MMS), social media, web chat and chatbot, available on the corporate website and automated self-service channels. In a connected world, however, it is not only companies that deliver customer service; other customers who report their product experiences in social media (blogs or product review sites, for example) and on company websites are also supplying service to potential or current customers. Some companies are trying to harness this type of customer-to-customer, or peer-to-peer, customer service for corporate ends.

Technology is becoming more deeply embedded in customer service operations. It is now possible for the initiation of service interventions even before the customer makes any request for support. According to IBM,

**Systems with AI [Artificial Intelligence] embedded can monitor a nearly infinite amount of website and in-app activity for distress indicators, identifying customers experiencing issues and what those issues are. The system can respond in real-time offering support through FAQs or virtual service agents across platforms and devices. The ability to resolve customer service issues before they arise has huge potential. It could significantly lower customer abandonment rates in the purchasing cycle, whilst simultaneously reducing customer complaints and improving consumer satisfaction.<sup>5</sup>**

### The main use contexts for SA

Companies use SA in four major contexts: customer engagement centres, call-centres, at the helpdesk, and in field service.

#### *Customer engagement centres (CEC)*

CECs are technology-enabled systems that enable companies to communicate with customers across multiple channels (including voice telephony, video telephony, web, mail, email, SMS, multimedia messaging, instant messaging, web chat, chatbot, and social media) at all stages of the customer journey. Some organisations use the terms ‘customer contact centre’ or ‘customer interaction centre’ instead of customer engagement centre, but the expression, CEC, stresses the emerging role of multi-channel contact centres in building customer engagement. In addition to people-assisted interactions CEC’s may also deliver simple automated self-service, using interactive voice response (IVR), for example, or more advanced

technologies including speech recognition and chatbots which are enabled by Artificial Intelligence. The core purpose of most CEC's is solving customer problems to the satisfaction of the customer. Note that different SA vendors use the terms issue, case, incident, trouble-ticket, and service request as synonyms for customer problems that CECs deal with. Service agents often need to be able to access and update an entire communication history regardless of channel when communicating with customers about service issues. Channel integration is therefore an important feature of CEC technologies. CEC staff may also handle inbound service-related calls, take part in outbound marketing campaigns, and respond to service enquiries in multiple channels.

### Call centres

Call centres deal primarily with voice telephony communications, whether through a public switched telephone network, cell-phone network, or VoIP. Agents operating in call centres require a different skill set from those operating in multi-channel contact centres. There is a less compelling need for excellent literacy skills such as reading and writing; they do, however, need excellent listening and responding skills. Access to a searchable knowledge base helps agents deliver excellent service.

### Helpdesks

Helpdesks are usually associated with IT environments. In this case, agents deliver service help to IT users. Companies sometimes have their own internal helpdesks, particularly when they have a large, dispersed workforce and/or they have complex needs. Many companies opt to use helpdesk services supplied by a software vendor. Individual users often prefer this option too (since they usually do not have the ability to build their own helpdesk). SA applications such as case management, job management and service level management are common in this setting. Helpdesk solutions often follow, and support, third-party standards such as ITIL (Information Technology Infrastructure Library)<sup>6</sup> and the ITSM (Information Technology Service Management)<sup>7</sup> reference model.

### Field service

Field service involves technicians providing 'house calls' (i.e., visiting the customer's premises) to provide services. For example, service engineers for white goods such as dishwashers and washing machines, or brown goods such as televisions and hi-fi, visit consumers' homes to install, support or repair products. Similarly, technicians and engineers visit factories, depots, warehouses, workshops, offices, and other workplaces before, during, and after purchase to help customers specify, select, obtain, install, service, and decommission a wide range of machines and systems, ranging from machine tools to fork-lifts and IT infrastructure. Field service applications allow users to achieve multiple goals:

- Receive requests for a field service technician through multiple communication channels, including remote monitoring.
- Assign a service technician – with long-term, medium-term, weekly, and intraday optimisation of work orders, factoring in constraints (for example, travel time, assets, skills, and so on) and service level agreement compliance.

- Equip the technician with all information needed to complete service tasks, including, if necessary, the ability to look up inventory status in real-time or cached on a wireless device.
- Integrate with GPS and geographic information system (GIS) capabilities.
- Supply field service functionality that supports a continuum of field service models, from reactive to preventive service.<sup>8</sup>

Unlike their office-bound colleagues, field service staff must have access to SA applications and data on their tablets and smartphones. Technology solutions offer support to field service agents. Although comprehensive, cloud-based CRM solutions tend to offer field sales support as part of the integrated Sales-Marketing-Service package.

### **BENEFITS FROM SA**

SA has an important role to play in allowing companies to deliver excellent customer service. SA can deliver several benefits, including the following:

- **Enhanced service effectiveness.** SA can increase customer satisfaction by ensuring accurate recording of customer request information and the implementation of solutions that directly address the issue that the customer faces. When a customer registers an issue, SA systems are useful for recording the precise information that the customer conveys. This information then helps the company develop and implement an approach that addresses the customer issue. SA, through its workflow management capabilities, can channel service requests to the most appropriate people or departments in the company. SA also helps the company track the progress of the service request. Companies often use a series of indicators, visible through a dashboard or prominently displayed in a common area, to track their current performance. Customers can also view the progress of their issue through the company's website or through regular email updates that SA software sends to them to provide updates. The added visibility of customer issue resolution as it progresses helps the customer trust the company and reduces their anxieties by conveying update information proactively.
- **Enhanced service efficiency.** There is less of a need to invest significant resources to handle customer enquiries. Put another way, companies can provide a higher level of service to a larger number of customers by using SA than if they do not. Costs of service delivery are lower when customers use self-service (e.g., through apps or websites) instead of interacting with an agent. Customer service agents are expensive to recruit, train, and sustain. Customer service roles can also experience high churn rates. If the company calibrates its SA well, it can reduce the number of attempts it takes to resolve customer issues. Resolution upon first contact means reduced levels of rework. Bots are extremely efficient, being able to handle hundreds or even thousands of enquiries in parallel. Having said this, some companies are now finding the use of real people to

respond to customer enquiries as a source of competitive advantage as competitors shift to a reliance on automated systems such as chatbots.

- **Greater service agent productivity.** Call- and engagement centre management systems ensure that the optimal number of agents is scheduled and that their time is used productively. Skills-based routing ensures that service inquiries are routed to the most appropriate agent available. Field service applications ensure that workload is equitably and optimally distributed. Bots and other self-service technologies are useful to resolve routine enquiries allowing agents to handle higher value issues or higher value customers. All these features increase the probability that the correct resources resolve customer issues in the most efficient way possible.
- **Better agent work experience.** SA can help reduce the anxiety that many agents face. If agents have the right tools to do their jobs well, this can help improve their overall job experience. They are more likely to receive customer enquiries which they can help resolve (which can be satisfying), customers are less likely to act aggressively (since they are less frustrated with the service experience), and agents can develop greater confidence in their ability (by dealing with customer enquiries that are consistent with the agent's role and responsibilities).
- **Improved CX.** Agents who have full visibility into the customer history and service requests can ensure that service delivery is appropriate to customer status or agreed service levels and that it satisfies the customer. Customers experience more consistent service since agents follow a set of agreed business rules and service standards. Customers who prefer to self-serve online can do so. Integration to knowledge databases ensures that the resolution of most customer issues happens at first contact. See Figure 9.2 for an example customer history dashboard visible to a customer service agent. Higher quality service and better customer experience means that customers are less likely to churn to alternative suppliers. Service quality drives customer retention.
- **Improved customer engagement.** Rather than sending or receiving one-way communications, customer contact centres are now repositioning themselves as customer engagement centres, particularly if they take part in a lot of interactive communications with customers in social media. Customer service events before, during or after (or even without) purchase provide opportunities for customer interaction, thereby building engagement.
- **Enhanced customer knowledge development.** The application of technology allows firms to gather customer service data in formats amenable to sophisticated analysis. Increasingly, predictive analytics pro-actively intervene with customers to prevent customer service issues arising in the first place. In B2B environments, 'smart sensors' on machinery find problems or when normal maintenance is necessary given the specific use context of the asset in situ. Even in consumer markets, we see, for example, that some auto manufacturers have developed in use data to alert drivers of needed maintenance in a more customised fashion versus traditional one or two year service cycles.

The screenshot displays the Microsoft Dynamics CRM interface for a user named Sabrina Zimara at DFC Consultants Ltd. The left-hand navigation pane shows various modules including Information, Related, Sales, Service, Marketing, and Processes. The 'Service' module is selected, and 'DFC Support Cases' is highlighted. The main area shows the 'ABC Customer' account details, including primary contact Jennifer, owner DFC Administrator, and annual revenue. Below this, a table titled 'DFC Support Cases Case Associated View' displays a list of support cases. The table includes columns for Case Number, Title, Call Status, and Created On. The cases listed are:

Case Number	Title	Call Status	Created On
DFC-06666-Q6C3	business portal timesheets	Active	6/14/2013 9:18 AM
DFC-05981-W5T5	Printer Issues DFC-06280-H0K4	Resolved	3/19/2013 7:25 AM
DFC-05980-G6X9	Payroll	Resolved	3/19/2013 7:24 AM
DFC-05979-V1F5	Mgmt Reporter DFC-06092-Y2Y8	Resolved	3/19/2013 7:19 AM
DFC-05978-D3S8	Business Portal DFC-06165-Q4T1	Resolved	3/19/2013 7:18 AM
DFC-05691-F1K3	Potential Portal Issue for entering Time	Resolved	11/7/2012 12:05 PM
DFC-05437-M2F7	Payroll: time card stuck	Resolved	9/13/2012 11:13 AM
DFC-04234-C9H0	2011 Time cards Sharepoint/BP issue	Resolved	1/3/2012 9:59 AM
DFC-03090-K3R8	Voiding a Payroll	Resolved	4/28/2011 4:21 PM

The table shows 17 records in total, with 0 selected. The interface also includes a search bar for records and a filter dropdown set to 'All'.

Figure 9.2 Full visibility into customer service history (Oracle RightNow screenshot)<sup>9</sup>

## CASE ILLUSTRATION 9.1

### SERVICE AUTOMATION AT UBER<sup>10</sup>

Uber has successfully automated customer service into both its ride-share Uber offering, and its Uber Eats delivery offering.

In the case of Uber Eats, the customer can search for the type of food they would like to order, select a suitable restaurant, select their food choices from the restaurant menu, place their order, and advise a delivery address and then proceed to automatic payments and even order tracking.

Uber Eats provides customers with a single app to automate the process. Through this technology interface, the customer can choose when to engage with the service, and the whole process is conducted without the need to speak to anyone from either Uber Eats or the chosen restaurant.

Automating the customer service process also allows for the collection of customer-related data, which can be added to the company's CRM tool to allow for targeted advertising, tailored recommendations, and an increasingly streamlined order placement if preferences are saved.

## **COSTS OF SA**

While SA offers many benefits, it also comes with many of the same costs as other elements of operational CRM systems (i.e., MA and SFA). These relate to the implementation of the SA systems and their maintenance and/or upgrade. It is worth noting that SA also has a series of costs that differ from those that companies face with MA and SFA. These include:

- **Culture shock.** For companies that choose to implement SA systems, this can be a substantial deviation from their standard operating approach. If a company typically handles customer enquires through manual, in-person customer interaction, it can be difficult to shift to a new approach. It can also take time to educate customers about the company's new approach to dealing with their enquiries.
- **Workflow centralisation.** SA systems normally involve channelling customer enquires through a central system. For example, helpdesks use ticketing systems to receive customer enquiries and then route them to the people with the necessary skills and availability. Depending upon governance, excessive centralisation can demotivate people and appear inflexible to customers. Our experience is that it is not the software that is excessively centralised or inflexible, it is the management thereof and thoughtful decentralisation of implementation.

## **SOFTWARE APPLICATIONS FOR SERVICE**

Infrastructure, data, devices, and software are the key technological elements of SA. Infrastructure plays an important role in enabling service delivery through a central call-centre or customer engagement centre. In a multi-channel environment, there needs to be tight integration between various communication systems, including telephony, email, chat, text, and web. A customer may browse the web to find out how to obtain service, before communicating the service request by voice telephony into a call-centre. However, the customer may expect to receive the first notification of service appointment time by email, and any change to that time by text message. Call centres need integration between the software on the customer service agent's desktop, and the automated call distributor (ACD) or switch hardware, so that calls are prioritised and routed appropriately.

Access to the right customer-related data enables service agent to handle issues professionally. Customer-related data includes both structured data such as contact history, account balances and agreed service levels, and unstructured data such as emails and agent notes about telephone conversations. Being able to draw on a searchable database of service issues and fixes allows the agent to resolve problems quickly and completely. Where a distributed workforce delivers service, smaller, lighter, devices such as tablets and smartphones are in common use. Synchronisation is also an issue for a distributed service team. Synchronisation with the central CRM database enables service engineers and others to ensure that they are aware of their daily scheduled appointments, and the associated contact and issue history.

Service automation applications offer a range of functionality, many of which we list in Table 9.2. The table clusters these functionalities according to the contexts where they are

**Table 9.2** Functionality offered by service automation software

<i>Customer engagement centres (CECs)/call centres</i>	<i>Field technicians</i>	<i>Service managers</i>	<i>Other</i>
Customer communications management	Job management	Agent management	Customer self-service
Inbound communications management	Activity management	Contract management	Chatbot
Voice biometrics	Scheduling	Service level management	Interactive voice response (IVR)
Predictive dialling	Mapping and driving directions	Service analytics	Virtual reality
Queuing and routing	Spare parts management	Workflow development	Web collaboration
Email response management	Invoicing		
Case management			
Case assignment			
Escalation			
Scripting			

most common: in the customer engagement centres (CECs) or call-centre, by field technicians, by service managers, and others. We review these in the following sections.

AI is now an important feature of SA software. While there are many functions possible with AI, one that affects SA is the routing of enquiries. Using predictive analytics, AI can allocate enquiries according to their types, frequency, communication method, topicality, and a variety of other characteristics. This allows companies to quickly manage customer enquiries. By using AI to route incoming enquiries, the customer is more likely to communicate with the company in the way they prefer, in the time frame that works for them, while also ensuring accuracy. Figure 9.3 is a dashboard used in the Genesys software to route incoming customer enquiries. The use of AI, in this case, shows a resulting 55.54% improvement in efficiency from using AI-based routing.

## Customer engagement centres (CECs)/call centres

Customer communications management (CCM) software

**enables the creation, delivery, storage and retrieval, and analysis of outbound and interactive communications. These applications focus on composing, personalizing, formatting, and distributing communications between an enterprise and its customers, prospective customers, and business partners. CCM software enables output in a wide range of digital and analogue media, including mobile devices, email, SMS, web pages and print.<sup>11</sup>**



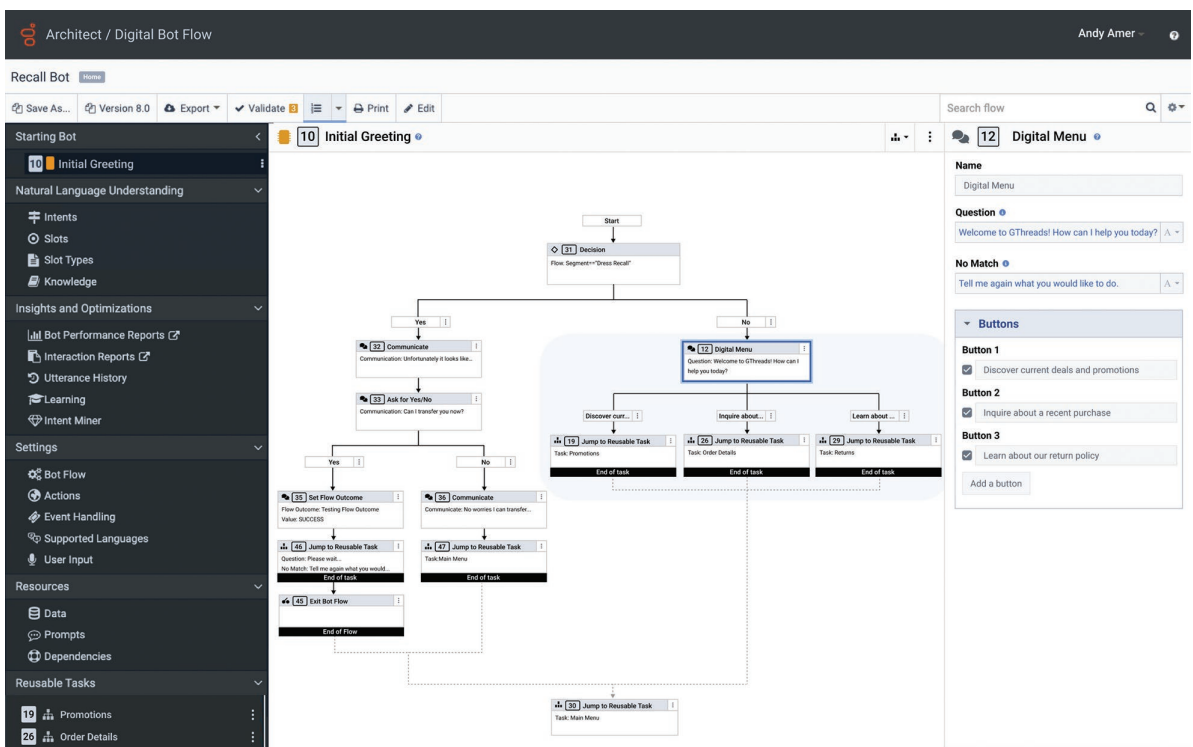


Figure 9.3 AI-based enquiry routing using the Genesys software<sup>12</sup>

CCM tools are evolving from supporting static, printed output and one-way communications sent to segmented audiences to creating dynamic, personalised, on-demand communications via multiple channels, often based on the recipient's preferences rather than the company's. CCM solutions have four core elements: design tool, composition engine, workflow/rule engine and multi-channel output management. New functionality centres on digital communications:

- Social and mobility features that engage customers.
- Contextualisation capabilities to personalise communication for specific customers.
- Analytics and search capabilities to better understand customer behaviour and improve the customer experience.
- Dynamic composition based on historical and real-time, contextual data.
- Integration with adjacent technologies such as web content management, campaign management and other CRM tools.<sup>13</sup>

As companies interact more often with customers through social media, they have begun to appreciate the importance of customer engagement. CCM applications that offer social media functionality enable companies to build improved levels of customer engagement.

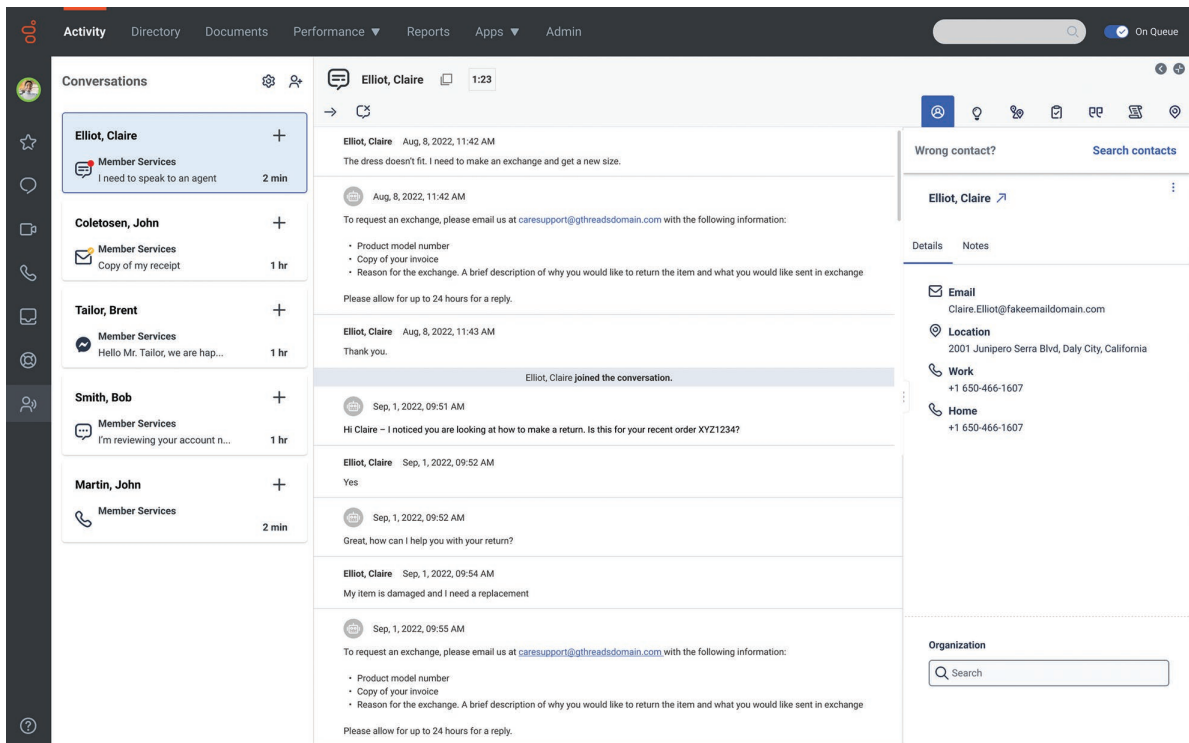


Hence, some multi-channel customer communication applications are now repositioning as Customer Engagement applications. According to Gartner Inc.,

**At their most basic level, these applications handle a wide range of tasks, including engaging customers and prospects across multiple channels, and handling trouble ticketing, order management, case management, advisory services, problem diagnostics and resolution, account management, and returns management. This may also involve knowledge-enabled resolution (such as advanced search tools), process-centric/enabled service resolution, community management, and management and service analytics dashboards.<sup>14</sup>**

Figure 9.4 is an example of a ticket using Genesys software.

**Inbound communications (or call) management (ICM)** applications are in wide use in customer engagement and call centre contexts. The technology allows companies to receive, acknowledge, route, queue, and distribute incoming communications from any channel – voice telephony, email, chat, fax, instant message, SMS, fax, social media, webform – to agents in any location including engagement or call centre, in the field or at home. A unified queue, issue/content recognition, intelligent routing, and knowledge-base integration allow agents to deliver a consistent customer experience and to respond effectively to service requests whatever the communication channel. Added technologies that support service delivery in



**Figure 9.4** Service ticket record using the Genesys software<sup>15</sup>

this multi-channel environment include CTI (computer telephony integration), ACD (automated call distribution), IVR (interactive voice response), scripting, call recording, problem diagnostics, and service analytics. As with other CRM applications, ICM is available on demand (hosted) or on premise (installed on the user's hardware). We have more to say about IVR and scripting later in this chapter.

**Automatic (or Automated) Call Distribution (ACD)** is a technology that recognises, answers, and distributes incoming calls. When the ACD system receives an incoming call, it follows instructions as to how to handle the call. It can route the call to an agent, place it on hold, or route it to an IVR message. ACD routes calls to the best agent based upon criteria such as the number from which the call was made, customer identification number, language spoken by the caller, agent expertise, product category, loyalty scheme membership tier, and so on. When engagement and call centres use a distributed workforce, some agents may be working from home and others from a company site. Cloud-based ICM applications allow users to browse the application's functionality from their locations.

## CASE ILLUSTRATION 9.2

### SERVICE CENTRE AUTOMATION AT MMM HEALTHCARE PUERTO RICO.<sup>16</sup>

MMM Healthcare began over 20 years ago, with company growth contributing to the complexity of their system, which included over 12 separate customer service programmes for the contact centre agents to manage.

Using a combination of task automation and unification of the desktop programmes, MMM Healthcare has seen increases in efficiencies and outcomes, along with improvements in user experience for both the company agents and members.

MMM Healthcare integrated the 12 core systems into one case management app, which drives compliance and improved management. Staff can see a 360-degree view of each member, their history, alerts, care gaps, and system-recommended actions through real-time assist guides.

Positive results include:

- Back-office workloads and follow-up call numbers are much lower.
- Call handling times reductions by an average of two minutes.
- Training time reductions by over 30% due to the simplified system, and
- Member experience has improved due to the personalised prompt service.

**Voice biometrics** or voice recognition has become a reliable technology for authenticating a person's identity. Voice biometrics uses Artificial Intelligence to verify identity by comparing a person's voice with their voiceprint, a previously recorded representation of their voice. Voice recognition presents a bigger technological challenge than fingerprint or iris recognition, because voice characteristics can change for example if the speaker has had a tooth removed or is suffering a cold or flu. Voice recognition can be used as a standalone authentication protocol but is more commonly deployed as an added security layer, especially for

organisations targeted by fraudsters – banks, insurance companies, and healthcare providers. It provides stronger authentication than a knowledge-based approach by verifying people for who they are, as opposed to what they know, such as a PIN or mother's maiden name. Recent advances in voice biometrics recognise the emotional state of the caller, for example if they are stressed, and route the call appropriately. Voice biometrics means customers do not need to answer a set of personal security questions at the start of contact with a call or customer engagement centre. From management's perspective, if voice recognition saves an average of 20 seconds of the agent's time per call there is the prospect of a significant lift in agent productivity, and an improvement in customer experience.

**Predictive dialling** is a telephony technology widely used in engagement and call centres. It automatically dials groups of telephone numbers, and then passes calls to available agents once the call connects. The technology quickly ends calls that receive no-answers, busy signals, answering machines or disconnected numbers while predicting when an agent will be available to take the next call. Predictive diallers measure the number of available agents, available lines, average handling time, and other factors to adjust outbound calls accordingly. Predictive diallers are in common use for tele-marketing, market research surveys, appointment confirmation, payment collection, and service follow-ups. Vendors of this technology claim that predictive dialling raises agent productivity.

**Queuing and routing** applications route calls to agents with expertise in the customer's issue. Universal queuing aggregates all inbound contacts into a single queue regardless of reception channel – voice, email, chat, and social media – and applies a common routing rule. This delivers a fairer and more consistent customer experience. Without universal queuing, service performance is likely to vary between channels. Call routing relies on case assignment rules (see above) and the customer's queue position corresponds to the customer's value to the company or some other metric. The aim of queuing and routing is to ensure that the best agent responds to each customer service issue for its handling and resolution.

**Email response management systems (ERMS)** are software applications or services that manage large volumes of email messages. EMRS are available as standalone solutions, but the functionality offered by EMRS is also in leading customer communications management (CCM) solutions, as described above. EMRS functionality includes queuing, routing, acknowledgement, intelligent autoresponders, personalisation, knowledge-base integration, productivity tools such as templates and multi-language grammar and spell-checkers, archiving and email analytics. Email is an important part of the service automation landscape. Email is useful for both inter-personal and inter-company communications.

Customers increasingly expect companies to offer an email communication channel, not just for general communications but also for service-related issues. Company collateral, packaging and websites often list email addresses for individuals and departments. Up to 90% of company websites include email contacts for customer service.<sup>17</sup> In addition, many companies, have generic email addresses such as info@, sales@, and support@. Where companies choose to receive customer emails into generic email boxes, there needs to be a manual or automated system for reading and responding to them and routing them to responsible individuals where necessary. First generation automated readers typically recognise keywords and respond accordingly. Second generation readers recognise patterns across the entire email text rather than simply recognising keywords. Pattern recognition has the added advantage of being able to detect the emotional tone of an email, so that a particularly

angry customer might receive a more immediate response. ERMS also have specialised Spam recognition and filtering features, and anti-virus tools. According to Kaspersky Lab, the email and Internet security firm, in 2021 about 46% of all emails were Spam.<sup>18</sup>

Response time and response content are two important issues that customers consider in assessing service quality. ERMS can be set up to issue an immediate, personalised, acknowledgement and case (tracking) number on receipt of a service-related email. These auto-responses can also set out the service promise, for example, that issue resolution will occur within seven days. Many ERMS also have response libraries for engagement centre staff to browse if standard automated responses are inadequate. Other functionality in ERMS include source filtering (only accepting emails from recognised sources), multiple email format compatibility (text only or HTML), ability to send and receive attachments, content filtering (filters out Spam, duplicates, and other nuisance emails), source blocking, auto-forwarding, auto-translation, BCC, and management reporting. ERMS is also configurable to keep the customer informed of progress in the resolution of the service request and in marketing campaigns to deliver outbound emails and SMS messages.

From the company's point of view, several service metrics shed light on the effectiveness of their email management processes such as the numbers of emails in queues, the average response time, the degree of service level compliance, and agent productivity. From a service delivery perspective, the most important measure is customer satisfaction with response time and content.

**Case management** covers the full cycle of activities involved from receiving initial notification of a matter of concern to a customer to its final resolution. Case management is also known as incident management and issue management. Case management applications enable case handlers to manage simple incidents, customer complaints and complex cases and investigations. Case management processes typically use workflow applications within SA software. Workflow depicts the necessary activities, the sequence in which they occur, and they sometimes include the standards to which the activities must comply. Workflow ensures that case handlers follow the prescribed business rules. Cases, incidents, or issues begin by the creation of a trouble ticket. Customers may be able to do this in multiple channels, including webform, email, telephone, social media post, and retail point-of-sale. The software automatically communicates with the customer at different trigger events such as scheduling of appointments, or follow-up after the company closes the case. Case management software integrates with a service knowledge base that enables technicians to diagnose and fix problems quickly, document management, billing systems, and a reporting engine.

**Escalation** ensures that unresolved issues are assigned to higher levels of authority occurs according to predetermined rules. Higher levels typically have greater discretion to resolve issues. For example, a customer service agent may have to escalate issues that have a potentially high cost or reputational consequence to higher levels of management. A health insurance specialist escalates issues based on their cost implications as follows:

<i>Level</i>	<i>Limit</i>
Customer service agent	<\$50
Team leader	<\$100
Business unit manager	<\$500
Executive manager	>\$2000

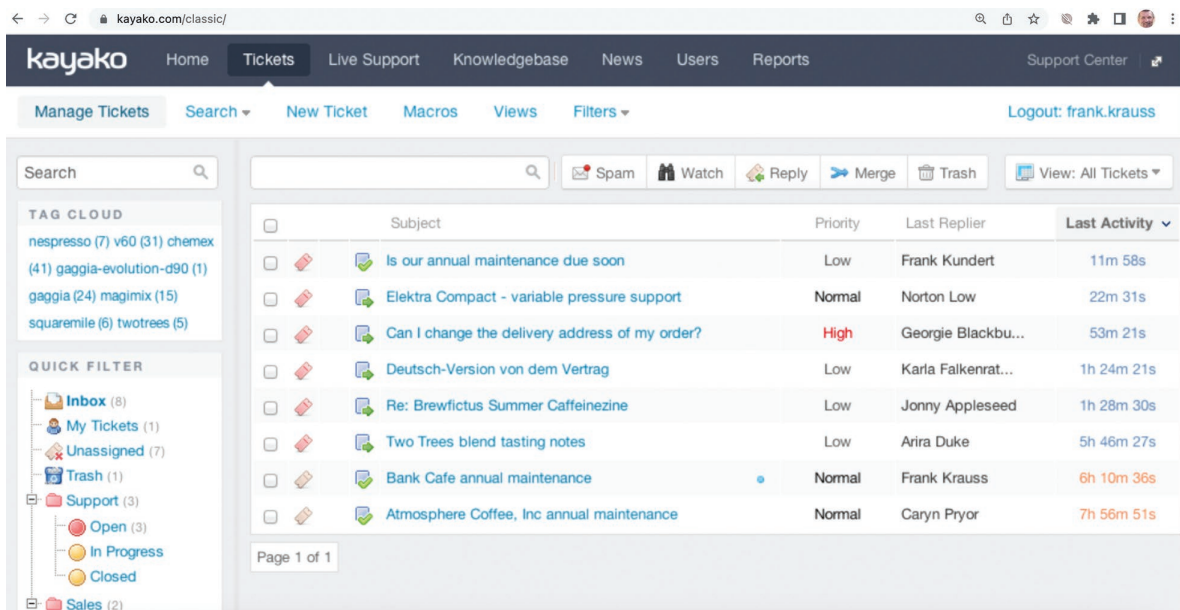


Figure 9.5 Trouble-ticket screenshot<sup>19</sup>

Agents in the front-line undergo training that helps them recognise issues that fall outside of the normal rules for health insurance provision and to escalate those issues accordingly. Escalation rules are common features of case management applications.

**Scripting** enables customer service agents to converse intelligently with customers to diagnose and resolve problems, co-creating good customer experience and following regulatory requirements, even though they may be untrained as product experts. Scripts are a series of screens that display pre-determined text or talking points that the agent talks through with the customer. The 'right script' depends on the purpose of the call. When a customer calls to report a service problem it is critical that the script identifies the caller, clarifies the issue, assesses the significance of the issue (e.g., an electrical appliance malfunction might have life-threatening consequences), and establishes what the customer wants to achieve. In a service encounter, it may be inappropriate to include screens of script that aim to achieve a sales outcome. However, if service issue resolution occurs at first contact, up-sell or cross-sell is likely to be more acceptable and productive. Useful scripts are adaptive in that they respond flexibly to the customer's response in real-time. Inflexible scripts deliver poor customer experience. Well-designed scripts deliver customer satisfaction, ensure compliance with any regulatory environment, and enhance agent productivity. Scripts reduce agent training costs and time. Scripts are also useful in outbound call centre contexts.

## Field service

Now, we examine functionality embedded in applications that principally support field service technicians.

The screenshot displays a service automation interface for handling a ticket. The main chat area shows a conversation with 'Samuel Jackdad'. The 'Agent Script: Cable DHCP' is active. The 'LAST RESPONSE' is: '(DHZ)Does the modem appear online based on the light status? Yes'. The 'Current Response' is: '(DHZ)What are the results of ensuring\* that the cable modem is not in standby mode?'. Below this, two options are presented: 'Modem is not in standby mode.' and 'Modem is in persistent standby mode.'. A prompt 'Choose an Option to proceed to Next Step' is at the bottom. The right sidebar contains 'Contact Information' for Steve Rogers, 'Ticket Information', 'Tasks' (including 'Furnish the Call details in ticket'), 'Tags' (including 'sales'), and 'Time Spent'.

**Figure 9.6** Page from agent script handling issue with Internet access<sup>20</sup>

**Job management** applications offer a range of functionality that is useful to service technicians and managers when planning and performing field service repairs, preventive maintenance, meter readings, inspections, installations, upgrades, and other service tasks. Functionality ranges over cost estimation, quotation generation, creation of trouble tickets, job planning, project management, travel time and distance calculation, GPS mapping, job clustering (to reduce travel time), calendaring, scheduling, spare parts management, job progress tracking, invoicing, service level management, technician dispatch, time management, and product configuration. Jobs are associated with accounts, contacts, contracts, or opportunities so that technicians can have access to all relevant customer information on site. Job management applications provide technicians with the tools to deliver efficient and effective service to customers, thereby enhancing service experience. Management reports generated by these applications enable managers to keep control over costs and optimise technician numbers and workload.

**Activity management** functionality enables service staff to review their workload, to-do list and priorities as directed by their manager or scheduler, to coordinate activities with other service staff, and to report back on progress, results, and issue resolution. Some applications allow activity updating in real-time by dispatchers and routed to the technician, so that work can be reprioritised. Alerts can be set so that customers and service staff do not miss appointments, to notify agents and their managers that issues still are unresolved, or service levels are about to be, or have been, violated. Activity management applications usually integrate with Outlook and other calendaring and communications applications. Data in activity management apps need to be synchronised with the CRM database either in real-time or periodically, and attached to an account, contact or opportunity so that other customer



contact staff have a complete view of customer interactions, and that the company has a record of billable hours.

**Scheduling** involves planning and organising a service technician's activity plan for a day, week, or other period. A technician's schedule includes details on the customer, location, time, product, and issue. Some scheduling applications consider a range of factors to ensure that the best technician services the customer issue. These include travel time and distance, technician availability, technician skills, customer access hours, service level agreement, availability of spare parts, and the technician's hourly rates of pay. Optimisation engines allow scheduling to adapt and change as new service tickets appear, priorities change, and technicians or parts become (un)available. Optimisation reduces service costs while sustaining service performance levels.

Solutions that provide **mapping and driving** directions are very useful for service engineers who need to visit customers' homes or business premises. Considering the engineer's point-of-origin, service locations, job priorities, service level agreements and other variables, mapping solutions can minimise travel times and distances to ensure that service task optimisation.

**Spare parts management** is an important application for field technicians. They can see what parts they have with them on the road, check the inventory levels held by other technicians and at regional and central warehouses, order new parts, transfer parts from colleagues, manage excess and defective parts, and check on the progress of orders thereby ensuring that when they turn up at a job, they have the necessary equipment. Managers can also use this application to ensure that proper levels of parts inventory are kept, and customers are billed correctly.

**Invoicing** is a useful application for service technicians who are called to site to provide out-of-warranty service. Having completed the job to the customer's satisfaction, and captured the customer's signature electronically, the invoice can be raised on the spot and payment made immediately, thereby accelerating cash flow. Billing functionality is often part of other service automation applications such as case management and job management.

## Customer service managers

We now review some applications that support customer service management.

**Agent management** is a high priority for call- and engagement centre managers. Managers want to employ the lowest head-count compatible with the desired level of customer service. Too few agents and customer satisfaction will be suboptimal. Too many agents and payroll costs will be unnecessarily high. Customers and managers both want quick issue resolution. Technologies that contribute to this outcome include queuing, scripting, and knowledge management. Agent managers often face the challenge of managing globally dispersed service agents, who are employed both in-house and outsourced, working in different times zones, using various languages, and currencies. Dashboards provide managers with visibility into the performance of both centres and individual agents. Companies use many key performance indicators to assess agents in engagement and call centre environments. Among them are the following:

- Volumes received. The total number of inbound contacts across all channels.
- Average queuing time. The average amount of time a customer must wait in a queue for an agent response.

- Average handle time (AHT) is the average amount of time it takes to complete a call or other customer interaction, measured from the customer's initiation of the contact/call, including hold time, talk time and related record keeping tasks that follow the transaction. AHT is the major consideration when deciding agent numbers.
- Abandon rate is the percentage of calls in which the caller hangs up before agent response.
- Average speed of answer is the percentage of calls answered with a given number of seconds or rings of reception into a call centre. For example, 80% of calls answered in 20 seconds. This is sometimes known as service level.
- Response time is the amount of agent time to respond to 100% of inbound contacts. This metric is often specific to each channel and associated with a given aim, for example, "all customer email inquiries will be handled within eight hours".
- First call (or contact) resolution (FCR). Customers want to have their question answered or issue resolved at their first contact with the service provider. They do not want to have to call back. SQM Group's research shows that on average only 68% of first-time calls result in the issue being resolved to the satisfaction of the customer. According to the SQM Group, "FCR is the highest correlated metric to customer satisfaction of all the call centre metrics. Absence of FCR is the biggest driver of customer dissatisfaction".<sup>21</sup> FCR also leads to a better work experience for agents. Unsurprisingly, agent efforts to cross-sell during calls that do not achieve FCR are rarely successful.
- Self-service issue resolution. Many call centre managers want to deflect as many calls as possible from the agent queue to self-service systems – IVR, chatbot, and interactive web applications. This not only cuts costs, but also frees up agents to handle more complex issues. However, there may be a cost to the business in terms of reduced customer satisfaction and consequent churn.

**Contract management** functionality enables service engineers and managers to create, track, progress, accelerate, monitor, and control service contracts with customers. Many companies now sell extended service contracts to customers when warranty periods have expired. Contract management software offers a range of functionalities: document management, contract authoring, workflow, email, or SMS alerts (about contract expiry, for example), contract approval processes, contract security, collaborative contract development, licensing, electronic signatures, calendaring, and to-do lists, for example.

**Service level management (SLM)** applications allow managers to establish, monitor, and control the level of service that is offered to customers, and technicians to deliver the level of service agreed. A service level agreement is a contractual commitment between a service provider and customer that specifies the mutual responsibilities of both parties with respect to a set of services and their performance standards. Service levels can relate to several variables, including availability (the percentage of time that the service is available over an agreed time), usage (the number of service users that it is possible to serve simultaneously) and responsiveness (the service fulfilment speed). SLM applications enable both parties to identify when potential problems, such as service degradation, occur and to respond quickly. Service levels are usually, but not always, subject to negotiation with customers. Instead, many companies simply offer tiered levels of service to customers based on some metric of



their own choice, typically customer value as measured by customer profitability or sales. Technicians who understand the entitlements of customers can service requests to the specified limit, and even up-sell them to a higher level of service.

**Service analytics** provide managers with information on how effectively and efficiently customer service, and individual agents or technicians specifically, are operating, and how satisfied customers are with the service they receive. Important metrics for managers of field service operations, for example, include technician utilisation, parts inventory, travel time, first time fix rate (FTFR), mean time to resolve (MTTR), and job backlog. FTFR tells managers how many cases were resolved at the technician's first call. MTTR measures the time elapsed between notification of the service request to the company and its final resolution. With this information, managers can obtain new resources, reassign staff, offer training, or recalibrate key performance indicators to enhance service delivery. Service analytics provide insight into the cost-to-serve a customer, and therefore help calculate customer profitability. Many SA applications incorporate embedded analytics that produce standard reports and enable online analytical processing (OLAP) to be performed. Oracle's Service Analytics product, for example, includes prebuilt data models with more than 300 metrics.

**Workflow development** software is useful for designing service-related processes, such as problem diagnosis and issue escalation. Workflow for field service operations will define

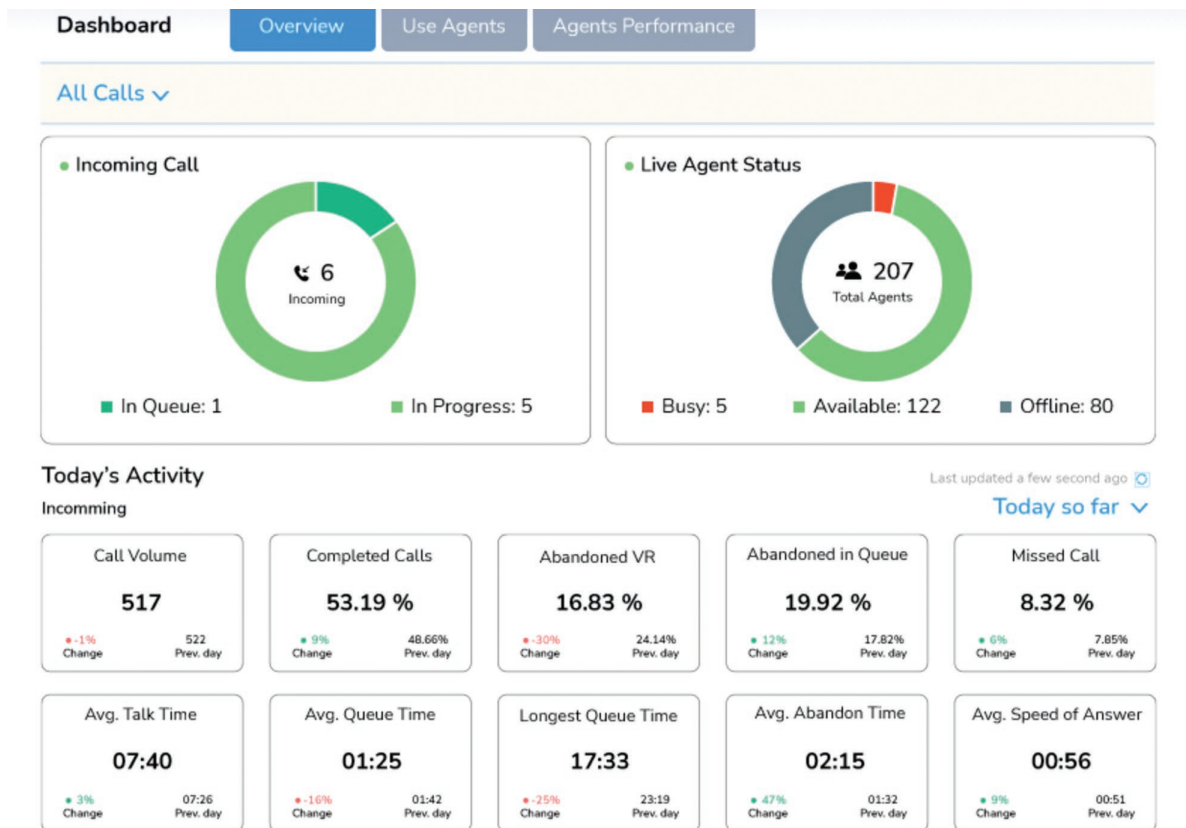


Figure 9.7 Exotel inbound telephony dashboard<sup>22</sup>

how service requests are validated, how service tickets are issued, how tickets are allocated, how problems will be diagnosed, how parts will be ordered, how problems will be fixed, how customers will be invoiced, and so on.

## Other

**Customer self-service (CSS)** is an attractive option for companies because it transfers the responsibility and cost for service to the customer. For simple customer transactions such as notifying changes to contact details, companies that offer self-service deflect a significant number of inbound calls. More broadly, by improving systems and online content, companies can reduce call volumes by 20% or more, which results in substantial savings. Call centre costs for agents handling a call range between \$6 to \$12 whereas the average cost per web self-service transaction is \$0.25.<sup>23</sup> Even in small call centres annual self-service savings quickly reach the six-figure mark and many enterprises can realise cost reductions in the multi-millions.<sup>24</sup> Customers are typically more competent at self-serving when transactions are involved (e.g. online banking or music downloads); however, they are less competent when problem-resolution is concerned. Research suggests that Millennials are more comfortable using self-service options.<sup>25</sup> CSS technologies have been around for a long time – automated teller machines (ATM's) were introduced in 1967! Today CSS technologies include:

- Web self-service. Customers can perform routine transactions online, and access information by searching a knowledge base or reviewing a FAQ page. Customer service agents may also be heavy users of a knowledge base as they try to resolve issues.
- Interactive voice response (IVR). Customers can interact with an automated telephony system to perform tasks that follow step-like procedures.
- Bots can handle large number routine customer enquiries simultaneously.
- Kiosks enable customers to perform specific tasks such as checking in at an airport.
- Self-checkout is available in supermarkets and hotels. In the supermarket customers can scan, bag, and pay for purchases at checkout. Theft of goods at self-service is an issue for supermarket operators. They need to assess whether the costs of customer theft are greater than the cost savings from self-service.
- Apps. Many companies have developed apps that are loaded onto smartphones, tablets, or laptops, allowing customers to perform tasks like checking an account balance, checking weekly specials at local stores, or finding out the time of the next bus.

Portals are widely used to enable customers to self-serve. Customers use portals to place orders, pay, and check order and shipment progress, any day, any time. Searchable online knowledge bases also facilitate problem resolution by customers. Customers can browse for answers to their queries or solutions to their problems. If this is unsuccessful, companies can allow customers to use an online webform to create a case or an issue for the company to follow up and resolve or offer web collaboration (see below). Many companies have policies about what sorts of customer self-service are allowed. For example, cable network customers can upgrade their package online but must call an agent to downgrade or cancel their package. These calls are

directed to a 'saves' team who try to persuade the customer not to reduce their expenditure. Some companies support peer-to-peer self-service (P2PSS). P2PSS is evident when customers report their experiences, issues and solutions in chat rooms, forums, and social media, and aid each other. Companies can support this effort with content from their knowledge base.

Forrester Research Inc. has reported that 72% of customers attempt to self-resolve their service query online initially instead of contacting a human service agent.<sup>26</sup> Companies that introduce self-service technologies need to understand that this fundamentally alters customer experience and may have consequences for customer satisfaction and retention. Some customers love self-service because they are in control, can get the service they need at any time, and there is no agent attempting to sell them something. Other customers prefer human interaction.

**Chatbots** are becoming more widely adopted in customer service settings. A chatbot (or bot) is an interactive software-based service that emulates human conversation in either a speech or chat interface. At its simplest, a bot follows programme rules and is unable to engage in free-flowing interaction. More complex chatbots, however, are powered by Artificial Intelligence and can answer complex customer queries or conduct transactions. Bots can be located within any chat- or speech-enabled technologies including website, mobile app, social media, messaging services, and interactive voice response (IVR). Some bot interactions are initiated by the customer, some by the bot. For example, if you were spending a few seconds on a web page, a proactive bot window might pop up asking if you need any help. Bots are becoming more sophisticated. Early versions were able to understand natural language and respond to queries by drawing on data in content or knowledge databases. The next generation of bots integrated with CRM databases to provide personalised customer-specific interaction. The latest generation of bots is a closer approximation of real-time human-to-human interaction that is aware of history and context, handles complexities and executes actions. Bot interactions are retained in a database that can be explored for insight, improving the content or knowledge that the bots use.

Chatbot technology has come a long way. It is now possible for chatbots to simulate thousands of conversations. For example, the Genesys software allows many conversation starters, which then lead to a set of pre-determined responses.

Research suggests that chatbots have some way to go before they rival human-to-human interaction. One survey of 3000 consumers following bot interactions revealed that over half the sample found that bots were either 'not effective' or only 'somewhat effective'. Consumers complained that bots aren't intelligent enough and get stuck not knowing what to do next. Worse, when transferred to a live agent, callers had to repeat all the same information just delivered to the bot.<sup>27</sup>

Chatbots and Virtual Assistants are not the same. A virtual assistant (VA), according to Gartner Inc. is

**a conversational, computer-generated character that simulates a conversation to deliver voice- or text-based information to a user via a web kiosk or mobile interface. A virtual assistant incorporates natural-language processing, dialogue control, domain knowledge and a visual appearance (such as photos or animation) that changes according to the content and context of the dialogue. The primary interaction methods are text-to-text, text-to-speech, speech-to-text, and speech-to-speech.**<sup>28</sup>

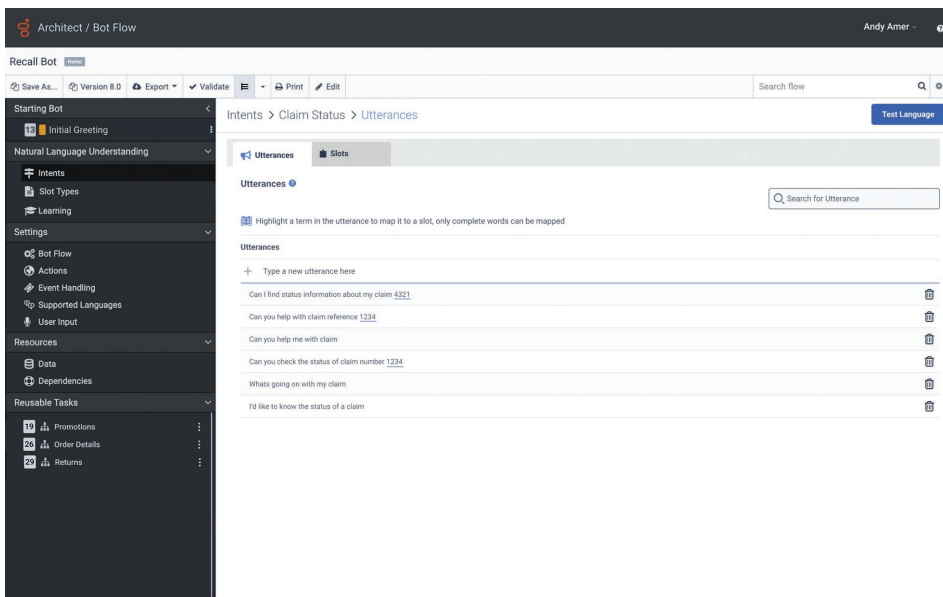


Figure 9.8 Genesys chatbot design screen<sup>29</sup>

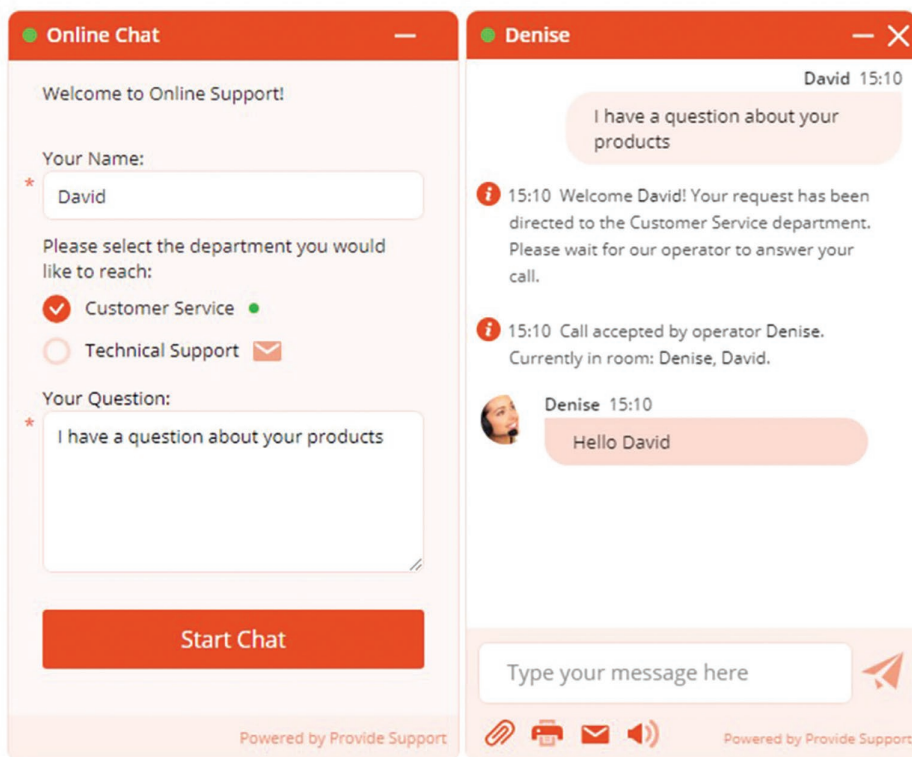


Figure 9.9 Chat window embedded on website<sup>30</sup>

Technological VAs are modelled on human VAs. They are digital assistants. VAs differ from chatbots in their complexity. Chatbots are developed for a very limited range of functions including customer support or automated purchasing, but VAs have a much broader range of applications. VAs use AI algorithms and machine learning in such a way that they can

## CASE ILLUSTRATION 9.3

### AUSTRALIA'S AI ETHICS FRAMEWORK – A MICROSOFT CASE EXAMPLE<sup>31</sup>

Apart from being a platform provider and software developer, Microsoft also develops and supports conversational Artificial Intelligence for their customers to customise and deploy.

Microsoft believes that developing chatbots with ethical principles will increase our trust in AI technology.

The Australian Government developed an 'Artificial Intelligence Ethics Framework' outlining suggested 'AI Ethics Principles' for organisations to use voluntarily. Microsoft applied these principles to its conversational AI beginning with initial questions such as "Will the AI system be used in ways that significantly impact others?"

Microsoft recognised that while customer service Q&A chatbots are unlikely to directly cause harm, they may cause harm through potential personal data leaks for example.

Microsoft recognises eight AI ethics principles in line with the Australian AI Ethics Principles, summarised as:

1. Human, social, and environmental wellbeing – the chatbot's purpose should be clearly defined, beneficial and it should be designed to perform responsibly.
2. Human centred values – Ensure respect for users by informing them at the start of an interaction that they are not interacting with a human.
3. Fairness – Provide fairness and reduce bias to reduce the potential for discrimination, by for example limiting the topics a chatbot will cover, allowing voice interactions, multiple language formats and enabling multiple local accents.
4. Privacy protection and security – examples include obtaining user consent to collect data, inform users about how their data is used and allowing users to opt out where possible.
5. Reliability and safety – ensure systems work as intended, within acceptable error rates and a desirable ratio of positive to negative experiences.
6. Transparency and explainability – be transparent about notifying users that they are interacting with a chatbot, provide accessibility features, and provide use surveys to assess feedback.
7. Contestability – have procedures in place so that humans can become involved if necessary.
8. Accountability – Developers and deployers have a shared understanding of the potential impacts of the software and best practice to avoid negative impacts.

Microsoft has learned that incorporating AI principles involves asking important questions and making complex choices; important decisions if chatbots are to be trusted by society.

respond intelligently to just about any request and improving their performance over time. Well known standalone VA's include Google Home and Amazon Alexa, whereas Apple's Siri, Microsoft's Cortana and Google's Assistant are built into mobile devices.

**Interactive voice response (IVR)** uses voice or touch tone keypad input from callers to guide them through a tiered menu structure to the information they require as quickly as possible.

**Virtual Reality** is a computer-generated simulation of a 3D image or environment that people can interact with, normally by use of a head-mounted display or gloves fitted with electronic sensors. VR is a highly immersive experience for users. VR is just beginning to find its place in customer service automation. VR presents customers with the ability to 'test drive' any product before making a purchase decision. Travel agents, for example, use VR to immerse customers in alternative destinations. Unlike most of this chapter, which is about service after purchase, this application of VR enhances service before purchase. VR can also be used in customer service training, to expose the trainee to a variety of service contexts requiring different types of response. Field-service agents can use VR to troubleshoot a problem on the customer's premises.

**Web collaboration** is a collective term for the online, social and software tools that enable customers and customer service agents to interact in real-time to solve customer problems. These technologies include instant messaging (web chat), web-conferencing, co-browsing of web pages, and file-sharing (calendars, to-do lists, videos, documents, presentations, and other files). Web collaboration allows the agent to help the customer to resolve the issue in real-time. Customer service agents can collaborate with several customers simultaneously or can prioritise based on customer value or some other metric. Transcripts of the chat can be kept and attached to the customer file. Web collaboration is often used as an escalation option for customers who cannot find a solution to their issue through a self-service portal. Web collaboration may reduce online abandonment rates, increase problem resolution and customer satisfaction, and provide up-sell and cross-sell opportunities.

## CONCLUSION

SA is the application of computerised technologies to support and manage the service activities of the company whether these be through customer-facing staff or through self-service channels. Companies and their customers can experience many benefits from SA: enhanced service effectiveness and efficiency, greater service productivity, better agent work experience, and improved customer experience, engagement, and retention. Service automation applications offer a wide variety of functionality used in different contexts. Customer engagement- and call centre operations benefit from applications that support customer communications management, inbound and out-bound communications management, email response management, case management, case assignment and escalation. Voice biometrics, predictive dialling, queuing, and routing, and scripting support customer service agents in call centres. Field technicians benefit from applications that support from job management, activity management, mapping and driving, spare parts management, and invoicing. Service managers enjoy technological support for agent management, contract and service level management, service analysis and development of workflow. Newer technologies such as

chatbots and virtual reality are finding a place in the service automation landscape. As with other CRM systems, SA also poses costs to companies during implementation and through sustainment. Employees also require training to use SA appropriately.

## DISCUSSION QUESTIONS

1. What is customer service? How does customer service relate to service quality and to service standards?
2. What is service automation? Why might a company choose to adopt SA? Why might a company choose to avoid SA?
3. What are the main contexts where SA is in common use? What might prevent the adoption of SA in other contexts?
4. What functionality is common in SA software? How might this functionality affect workflows in a company?

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## Section D

# ANALYTICAL CRM

Analytical CRM, also called analytic CRM, is concerned with capturing, storing, extracting, integrating, processing, interpreting, distributing, using, and reporting customer-related data to enhance both customer and company value. This section includes two chapters. Chapter 10 focuses on the uses of customer-related data for CRM. Chapter 11 considers how companies can develop and manage CRM databases.

# USING CUSTOMER-RELATED DATA FOR ANALYTICS

### CHAPTER OBJECTIVES

After reading this chapter, you will be able to:

1. Describe the role of CRM analytics and how they support CRM strategy and tactics.
2. Describe how analytics supports customer management throughout the customer journey in terms of marketing, sales, and service.
3. Describe the role of data mining for: describing and visualising, classification, estimation, prediction, affinity grouping and clustering.
4. Describe the types of analytics that apply to structured, unstructured, and Big Data.
5. Describe the role of Artificial Intelligence (AI) in analytical CRM.

### INTRODUCTION

CRM analytics has grown in importance over the past 30 years. Organisations have realised that merely streamlining customer-facing operations in marketing, sales, and service is not enough. Analytics can provide a deeper insight into the customer, enabling organisations to improve key CRM outcomes such as the creation of customer value, improved satisfaction, reduced propensity to churn, and lower cost-to-serve. Moreover, we have recently seen an unprecedented explosion of customer-generated data that promises more profound insight and ability to predict purchases. Customers generate data through online search, purchase, location (mobile phones, smart devices) and activity on social media. These online activities leave a digital trail or ‘footprint’, which companies can use to develop a comprehensive picture of customers. Fortunately, technology is now keeping up with the explosion of data and businesses can better harness it more effectively than has been the case.

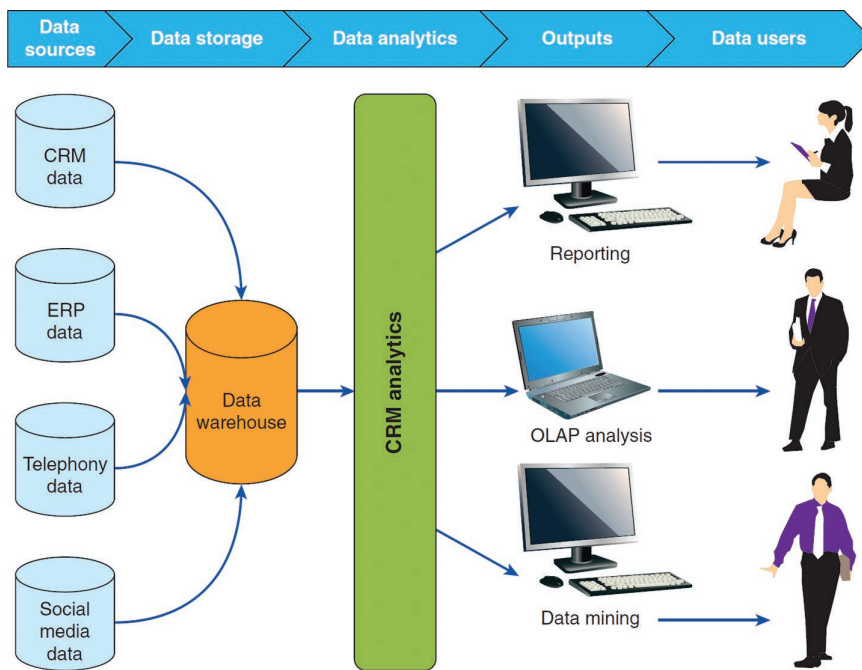
Analysis of customer-related data supports both strategic and operational CRM. Strategic CRM focuses on the development of a customer-centric business dedicated to winning and keeping (potentially) profitable customers by cost effectively creating and delivering value better than competitors. Analysis of customer-related data can help answer crucial strategic CRM questions such as: How do customers extract value from our offers? Where are the 'pain points' in the customer journey? Which customers should we serve? What is our share of customer spending on our category? What do our customers think and feel about their experience of doing business with us? What parts of our value proposition are superior or inferior to competitors? Who are our major competitors and what are their strengths and weaknesses? How do our customers use our offerings, and can we help them extract more value?

Analysis of customer-related data can help answer crucial operational CRM questions such as: which channels should we use to communicate with our customers? What offers should we make, and when should we make them? How does our sales performance differ across territories and product ranges, and how can we fix any problems? How well do we manage our opportunity pipeline? How satisfied are customers with the service we provide and what can be done to improve it?

CRM software applications allow users to produce simple descriptive reports, but for deeper insights other forms of analysis are necessary. Figure 10.1 shows how companies usually structure CRM data flows. Data from various sources including the CRM system, the Enterprise Resource System (ERP) system and elsewhere enter a data warehouse. An analytics package is part of the warehouse configuration so that users, whether in sales, marketing, service, or management, can interrogate and make sense out of the warehoused data. Users receive insights through their devices in the form of reports, which are standardised or ad hoc, OLAP (Online Analytical Processing) outputs or data mining reports. In this chapter we explain how organisations can make use of these data to achieve their CRM goals throughout the customer journey.

## **WHAT ARE CUSTOMER ANALYTICS FOR?**

There is much hype around customer analytics at present. The ability to gain unique customer insights is tantalising for companies that seek competitive advantage. But what can customer analytics really do? In this section, we hope to answer this question. In short, we see customer analytics as serving three main functions for companies. First, companies can use customer analytics to develop insights that help them develop 'best-guesses' about the emerging future. In this, customer analytics often involve attempts to predict the future based on the past (i.e., by recognising and extrapolating trends). Second, companies can use customer analytics to uncover associations between phenomena. Where such associations are surprising, the company may discover a novel insight useful for achieving their CRM goals more precisely or reliably. Third, customer analytics can help companies categorise customers. As we saw in the chapter on customer portfolio management, a key input to strategic decision-making is the identification of customer segments. By treating customers as groups with similar characteristics, which differ from other customer clusters, the company can make decisions about which customers to target and how.



**Figure 10.1** Basic data configuration for CRM analytics<sup>1</sup>

## Predicting the future based on the past

If the company bases its plans on what it considers the most probable customer behaviours, this can help improve the efficiency and effectiveness of the company's operations. To achieve this outcome, companies can draw on a variety of forecasting methods and techniques.

**Time series** analyses take historical data and extrapolates them forward as a linear or curvilinear trend. This makes sense when there are historical data, and when customer behaviours are stable. The moving average method is the simplest of these. To calculate a moving average, the company considers sales figures across several earlier periods and calculates a mean score. Table 10.1 includes an example of the moving average calculation outputs. In this example, the moving average calculation considers the previous two years of sales data or the previous four years. Companies can compare moving averages from multiple years and year ranges to verify their results.

While calculating a moving average has the advantage of simplicity, more complex customer behaviours may force the company to apply more nuanced analyses. For example, companies may wish to apply weightings so that the more recent years have a greater impact on the calculation. This follows a logic that the most recent yearly results reflect those in the immediate future more than earlier results. Known as 'exponential smoothing', the company must decide on the weighting factors to apply. If we consider the data in Table 10.1, we can estimate a four-year moving average for the year 2025 by considering the data for 2021–2024. We can then apply the weightings of 1, 2, 3, and 4 to each of the year results for 2021–2024. Our weighted mean score is then 5529.75 for 2025.

**Table 10.1** Sales forecasting using moving averages

<i>Year</i>	<i>Historic sales volumes</i>	<i>Two-year moving average</i>	<i>Four-year moving average</i>
2013	4830		
2014	4930		
2015	4870	4880	
2016	5210	4900	
2017	5330	5040	4960
2018	5660	5270	5085
2019	5440	5495	5267
2020	5550	5550	5410
2021	5740	5495	5495
2022	5120	5645	5597.5
2023	5810	5430	5462.5
2024	6100	5465	5555

Time series analyses can also accommodate cyclical or seasonal patterns in the historical data. For example, ice cream sales peak in summer while heavy, warm coat sales peak in winter. The decomposition models allow companies to separate a longer-term underlying trend from cyclical or seasonal peaks and troughs. Decomposition models also include a random factor so that they account for unknown information.

**Regression analyses** are also useful tools when trying to understand customer behaviour. Regression models examine the relationship between a series of independent variables and one or more dependent outcome variables, while also controlling for other influences on the specified relationships. Regression models try to explain an outcome by examining a set of variables that contribute to those outcomes. For example, to understand the demand for cars (the dependent variable), a regression model might include data on population size, average disposable income, average car price for the category, and average fuel price (the independent variables). This allows the company to identify the respective effects of each independent variable on car sales. This information is useful when predicting customer behaviour.

Finding **leading indicators** also is based on relationships between variables. A leading indicator is some contemporary activity or event that shows that another activity or event will probably happen in the future. At a macro level, for example, housing starts are good predictors of future sales of kitchen furniture. At a micro level, when a credit card customer calls into a contact centre to ask about the current rate of interest, this is a strong indicator that the customer will switch to another supplier in the future. Understanding which leading indicators to concentrate on can be challenging, but clues can emerge through one or more of the analytical methods and techniques we describe in this chapter.

**Sales team estimates** can also help predict customer behaviours. When sales professionals have a close relationship with their customers, they are more likely to make well-informed

predictions. This can stem from a refined understanding of customer plans, the budget they have, any constraints they face, their buying cycle, and so forth. For example, many organisations have annual budget cycles. It is common for them to spend the least at the beginning of their budget cycle and more as the end of the budget cycle draws nearer. This reflects an initially conservative approach to financial management. As the budget cycle draws closer to its end date, managers tend to accelerate their spending. This allows them to prove their business unit does require the amount of allocated budget to achieve its purpose while also helping to support a case for the same, or greater, budget allocation in the subsequent budget period.

## Uncovering associations

A related emphasis in customer portfolio analysis when trying to understand and predict customer behaviours is to find associations between conditions or variables. In most cases, companies try to do this through statistical analyses of customer-related datasets. So, the company must ensure it has customer-related data in the correct format prior to conducting their search for associations. The outputs of such analyses show the type of association (e.g., positive, or negative), and the strength of the association (normally in terms of statistical significance). We consider some of the more common analytical methods below.

**Correlation analysis** requires two or more variables with multiple datapoints. The analysis then assesses the extent to which both variables move in the same or different directions. It may be that there is no obvious direction since the variables are uncorrelated. Correlation analysis can uncover important clues regarding customer behaviour. For example, a correlation analysis may consider two input variables: age and income. Across the customer population in the company's customer portfolio, a correlation analysis may reveal that the higher the customer's age, the higher their income. For the company, this might imply it is better to pitch premium offers only at those customers in older age groups. While interesting, correlation analysis does suffer from a major drawback: it is only correlation, it is not causation. It is tempting to think that a statistically significant relationship between two variables is evidence that one causes the other. This may not be the case. In our example earlier, it may be the case that age and income have a significant positive correlation. A closer examination might reveal that when a customer reaches retirement age, their income declines. So, this shows that age does not necessarily cause higher income. Instead, this is more a coincidence. If we consider other factors such as the type of occupation the customer has, their gender, their education, their location, and so forth, we might find there are better explanations of the causes of higher income. Overall, correlation analysis is useful as part of a broader investigation but is not a definitive sign of causation.

**Association rules** are important means to understand customer segments. Much like correlation analysis, association rules allow companies to find statistical relationships between variables in a dataset. Supermarket retailer Tesco, for example, has about 20 million Clubcard members in the UK alone. Not only does the company have the demographic data that the customer provided on becoming a club member, but also the customer's transactional data. If 10 million club members use Tesco in a week and buy an average basket of 30 items, Tesco's database grows by 300 million pieces of data per week. Association rules may



highlight a relationship between two or more customer attributes in Tesco's dataset. Companies can use two main types of algorithms when uncovering association rules:

- **Supervised algorithms** involve the pre-specification of suspected associations and trying to verify whether this is the case. For example, the company may suspect customers will pay more for milk when they buy it from a service station when they fill their cars with petrol. A supervised algorithm may look at customer milk purchases in terms of purchase location, whether they bought petrol during the same transaction, purchase timing, and margins. The outputs of the analysis show how closely the hypothesised relationships fit the dataset.
- **Unsupervised algorithms** follow a different analytical process. Instead of pre-specifying a model, companies use algorithms that search for and find statistical associations between variables in the dataset. The aim is to identify a model that has the closest fit to the data. That is, companies 'let the data tell them' how to interpret the evidence. Unsupervised algorithms are useful when trying to challenge the established mindsets of decision-makers, particularly if companies have multiple customer-related datasets and are unsure of the implications or content of these. For example, a company may have customer browser history data and their demographic profile. If someone browses news websites often it is likely they occupy a white-collar profession, are in the mid-forties and enjoy a higher-than-average income. This might also show they have a taste for craft beers, for example.

**Neural Networks**, also called Artificial Neural Networks (ANN), are another way of fitting a model to existing data. ANNs are "computational models designed for emulating the simplest functions and the properties of neurons of the human brain",<sup>2</sup> The expression 'neural network' has its origins in the work of machine learning and artificial intelligence. Researchers in this field have tried to learn from the natural neural networks of living creatures. Neural networks can produce excellent predictions from large and complex datasets with hundreds of interactive predictor variables, but the neural networks are neither easy to understand and visualise, nor straightforward to use. It is common to illustrate neural networks with complex mathematical equations, which include many summations, exponential functions, and parameters.<sup>3</sup> They work well when there are many potential predictor variables some of which are redundant. ANNs are useful for CRM-related purposes such as predicting call-centre loading, estimating responses to sales promotions, and customer voice or face recognition. For example, an ANN was used to predict the response rate to a direct mail marketing campaign. The ANN predicted the campaign audience members' response correctly in 83% of cases.<sup>4</sup>

## Categorising customer segments

Companies can also use one or more of the techniques we present in this section to develop more insight into customer segments. It is useful to consider some approaches to identifying the segments themselves.

**Cluster analysis** is a useful method for finding customer segments. Companies conduct cluster analysis by concentrating on one or two variables that describe some of the

more important customer attributes. For example, the company may wish to use number of dependent children and income levels to cluster customers into groups. The company may have already found or suspect these two variables are important when predicting customer behaviours. A cluster analysis is useful when identifying groups in a population. So, after conducting a cluster analysis, the company may identify three groups: no dependent children/high income; two dependent children/medium income; one dependent child/low income. The cluster analysis will also reveal how many customers fit into each cluster and the proportion of the entire dataset accounted for by each cluster.

**Latent class regression** is another statistical technique useful for analysing customer portfolios. Latent class regression involves two steps. First, the company identifies its segments (also known as ‘classes’). It can do this through a cluster analysis. Second, the company can conduct separate regression analyses on the customers in each customer segment. This results in a series of models that reflect the specific cause-effect relationship that the model specifies in terms of each customer segment. For example, if we want to predict merchandise sales for a sporting team, we might identify three customer segments: women aged 18–25, men aged 18–25, and men aged 40–60. We could then run regression models for each of these segments. We might find that women aged 18–25 are the least likely to purchase sporting merchandise, while men aged 18–25 are moderately likely, and men aged 40–60 are very likely.

## ANALYTICS FOR CRM STRATEGY AND TACTICS

Time frame is the key differentiator between strategy and tactics. The word ‘strategy’ derives from the Greek *stratēgia* (generalship) and has come to mean a plan of action to achieve a long-term goal. Tactics are the specific, short-term manoeuvres that focus on a smaller goal. CRM programmes typically pursue one or more of three broad strategic goals: building revenues, reducing costs, or enhancing customer loyalty/satisfaction. Table 10.2 summarises some of the main tactics that companies use to achieve their strategic goals.

**Table 10.2** CRM strategic goals and related tactics

Tactics	<i>Strategic goals</i>		
	<i>Build revenues</i>	<i>Reduce costs</i>	<i>Enhance loyalty/satisfaction</i>
	Increase profit per customer	Marketing and sales automation Reduce cost-to-serve for unprofitable customers	Personalisation of offers
	Move customers up the ladder of loyalty	Marketing, sales, and service automation	Personalisation of automation
	Protect valued relationships	Improve customer self-service	Predictive analytics that identify most likely to defect
	Generate sales leads	Identify most likely purchase	Improve online experience
	Acquire new customers	Improve sales rep productivity Optimise the journey through the sales funnel	Improve value proposition Personalised offers based on predictive analytics

The analysis that companies need for each of these strategic and tactical uses of CRM would also be different. We'll illustrate this with one example. Imagine a marketer charged with growing revenues from current customers by running cross-sell campaigns. That marketer would want to conduct analysis and obtain reports about several important issues before deciding on the communication medium, offer, and timing. If considering using either direct mail or email as the communication medium (channel) the marketer would want answers to questions like these:

- How many of our customer records have a current, accurate postal address, and email address?
- What is the preferred communications medium of customers for reception of marketing offers?
- What is the relative effectiveness of each channel at generating incremental sales historically?
- What are the fixed and variable costs of campaign execution in each channel?

To decide on the best offer to make to the customer, the marketer would want answers to questions like:

- What types of offers have been successful in the past?
- What forms of campaign execution have been successful in the past?
- Should we launch a Next Best Offer campaign customised for each customer?
- What are the company's constraints around the offer, for example, availability of stock, customer contact policy (e.g., no more than one campaign per month per customer) and incremental sales needed?

The answers to these questions will draw on different forms of customer-related data and involve different types of analysis. For example, it is a simple matter to create a report on the numbers of customers having data in the 'email address' and 'home address' fields of their record. A review of bounce-backs and open-rates for the listed emails would give a good insight into whether they are currently active or not, as would an appraisal of undelivered mail. However, the question of whether to create Next Best Offers for each customer would involve an assessment of the modelling competences of the business and the availability of historical data to build, test, and apply predictive models at the level of the unique customer.

## **ANALYTICS THROUGHOUT THE CUSTOMER JOURNEY**

We have presented the customer journey as an evolution through three phases: customer acquisition, customer retention, and customer development. The types of analysis that support a company's customer acquisition, retention, and development strategies are all different. Customer acquisition strategies need to identify potential new customers and qualify them. The qualification process normally involves scoring, which is an output of data analysis. Higher scores are better prospects. Lead scoring might take account of a wide range

**Table 10.3** Sample criteria used in prospect scoring

<i>Market</i>	<i>Organisational</i>	<i>Personal</i>	<i>Relational</i>	<i>Behavioural</i>
Market size	Revenues	Seniority	Ex-customer	Website visitor?
Market growth	Profits	Decision role	Lost opportunity	Registrations?
Market segmentation	Spending on category	Budget owner	Lead source – website or ad	Contracted to current supplier?
New entrants	Certifications	Influence	Referral?	Video viewed?
Number of competitors	Social network participation	Years of experience	New to database?	Research participant?

of market, organisational, personal, relational, and behavioural attributes (see Table 10.3). Although managers can manually assign scores to leads, most lead management applications automate the scoring process, allowing sales managers to create score reports and ensure sales reps are following up on the best leads.

The customer retention stage of the journey demands analysis to answer a different set of questions, such as:

- Which customers have highest future potential lifetime value?
- How can we cluster customers so as develop appropriate customer management strategies?
- Which customers are candidates for termination? What is the cost-to-serve each customer?
- What is the cost-benefit of our customer loyalty programme?

CRM analytics can contribute significantly to these questions, providing, of course, the right data are available for analysis. One of the main strategies for driving up profitability is to keep those customers who have the greatest future lifetime value. The data challenges in computing CLV can be great. Companies need to know the probability that a customer will buy in the future, the gross margins earned on those sales and the cost-to-serve, ideally at the individual customer level, or at least at the customer segment level. To compute net margin, we subtract cost-to-serve from gross margin.

Let's consider just one of the analytic tasks involved in computing CLV: forecasting future sales. Depending on the business context and data availability, analysts could use a number of data sources and analytical procedures: analysis of **qualitative** data such as sales team estimates, **quantitative** analysis of customer 'intention-to-buy' surveys, **time-series** analysis of historical sales data using moving average, exponential smoothing and time-series decomposition methods, **causal** analyses based on leading indicators, regression or predictive analytics (e.g., machine learning, neural networks).

Customer development is the third stage of the customer journey. The goal of customer development is to increase the value to the business of kept customers, by cross-selling and up-selling, or adjusting service levels to improve customer profitability. In the B2B context, account managers have the responsibility for identifying opportunities and advancing them towards closure according to pre-defined business processes with the support of CRM tools. Senior managers will usually decide what service levels to provide a customer. Many CRM strategies introduce tiered levels of service for customers, with more personalised and frequent service, and better terms offered to higher value customers.

## CASE ILLUSTRATION 10.1

### NEXT BEST ACTION AT ING BANK<sup>5</sup>

As one of the largest financial services firms in Europe, ING had a high-volume direct marketing operation, sending out around 60 million pieces of direct mail each year. The bank realised that its campaigns were losing effectiveness because its campaign programme – originally built for direct mail – wasn't meeting the needs of what was now a multi-channel bank with a strong focus on the online channel.

ING went through a 15-month project that involved a budget of more than €5 million and around 50 full-time employees from marketing, IT, customer intelligence, and the different channels to build a modern direct marketing programme to overcome the old programme's challenges.

ING's klantdifferentiatie direct marketing programme produces marketing messages that are personalised and delivered through different channels in real-time. The programme allows ING to do the following:

- Run campaigns via multiple channels. Whereas ING's old campaign management programme was exclusively based on outbound channels like direct mail, email, and outbound call centre calls, the new programme supports marketing on inbound channels like branches, the bank's secure website, and inbound calls to the call centre.
- Synchronise marketing across channels. As ING uses a centralised system for campaign management, campaigns run as a concerted effort across channels – both inbound and outbound. For example, a customer can receive the same savings account offer through email, on the website, or both in succession. ING has set norms to ensure that they communicate offers through channels that achieve specified response rates.
- Personalise marketing messages. Each customer receives an individual product offer based on what the company already knows about the customer as well as the knowledge that it gains from recent interactions. Branch employees can now see what the Next Best Action (NBA) for each individual customer is and, if appropriate, suggest a product during a client interaction in a branch.
- Run as a continuous dialog. Instead of focusing entirely on ad hoc campaigns, ING's new campaign management programme runs on a continuous basis. By collecting customer responses from different channels and feeding them back into the data warehouse daily, the bank can constantly perfect the offers made to customers. If the company presents an offer several times and the customer doesn't accept, then the company presents them with another offer.

### Analytics for structured data

There are several different types of data kept in relational databases. Managers who act on the outputs of CRM analytics need to have a broad appreciation of these types of data so that they can question whether proper statistical procedures underpin the analysis.

A fundamental distinction is between **categorical** and **continuous** data. Categorical data, also known as discrete data, are data about entities that are sortable as groups or categories, for example product types, gender, or country. Categorical data that are unordered are nominal data (e.g., customer name). Categorical data that follow an order are ordinal data (e.g., a list of customers ordered by sales revenues). Continuous data are data that can take on any value within a finite or infinite range. Continuous data can be either interval data or ratio data. Interval data are measurable along a continuum that has no fixed and non-arbitrary zero point. Temperature scales are interval scales. Zero degrees Fahrenheit does not mean there is no temperature! Ratio data are also interval data, but with the added condition that the data point 0 (zero) means there is none of that variable. Height is an example of ratio data.

Stanley Stevens developed our understanding of the hierarchy of four different data types: nominal, ordinal, interval, and ratio.<sup>6</sup> Managers and their data scientists need to understand this hierarchy because it affects the types of analysis that are possible. Being part of a hierarchy of data types, each successive hierarchy level has all the properties of the previous level and some additional properties of its own. We discuss some of the analytical procedures in coming pages, but currently we want you to understand more about how data differs.

**Nominal** data are the most rudimentary, and are used only to classify, identify, or categorise. A lot of customer-related data is nominal. Unique Customer Numbers, gender classification (M/F) and email addresses are examples of nominal data. Even though a database may choose to record that a customer owns a car with a numeric label '1' in the relevant field (with a non-owner labelled '0') this does not mean there is any rank order, that  $1 > 0$ .

**Ordinal** data rank the variable measured. Ordinal data tell you that an observed case has more or less of some characteristic than another observed case. They do not, however, show the order of magnitude of difference. We would know from an ordinal scale that the first ranked object had more of the measured characteristic than the second ranked, but we would not know whether the latter ranked a close or distant second. A list of customers ranked from 1 to 0 based on their sales revenues is ordinal data; you would know that the number one ranked customer generates most sales, but the size of the gap between first and second could not be known from the rank order.

**Interval** data solve the 'order of magnitude' problem associated with ordinal measures. Not only do interval data identify rank orders, but the distance between the rankings is also known. Many survey instruments use interval scales to measure attitudes and opinions. Interval scales have no fixed zero point. The Celsius and Fahrenheit temperature scales are examples of measures that use interval data but have arbitrary zero points. Differences between interval data make sense but the ratios do not. For example, the difference between  $20^{\circ}$  and  $10^{\circ}$  is the same as the difference between  $60^{\circ}$  and  $50^{\circ}$ , but we couldn't say that  $60^{\circ}$  is three times as hot as  $20^{\circ}$ .

**Ratio** data, unlike interval data, have a fixed and absolute zero point. Ratio measures also have all the properties of nominal, ordinal and interval measures. Ratio data allow you to classify objects, rank them, and compare differences. Customer expenditure is measurable on a ratio scale, as is age, weight, and height. Whereas only addition and subtraction are the only possible operations on interval data, multiplication and division become possible on ratio data. Ratio data, for example, would enable you to claim that a customer paying \$150 for a room spent twice as much as a customer paying \$75.

The reason we should distinguish between these data types is that analytical procedures differ according to the type of data. Categorical data use nonparametric procedures such as logistic regression. Continuous data use parametric procedures such as linear regression. The methods that are useful to correlate sets of ordinal data differ from those used to correlate interval data. Marketing researchers often use ordinal measurement scales but analyse the data as if they were continuous. A Likert scale that measures customer satisfaction against five scale points – very satisfied, satisfied, neither satisfied nor dissatisfied, dissatisfied, very dissatisfied – is an ordinal scale. However, analysts routinely use analytical procedures developed for interval (continuous) data to make sense of the data. Whether they should do so is a source of dispute!

## Analytics for unstructured data

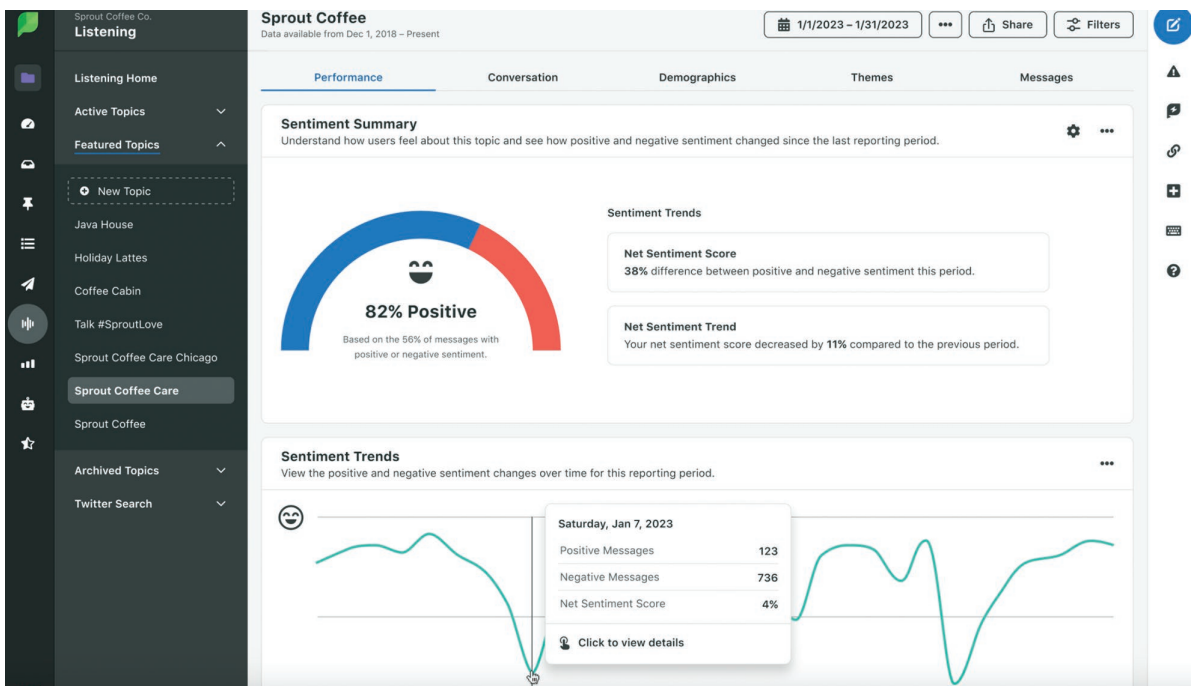
As questions become more complex and shift from mere description to explanation or prediction, the analytical procedures needed to generate answers also become more complex. We identify OLAP and data mining as two ways of interrogating warehoused data to deliver answers to these more complex questions. Whereas OLAP queries allow CRM users to drill down into the reasons why a particular piece of data – say a salesperson's exceptional performance – is as it is, data mining tools draw on a well-established array of statistical procedures, such as correlation, regression, decision-tree, clustering, and neural network routines to produce insights for users. This book is not the place for a full coverage of these statistical procedures, though we do give a brief introduction to the CRM application of some of these techniques later in the chapter.

Unstructured data are data that do not fit a predefined data model: textual and non-textual files including spreadsheets, documents, PDF's, hand-written notes, and image, audio, video, and multi-media data are unstructured. Unstructured data often exist outside the business in social media data repositories, which can be huge, hence the term 'Big Data'. Analytics for these types of data are still evolving.

An advanced form of unstructured data analytics is text analytics. Text analytics extracts relevant information from unstructured text files and transforms it into structured information that is useful in various ways. Unstructured textual data sources include call centre agent notes, emails, documents on the web, instant messages, blogs, tweets, customer comments, customer reviews, questionnaire free-response boxes, social media posts, transcripts of telephone calls and interviews, and so on. When we write or speak in natural language, we use slang, dialect, jargon, misspellings, anachronisms, short forms, acronyms, colloquialisms, metaphors, grammatical idiosyncrasies, and even multiple languages in the same stream. This presents challenges to analysts but there are several text mining tools that can help. SAS Text Miner, for example, enables users to convert text, audio, and other files into a format from which it is possible to extract information by revealing the themes and concepts that are concealed in them.<sup>7</sup> Goutam Chakraborty explains that text analytics has several potential uses in CRM:

- Unstructured data specific to the individual customers may be useful in improving the accuracy of the predictive models. This unstructured data can be a customer survey response to a specific product or service. The basic premise for using text data in predictive models is that the terms contained within the text data stand for the customer's experiences (bad or good), which may explain the customer's decision to continue with the business or churn.





**Figure 10.2** Social media sentiment analytics<sup>8</sup>

- Text analytics is useful for automatic routing. Well-known applications of automatic routing are email forwarding and spam detection.
- Root cause analysis (RCA) is a method of problem solving that tries to find the root causes of faults or problems. Text analytics of customer service or complaint records may reveal issues that lie at the root of the problem.
- Trend analysis is a method of understanding how certain entities change over a period. Examples of such entities are part numbers of an appliance reported in a failure, serial numbers of a device undergoing servicing, types of customer service request and technical support needed. The standard method of analysing trends is to chart and compare the most frequent entity mentioned in the document collection for a specific duration of time (a minute, an hour, a day, or a month) compared to a longer period (a day, a week, a month, or a year).
- Sentiment analysis. An important goal of analysing textual data is to get an insight into what customers (or former customers, potential customers, competitors, or partners) feel and think about a company, brand, product, service, person, or group. Are consumers' feelings good, bad, or neutral? What attributes (features) of the product or service they feel good or bad about? What do the customers think of the various attributes of a company's product such as quality, price, durability, safety, ease of use? Typically, if customer feels good towards an entity, this is a positive sentiment. If the feeling is bad, this is a negative sentiment. Alternatively, if the customer has neither good nor bad opinion sentiment is neutral.<sup>9</sup>



## CASE ILLUSTRATION 10.2

### TEXT ANALYTICS IN THE AUTO INDUSTRY<sup>10</sup>

Warranties cost US automotive companies an estimated \$35 billion annually. Optimising warranty cost is a very important lever in the cost equation for automobile manufacturers. One underused method for perfecting warranty cost is learning from service technicians' comments. Text mining these comments can reveal part defect insights enabling auto manufacturers to prevent them in the future. Key business questions that are answerable by mining technician comments include:

1. What are the main problems that dealers encounter?
2. What are the five problems that dealers mention most often?
3. Is there any seasonal pattern to component failure?
4. Is there any association between component failure and the component's warranty cost?
5. Which faulty parts receive frequent comment during a car's warranty period?

The text mining solution to answer these questions incorporated four kinds of unstructured data: technician comments on the dealer management system, customer comments on the CRM system, user-generated comments on social media, and vehicle reviews in trade journals. The text was input to the application producing three outputs: a list of keywords, a higher-level abstraction of these keywords into key vehicle defect themes, and the third is a list of high-risk keywords such as "oil leakage".

The results allow automobile companies to take several actions to reduce warranty-related cost erosion:

- **Auto component sourcing decisions:** Auto manufacturers can share the results with product suppliers and undertake joint initiatives to reduce defect rates.
- **Re-engineer internal manufacturing processes:** If the component is manufactured internally, then the manufacturing process can be re-examined/re-engineered to eliminate recurrence.
- **Inventory optimisation:** The frequency of occurrence of failed auto parts is useful when forecasting demand for parts.

### Big Data analytics

META's researchers identified three attributes of Big Data, known as the three V's: volume, velocity, and variety.<sup>11</sup> IBM's data scientists, troubled about the quality and accuracy of some Big Data, identified a fourth V – veracity.<sup>12</sup> We now describe the original three Vs.

**Volume.** This is the sheer scale of the data sets that are pushing traditional relational databases beyond their capabilities. Imagine CRM systems that can capture say 15 fields for each of 25 million customers and then imagine tracking the online behaviour of the same 25 million customers as they make 200 clicks a day, every day. All of a sudden there is so much data that traditional databases can no longer cope. The volume of data is partly a function

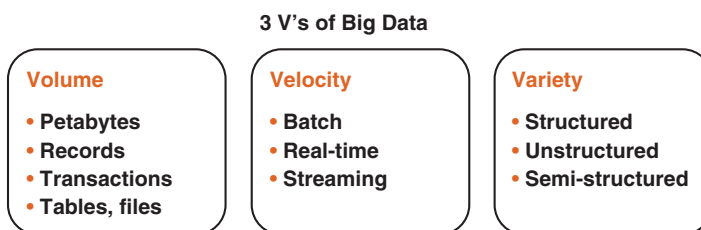
of the other two Vs; we have a variety of data (particularly online, social, and mobile) that changes all the time. Relational databases do not accommodate this environment well.

**Variety.** Traditional data in operational CRM systems usually appears as a very big spreadsheet. Big Data, however, is not always easily amenable to formats that include rows and columns, or numbers. The heterogeneity of Big Data is clear in social media posts, video, images, blogs, location, and sensor data. There are tools and methods that try to convert these incommensurate forms of data into relational data, and that is all part of the Big Data challenge.

**Velocity.** Big Data do not appear in batches only, but it is also streamed and produced in real-time. Streamed data does not exist quietly in back office relational databases ready for periodic analysis. Streamed data updates itself continually.<sup>13</sup>

Customer managers are migrating from periodic research and a narrow range of transactional data to a socially connected, multi-channel environment in which the volume of consumer-generated data has increased exponentially. Data volume will continue to grow with more data generated by, among other technologies, smartphones, and the Internet of Things<sup>14</sup>. The Internet of Things (IoT) describes the linking together of 'dumb' objects to make smart solutions. For example, ever decreasing prices for chips with radio transmitters (RFID) allow logistics companies to label each item in their system such that the firm knows where each item is in real-time, thus reducing errors, increasing accuracy, and avoiding lost items. Once the data stream is live and stable, these companies will allow their customers to access the feed and avoid costly service calls (e.g., where is my parcel?). Some Big Data enthusiasts are already criticising marketers for using expert judgement, rather than creating better simulations and trusting the models to make decisions!<sup>15</sup>

Not only do companies and their data scientists face the problem of how to interpret and use unstructured data, but also how to integrate and then benefit from structured and unstructured data in combination. This presents a bigger challenge than the analysis of unstructured data alone. Rising to the challenge are some of the biggest names in IT and business intelligence: IBM, SAS, and Oracle among others, are making major investments in both the software and the know how to help firms extract value from Big Data. IBM claims to have spent over \$14 billion on acquiring analytics companies such as SPSS and Cognos.<sup>16</sup>



**Figure 10.3** The 3Vs of Big Data<sup>17</sup>

Analysis of Big Data can help managers distinguish important signals, or portents of trends and changes, from a storm of noisy data. eBay Inc. used a Big Data solution to find a trend of people buying men's collectable basketball shoes. The trend was clear from analysis of listings of tens of thousands of shoes sold daily, and other social media data. The company sent this information to potential sellers, who made additional listings, generating added revenues for eBay.<sup>18</sup> Conventional research might have taken a month to deliver the same insight. The Big Data solution allowed the identification of this signal in a single day making the insight far more actionable and relevant.

## CASE ILLUSTRATION 10.3

### BIG DATA ANALYTICS AT BRITISH AIRWAYS<sup>19</sup>

British Airways (BA) enhanced its CRM programme with a Big Data solution it calls "Know Me". This integrates data from its loyalty programme, members' online behaviour, operational data and buying history. The programme involves welcoming BA's best customers by name by cabin crew, to receive a personal apology on a return flight if their outbound leg faces a delay. Managed properly, such applications can personalise service and differentiate the carrier among its most profitable customers, a goal of many loyalty/CRM initiatives.

Emerging Big Data solutions will enable companies to analyse customer service data streams, such as transcripts of call centre enquiries, blogs, tweets, and discussion boards to identify critical service problems in real-time, or close to real-time, and respond speedily. For example, imagine a firm releasing new software that, despite extensive testing, creates problems for some users' computing infrastructure. Instead of waiting weeks, if not months, for feedback from sales, summarised reports from customer service centres and analysis of incoming emails, Big Data analytics can identify the signal-in-the-noise highlighting the unforeseen problems in hours allowing the firm to respond with a timely fix. This improves customer experience, promotes loyalty, and reduces service costs by resolving problems more quickly.

Many companies deploy various social media analytics to understand word-of-mouth, particularly in terms of what people say about them, by whom and to what effect. By combining social media data with transcripts from service call centres and sales data, companies can decide with greater effect the value of positive social media publicity, or the damage caused by excessive and strong customer complaints.

### The technology essentials

Big Data solutions involve storing vast amounts of data cheaply, learning patterns, and building and testing models. The backbone of most Big Data solutions has been Apache Hadoop<sup>20</sup> an open-source framework or computing environment that distributes data across many computers, each of which processes a part of the data, to allow fast computing of these extremely large Big Data databases. Commercial Big Data solutions such as Google Cloud

BigQuery are challenging Hadoop.<sup>21</sup> Other commercial software-solution vendors are adding decision support tools, frameworks, and solutions to make it easier for organisations to install, configure, and integrate unstructured data with relational databases, and analysts to use and prepare visual presentations of the data.

## THREE WAYS TO GENERATE ANALYTICAL INSIGHT

CRM users who want to interrogate customer-related data for analytical purposes, or receive management reports, have three main ways of doing this – standard reports, OLAP (online analytical processing), and data mining, as illustrated in Figure 10.4.<sup>22</sup>

### Standard reports

Reporting is an essential element of an effective CRM system. The foundation of CRM is an understanding and differentiation of customers – something that depends on good customer-related information. Reporting can take the form of simple lists of information such as key accounts and annual revenues, to more sophisticated reports on certain performance metrics. Most CRM technologies enable the automated creation of periodic reports. Examples include monthly reports to sales management about sales rep activity and performance against quota, and daily reports of call centre activity.

Reporting can be standardised (pre-defined), or query-based (ad hoc). Standardised reports are common in CRM software applications, but often need customisation to suit the needs of the organisation. Some customisation of the report can be done when it is run, for example in selecting options or filtering criteria, but the result is limited to what the report designers envisaged. Figure 10.4 is a standard report listing open opportunities of a sales rep.

Query-based reporting, on the other hand, presents the user with a choice of tools, which are useful to construct a specific report relevant to the user's role. This is far more flexible. This is a powerful tool in the right hands, as it allows for specific reports, for example: "Show me all of the customers that have an expired maintenance agreement, in my territory, with annual revenues above \$50,000."

Standard reports are available to users in an array of visualisation tools such as tables, charts, graphs, plots, maps, dashboards, hierarchies, and networks. It is often possible to export reports to other applications such as Excel for further analysis.

As the requirement for analysis grows, the information in customer-related databases may not have a structure that enables the delivery of the best results; for this reason, online analytical processing (OLAP) has become an essential part of CRM.

### Online Analytical Processing (OLAP)

OLAP technologies enable the analysis and ad hoc inquiry, using processes such as slice-and-dice, drill-down and roll-up of the data stored in a data mart. A data mart is typically a subset of data stored in a larger data warehouse. The subset reflects the responsibilities of the business unit, department or team that owns the data mart. For example, a sales department would own a data mart containing only sales-related information. The data

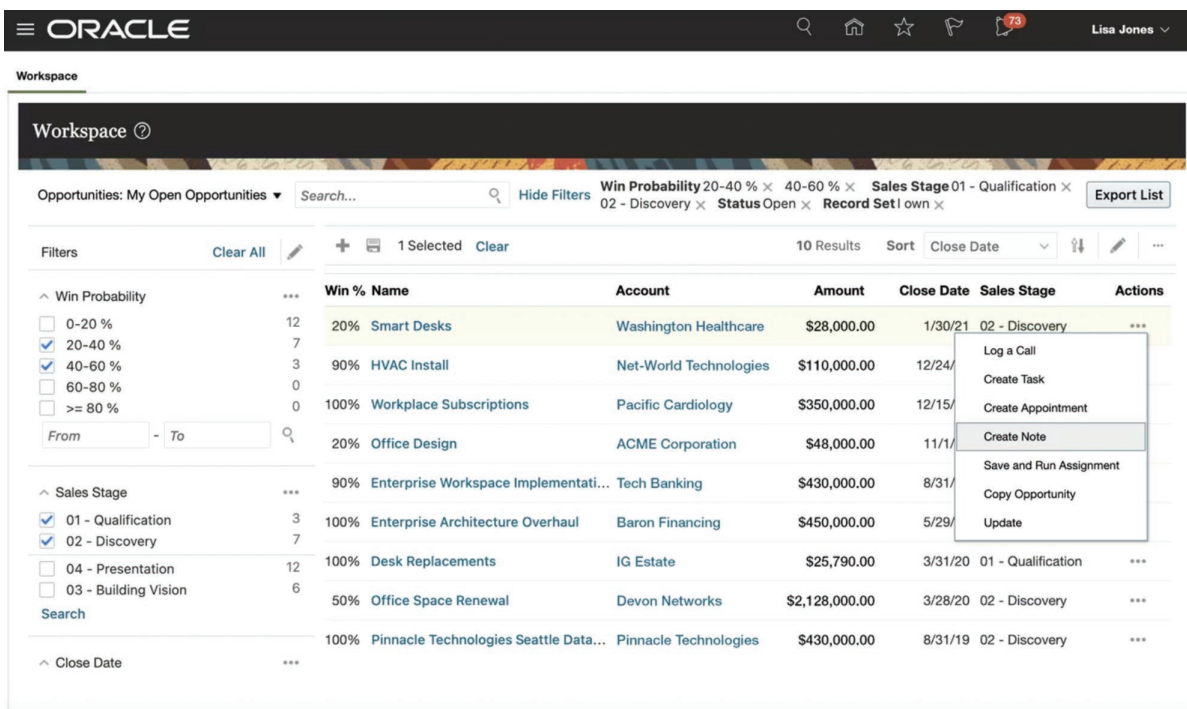


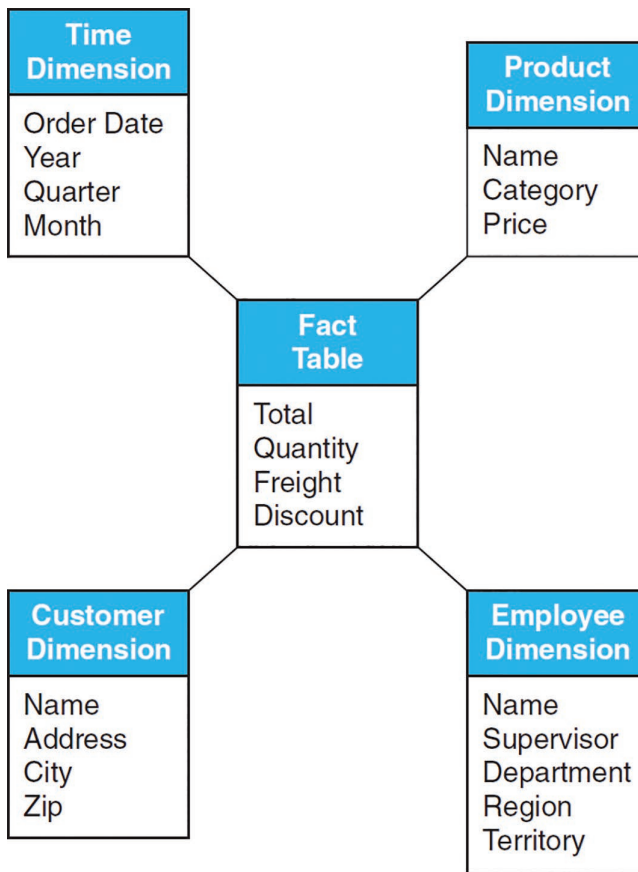
Figure 10.4 Standard report example<sup>23</sup>

loaded into the data mart depend on the sorts of analysis that users of the mart want to perform. OLAP is valuable to a range of CRM users who have different types of questions to ask of the data. Salespeople can analyse their territory to uncover revenue and profitability by customer. Service people can analyse call response rates and times. Partner managers can analyse the performance of partners by comparing marketing fund approvals to partner-generated revenues.

Data subject to analysis using OLAP are in one or several star schemas (see Figure 10.5). A star schema separates data into facts and dimensions. Facts are quantitative data such as sales revenues and sales volumes. These facts have related dimensions. Dimensions are the ways in which facts can disaggregated and analysed. For instance, sales revenues might align with these dimensions – geography and period. Dimensions can be hierarchical. The geography dimension might include the hierarchical levels of country, state, and city; the time dimension might encompass year, month, and day levels.

OLAP helps users explain why facts are as they are, by reference to dimensions. For example, if sales in Germany are struggling, the user can drill down from national sales facts into sales by Metropolitan Area, to find out whether the problem lies in a particular region. By progressively drilling down into hierarchical levels it may become possible to spot the source of a problem. If the problem doesn't appear to be specific to a Metropolitan Region, the analyst can explore other dimensions such as time and product class.

A star schema has a central fact table surrounded by several dimension tables, giving it the appearance of a star, as in Figure 10.5.



**Figure 10.5** Example of a star schema: fact table and dimensions<sup>24</sup>

This data structure (central fact table surrounded by dimension tables) means it is possible to conduct many different types of analysis. Users could obtain answers to questions like these:

- What discounts do we offer to customer X?
- How do the quantities shipped vary year by year?
- What are the total sales of product ABC?

A data warehouse, unlike a data mart, will typically have several star schemas, each organised around a central fact table based on customers, opportunities, service requests, activities, and so on. The customer schema, for example, may hold information such as customer sales revenue figures, sales volumes, cost of sales, profit margins, discounts, and promotional expense.

OLAP tools can also support decisions in real-time. For example, a call centre agent can obtain propensity-to-buy measures while the customer is on the telephone. This allows the call centre agent to make a tailored offer, which is more likely to receive a positive response from the customer.

An important element in CRM analytics is the information delivery mechanism. Information is often available on the desktop through a web browser interface with graphical layout and drill-down menus. This approach requires the user to search for a result. Another method of delivery involves setting trigger points (e.g., when a customer logs more than a certain number of service calls in a month). The analytics application then pushes the related information to the user via email, SMS, or another alert mechanism. This approach, also known as “publish and subscribe”, is a powerful management tool.

There are many players in the business analytics marketplace who offer users OLAP functionality.<sup>25</sup> Some major vendors are Salesforce (Tableau), Qlik, Microsoft, IBM, SAS, SAP, and Oracle. Database vendors also provide OLAP functionality as part of an integrated offering.

## Data mining

Companies can also use data mining to interrogate customer-related data. In the CRM context, data mining equates to the application of descriptive and predictive analytics to large data sets to support the marketing, sales, and service functions. Although it is possible to perform data mining on operational databases, it is more common to apply data mining to more stable datasets held in data marts or warehouses. Higher processing speeds, reduced storage costs, and better analytics packages have made data mining more attractive and economical, and larger volumes of data have made data mining more useful, if not essential. Data mining analytics work in many ways: by classification, estimation, prediction, affinity grouping, clustering, and description and visualisation.<sup>26</sup>

## CASE ILLUSTRATION 10.4

### DATA MINING AT MARKS & SPENCER

Data mining has proven to be a successful strategy for the UK retailer Marks & Spencer. The company generates large volumes of data from the 10 million customers per week it serves in over 300 stores. The organisation claims data mining lets it build one-to-one relationships with every customer, to the point that whenever individual customers come into a store the retailer knows exactly what products it should offer to build profitability.

Marks & Spencer believes two factors are important in data mining. First is the quality of the data. This is higher when the identity of customers is known, usually because of e-commerce tracking or loyalty programme membership. Second is to have clear business goal in mind before starting data mining. For example, M&S uses data mining to find ‘high margin’, ‘average margin’, or ‘low margin’ customer groups. The company then profiles ‘high margin’ customers. This guides customer retention activities with targeted advertising and promotions. This technique is also useful to profile ‘average margin’ or ‘low margin’ customers who have the potential to become ‘high margin’ customers.

## Directed and undirected data mining

There are two approaches to data mining.<sup>27</sup> Directed data mining (also called supervised, predictive, or targeted data mining) has the goal of predicting some future event or value. The analyst uses input data to predict a specified output. For example: what is the probability that customers will respond positively to our next offer? Which customers are most likely to churn in the next year? What is the profile of customers who default on payment? Directed data mining stresses classification, prediction, and estimation.

Undirected (or unsupervised) data mining is simply exploration of a dataset to see what can be learned. It is about discovering new patterns in the data. The analyst isn't trying to predict or estimate some output. The following questions require undirected data mining: how can we segment our customer base? Are there any patterns of purchasing behaviour in our customer base? Undirected data mining uses clustering and affinity-grouping techniques.

## Data-mining procedures

We now introduce you to several common data-mining techniques, as summarised in Table 10.4, organised by their use for directed or undirected data mining. This is not a complete list of all the techniques used by data miners, and neither do we explore all the ramifications of these techniques here. We advise interested readers to refer to specialist authorities on data mining or business statistics.<sup>28</sup>

**Table 10.4** Selected data mining techniques

<i>Directed data mining techniques</i>	<i>Undirected data mining techniques</i>
Decision trees	Hierarchical clustering
Logistic regression	K-means clustering
Multiple regression	Two-step clustering
Discriminant analysis	Factor analysis
Neural networks	

First, we describe the directed data mining techniques. Remember that some of these techniques are only usable on specific types of data – nominal, ordinal, interval, or ratio.

**Decision trees** are the graphical model output of decision tree analysis, and they have the appearance of an inverted root and branch structure. Decision trees work through a process called recursive partitioning. A data set including the variable you are trying to predict, say purchase of life insurance, and several independent variables that you think might explain the purchase decision, become inputs. The decision tree algorithm progressively partitions the dataset into groups according to a decision rule that aims to maximise homogeneity or purity of the response variable in each of the obtained groups. At each partitioning step another explanatory variable becomes the basis for the partitioning of groups. This partitioning process continues recursively on each added split until no further useful splits appear. When the recursive partitioning process is complete, the outcome is a decision tree. The same process is useful for predicting customer churn, marketing campaign responses, or friend referrals. Decision trees can work with both categorical (nominal or ordinal) and continuous (interval or ratio) data.



**Logistic regression** measures the influence of one or more independent variables that are usually continuous (interval or ratio data) on a categorical dependent variable (nominal or ordinal data). The output of linear regression modelling reports regression coefficients that represent the effects of the predictor independent variables on the dependent variable. For example, you may develop a theory that the decision of a customer to upgrade to a new smartphone model will be predicted by the number of years the customer has been a user of the previous model, income, number of friends on Facebook, spending on data, and number of texts sent and received. A training model can be developed on a dataset that contains all these data. The coefficients computed by the algorithm reflect the relative influence of each independent variable on the target variable. It is possible to include data for more independent variables in the model to improve its ability to predict the target behaviour. Sometimes removing variables from the equation also improves the predictive performance of the model. Rarely does a logistic regression predict that a customer will buy (or churn, or visit a store, or default). Regression models explain the target behaviour; outputs from regression are useful for assigning scores or propensities-to-act to the customer. A high propensity to buy would encourage a CRM practitioner to target that customer with an offer.

**Multiple regression** (like logistic regression) is a technique that uses two or more predictor variables to predict a dependent variable, but in the case of multiple regression the dependent variable is a continuous (interval or ratio) variable. For example, multiple regression is useful for explaining sales revenues, customer profitability and repeat purchase rates. If you wanted to understand what drives the number of subscribers to a streaming TV channel, you might hypothesise that the following factors could be useful predictors: the kilowatt strength of the channel's alternative free-to-air signal, the number of homes in the streamer's service area, the number of competing channels, the number of minutes advertising on the channel relative to competitors, and channel subscription costs. Multiple regression modelling would show the relative influence of each of these variables. Model fit might improve by progressing dropping the least influential variable from the equation until all the remaining variables are statistically significant predictors. You need to bear in mind the rubbish-in-rubbish-out rule. Multiple regression finds a statistical association between the independent and dependent variables. It does not tell you if your hypothesised model is correct.

Whereas regressions centre on scoring, **discriminant analysis** (DA) clusters observations into two or more classes. DA is useful for finding out which variables contribute most to explaining the difference between groups. The technique is also useful for assigning new cases to groups. For example, DA can use a person's scores on a range of predictor variables to predict the customer lifetime value group (high, medium, or low) that the customer best fits.

**Neural networks** are another way of fitting a model to existing data for classification, estimation, and prediction purposes. Despite the anthropomorphic metaphor of brain function, neural networks' foundations are machine learning and artificial intelligence, which we discuss further below.

Neural networks 'learn' how to predict outcomes through training on historical data (supervised learning) or unsupervised. Once the learning is advanced, they are useful for predicting customer behaviour from new data. According to Michael Berry and Gordon Linoff, "neural networks are a good choice for most classification and prediction task when the results of the model are more important than understanding how the model works".<sup>29</sup>

## CASE ILLUSTRATION 10.5

### CHURN PREDICTION USING NEURAL NETWORKS<sup>30</sup>

Using a dataset from a cell-phone service provider, neural network analysis was central to develop a churn prediction model using the SPSS data mining software package (now owned by IBM). The data set held 20 fields of information about 2,427 customers, plus a field recording whether the customer had churned (left the company). The predictor variables were as follows:

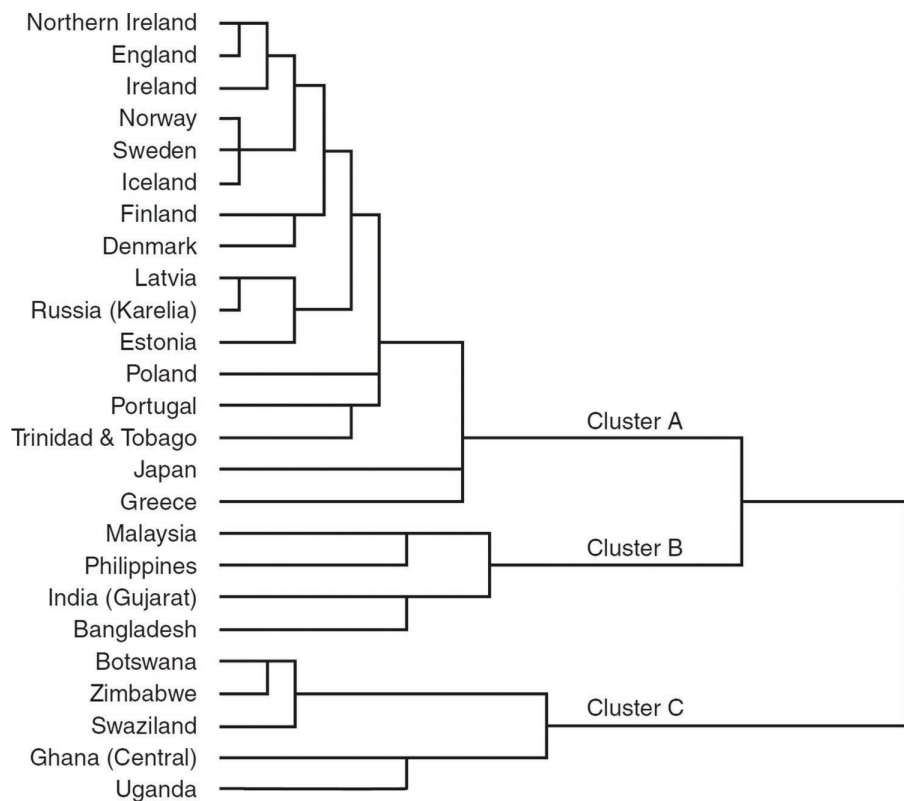
1. State: categorical variable, for the 50 states and the district of Columbia.
2. Account length: integer-valued variable for how long account has been active.
3. Area code: categorical variable.
4. Phone number: a surrogate key for customer identification.
5. International Plan: dichotomous categorical having yes or no value.
6. Voicemail Plan: dichotomous categorical variable having yes or no value.
7. Number of voicemail messages: integer-valued variable.
8. Total day minutes: continuous variable for number of minutes customer has used the service during the day.
9. Total day calls: integer-valued variable.
10. Total day charge: continuous variable based on foregoing two variables.
11. Total evening minutes: continuous variable for minutes customer has used the service during the evening.
12. Total evening calls: integer-valued variable.
13. Total evening charge: continuous variable based on earlier two variables.
14. Total night minutes: continuous variable for storing minutes the customer has used the service during the night.
15. Total night calls: integer-valued variable.
16. Total night charge: continuous variable based on foregoing two variables.
17. Total international minutes: continuous variable for minutes customer has used service to make international calls.
18. Total international calls: integer-valued variable.
19. Total international charge: continuous variable based on foregoing two variables.
20. Number of calls to customer service: integer-valued variable.

The neural network produced from these data predicted churn with 92.35% accuracy (i.e., in 2,241 or 2,427 cases). The model allows the cellular service provider to predict churners and take proactive actions to retain valued customers.

We now turn to the undirected data mining techniques in Table 10.4. Clustering techniques find natural groupings within a data set. For example, it is possible to group customers into segments based on the similarity between their patterns of buying behaviour. Shopping basket analysis also uses clustering to answer the question “What items are bought together?” By adding a time dimension, clustering techniques are useful for finding patterns in the sequences of buying behaviour. In clustering techniques, there are no predefined classes or categories such as churners/non-churners. Clustering techniques group records according to the data input, so it is important for cluster modelling to consider the fields of data that are to be clustered.

**Hierarchical clustering** is the ‘mother of all clustering models’.<sup>31</sup> It works by assuming each record is a cluster of one and gradually groups records together until there is one super-cluster comprising all records. The results appear in a table or dendrogram. Figure 10.6 is a dendrogram that groups export markets into clusters based on historical sales, and the sales mix.

The managerial value of this sort of cluster analysis depends on what is observable in the various clustering levels. In this case the analyst has decided that they can make sense out of three clusters (A, B and C in the illustration). Cluster A consists of Northern Ireland to Greece (from the top of the graph), B consists of Philippines to Bangladesh and C Botswana to Uganda.

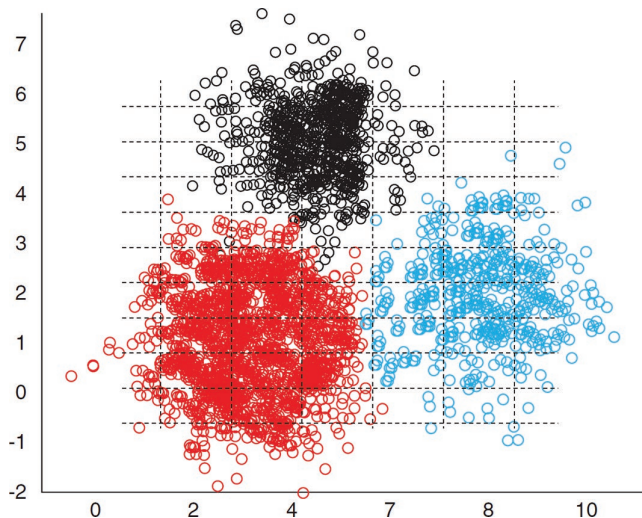


**Figure 10.6** Dendrogram output from hierarchical clustering routine<sup>32</sup>

**K-Means clustering** is the most widely used form of clustering routine. It works by clustering the records into a predetermined number of clusters. The predetermined number is 'k'. The reference to 'means' refers to the use of averages in the computation. In this case it refers to the average location of the members of a particular cluster in n-dimensional space, where n is the number of fields that included in the clustering routine. The routine works by assigning records to clusters in an iterative process until the records are optimally clustered to create 'k' clusters. The best solution will both minimise the variance within a cluster while simultaneously maximising the distance between clusters. Unless there is good reason to specify a given number of clusters, a data miner may want to experiment with several different 'k' values and see what the analysis throws up. After the routine has produced the clusters, the user will want to profile and name each cluster, to make them more managerially useful. Figure 10.7 is an example of graphical output of k-means clustering, showing three clusters of records.

**Two-step clustering** combines predetermined and hierarchical clustering processes. At stage one, records are assigned to a pre-determined number of clusters (alternatively you can allow the algorithm to decide the number of clusters). At step two, each of these clusters is treated as a single case and the records within each cluster subjected to hierarchical clustering. Two-step clustering can work well with large datasets. It is the only clustering procedure that works with a mixture of categorical and continuous data.

**Factor analysis** is a data reduction procedure. It does this by finding underlying unobservable (latent) variables that are evident in the observed variables (manifest variables). SERVQUAL, which you read about in Chapter 5, is a result of factor analysis. SERVQUAL is a technology for measuring and managing service quality. When SERVQUAL was developed there had been very little work done to investigate what customers understood by the expression 'service quality'. The researchers conducted many focus groups from which they extracted hundreds of statements about participants' views on service quality. A long questionnaire was then created that listed many of these statements. This was administered



**Figure 10.7** k-Means clustering output<sup>33</sup>

**Table 10.5** SERVQUAL's latent variables revealed by factor analysis

Reliability	Communication
Responsiveness	Credibility
Competence	Security
Access	Understanding/knowing the customer
Courtesy	Tangibles

to a sample of people who completed Likert scales reporting their level of agreement or disagreement with the statements. The results were subject to factor analysis, because of which ten components of service quality emerged. These ten latent variables (listed in Figure 10.4) were hidden in the survey response data and revealed only through factor analysis. Later, these were further reduced to five more inclusive factors.

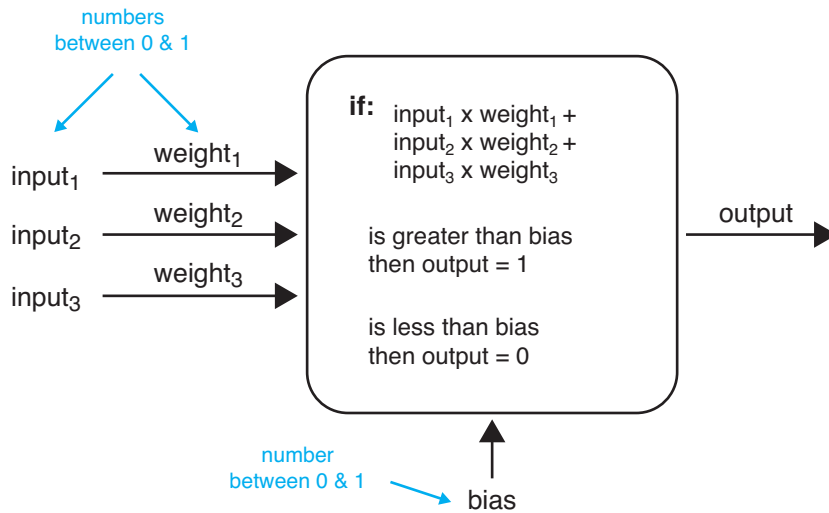
The major analytics software vendors produce documentation that describes the various analytical tools that are available, and the uses to which they can be put.<sup>34</sup>

**ARTIFICIAL INTELLIGENCE (AI), MACHINE LEARNING (ML), AND DEEP LEARNING (DL)**

There is much excitement in the business community about the potential of AI but some confusion as well. We discuss AI, ML, and DL in the context of CRM, but you should understand that their application is much broader. It is common to use the three terms, AI, ML and DL, interchangeably, particularly AI and ML. Nonetheless, we start from simple definitions and describe how these terms became popular. The terms AI, ML, and DL arose sequentially as scientists worked to make computers more ‘intelligent’.

Computing started as single task execution, that is, coding for programmes or instructions were to execute a given task. The machines were not intelligent in the same way that humans (or even some birds!) are intelligent; they could merely execute a specific instruction. To make machines intelligent in a more human sense, programmers would need to write instructions for hundreds of tasks and enable the computer to know which task it had to do. In the 1950s, scientists began to explore the possibility that computers could develop general-purpose AI. Instead of writing programmes task by task, an onerous undertaking, they asked if a computer could have a general intelligence to learn various tasks – a higher level of computer code that would allow intelligence. The term AI reflects this research direction.

There were different methods by which scientists tried to operationalise AI, but progress was extremely slow. One of the earliest methods had its origins in human biology (neuroscience particularly) based on the realisation that the brain was organised as a network of neurons. Could we organise computing to resemble the intelligence of humans? Could we create a computerised or artificial neural network? This became known as an ANN or just Neural Net. ANN is a means of operationalising AI. Neural Nets initially were trained to recognise and classify objects, such as finding animal species or recognising handwriting. They were intelligent in so far as they could scan a picture of an animal, for example, and with a high



**Figure 10.8** An Artificial Neural Network's basic modulus operandi (very simplified representation)

probability correctly classify the species. A simplified illustration of the ANN process appears in Figure 10.8:

1. The Neural Net receives inputs.
2. It decides the importance or weighting to give each input.
3. It deploys an algorithm for assessing the weighted inputs in a hidden layer. These weights are decided in the training phase, where the network receives inputs and outputs, and calculates the weights to achieve an optimal matching between these two.
4. It generates outputs.

As these nets are merely models, they tend to have bias – or error percentages. Data scientists naturally seek to reduce the bias to near zero where possible.

In this example, the ANN deconstructs, for example, pictures of animals into very small components and then probabilistically estimates the species. Consider predicting the species, cat. Cats vary in many ways: shape of ears, type of fur, size, shape of face, length of tail, and so on. To train the neural net, a data scientist feeds it an enormous number of pictures to cover all the above variations, including cats in different settings, lighting, and perspectives (front, side, back, above, below), and the machine improves its predictive ability. The larger the data set, the more the net can learn. The ANN learns from the data hence the term Machine Learning.

ANN's are becoming more widely used in CRM analytics, as we describe earlier in the chapter. However, instead of classifying animal species (we mean no disrespect to animals or animal lovers), CRM professionals tend to be interested in classifying or predicting loyal customers, their propensity to buy, advocate or defect, and so on. Businesses have access to a range of internal data that serves as inputs to the ANN, including but not limited to customer

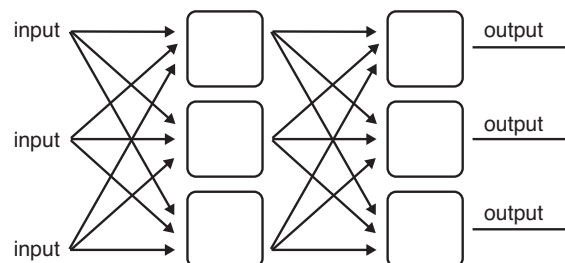
demographics, psychographics, recency-frequency-monetary value (RFM) data, tenure of the customer, price paid, payment method, and number of service complaints. Increasingly, businesses are feeding third-party and external data into ANN's including data from retail point-of-sale systems and social media data such as likes, comments and group memberships (the Internet of People). Contemporary developments in mobile data and the Internet of Things (IoT) are generating even more Big Data to feed ANN's. The IoT involves the connection of any device with an on/off switch to the Internet. This ranges from mobile phones and TV sets to jet engines and drills on oil rigs.

A key feature of ANN modelling is that CRM professionals do not need to have a prior theory about, for example, why someone does not renew their mobile phone contract. The machine can learn from the inputs which factors matter most, how the factors interact with each other and accurately predict who is most likely to defect. Then the CRM professional can focus promotional activity on those most likely to churn or stop recruiting new customers who have a profile that suggests they will churn at an unacceptably high rate. So ANN's – a method of Machine Learning – are useful in customer management.

However, there are drawbacks to the method. It requires substantial data and computing power – although these are becoming cheaper, more plentiful, and easier to access. It also requires good data scientists, but these people are in high demand. More fundamentally, ANNs are 'black boxes' with hidden layers. That is, users of ANNs see the inputs and outputs but how the inputs interact with each other through the layers of neurons is not visible, and therefore not decipherable. ANNs may predict well but explain little (Figure 10.9). If you really need to know why and how, for example, the range of products purchased affects retention, the ANN provides less insight versus other ML methods such as decision trees which we discuss earlier in the chapter.

While ANNs were an early form of implementing AI, other forms of ML that were less computationally demanding, such as decision trees, became the focus of research and development. However, ANNs have had a big resurgence in recent years as improvements to computers have boosted computational power, which addresses a major constraint on their deployment.

Fast forward to today, and advances in computing, mathematics and data have confirmed the importance of ML. On an ordinary laptop, running widely available statistics software packages, you can build an ANN in seconds providing you have a sufficiently large data set. Even a smartphone can perform a simple model. However, increase the number of



**Figure 10.9** Simple two hidden layered neurons neural network (simplified representation)



inputs to millions and use hundreds of hidden layers, and you will need a huge increase in computational power.

As computing power has increased data scientists have taken on bigger challenges. Most topical is the development of self-driving or autonomous vehicles. In real-time, multiple sensors must ‘see’ objects around the vehicles, classify them correctly (other vehicles, trees, road-side safety barriers, stop signs, traffic lights, pedestrians, etc.) and decide the right action. The sheer number of computations is staggering. However, concurrent advances in algorithms have found more efficient and effective ways to classify sensor data and the combination of more power and better algorithms promises not only to make self-driving vehicles a safe and driver-friendly choice, but also perform complex medical diagnosis, optimise traffic flows, and automate complex supply chains.<sup>35</sup> Such machine learning is called Deep Learning (DL). A vehicle that drives on its own, respecting all the traffic laws in safety is something that most people could accept as intelligent.

Deep Mind, a company owned by Alphabet (Google), used Deep Learning to build a neural network that famously defeated the world champion Go player in 2016. Computers had beaten humans in chequers and chess previously, but Go is so complex, with many strategies that constantly shift, that this was considered a landmark in AI. As impressive is how fast DL mastered the game. Computers can now learn much faster than humans and exceed humans in some forms of intelligence. One survey of ML researchers in 2017 predicted that AI would outperform humans in many activities over the next ten years, such as translating languages (by 2024), writing high-school essays (by 2026), driving a truck (by 2027), working in retail (by 2031), writing a bestselling book (by 2049), and working as a surgeon (by 2053). In fact, several of these activities were accomplished well before the forecast date. AI functionality has accelerated. The respondents believed there was a 50% chance of AI outperforming humans in all tasks in 45 years and of automating all human jobs in 120 years.<sup>36</sup>

Deep Learning is present in CRM as well. Chatbots that use advanced speech recognition deploy DL to make them far more acceptable and useful to customers than IVR (Interactive Voice Response). Amazon’s digital assistant Alexa is a cloud-based service in the form of a conversational interface. DL powers Alexa’s ability to understand the context and idioms of our natural speech (using natural language processing) to respond to instructions and requests in the most proper way. Google’s equivalent service is branded Assistant. The inputs for such DL algorithms include our entire buying and interactive history with the company, context-specific aspects of our lives and comparisons to others’ behaviours. The ability to understand speech in all its nuances, interpret its meaning at an individual level and respond appropriately is the most obvious first CRM application of AI – enabled through Deep Learning.

## **CONCLUSION**

This chapter explores how organisations analyse and use customer-related data. We define analytical CRM as the process through which organisations transform customer-related data into actionable insight for either strategic or tactical purposes. Analysis of customer-related data supports Strategic CRM by answering questions like “Who are our most valuable customers?” and operational CRM by answering questions like “What offer should we next make



to the customer?” Analytical CRM supports strategic and tactical decision-making by sales, marketing, and service teams throughout the customer journey. CRM analytics are commissioned and delivered to users in three ways: through standard reports, online analytical processing (OLAP), or data mining. Analytical methods for structured data – the type of data that typically exists in relational databases – are mature. Analytics for unstructured data are becoming more widely adopted. Textual analysis is the most widely deployed form of unstructured data analytics. Analytics for Big Data are still evolving. Big Data are characterised by their volume, velocity, and variety. These attributes make analysis challenging. Data mining technologies work in several ways: by describing and visualising, classifying, estimating, predicting, affinity grouping and clustering. Managers and data miners need to understand the types of analysis that are right for different levels of data – nominal, ordinal, interval, and ratio. Artificial Intelligence, in the form of both Machine Learning and Deep Learning, plays a growing role in CRM analytics.

## DISCUSSION QUESTIONS

1. What is the role of CRM analytics and how they support CRM strategy and tactics?
2. How can companies use analytics to support customer management throughout the customer journey in terms of marketing, sales, and service?
3. What are the components of data mining?
4. What are the types of analytics that apply to structured, unstructured, and Big Data?
5. What is the role of Artificial Intelligence (AI) in analytical CRM?

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# DEVELOPING AND MANAGING CUSTOMER- RELATED DATABASES

### CHAPTER OBJECTIVES

After reading this chapter, you will be able to:

1. Describe the steps necessary for the development of a customer-related database useful for CRM.
2. Describe the implications for different data types and sources as this relates to customer-related database development.
3. Describe the issues that companies face when managing customer-related databases.

### INTRODUCTION

Customer-related databases are the foundation for the execution of CRM strategy. Proficiency at acquiring, enhancing, storing, analysing, distributing, and using customer-related data is critical to CRM performance. We use the expression 'customer-related databases' instead of 'customer databases' deliberately. The data that are employed for CRM purposes are not only about customers (i.e., 'customer databases'), but also for customers. Data that are for customers include data about products and solutions to service issues. These data can be made available in a searchable knowledge base for customers and partners to access through portals. Commercially sensitive or confidential information is usually password protected. Data about customers are not only available in corporate databases supported in functional areas such as marketing, sales, service, logistics, and accounts, but are also available from third parties such market research companies and credit scoring agencies, and increasingly in social media such as Facebook, X (formerly Twitter), and YouTube. Our use of the expression 'customer-related' covers data that are both about and for customers.

In this chapter, we focus on the issues that companies face when developing and managing customer-related databases. As we saw in the last chapter, these data are essential to strategic and operational CRM. The analyses possible allow companies make decisions as to what customers to target, the offers to present them with, and the communications channels to use.

## DEVELOPING A CUSTOMER-RELATED DATABASE

Relational databases (see the model in Figure 11.1) are now the standard architecture for CRM applications that use structured data. Relational databases store data in two-dimensional tables comprising rows and columns, like a spreadsheet. Relational databases have one or more fields that provide a unique form of identification for each record. This is the primary key. For sales databases, each customer has a unique number, which appears in the first column, there being a unique number on each row. Companies that have other databases for marketing, service, inventory, payments, and so on, use the customer's unique identifying number to connect the data held in the various databases.

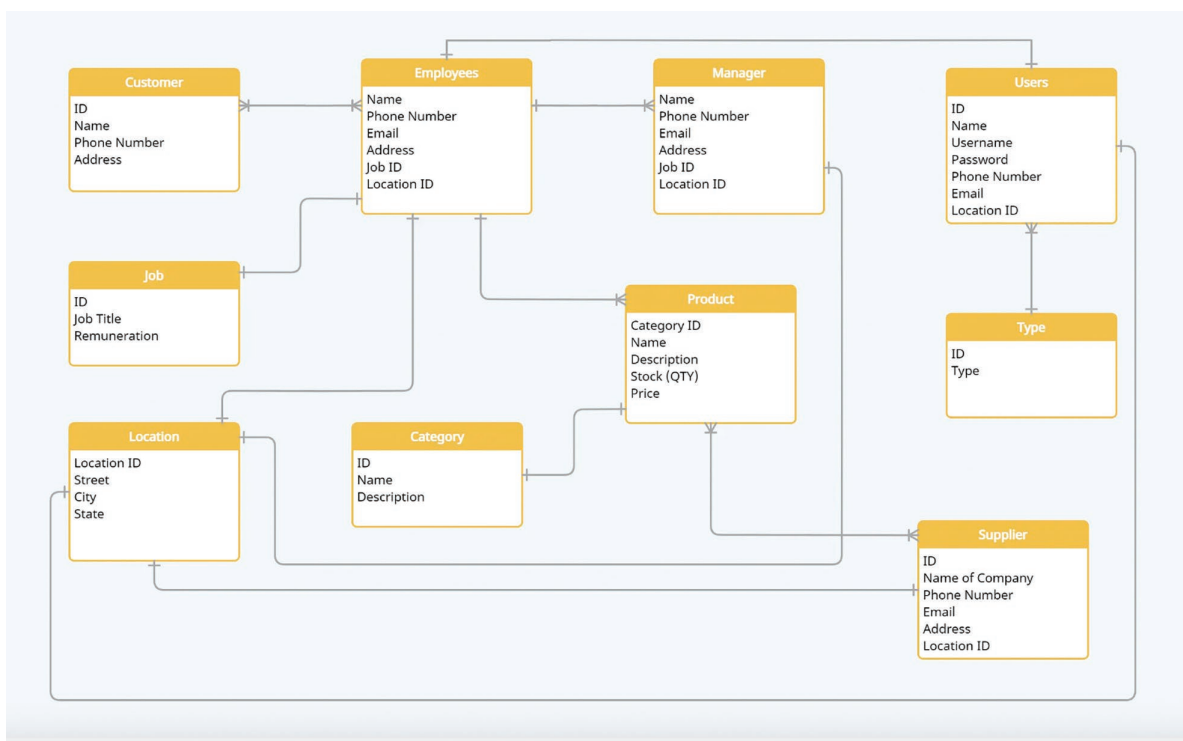
Relational databases share a common structure of files, records, and fields (also called tables, rows, and columns). Files (tables) hold information on a single topic such as customers, products, transactions, or service requests. Each file (table) holds several records (rows). Each record (row) has several elements of data. These elements appear in common set of fields (columns) across the table.

Unstructured data, by comparison, are data that do not fit a predefined data model. Unstructured data take the form of textual or non-textual files. Textual corporate unstructured data includes emails, PowerPoint presentations, word documents, SMS instant messages, PDF's, spreadsheets, and agent notes on a customer's service history. Non-textual data includes recorded telephone calls and other MP3 files, images in JPEG and other formats, video in Flash, MP4 and other formats, and multi-media messages. Companies still use relational databases to store unstructured data, but there is a need to convert these data into structured form. While a variety of methods exist for this, coding the data using a meaningful schema is the most common. This is where an analyst assesses the main content of the data and assigns it to a category. 'Tagging' is a common form of this. It is also common to use structured data fields to describe the content of an unstructured data item. For example, it is common to associate a customer interview transcript (in the format of open, unstructured text) with a customer record (which includes their demographic details as well).

While unstructured data present some serious challenges and opportunities for CRM practitioners, the 'bread-and-butter' in CRM is still the relational database. We therefore explore in more detail how to develop and manage structured customer-related databases.

### Step 1 – Define the database functions

The first step in developing a customer-related database is to answer the question "Why do we need customer-related data?" This question means that the business must revisit to the CRM vision, strategy, goals, and business case, to confirm what they expect from CRM. CRM practitioners use databases for all three forms of CRM – strategic, operational, and analytical. Strategic CRM uses customer-related data to find which customers to target for acquisition, retention, and development, and generate insight for the best value propositions and experiences to offer them. Operational CRM uses customer-related data in the everyday selling, marketing, and customer service operations of the business.



**Figure 11.1** Relational database model<sup>1</sup>

For example:

- A telecommunications company's customer service representative (CSR) needs to access a customer record and check the customer's status so she can prioritise the company's response to a service request.
- A hotel receptionist needs access to a guest's history so that they can reserve the preferred type of room – smoking or non-smoking, standard, or de-luxe.
- A salesperson needs to find the status of an opportunity and decide on what actions to take before calling on a customer.

Analytical CRM uses customer-related data to support the marketing, sales and service decisions that aim to enhance the value created for and from customers. For example:

- A telecoms company's marketers might want to target a retention offer to customers who are signalling an intention to switch to a different supplier.
- A hotel company's marketers might want to promote a weekend break to customers who have indicated high levels of satisfaction in previous customer surveys.
- Websites present the Next Best Offer dynamically to customers as they navigate through the site.

Customer-related data are typically organised into two subsets, reflecting these operational and analytical purposes. Operational data exist in an OLTP (online transaction processing) database, and analytical data exist in an OLAP (online analytical processing) database. The information in the OLAP database is normally a summarised extract of the OLTP database, enough to perform the analytical tasks. OLTP data need to be very exact and up to date. When a customer calls a contact centre to enquire about an invoice, it is no use the agent telling the customer what the average invoice is for a customer in their postcode. The customer wants personal, correct, and contemporary information. OLAP databases, on the other hand, can often perform well with less current data. Some CRM vendors have built in the extract, transform, and load processes to move information from OLTP to OLAP databases.

## Step 2 – Define the information requirements

The people best placed to answer the question “What information is needed?” are those who interact with, or communicate with, customers for sales, marketing, and service purposes, and those who must make strategic CRM decisions.

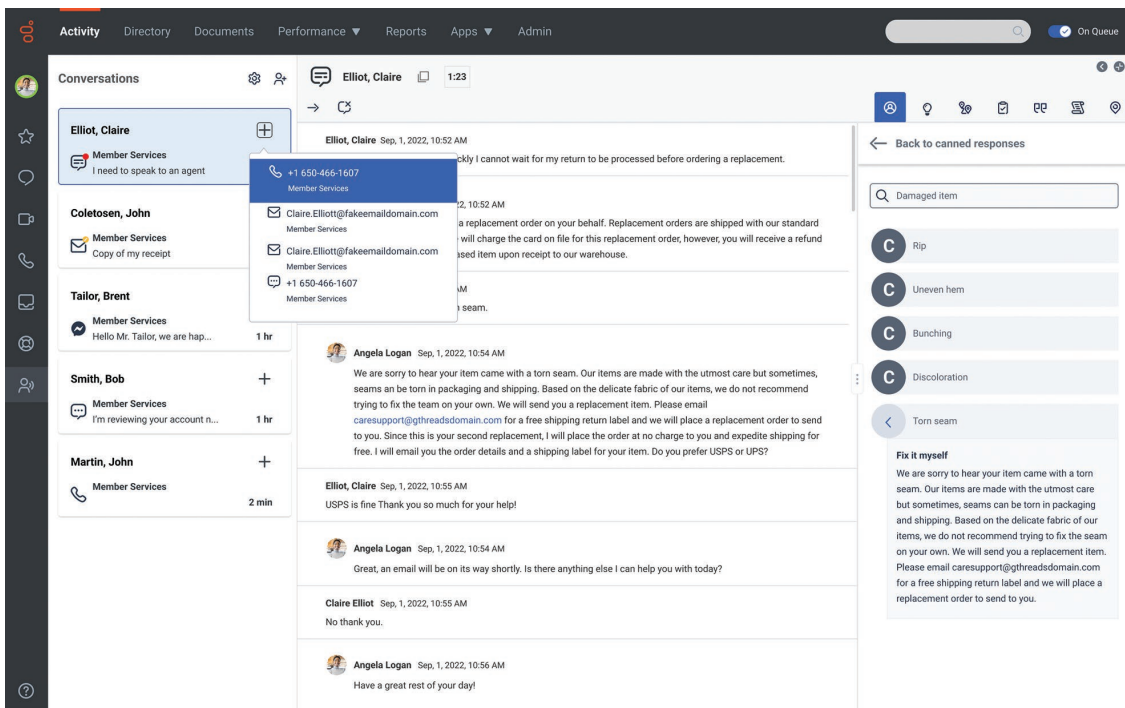
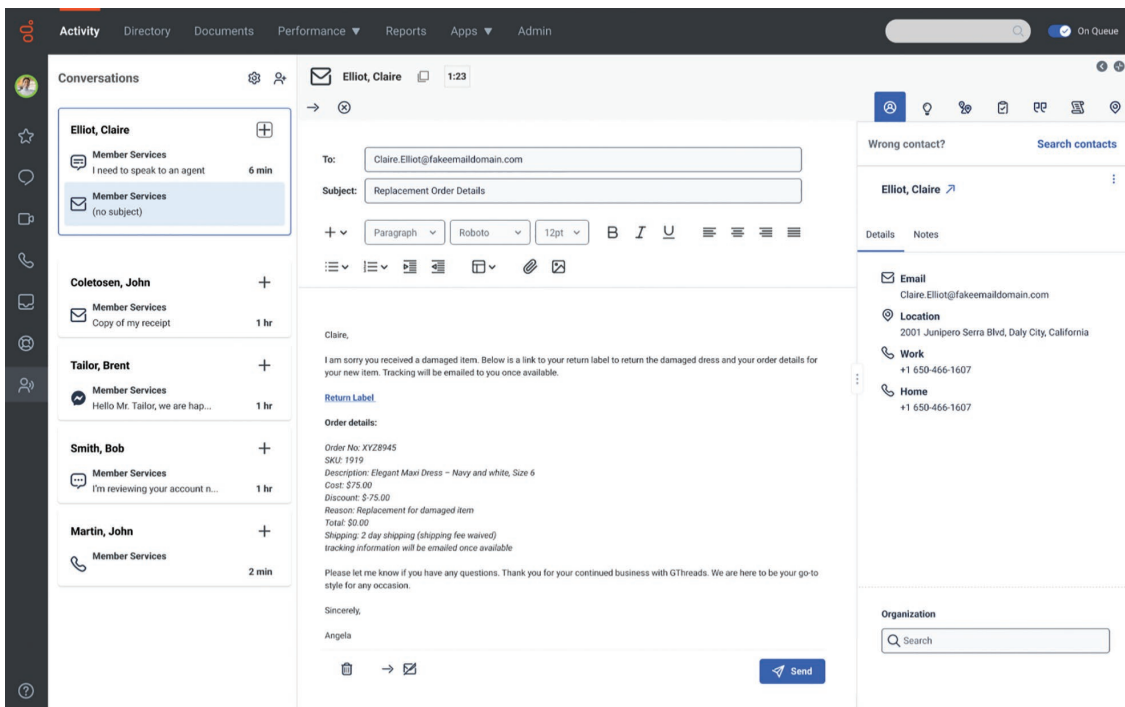
A direct marketer planning an email campaign might want to know open and click-through rates and click-to-open (CTOR) rates from earlier campaigns, broken down by target audience, offer and execution. They would also want to know email addresses, email preferences (html or plain text), and preferred salutation (First name? Mr? Ms?). Operational and analytical needs such as these help define the required contents of customer-related databases.

Senior managers reviewing a company’s strategic CRM decisions will require a completely different set of information. They may want to know the following. How is the market segmented? Who are our current customers? What do they buy? Who else do they buy from? What is our share of wallet? What are our customers’ requirements, expectations, and preferences across all components of the value proposition, including product, service, channel, and communication?

Packaged CRM applications do much of the database design work for users. The availability of industry-specific CRM applications, with their corresponding industry-specific data models, allows for a much closer fit with a company’s data needs. Where there is a good fit out-of-the-box, the database design process for both operational and analytical CRM uses becomes one of implementing exceptions that the generic industry model does not consider.

CRM software suites are modularised, with modules for marketing, sales, and service, for example. Typically, a sales force automation (SFA) application will have empty fields ready to be filled with information about contacts, opportunities, cases, activities, and other issues that are important for the sales rep to work effectively and efficiently on her accounts. See for example, the Genesys screenshot in Figure 11.2, which has tabs for activity, documents, performance, reports, multiple contact methods, and links to a variety of apps and other functionality. Each of these tabs is associated with many fields of data.

Some CRM applications are for highly specific purposes (these are known as point applications or solutions), and the fields of data therefore vary accordingly. The email marketing application in Figure 11.3, for example, has tabs for contacts, contact lists, email campaigns and reports, among others. Each of these tabs is associated with several predefined fields. For example, the contacts tabs will have fields for contact name, email address, salutation, preferred email format (html or plain text), and status (whether active or not).

Figure 11.2 Genesys screenshot<sup>2</sup>Figure 11.3 Genesys email marketing application<sup>3</sup>



### Step 3 – Identify the information sources

Customer-related databases source information internally or externally. Internal data are the foundation of most CRM programmes, though the amount of information available about customers depends upon the degree of customer contact that the company has. Some companies sell through partners, agents, and distributors and may have little knowledge about the demand chain beyond their immediate contact.

Internal data exist in various functional area databases. Marketing might have data on market size, market segmentation, customer profiles, customer acquisition channels, marketing campaigns, product registrations, and requests for product information. Sales might have records on customer buying history including recency, frequency and monetary value, buyers' names and contact details, account number, SIC code, important buying criteria, terms of trade such as discounts and payment period, potential customers (prospects), responses to proposals, competitor products and pricing, and customer requirements and preferences. Customer service might have records of customers' service histories, service requirements, customer satisfaction levels, customer complaints, resolved and unresolved issues, customer issues raised in social media, enquiries, and loyalty programme membership and status. Finance may have data on credit ratings, accounts receivable and payment histories, and finally, the web master may have click-stream data.

Customer-related data supported by the functional areas might not be easy to source or migrated to databases used for CRM purposes. Sales reps, for example, might keep customer records in hard copy, spreadsheets or Microsoft Access databases. Marketers might have customer-related data in management reports created in Word. Very often, CRM project leaders find that there is a massive amount of duplication of data. For example, sales, marketing, and service records may all have customer email addresses. It is not unusual for the email specifics to be different. Many CRM projects therefore incorporate a data quality phase in which these idiosyncratic records are identified, obtained, and qualified. The CRM database then includes only the most correct and relevant information.

#### Enhancing internal data

If internal data are insufficient for the defined CRM purposes, companies can use external data to enhance the customer record. Many external data sources exist and include market research companies and corporate database companies such as Nielsen and Experian. We can classify external data as compiled list data, census data and modelled data.<sup>4</sup>

Compiled list data are individual level data assembled by list bureaux or list vendors. They build their lists from a variety of personal, household, and business sources. They might use local or council tax records, questionnaire response data, warranty card registrations or company annual reports. If you were a retailer considering diversifying from leisurewear into dancewear and had little relevant customer data of your own, you might be interested in buying or renting a compiled list from an external source. The list could subsume a variety of sources, such as:

- Memberships of dance schools.
- Student enrolments on dance courses at school and college.
- Recent purchasers of dance equipment.
- Lifestyle questionnaire respondents who cite dance as an interest.

- Subscribers to dance magazines.
- Purchasers of tickets for dance and musical theatre.

Census data are available from government census records. In different parts of the world, different information is available. Some censuses are unreliable; other governments deny third parties, such as companies, access to data for non-governmental use.

In the USA, where the national census occurs every ten years, you cannot obtain census data at the household level, but you can at a more aggregated geo-demographic level, such as zip code, block group, and census tract. Census tracts are subdivisions of counties. Block groups are subdivisions of census tracts, the boundaries of which are generally streets. Census data available at geo-demographic level include:

- Median income.
- Average household size.
- Average home value.
- Average monthly mortgage.
- Percentage ethnic breakdown.
- Marital status.
- Percentage college educated.

Individual-level data are better predictors of behaviour than aggregated geo-demographic data. However, in the absence of individual-level data, census data may be the only choice for enhancing internal data. For example, a car reseller could use census data about median income and average household size to predict who might be prospects for a campaign.

Third parties generate modelled data from data that they assemble from a variety of sources. You buy processed, rather than raw data from these sources. Often, they have performed clustering routines on the data. For example, Claritas has a customer classification scheme called PRIZM<sup>®</sup> Premier that helps marketers segment customers and prospects so they can reach with tailored messages and offers. PRIZM combines demographic, consumer behaviour, and geographic data to distribute every U.S. household to one of 68 demographically and behaviourally distinct types, or segments. Case illustration 11.1 includes some sample market segment examples.

## CASE ILLUSTRATION 11.1

### PRIZM MARKET SEGMENTATION (US EXAMPLE)<sup>5</sup>

YOUNG DIGERATI (PRIZM Segment 4) are the nation's tech-savvy living in fashionable neighbourhoods on the urban fringe. Affluent, highly educated, and ethnically diverse, they live in areas typically filled with trendy homes apartments that are rented rather than owned. They believe in living eco-friendly lifestyles and enjoy dining at organic/health food restaurants, coffee houses and other trendy establishments.

KIDS & CUL-DE-SACS (PRIZM Segment 14) are upscale, suburban and second city, married couples with children. Kids & Cul-de-Sacs are a lifestyle group of families in recently built subdivisions. This segment is a refuge for college-educated, white-collar professionals with administrative jobs and upper-middle-class incomes. They spend big on family-oriented products and services.

HEARTLANDERS (PRIZM Segment 46) consists of mostly retired couples living in sturdy, unpretentious homes. In these communities of empty-nest couples, they pursue a rustic lifestyle where hunting, fishing, and sewing remain prime leisure activities.

Some CRM applications come pre-integrated to external data sources. For example, Salesforce.com users can import data from Dun & Bradstreet's corporate information database. Outside of these linkages, if you want to use external data to enhance your internal data, you'll have to send a copy of the data that you want to enhance to the external data source. The source will match its files to yours using an algorithm that recognises equivalence between the files (often using names and addresses). The source then attaches the relevant data to your files and returns them to you.

### Secondary and primary data

Customer-related data are either secondary or primary. Secondary data is that which is already available, although its original collection may have been a purpose other than your CRM requirement. Primary data is not currently available and, as such, it is necessary to collect this information for the CRM database.

Primary data collection through traditional means, such as surveys, can be very expensive. Companies have therefore had to find low-cost ways to generate primary customer data for CRM applications. Among the data-building schemes are the following:

**Competition entries.** Customers enter competitions of skill, or lotteries. They surrender personal data on the entry forms.

**Subscriptions.** Customers subscribe to a newsletter or magazine, again surrendering personal details.

**Registrations.** Customers register their purchase, at which time they also supply more data such as name, address, and contact details.

**Loyalty programmes.** Many companies run loyalty programmes. These enable companies to link purchasing behaviour to individual customers and segments. When joining a programme, customers complete application forms, providing the company with personal, demographic and even lifestyle data.

## Step 4 – Select the database technology and operating system

CRM application vendors usually support a specified list of database technologies. SAP CRM, for example, runs on Oracle, DB2, SQL Server, SAP HANA, SAP Sybase, and MySQL. It is possible to buy an entire integrated platform, consisting of hardware, operating system (OS), database technology and CRM applications. An IBM-based technology 'package' might employ AS/400 hardware, OS/400 operating system and DB2 database. However, CRM project managers and CRM users rarely need to consider database technology and OS issues

because modern CRM applications are either bought packaged with database technology and operating system or support several specified database and OS technologies.

If a company were to decide to build its own CRM application it would have to select an operating system (Linux, Unix, Microsoft, Mac, for example) and a database backend (e.g., SQL Server, MySQL, DB2).

The choice of hardware platform reflects several conditions:

- The size of the databases. Even standard laptops can store significant amounts of customer-related data.
- Existing technology. Most companies will already have technology that lends itself to database applications.
- The number and location of users. Many CRM applications are quite simple, but in an increasingly global marketplace the hardware may need very careful specification and periodic review. For example, hardware might need to enable a geographically dispersed, multi-lingual user group to access real-time data for operational CRM purposes, 24/7.

## Step 5 – Populate the database

Having decided what information is necessary and the database and hardware requirements, the next task is to obtain the data and enter it onto the database. CRM applications need data that are appropriately accurate. We use the term ‘appropriately’ because the level of accuracy depends upon the function of the database. As noted earlier, operational CRM applications need more accurate and contemporary data than analytical applications. Be aware, though, that the datasets used for analytical purposes originate from operational databases, and therefore high-quality data are often available for analysis.

You may have experienced the results of poor-quality data personally. For example, you may have received a mailed invitation to become a donor to a charity to which you already donate. This could have happened when a charity bought a prospecting list but did not check it against its current donor lists.

Most new CRM projects have a data quality project early on. Operational CRM systems that import poor quality data from sales representatives’ hand-written call reports or field service engineers’ weekly activity reports are likely not to create good customer experience in the short term. However, by checking with every customer contact that the data on the system is correct, the company can build data quality over time.

The main steps in ensuring that the database is populated with appropriately accurate data are as follows:

1. Verify the data.
2. Validate the data.
3. De-duplicate the data.
4. Merge and purge data from two or more sources.

**Verification.** The task of verification is to ensure that the data are the same as in the original source. This can be a very labour-intensive process if it involves keying the data in twice with

the computer programmed to flag mismatches. An alternative is to check visually that the data entered matches the data at the primary source.

**Validation** means that you check the accuracy of the data. There are several common inaccuracies, many associated with name and address fields: misspelt names, incorrect titles, and inappropriate salutations. Several processes can help confirm data:

- Range validation. Does an entry lie outside the possible range for a field?
- Missing values. You can have the computer check for values that are missing in any column.
- Check against external sources. You could check post-codes against an authoritative external listing from the mail authorities.

**De-duplication** is also known as de-duping. Customers become aware that their details appear more than once on a database when they receive identical communications from a company. This might occur when external data are not cross-checked against internal data, when two or more internal lists are the sources for the mailing details or when customers have more than one address on a database. There may be sound cost reasons for this – de-duplication does cost money – but from the customer’s perspective it can look wasteful and unprofessional, and it delivers poor customer experience. De-duplication software is available to help in the process.

The de-duplication process needs to be alert to the possibility of two types of error:

- Removing a record that should be kept. For example, if a property is divided into unnumbered apartments, and you have transactions with more than one resident, then it would be a mistake to assume duplication has occurred and to remove records. Similarly, you may have more than one customer in a household, bearing the same family name or initials, and in this case, it would also be wrong to remove one record.
- Retaining a record that should be removed. For example, you may have separate records for a customer under different titles such as Mr and Dr.

**Merge and purge**, also known as merge-purge, is a process that analysts use during the merger of two or more databases. This might be necessary when an external database is merged to an internal database, when two internal databases are merged (e.g., marketing and customer service databases), or when two external lists are bought and merged for a particular purpose such as a campaign. There can be significant costs savings for marketing campaigns when duplications are purged from the joint lists.

## Step 6 – Maintain customer-related databases

Customer-related databases need regular maintenance to keep them useful. Consider these statistics:

- One in five managing directors change jobs in any year.
- Eight per cent of companies move or expand premises in any year. This became more profound in the post-COVID era, with many adopting hybrid work models, placing downward pressure on the demand for office space in major cities across the world.

Only groups		Non-matches		All data						
Source name	Is Master record	Total score	Group 1 Company Name score		Group 1 ADDRESS score	Company Name	ADDRESS	ZIP	City	State
Group ID: 1092										
100k	<input checked="" type="checkbox"/>	100%	100%		100%	Bgs Industries LP	11155 Windfern Rd	77064-4807	Houston	TX
100k	<input type="checkbox"/>	98%	95%		100%	BGS Industries Inc	11155 Windfern Rd	77064-4807	Houston	TX
Group ID: 1093										
100k	<input checked="" type="checkbox"/>	100%	100%		100%	BHP Copper	PO Box 100	85539-0100	Miami	AZ
100k	<input type="checkbox"/>	97%	95%		95%	BHP Copper Inc	P.O. BOX 100	85539-0100	Miami	AZ
Group ID: 1094										
100k	<input checked="" type="checkbox"/>	100%	100%		100%	BHP Minerals	PO Box 1717	87416-1717	Fruitland	NM
100k	<input type="checkbox"/>	96%	91%		96%	BHP Minerals La Plata Mine	P.O. BOX 1717	87416-1717	Fruitland	NM
Group ID: 1095										
100k	<input type="checkbox"/>	100%	100%		100%	Big Als	717 S Central Ave	85004-2622	Phoenix	AZ
100k	<input checked="" type="checkbox"/>	99%	98%		100%	Big Al's	717 S Central Ave	85004-2622	Phoenix	AZ
Group ID: 1096										
100k	<input checked="" type="checkbox"/>	100%	100%		100%	Big D Specialties	2142 W 850 N # 102	84720-8522	Cedar City	UT
100k	<input type="checkbox"/>	96%	93%		95%	Big-D Specialties LLC	2142 W 850 N Ste 102	84720-8522	Cedar City	UT
Group ID: 1097										
100k	<input checked="" type="checkbox"/>	100%	100%		100%	Big E's Tire Svc & Sales	PO Box 18103	85005-8103	Phoenix	AZ
100k	<input type="checkbox"/>	97%	94%		96%	Big ES Tire Service & Sales	P.O. BOX 18103	85005-8103	Phoenix	AZ
Group ID: 1098										
100k	<input checked="" type="checkbox"/>	100%	100%		100%	Big Eye	4849 Pan American West Fwy	87109-2229	Albuquerque	NM
100k	<input type="checkbox"/>	99%	100%		98%	Big Eye	4849 Pan American West Fwy NE	87109-2229	Albuquerque	NM
Group ID: 1099										
100k	<input type="checkbox"/>	100%	100%		100%	Dollar Tree	26 E Baseline Rd	85042-6539	Phoenix	AZ
100k	<input checked="" type="checkbox"/>	99%	100%		96%	Dollar Tree	26 E Baseline Rd # 36	85042-6539	Phoenix	AZ
Group ID: 1100										
100k	<input checked="" type="checkbox"/>	100%	100%		100%	Bj Diamonds Inc	18861 Biscayne Blvd	33180-2839	Miami	FL
100k	<input type="checkbox"/>	99%	100%		97%	Bj Diamonds Inc	18861 Biscayne Blvd # 6a	33180-2839	Miami	FL
Group ID: 1101										

**Figure 11.4** Output from merge-purge operation<sup>6</sup>

- In the UK, 5% of post-codes change in an average year.
- In western economies about 1.2% of the population dies each year.
- In the USA, about 8% of people change addresses each year.

As a result, it does not take long for databases to degrade. Companies can sustain data integrity in several ways.

- Ensure that data from all new transactions, campaigns and communications is entered into the customer database as soon as the company has it. Companies may need to develop rules and assign responsibilities to ensure this happens.
- Regularly de-duplicate databases by removing duplicate records.
- Audit a subset of the files every year. Measure the amount of degradation. Find the source of degradation: is it a particular data source or field?
- Purge customers who have been inactive for a certain period. For often bought products, the dormant period might be six months or less. For products with a longer repeat purchase cycle, the period will be longer. It is not always clear what a suitable dormancy period is. Some credit card users, for example, may have different cards in different currencies. Inactivity for a year only shows that the owner has not travelled to a country in the previous year. The owner may make several trips the coming year.
- Drip-feed the database. Every time there is a customer contact there is an opportunity to add new or verify existing data.



- Get customers to update their own records. Customers can receive access to some parts of their record and the ability to edit the data. When Amazon customers buy online, they need to confirm or update payment and delivery details.
- Remove customers' records on request.
- Insert decoy records. If an external agency manages the customer database, you might want to check the effectiveness of the agency's performance by inserting a few dummy records into the database. If the agency does not spot the dummies, you may have a problem with their service standards.
- Users with administrative rights can update records. Database updating and maintenance is also enabled by database query language. Common languages are SQL (Structured Query Language) and QBE (Query By Example). Database maintenance actions available in SQL include UPDATE, INSERT and DELETE commands. INSERT, for example, adds a new record to the database.

## MANAGING CUSTOMER-RELATED DATABASES

### Desirable data attributes: STARTS

Maintaining customer-related databases means that CRM users will be more likely to have their need for correct and relevant data met. Accuracy and relevance are only two of six desirable data attributes – data should be shareable, transportable, accurate, relevant, timely and secure.<sup>7</sup> You can remember these desirable data attributes through the mnemonic STARTS.

Data need to be **shareable** because several users may require access to the same data at the same time. For example, profile information about customers who have bought annual travel insurance might need access to customer service agents in several geographic locations simultaneously as they deal with customer enquiries in response to an advertising campaign.

Data need to be **transportable** from storage location to user. Data need to be available wherever users need it. The user might be a hot-desking customer service representative, a delivery driver en route to a pick-up, an independent mortgage consultant or a salesperson in front of a prospect. Today's international corporations with globally distributed customers, hybrid working arrangements (office or at home), product portfolios across several categories, and multiple routes to market face particularly challenging data transportation problems. Electronic customer databases are, of course, essential for today's businesses, together with enabling technologies such as data synchronisation, wireless communications, and web browsers to make the data fully transportable.

Data **accuracy** is a troublesome issue. In an ideal world it would be wonderful to have 100% accurate data. But data accuracy carries a high level of cost. Data are captured, entered, integrated, and analysed at various moments in time and locations. Any or all these processes may be the source of inaccuracy. Keystroke mistakes can cause errors at the point of data entry. Inappropriate analytical processes can lead to ill-founded conclusions. In CRM, data inaccuracy can lead to undue waste in marketing campaigns, inappropriate prospecting by salespeople, and suboptimal customer experience. It also erodes trust in the CRM system, thus reducing usage. This leads to further degradation of data quality. News agency and book

retailer WH Smith attributes the high response rates of CRM-enabled direct marketing to the accuracy of their database. For example, an offer of celebrity chef Delia Smith's book *How to Cook* achieved an 8% response rate after the successful implementation of a data quality project, which was a significant improvement upon WH Smith's historic norms.

**Relevant** data are pertinent for a given purpose. To check a customer's credit worthiness, you need their transaction and payment histories, and their current employment and income status. To flag customers who are hot prospects for a cross-sell campaign, you need their propensity-to-buy scores.

**Timely** data are data that are available as and when needed. Data that become available only after a decision has taken place are unhelpful. Equally, decision-makers do not want excess burden from data before they feel the need. Bank tellers need to have propensity-to-buy information available to them at the time of customer service, not before or after.

Data **Security** is a hugely important issue for most companies. Data, particularly data about customers, are a major resource and a source of competitive advantage. Data provide the foundation for delivery of better solutions to customers, and better customer experience. Companies do need to protect their data against loss, sabotage, and theft. Many companies regularly back up their data. Security improves through physical and electronic barriers such as firewalls. Managing data security in a partner environment is particularly challenging, as it is essential that competing partners do not see each other's sales lead and opportunity information, despite logging into the same CRM system through the same portal.

## Data integration

As noted earlier, in most companies there are several customer-related databases, located in different functions or channels. Companies often face the challenge of integrating data from several sources into a coherent single view of the customer (SVOC). Sometimes, this becomes a significant challenge in a CRM project, and a necessary hurdle to cross before implementing operational CRM applications in marketing, sales, or service environments. Data integration requires the customer's identity to be traceable in all interactions with the company, and that the company deals with any anomalies between the records in various databases. The major CRM vendors offer solutions to this problem. SAP, for example, offers Master Data Management (MDM) as part of its business integration platform. This enables companies to capture and combine data from different sources into a centralised database. SAP defines MDM as

**the process of creating and maintaining a single master record – or single source of truth – for each person, place, and thing in a business. Through MDM, organisations gain a trusted, current view of key data that can be shared across the business and used for better reporting, decision-making, and process efficiency.<sup>8</sup>**

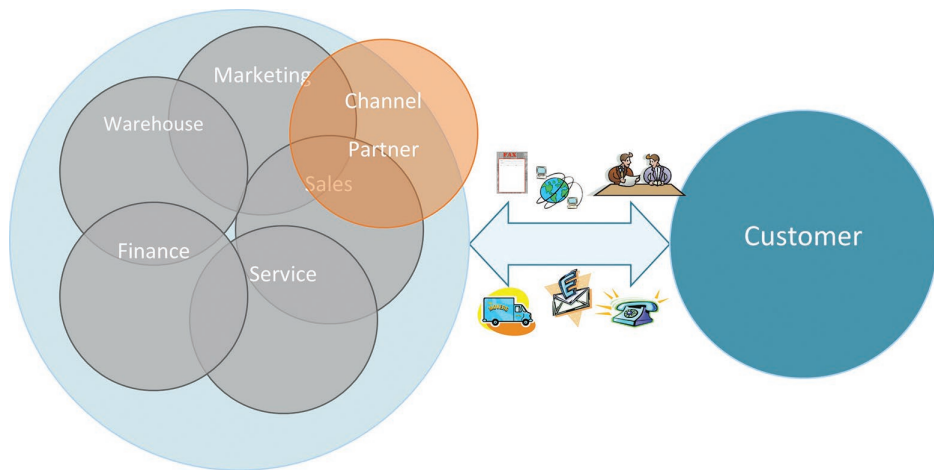
For companies with older mainframe (legacy) systems, another solution to the problem of database integration is to adopt newer systems with a centralised database that can accept real-time inputs from several channels.<sup>9</sup> However, legacy systems are often batch-processing systems. In other words, they do not accept real-time data. Many technology firms have



developed software and systems to allow companies to integrate databases held on different legacy systems. Sometimes, middleware must be written to integrate data from diverse sources. Middleware is a class of software that connects different parts of a system that would not otherwise be able to communicate with each other. Middleware is a kind of 'glue' that holds a network together.

Unless data are integrated, companies cannot create the single view of the customer that provides CRM users with visibility into a customer's history of interactions with the business whether through sales, marketing, or service, and across all channels (see Figure 11.5). Failure to integrate data may lead to costly operational inefficiencies, duplication of work, poor customer experience, and damaged customer relationships. Customers might experience the effects of poor integration when they have bought an item online only to receive the same item through a different channel of the same company.

Customer data integration relies on standardisation of data across databases. An indicator of the size of the problem is that when Dun & Bradstreet was integrating data from several sources to create a marketing database it found 113 different entries for the company AT&T alone. These included ATT, A.T.T., AT and T, and so on.



**Figure 11.5** Single view of the customer<sup>10</sup>

## CASE ILLUSTRATION 11.2

### DATA INTEGRATION AT THE AMERICAN HEART ASSOCIATION

The American Heart Association (AHA) is a not-for-profit US health organisation dedicated to reducing disability and death from heart attack, stroke, and related cardiovascular disorders.

One of the AHA's major goals has been improving its relationships with stakeholders, including many thousands of volunteers conducting unpaid work for the organisation, donors, businesses, and the media. However, a challenge facing the AHA in achieving this goal was integrating the organisation's data, which was previously in over 150 separate databases, often geo-

graphically isolated and specific to certain departments within the organisation, which supplied a limited view of customers profiles and history of activities.

AHA chose to implement a CRM software system across the organisation to integrate all existing databases. Since implementation the AHA has found that its staff are far more productive, it can respond to stakeholders more quickly and provide more personalised service. Since using the system, donations have increased by over 20% compared to earlier.

## Data warehousing

As companies have grown larger, they have become separated both geographically and culturally from the markets and customers they serve. Disney, an American corporation has operations in Europe, Asia-Pacific, and Latin America as well as in the USA. Benetton, the Italy-based fashion brand, has operations across five continents. In retailing alone, it runs about 5,000 stores and concessions. Companies like these generate a huge volume of data that needs to be converted into information that can be used for strategic, operational, and analytical purposes.

The data warehouse is a solution to that problem. Data warehouses are repositories of large amounts of operational, historical, and other customer-related data. Data volume can exceed terabyte levels, i.e.,  $2^{40}$  bytes of data. Data warehouses are repositories for data imported from other databases, and typically feature an analytical front-end which enables analysts to deploy a range of statistical processes to make sense out of the data. Retailers, home shopping companies and banks have been enthusiastic adopters of data warehouses.

Watson describes a data warehouse as follows:<sup>11</sup>

**Subject-oriented.** The warehouse organises data around the essential subjects of the business – customers and products – rather than around applications such as inventory management or order processing.

**Integrated.** It is consistent in the way that data from several sources is extracted and transformed. For example, coding conventions are standardised: M = male, F = female.

**Time-variant.** Data are organised by various time-periods, (e.g., months).

**Non-volatile.** The warehouse's database is not updated in real-time. There is periodic bulk uploading of transactional and other data. This makes the data less subject to momentary change.

There are several steps and processes in building a data warehouse. First, you must identify where the relevant data are currently stored. This can be a challenge. When the Commonwealth Bank of Australia opted to implement CRM in its retail banking business, it found that relevant customer data were resident on over 80 separate systems. Second, data must be extracted from those systems. It is often the case that when these systems were developed, they were not expected to align with other systems.

The data then need to be transformed into a standardised and clean format. Data in different systems may have been stored in different forms. Also, the cleanliness of data from different parts of the business may vary. The culture in sales may be very driven by quarterly performance targets and getting sales reps to maintain their customer files might not be

straightforward. Much of their information may be in their heads. On the other hand, direct marketers may be very dedicated to keeping their data in good shape.

After transformation, the data then need to be uploaded into the warehouse. Archival data that have little relevance to today's operations may be set aside, or only uploaded if there is sufficient space. Recent operational and transactional data from the various functions, channels and touch points will most probably be prioritised for uploading.

Refreshing the data in the warehouse is important. This may be done on a daily or weekly basis depending upon the speed of change in the business and its environment.

Some large data warehousing projects have taken years to implement and yielded few measurable benefits,<sup>12</sup> and according to Sen and co-authors, 50% of data warehousing projects do not meet their delivery targets.<sup>13</sup>

## CASE ILLUSTRATION 11.3

### DATA WAREHOUSING FOR CRM PURPOSES<sup>14</sup>

U.S. Xpress Enterprises is a leading American trucking company with US\$1.6 billion in annual revenue. Having grown through acquisition, the company relied on multiple IT systems and lacked visibility into its nationwide operation and affiliate companies. The company lacked control over costs and operations, as many diverse systems and processes were used throughout the business. To solve this, the company built a data warehouse and implemented Microsoft Dynamics CRM to provide the information and process structures for consistent company-wide operations such as strategic planning, bidding, sales, and marketing. The data warehouse has delivered a single view of the customer (by integrating data held in the acquired companies' systems), enabled the company to streamline preparation for sales calls, and recover as much as \$350,000 a year in lost-opportunity costs. The company has realised improved sales productivity and improved its closure rates on new business.

## CONCLUSION

In recent years there has been a massive increase in customer-related data – often unstructured – available in social media and other Big Data sources. We describe a six-step process for developing a customer-related database: define the database functions, define the information requirements, identify the information sources, select the database technology and operating system, populate the database, and maintain the database. Problems at each stage are identified, and solutions proposed. We explain how CRM practitioners try to enhance the quality of data by acquiring customer-related data from competition entries, subscriptions, registrations, and loyalty programmes. The main processes in ensuring that databases are populated with appropriately accurate data are data verification, data validation, de-duplication, and merge-purge. Desirable data attributes include data being shareable,

transportable, accurate, relevant, timely, and secure. We close with a review of the importance to CRM of data warehouses.

## **DISCUSSION QUESTIONS**

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1. What are the steps necessary for the development of a customer-related database useful from CRM?
2. What are the implications for different data types and sources as this relates to customer-related database development?
3. What are the issues that companies face when managing customer-related databases?

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## Section E

# IMPLEMENTING CRM SYSTEMS

While implementing CRM systems has the potential to generate many benefits for the company as well as for customers, it can be difficult. Many companies do not feel their CRM investments are worthwhile. One of the main reasons for this is that companies do not plan their CRM strategy adequately or implement it effectively. This section considers these issues. Chapter 12 focuses on how companies can plan and organise themselves for successful CRM adoption and integration. Chapter 13 considers the most common issues that companies face when trying to achieve this outcome and offers a five-phase synopsis of the steps companies can take to mitigate these issues.

# PLANNING AND ORGANISING FOR CRM

### CHAPTER OBJECTIVES

After reading this chapter, you should be able to:

1. Generate a business case for CRM that aligns with both the strategic goals of the company and the needs/behaviours of customers.
2. Describe and plan for the immediate operational benefits from CRM.
3. Describe and plan for potential future benefits arising from improved operational effectiveness.
4. Describe the options for company structure as this relates to CRM.

### INTRODUCTION

As we know, companies must develop a clear CRM strategy. If a company understand what it wants to achieve through CRM, this then leads to a useful frame of reference for any attempts to improve CRM. If a company prefers intense relationships with a narrow set of high-value customers, its CRM strategy will differ from another company who prefers less intense relationships with many low-value customers. A clear CRM strategy will include a set of goals that align with an overall vision. Such goals then become the underpinnings of key performance indicators. It is important to acknowledge that the current stage of a company's CRM development has notable effects. If a company is implementing a CRM system or upgrading one, related goals might focus on completion milestones, each of which resembles the completion of a significant aspect of CRM implementation. If a company is happy with its current CRM system, related goals might focus on indicators of CRM success such as customer loyalty, profitability, and cost-to-serve.

In this chapter, we delve into two of the more specific aspects of CRM strategy – planning and organising. Most companies do not implement CRM without a clear and logical rationale for doing so. In many cases, this requires a business case, or a document that outlines the CRM implementation plan, catalogues the benefits and costs, and outlines the time and



resource implications. This document then becomes the basis for decision-making and refinement by the company's senior management. If the business case receives endorsement from senior managers, then the CRM plan goes ahead. To ensure the CRM plan is successful, the company must adopt a suitable organisational structure and governance arrangements. This is often one of the more challenging aspects of CRM implementation since it can require a substantial change to the way the company runs. We consider several common company structures and the implications of each one for CRM.

### **PLANNING FOR CRM – DEVELOPING THE CRM BUSINESS CASE**

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Whether CRM succeeds or fails depends on the events that occur well before implementation begins. As we have seen, it is common for companies to develop unrealistic expectations of CRM. One of the more common expectations is that CRM will need little or no active involvement from functional groups within the company beyond marketing, sales, service, and IT. The company may not have a culture that is amenable to CRM. The company may not have the resources to invest in CRM. These are among many common issues. So, it is important to first acknowledge that these issues (and others) are likely to affect CRM. Hence, it is important to carefully evaluate the current situation in which the company finds itself as this relates to CRM.

Imagine going to the Board of your company and asking for \$50 million over three years to develop/enhance a CRM project. You have looked at several CRM options, spoken with peers, companies, suppliers, and experts and have a good feel for the solutions, people, and processes that you need to develop. These are easy to estimate in terms of time and cost because CRM is a mature practice. You show to the Board a win-win argument for CRM. You explain how technology can generate a comprehensive view of each customer's history, enabling you to apply sophisticated analytics that enable you to manage customers according to their unique profile in real-time, all with the expectation that you will be more profitable. The obvious questions are: how much incremental profit will you generate? What is the ROI? What is the risk?

The honest answer is that you don't yet know. Until you have engaged with customers interactively, learnt from them, experimented with real-time customisation of offers, experienced the reduction of service costs, and so on, you only know with certainty what CRM will cost. You have little idea about the size and timing of return. Typically, managers make heroic assumptions about customer retention rates, up-selling, cross-selling, and cost-to-serve. Sometimes these estimates reflect claimed, but unproven, best practice metrics provided by technology partners, and other times they are just assumptions based on cost, as if you were asking: "What assumptions do I need to make for this investment to pay, and are they reasonable assumptions to make?" These estimated returns are components of a calculation of the discounted time value of money, and a Net Present Value calculation.<sup>1</sup>

However, the practice of discounting cash flows does not always suit investments in IT-enabled change, such as CRM.<sup>2</sup> Discounted cash flow analysis (DCF) or finding the Net Present Value (NPV) works by computing the difference between cash inflows and outflows discounted for the risk associated with that class of investment. Discounting allows

companies to compare inflows and outflows, typically occurring at different times through the project at a hypothetical time 'zero'. Where the NPV is positive, the real value of cash generated adjusted for risk is greater than the investment, and this leads to higher shareholder value. This is the dominant model used by companies for investment fund allocations. It is known as the Capital Asset Pricing Model (CAPM). If a company invests in multiple projects, each of which generates more real cash than its cost, then over time, the value of the company will rise.

The economic logic of the CAPM is sound. However, it is based on assumptions that are questionable in the context of large-scale CRM investments.

- Where CRM is a 'bet the business' imperative or a major, disruptive change in business strategy, the risk of failure is too great for 'expected value' decision-making. If a company must become customer-centric quickly, then this is no longer one investment among many – it is a 'do or die' situation.
- The variance of outcomes is sufficiently predictable to make an expected value meaningful. When faced with discontinuous futures, scenario planning may be a better choice than using 'expected value'. A CRM project that costs, for example, \$100 million might not generate one cent of incremental cash (loses \$100 million) but, on the other hand, could transform the business fundamentally and generate \$500 million: but these are either/or outcomes with little between. DCF might show the investment has an expected value of \$300 million but that is a meaningless figure for the Board; they either lose \$100 million or gain \$500 million.
- No complementary assets and capabilities are necessary. CRM's impact on business performance is usually in conjunction with, or mediated by, other capabilities such as excellent brand management,<sup>3</sup> customer-focused management,<sup>4</sup> employees,<sup>5</sup> new product development,<sup>6</sup> and organisational responsiveness.<sup>7</sup> If these capabilities are not mature, the CRM project might fail initially. However, over time CRM gathers so much customer insight that your new product development improves markedly. It is almost impossible to know that at the start or estimate the benefits up front. It is pure guesswork.

IT researchers have long recognised that investments in technology alone do not improve performance or economic output.<sup>8</sup> While they too identify similar complementary assets and capabilities needed, they emphasise the role of the conscious management of the potential benefits from IT investments: the "benefits realization" approach to managing CRM implementation.<sup>9</sup> The challenge of planning for CRM payback is that the returns tend to occur in two stages and the second stage does not automatically follow on from the first.<sup>10</sup>

Typically, the first return on CRM investment is through improved operational performance. Duplicate databases are combined into a single view of the customer, front and back-office integration is improved thus reducing costs, channels are integrated allowing the organisation to serve customers anywhere at any time, self-service online reduces costs further, marketing campaigns are less costly to implement and may generate greater sales through improved customer targeting. At this point, the company may declare success and manage the CRM for selective improvements over time. However, this improved operational

performance is likely to have generated new CRM assets (databases, mining tools, customer relationships) and capabilities (data mining, database management, interacting with customers). These improved operational and analytic CRM assets and capabilities enable more ambitious strategic CRM initiatives; bigger changes to align the business to the needs of the most attractive customers in the market. Such benefits are latent and staged or layered<sup>11</sup> and eventuate over an extended period.<sup>12</sup> Active benefits realisation improves the return on IT investment.<sup>13</sup>

Given this staged or layered description of the benefits arising from CRM, the DCF approach to valuing CRM investments is inadequate. Moreover, it takes the company's attention away from finding and managing latent benefits over time to a focus on short-term cash flow generation from enhanced operational CRM (e.g., improved campaign effectiveness, reduced service costs). Typical business cases, based on capital expenditure logic, assume a linear and continuous relationship between activity and cash flow discounted back to time zero and contrasted with the estimated investment. CRM benefits are discontinuous: some operational benefits occur early on and then there is a 'break' where management either realises the latent benefits made possible by newly achieved customer insight and enhanced CRM capabilities – or not.

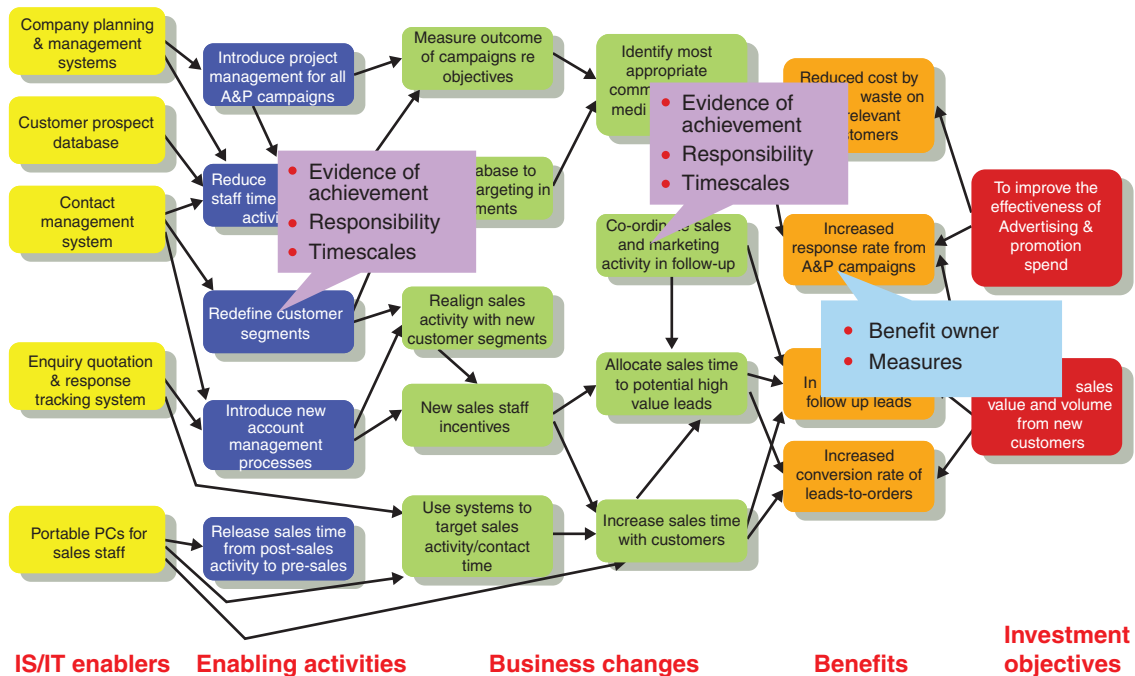
Such structure of benefit corresponds closer to another sort of investment analysis that is much more used in financial circles than in marketing circles: real options pricing models. You may be familiar with financial options, that is the right to buy or sell an asset at some point in the future for a price you set today. For example, farmers who agree to a price for their harvest in advance guarantee sufficient income to carry on farming; the risk of turbulent markets is too much to accept for some farmers. Similarly, a food manufacturer may purchase options to buy raw materials at a fixed price for, say, six months hence, to have some certainty of costs. A *real* option is the right to buy or sell a physical asset, or even a business, at some point in the future.

If the idea of testing CRM before embarking on a full-blown change process is appealing, then how would you write a business case for it? How would you quantify the value of the learning that you have yet to acquire? The financial markets have long managed such investments. People may wish to take part in a stock's future growth potential without necessarily buying the stock outright, so they buy an option to buy that stock at a certain price in the future. Investment firms can price these options given the current share price, what you are willing to bet it will be in the future, how many months in the future, and the risk in the market. For non-financial investments like CRM, the financial markets real options pricing models are a useful analogy and method.<sup>14</sup> The most popular of these is the Black Scholes options pricing model and you can find websites that will calculate the option value online – Apple even has a widget for this!

Real options work in the context of creating a business case for CRM.<sup>15</sup> The value of the real option can be added to the value of a traditional discounted cash flow that assumes a test followed by a full roll out. By valuing the learning in the business, you are far more likely to design and manage CRM to learn from customers and to respond to what they are telling you. This contrasts to an approach you need to 'justify' the investment by assuming, even before engaging with customers, that they will wish to be cross sold to, pay more, be more loyal and so on. We believe that the business case sets the vision and values for the CRM project.

## The benefits dependency network

Planning and organising for CRM begs an obvious question: what will success look like? What are we looking for with respect to customer behaviour, selection, operating costs, and so on? These questions mean that managers of CRM implementations must work out how to identify immediate and latent benefits of CRM and test for their presence. IT experts have developed a framework for doing that – the Benefit Dependency Network or BDN. It is a logical structure of connected activities and events that are associated with identified benefits. Figure 12.1 is a simplified illustration of a BDN.



**Figure 12.1** Benefit Dependency Network example<sup>16</sup>

It is important that each benefit, for example ‘increased conversion rate of leads to orders’, has an owner in the business accountable for its achievement and empowered to work backwards through the BDN to bring about the changes to activities and processes that are necessary for benefits realisation. CRM solutions enable those activities but do not generate them automatically. Too often, CRM is seen as a technology implementation project whose success results from its functioning, rather than its delivery of business results. The BDN shifts management’s thinking from technology to business benefits. Therefore, the BDN is a useful way to cast the CRM business case.

## ORGANISING FOR CRM

Chandler coined the expression “strategy before structure”, suggesting that companies should decide their strategic goals before designing the structure of the organisation to

bring about the achievement of those goals.<sup>17</sup> This is consistent with our view of strategic CRM. While the scale and scope of CRM varies from company to company, companies that adopt CRM as core to their overall business strategy need to create an organisational structure that achieves three major outcomes through its marketing, selling and service functions:

1. The acquisition of carefully targeted customers or market segments.
2. The retention and development of strategically significant customers or market segments.
3. The continuous development and delivery of competitively superior value propositions and experiences to the selected customers.

This is the core of strategic CRM, and it needs support from the organisation's structure. No structure is perfect and each entails trade-offs; however, firms embarking on a customer-centric strategy need to make these trade-offs in favour of encouraging teams from across their organisation, and those in supplier and partner companies, to work together to deliver customised communications and offers to the most attractive customers.

We know that companies normally have one of five main structures, which we outline below. We also consider the advantages and disadvantages of each as this relates to CRM. These structures include:

1. Functional organisation structure.
2. Geographic organisation structure.
3. Product, brand, or category organisation structure.
4. Market or customer-based organisation structure.
5. Matrix organisation structure.

### **Functional structure**

A functional structure has sales, marketing and service specialists reporting to a functional head such as a Director or Vice-President. The specialists might include marketing analyst, market researcher, campaign manager, account manager, service engineer, and sales support specialist. Small to medium sized businesses with narrow product ranges tend to prefer the functional organisation. The three core disciplines that interface with customers – sales, marketing, and service – may or may not coordinate their efforts or share their customer knowledge by depositing it in a common customer-related database. From a CRM perspective it would be better if they did! Elsewhere in a functionally organised business will be other specialists whose decisions can affect customer acquisition, retention, and experience, for example, specialists in operations, human resources, and accounts receivable. These experts also would benefit from having access to customer information. Very often, functional specialists feel a sense of loyalty to their discipline rather than their customers. The net result is a company that performs its various functions well but struggles to manage the customer journey in a coherent way.

## Geographic structure

A geographic structure organises some or all the three, core customer management disciplines – marketing, selling, and service – on territorial lines. Selling and service personnel are more likely to reside in regional offices while marketing personnel are more likely to reside in a corporate headquarters. International companies often organise geographically around the Americas, EMEA (Europe, Middle East, and Africa), and Asia-Pacific regions. Smaller companies may organise around national, regional, or local areas.

Where customers reside in multiple locations and value face-to-face contact with salespeople, there is a clear benefit in salespeople also being geographically dispersed. Where service delivery must occur in remote locations, field service staff must be able to access these locations. Since selling and service costs can be very high, companies try to find ways to perform these activities more cost effectively. Some companies sell face-to-face to their most important customers and offer a telesales service or online portal to others. Others supply service through centralised contact centres that the company might outsource or might run itself. Websites and chatbots that enable customers to service their own requirements can also reduce cost.

One disadvantage of this approach, from a CRM perspective, is that there may be many different customer types in a single geographic area. A salesperson selling industrial chemicals might have to call on companies from several industries such as textiles, paint, or consumer goods manufacturing. The applications of the sold product may be diverse; the buying criteria of the customers may be quite different. Some may regard the product as mission-critical; others may regard it insignificant. The problem multiplies if a salesperson sells many products to many customer groups. The salesperson develops neither customer nor product expertise.

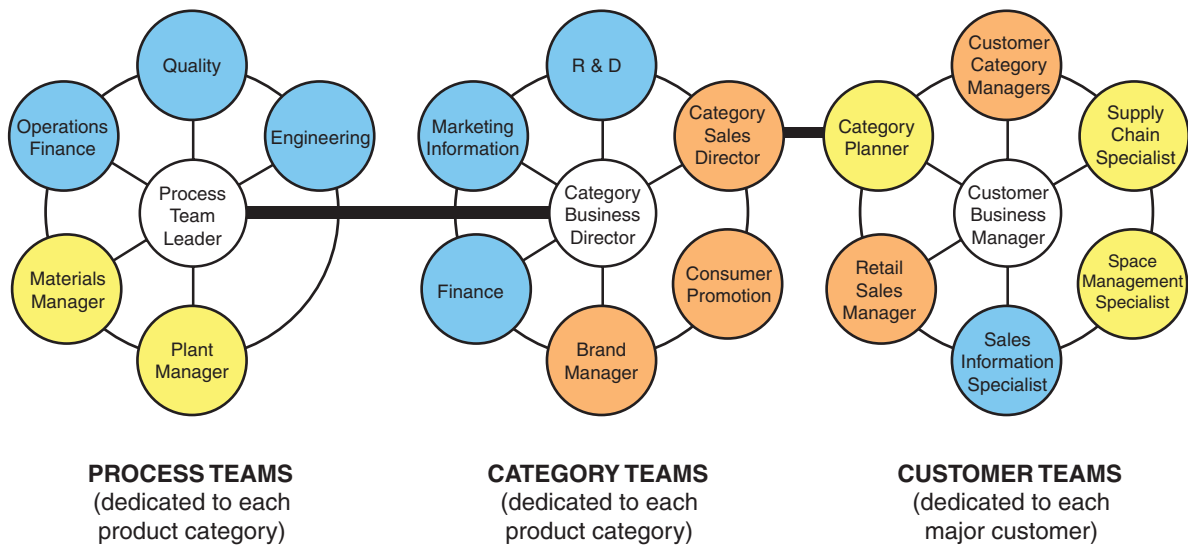
## Product, brand, or category structure

A product or brand organisation structure is common in companies that produce a wide variety of products, especially when they have different marketing, sales, or service requirements. This sort of structure is common in large consumer goods companies such as Procter & Gamble and Unilever, and in diversified business-to-business companies. Product or brand managers handle developing marketing strategy for their products, and then coordinate the efforts of specialists in marketing research, advertising, selling, merchandising, sales promotion, and service, to ensure the fulfilment of strategic goals. Normally, brand and product managers must compete for company resources to support their brands. The company spreads resources thinly across many brands and the company risks becoming focused on products rather than customers. Procter & Gamble found that brand managers became isolated, competing vigorously against each other, focusing on their own goals, rather than those of the broader business. Brands competed against each other, creating cannibalisation.<sup>18</sup>

Many multi-brand companies have found that brand management makes it difficult to integrate the entire resources of the organisation around the needs of customers. Brand management encourages competition between the company's product-brand offers rather than promote integrated customer offers. Product-brand companies lack coordination and have disregard for the value of the customer's time. The customer may also experience varying

levels of service from the different brand- or product managers. Some companies have tried to coordinate their product-marketing efforts by appointing product group managers to an oversight role or customer front ends to the product brand structure to help customers navigate around the complex offers.

Many leading fast-moving consumer goods companies have moved to a category management structure. Kraft markets several different brands, including Louis Rich cold meat cuts and Oscar Mayer hot dogs. The company created a layer of category business directors to coordinate a team of functional experts focused on each major category (Figure 12.2). Brand managers sit on the category team. The category team works with a customer team dedicated to each major customer, to ensure that the category offer generates profit for both Kraft and the customer. The customer team works closely with customers to help them learn how to benefit more from intelligent product assortment, merchandising and promotion decisions. They also help retailers to better understand and exploit their own customer data. Also dedicated to each category is a process team that handles ensuring that business processes align with customer requirements. Typically, the process team addresses issues of quality management and logistics. This sort of structure attempts to integrate product, functional, and customer considerations.



**Figure 12.2** Category Management at Kraft<sup>19</sup>

### Market or customer structure

Market or customer-based organisation structures are common when companies serve different customers or customer groups that have different requirements or buying practices. Market- or customer-based managers come in many forms: market managers, segment managers, account managers, and customer business managers, for example. These roles require expertise on market and customer requirements, while also ensuring that the company creates and delivers the right value proposition and experience to the customer. Recently, there has been a trend towards national, key, or global account management.



## Key Account Management

Key Account Management (KAM) is a structure that involves CRM implementation at the business unit level. It is a market or customer-based structure which normally complements other existing structures. A key account is an account that is strategically significant. This normally means that it presently (or potentially) contributes significantly to the achievement of company goals, such as profitability. Companies normally select either a single, dedicated person to manage the key account, or a larger team made up of individuals with varying roles from across the company.

According to one study, suppliers are seeing considerable benefits in the adoption of KAM.<sup>20</sup>

- Doing large amounts of business with a few customers offers considerable opportunities to improve efficiency and effectiveness, thereby reducing transaction costs.
- Selling at a relationship level can spawn disproportionately high and beneficial volume, turnover and profit.
- Repeat business is more cost effective to win than new business.
- Long-term relationships enable the use of facilitating technologies such as shared databases.
- Familiarity and trust reduce the need for checking and make it easier to do business.

Although the research suggests major benefits for sellers, the companies that succeed at KAM are those that perform better at a whole range of management activities including selecting strategic customers, growing key accounts, and locking out the competition.

**Companies that are most effective at developing strategic customer relationships spend more time and effort thinking about their customers' profiles, direction and future needs than the least effective. ... [T]hey spend less time and effort considering how their strategic customers will benefit themselves as suppliers.<sup>21</sup>**

Concentration of buying power has led to buyers taking charge of relationships. Many companies have supplier accreditation and certification processes in place. To be short-listed as a potential supplier, vendors often must invest in satisfying these criteria. Buyers increasingly have documented processes that compel vendors to deal with specific members of a decision-making unit at specific times in the buying process. Under these circumstances, sellers may not have the chance to show their exceptional selling capabilities. What they must do, however, is show their relationship management capabilities.

From a CRM perspective, market or customer-based organisational structures are often ideal. A core tension of CRM is the alignment between the company and the customer. CRM, through its operational focus on marketing, sales, and service, attempts to ensure that the major customer-facing processes of the company address customer requirements closely while also ensuring the company's prosperity. While this is the intention, catering too closely to customer requirements may jeopardise this by placing demands on the company that are unreasonable or unviable. Therefore, market or customer-based organisational structures are more likely in market contexts where buyers are more powerful than suppliers.



Matrix structure

A matrix structure is often the preferred structural solution when a company has several different products lines serving several different customer groups. A matrix typically has market- or customer-based managers on one side, and product managers on the other side of the matrix as in Figure 12.3. In the high-tech industries, another common matrix structure is geography against industry. The sales team includes a salesperson and a pre-sales consultant. Salespeople are organised into geographic territories, but pre-sales consultants are organised by industry. This allows customers to have not only a geographically convenient point of face-to-face contact but also an industry specialist on whom they can draw.

A variation commonly found in multi-channel organisations is the replacement of customer managers with channel managers. Multi-channel retailers can have several routes to market: stores, catalogues, online retailing, even a TV shopping channel. Financial services institutions also have many channels: branch networks, contact-centre, mobile reps, agency outlets, apps, and corporate website. Matrix organisations are thought to facilitate both horizontal and vertical communication, therefore improving coordination and reducing inefficiencies.

		Customer managers			
		1	2	3	4
Product managers	A				
	B				
	C				
	D				
	E				

Figure 12.3 Matrix organisation structure

Market- or customer managers in matrices are responsible for developing and supporting profitable relationships with external customers. They view product managers in the matrix as suppliers. Sometimes the internal product manager will compete against external suppliers to become the market manager’s preferred supplier. Then, market managers will form internal customer-supplier relationships, negotiate prices, and agree service levels just as they would with outside suppliers. Pricing internal transfers can be a tricky decision. One of two approaches is common: either the internal supplier sells at external market prices (as if they were marketing to an external customer, and aiming to make a profit), or they sell at an internally agreed transfer price that enables market managers to return a profit on their external transactions and relationships. This price then allows the market manager more flexibility in negotiating price with the external customer.

As an alternative to, or in some cases a prelude to, the development of a matrix organisation, many companies have opted for the use of cross-functional teams. A cross-functional team is usually set up when a project has implications that span normal functional, product or market lines. A cross-functional team is often used when a company is considering the implications of the adoption of CRM. It will consist of experts from marketing, sales, service, technology, finance, and general management.

## VIRTUAL ORGANISATIONS AND CRM

Many companies have personnel spread across multiple locations, which creates coordination problems. Hybrid working arrangements are now commonplace, with some employees working part-time at home and part-time in the company's offices or workplaces. At any point, it is possible for a team meeting to involve people in a corporate office as well as at home, in a café or at an airport lounge. This trend was accelerated by the COVID-19 pandemic. One Australian company, for example, undertook a recruitment drive, advertising that employees could work anywhere at any time.<sup>22</sup> This means that the boundaries of the company are not clear.

The company must acknowledge the implications of a distributed workforce. The challenge lies in balancing the needs of employees with those of customers. Customers don't care about the company structure. They do not want to have queries rerouted from one silo or specialist to another in search of a solution. Customers who hear the words *"That's not my department. I'll put you through to the right person"* or find themselves looping through IVR menus in search of a solution are likely to experience dissatisfaction. Customers want their needs, demands, and expectations met. Companies therefore need to create an organisation structure that enables their products, services, and information to be ubiquitously and immediately available in the channels that customers patronise. Traditional structures, particularly those that are function-, geography-, or product-based, struggle to meet these standards.

This highlights the role of CRM in coordinating diverse company resources around marketing, sales, and service. Regardless of the main corporate structure, CRM systems become ways to structure and govern customer-facing activities. Some of the main coordinating tasks of CRM include:

- Marketing – message development, media planning, campaign management, marketing management, market research, customer-related analytics.
- Sales – bid/proposal coordination and development, customer enquiry handling, customer interactions.
- Service – service order fulfilment, customer enquiry handling, issue management, customer communications.

The company's personnel need not be in the same location to complete these tasks since CRM workflow functionality features now common in CRM packages help manage the diverse needs of employees.

Structures that are IT-enabled are more likely to meet customer requirements. For example, an online banking service is open every day and hour of the year. A typical branch-based service is open less than one-third of the time. If the branch network were to replicate the scale of the online service, it would require three times the staffing levels with a concomitant increase in management structure. Even then, this could not match the convenience of a home-accessed banking service, or its price. PWC reports that a branch-based transaction costs a bank 40 times the cost of an Internet transaction.<sup>23</sup> Digitisation of banking services, allied to reduced branch numbers, has positively affected bank profitability. Some or all these transaction cost savings can transfer to customers in improved prices. For example, buying life insurance online is between 8% and 15% cheaper than buying through a bricks-and-mortar broker.<sup>24</sup>

## CHOOSING THE BEST ORGANISATIONAL STRUCTURE FOR CRM

The 'best' organisational structure for CRM depends on the circumstances in which the company finds itself. Some of the main factors to consider when deciding on structure include:

- **Competition.** If the company is in a highly competitive industry, survival normally requires close customer engagement. This means that market or customer-based organisational structures are more likely to succeed due to their customer closeness, although the cost of this approach may be prohibitive. Where a market or customer-based organisational structure is not possible, a robust CRM capability can help mitigate the constraints of other organisational structures. Where competition is low (i.e., few competitors, weak competitors, or where the company has a highly differentiated offer), other organisational structures may suffice.
- **Buyer power.** If buyers have significant power (i.e., due to their size, account value, and/or the absence of other buyers), companies are better off catering to their needs as closely as possible. Again, a market or customer-based organisational structure is more likely to work here. CRM systems can also help improve customer focus where market or customer-based organisational structures are not possible.
- **Geographic dispersion.** Where companies exist in many locations, coordinating resources is challenging. CRM can complement geographically dispersed companies through its roles in coordinating marketing, sales, and service activities. As we mention earlier, geographic dispersion normally requires access to diverse customer locations, particularly for sales and service activities. Where customers are geographically concentrated, other organisational structures are more desirable.
- **Supplier power.** If the company has less power than its suppliers (e.g., where the company is one of many customers for the supplier's offerings), then the company may have no choice but to align its business model, including its CRM, with the product or brand of the supplier.
- **Product differentiation.** Where the company sells into a market where there is low product differentiation, it is most likely that the basis of competition is price. This means that the company must focus on achieving the lowest cost position. Such a strategy normally means minimising resource investments to control costs. Customers are likely to focus on specific transactions and have little interest in ongoing relationships with the company. In this case, a functional structure often yields high degrees of efficiency. CRM is not a major consideration in these circumstances.

Companies must acknowledge the dynamics of their operating environments when making decisions about CRM. While CRM offers many benefits, the way in which these manifest and the impetus for them differs according to a range of contextual factors.

## CONCLUSION

The logic underpinning successful CRM implementations should not focus on short-term costs and benefits only, nor should it look at a single period in isolation from others. CRM planning must consider the broader impacts on the company. CRM planning must also consider a broad range of CRM strategy possibilities. A narrow scope could work well for an SME or for a company with few customers. A broader scope – one that affects the entire company – is necessary when considering a larger customer base and more contextual complexity. When the company has a clear vision for CRM and CRM's goals, it is easier to develop a business case. Company structure is a major consideration in this process. By developing and implementing a company structure that fits with the context in which the company finds itself, CRM is more likely to succeed in achieving its goals. CRM can coexist with most organisational structures. CRM systems can help coordinate diverse company resources around marketing, sales, and service outcomes. However, the ease with which this coordination takes place depends on the extent to which the company adopts market- or customer-based structures.

## DISCUSSION QUESTIONS

1. How might a company generate a business case for CRM that aligns with both the strategic goals of the company and the needs/behaviours of customers?
2. What are the immediate operational benefits from CRM? How might a company estimate the benefits and costs of CRM prior to CRM implementation?
3. How might a company plan for potential future benefits arising from improved operational effectiveness?
4. What are the main organisational structures that companies can adopt and what are their CRM implications?

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# IMPLEMENTING CRM

### CHAPTER OBJECTIVES

After reading this chapter, you should be able to describe:

1. The five major phases in a CRM implementation project.
2. Tools and processes relevant to each phase of CRM implementation projects.
3. The importance of project management and change management throughout the implementation process.

### INTRODUCTION

CRM implementation projects often take between 12 months and 24 months to complete. Indeed, some researchers suggest that the average implementation period is 21 months<sup>1</sup> and that users need over 100 hours experience with new technologies before they could claim to have mastered it.<sup>2</sup> During the implementation period, the company will need to populate the CRM system with data from operational databases and campaign managers and sales-people will then have to learn how to analyse and use the data. This can take much longer than the purely technical implementation of a software system. If a client accepts a standard configuration, technically they go live upon signing the contract. However, technology alone cannot generate the benefits. It requires the development of complementary resources (e.g., high-quality data from operational systems) and capabilities such as process re-engineering, sales force adoption and training.<sup>3</sup> These requirements for CRM success remain constant whether technology is in the cloud or on the premises.

In this chapter, we look at the five major phases of a CRM implementation projects. Prior to the beginning of this process, the company might not have any major elements of CRM in place, while other companies may have at least some. The goal of the CRM implementation process is to create CRM from scratch or to upgrade existing CRM. There is considerable scope for CRM implementation processes to fail. As we cover earlier in the book, many companies only realise some of the benefits of CRM while others do not enjoy any at all. While

a robust plan and solid business case are parts of the solution, a rigorous implementation is essential. Companies can use many processes and tools to ensure that CRM projects deliver.<sup>4</sup> In this chapter, we look at the common features of successful CRM implementation as this relates to each implementation phase.

PHASE 1: DEVELOP THE CRM STRATEGY

Any CRM implementation plan must initially focus on key strategic questions such as “What are we trying to accomplish with CRM?” and “What do we need to do to achieve these goals?” This first phase of the implementation process typically includes a situation analysis, an education campaign, developing the CRM vision, setting priorities, establishing CRM goals, identifying contingencies, resources and personnel, and agreeing the business case with the Board.

Situation analysis

For many companies, CRM is a comprehensive change program that wants to move a company’s focus from the goods and services it sells to creating value for and from its customers. Too often, CRM starts with its most visible expensive asset, a software-based solution. The IT department conducts a user needs analysis and selects a vendor – job done. As we discuss earlier, CRM is more complex – starting from the solutions, no matter how ‘seductive’ they are, has proven to be an unsuccessful strategy.

A useful framework for driving out customer strategy, is the Customer Strategy Cube. This is a three-dimensional analysis of the company’s served market segments, market offerings and channels (routes-to-market). The situation analysis answers the questions, “Where are we now?” and “Why are we where we are?” in terms of the three dimensions of the cube.

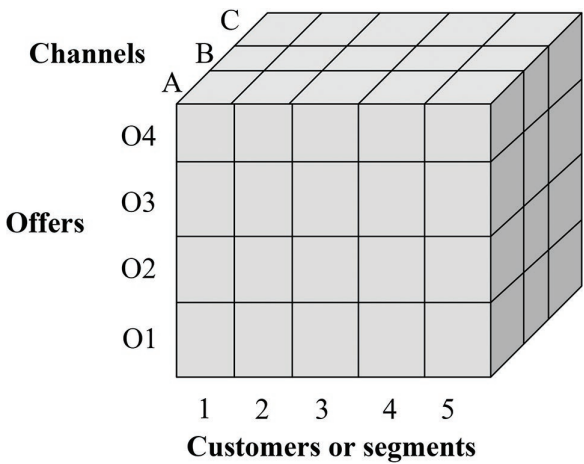


Figure 13.1 Customer strategy cube

Figure 13.1 illustrates the Customer Strategy Cube of a company that sells four different offerings to five different market segments through three different channels. Each block in this cube – there are 60 (5 x 4 x 3) of them – might be a potential business unit that would be subject to a situation analysis. In fact, most businesses do not operate in all potential blocks of their Customer Strategy Cube. They operate selectively. For example, AMP, the Australian financial services company, sells financial products through a network of independent and tied financial planners. They do not sell direct-to-consumer. The company does not offer all products to all market segments through all channels.

The situation analysis examines the three dimensions of the Customer Strategy Cube independently and jointly. This leads to further enquires along the following lines:

**Customers or segments:** Which segments do we target? Which segments do we serve? What are our customer-related marketing and sales objectives? What does the customer journey look like? How much do we sell to customers? How satisfied are they? What is our market share? What is our share of customer spending? How effective are our customer acquisition strategies and tactics? How effective are our customer retention strategies and tactics? How effective are our customer development (cross-sell and up-sell) strategies and tactics? What are the customer touchpoints? What do our customers think about their experience of doing business with us? Which customer management processes have most impact on our costs or customer experience? Which technologies do we use to support our marketing, selling, and service functions and how well do they operate?

**Market offerings:** Which products do we offer? What is our branding strategy? How well known are our offerings? Who do we compete against? What advantages or disadvantages do we offer vis-à-vis competitors? How do we augment and add value our basic product offer? What benefits do customers experience from our offerings? How do our prices compare with competitors? What are our margins?

**Channels:** Which mix of channels do we use to distribute to our customers – direct and indirect? Which channels are most effective? What level of channel penetration do we have? Which channels are becoming more/less important? Where do our customers seek to search for the class of products we sell? Where do competitors distribute? What do channel partners think of their experience of doing business with us? What margins do channel partners earn? Which channel management processes have most impact on our costs or channel partner experience? How are our channels integrated to provide a seamless customer experience?

The goal of this audit is to get a clear insight into the strengths and weaknesses of the company's current customer strategy before creating a CRM vision. Data sources include executives, managers, customer-contact people, channel partners, existing business plans, and, most importantly, customers. One of the outcomes might be a customer interaction map, as in Figure 13.2, that identifies all customer touchpoints and the processes that are performed at those touchpoints. Normally, the interactions that have important impact on customer experience or your own costs become primary candidates for reengineering and automation. The audit will serve as the start point for thinking about what you want to achieve from a CRM implementation.



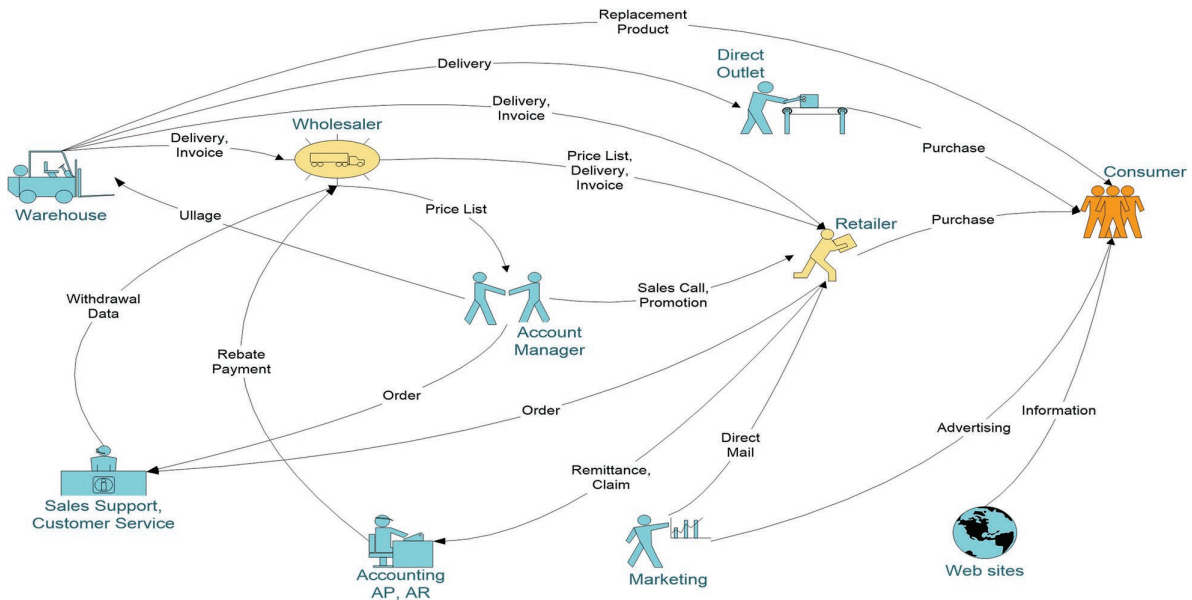


Figure 13.2 Customer interaction map

## Commence CRM education

CRM is a term that means different things to different people. It is important that all stakeholders have a clear understanding of what CRM denotes. IT people might think that it is a technology project, marketers may think it is campaign management and salespeople may think it is a customer contact database. Sales management may think of CRM as enabling management of the sales pipeline, while service management may see CRM principally as a means of reducing cost. This is not problematic if the organisation's CRM vision (see next section) is merely a collection of independent point solutions; however, if the firm is giving CRM more strategic consideration, the implications across the company require mutual understanding and agreement by everyone.

## Develop a CRM vision

Your CRM vision is a high-level statement of how CRM will change the way the business relates to its customers. The vision addresses the need for change and articulates a destination. Examples of CRM visions are:

- We will work with our members in a trust-based relationship to represent their interests, and to satisfy their needs for high value, security, and peace of mind in motoring, travel, and home.<sup>5</sup>
- We will build and maintain long-term relationships with valuable customers by creating personalised experiences across all touchpoints and by anticipating customer needs and providing customised offers.
- To be able to see all information concerning individual customers in one place.<sup>6</sup>

The CRM vision gives shape and direction to CRM strategy. The CRM vision might be senior management's perspective based on what they learned from the education process, or it could be the product of a wider visioning process that engages more members of the company, and even customers and partners. The vision will eventually guide the development of measurable CRM outcomes.

## **Set priorities**

CRM projects vary in their scope and touch on one or more customer-facing parts of the business – sales, marketing, and service. Clear priorities for action, normally focused on cost reduction or enhanced customer experience, might arise from the situation analysis, but more time and debate are often necessary. Priority might focus on projects that produce quick wins or are low cost. Longer-term priorities might prove more difficult to implement. For example, you may want to prioritise a new segmentation of customers based on their potential profitability. An obstacle to that outcome would be your company's inability to identify the costs of selling, marketing, and service to individual (or groups of) customers. You may therefore need to prioritise the implementation of an activity-based costing system to understand customer profitability.

## **Establish CRM project goals**

CRM goals emerge from the visioning and prioritising processes. CRM goals tend to cluster around three broad themes: enhancing customer satisfaction or loyalty, growing revenues, or reducing costs. CRM strategies often pursue several goals simultaneously, for example, increasing customer retention and reducing customer service costs. CRM projects must address these goals. If the CRM project involves a substantial upgrade on a previous system or approach, the results are measurable only after CRM project conclusion, when the company moves towards business-as-usual by incorporating the new CRM system capabilities into current or new company-wide processes.

## **Identify the contingencies, resources, and people changes**

The next step is to build a Benefits Dependency Network (BDN) around the goals. The process of thinking about the business changes required to achieve the CRM goals is hugely important and ensures that the organisation is aware of the ambition and scope of change needed. Too often, stakeholders see CRM as a marketing (or worse, an IT) project and a "let them get on with it" attitude prevails. As the process unfolds, customer managers will start demanding resources and changes to business processes. Moreover, gaps in resources and capabilities become evident: customer data is limited and dispersed over incommensurate systems, data-analytic capabilities just don't exist internally, and the supply chain is too inflexible to customise customer offers. These capabilities and resources cannot be developed quickly. It is much better to address these complementary assets and resources prior to spending large amounts on CRM technology,

Effective planning will ensure that you identify the people, process, capabilities, organisation and technology requirements for the goals and objectives to be achieved. You'll return to these matters repeatedly as the project unfolds, but at this stage you need a general idea of the changes that are necessary, so that you can begin to identify costs, investments and time scales that form part of the business plan.

Agree the business case with Board

The business case looks at both immediate and potential costs and revenues. CRM implementations can generate more revenues in several ways. We break these out into benefits that are more likely to be immediately achievable and those that are latent, i.e., become apparent after the organisation has developed complementary CRM assets and capabilities. We capture these in Table 13.1.

The costs of a CRM project extend well beyond the costs of CRM software or user fees in the case of SaaS solutions. More costs might accrue through systems integration, infrastructure costs, new devices, software configuration, data modelling, beta testing, helpdesk support, change management, project management, process reengineering, software upgrades, training, and consultancy services, let alone the opportunity costs of diverting your own staff members from their routine work. For a simple CRM project, IT costs may amount to one quarter of total project costs; for a complex project, IT costs may be as low as one tenth of total project costs.<sup>7</sup>

Many of these costs and benefits are measurable, but there are also likely to be some important latent or strategic benefits that are much harder to value, for example, development of a customer-centric way of doing business, better customer experience, improved responsiveness to changes in the market or competitive environments, more information sharing between business silos, more harmonious relationships with customers, and the development of an information-based competitive advantage.

Table 13.1 Immediate and latent benefits from CRM

<i>Immediate Benefits</i>	<i>Latent Benefits</i>
New business from lead generation	Unspecified new products and services arising from enhanced insight
More revenues from current customers (cross-selling and up-selling)	Stronger customer partnerships
Better margins	Increased customer satisfaction delivering higher loyalty, willingness to pay and reduced costs-to-serve
Lower cost-of-sales	Realignment of assets to meet customer needs better
Increased customer retention and recommendation	New capabilities that enable strategies we cannot yet imagine
Lower cost of customer acquisition	

## PHASE 2: BUILD CRM PROJECT FOUNDATIONS

Having created the CRM strategy, BDN and business case the next phase involves building the foundations for the CRM implementation. Core tasks include establishing the governance structure, specifying change management needs, managing the organisational culture, gaining stakeholder buy-in, identifying project management needs, identifying critical success factors, and developing the risk management plan.

### Establish governance structures

Governance structures are necessary so that CRM project roles and responsibilities are properly defined and allocated.

The Project Manager (PM) plays an important role in this structure. The PM has responsibility for ensuring the delivery of the project deliverables, and for controlling project costs. The PM in larger projects is a full-time appointment. The PM has a boundary-spanning role – one foot is in the CRM Steering Committee, the other is in the Project Team. Another key member of the Steering Committee is the Executive Sponsor. This is typically a Board level senior executive who commits real time to the project and ensures that resources are available. The Steering Committee makes policy decisions about the CRM implementation – for example, which technology to buy, which consultants to hire – and ensures that the implementation stays on track and within budget. Other senior executives may sit on the Steering Committee to ensure that the project does not slide into being an IT-dominated project. The Project Team is composed of representatives from the major stakeholders. The stakeholder representatives may have their own advisory groups that ensure that stakeholders' needs, and concerns are known and brought to the project Team. CRM implementations can impose considerable demands on a company's own internal IT resources which might be called on to perform several project-related roles. The Lead Developer role ensures that the CRM software is customised to meet the needs of users. The Database Developer role ensures that customer-related data held in disparate databases is made available to end-users in the form needed for operational and analytical CRM applications. The Front-End Developer role ensures that the user interface is easy to understand and use.

It is common for CRM projects to import resources and talents to help deliver the project. This governance structure shows a CRM consultant working with the Steering Committee. It is unlikely that an in-house Steering Committee has sufficient experience of CRM project implementations. Experienced consultants and or systems implementation firms can help the Steering Committee overcome problems as the project progresses. A Systems Implementer is also shown in this governance structure as an important external resource. For an installed on-premises CRM system, vendors generally supply technical help to ensure that the system is properly implemented.

Systems integration will likely be required to connect disparate systems and customer-related databases. Often these integration challenges are far more difficult, costly and time consuming than anticipated. The problems often become clear only once the project is well underway. For example, customer records may exist separately with the Internet channel, service software, marketing databases, and warranty system. Further dispersion of data can

occur if the focal company sells through third parties, each with their own systems. Getting a single view of the customer has been the rallying cry of CRM for almost 30 years but is still often elusive. Systems don't interoperate seamlessly; data dictionaries can be different such that specific product and service definitions differ.

Finally, the governance chart shows that the voice-of-the-customer must be heard in the project team. Customers of companies that implement CRM are important stakeholders because their experience of doing business will change. Some CRM projects fail to deliver optimal outcomes because the project team fails to ask: "What adds most value to the customer?" or "What creates the best customer experience, from the perspective of the customer?"

### **Specify change management needs**

Even small CRM projects can prove challenging in terms of change management. A sales force automation project might involve centralising data that is on individual reps' laptops and making that information available to all in the team. Reps will have to learn to share. In a distributed sales force, these reps may have not even met each other. If they must change their selling method, record-keeping, and reporting habits as well, there just might be some worry, if not outright resistance.

According to consultants Booz Allen & Hamilton, "Leadership teams that fail to plan for the human side of change often find themselves wondering why their best-laid plans go awry".<sup>8</sup> They describe change both in terms of top-down leadership and bottom-up buy-in, as does John Kotter whose eight-step approach to managing change is widely cited and deployed.<sup>9</sup> The eight steps are as follows:

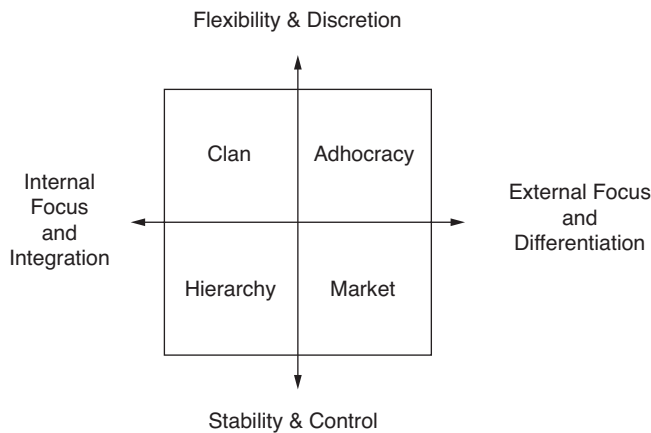
1. Create a sense of urgency so that people begin to feel "we must do something".
2. Put together a guiding team to drive the change effort (this is the Governance structure we have described).
3. Get the vision right and build supporting strategies.
4. Communicate for buy-in.
5. Empower action by removing organisational barriers to change.
6. Produce short-term wins to diffuse cynicism, pessimism, and scepticism.
7. Don't let up but keep driving change and promoting the vision.
8. Make change stick by reshaping organisational culture.

### **Organisational culture**

Organisational culture is a well-researched and complex phenomenon, and it not possible to do it full justice in a section of a chapter in a book on CRM. However, with CRM project failure rates reported at high levels,<sup>10</sup> CRM leaders must be sensitive to the 'culture' in which they wish to implement CRM. We outline some aspects that we believe are important for project managers to understand.

Organisational culture includes widely shared and strongly held values. These values are clear in patterns of individual and interpersonal behaviour, including the behaviour of the business leaders, and expressed in the norms, symbols, rituals, storytelling, power relationships and rewards systems of the organisation.

Several studies show that organisational culture effects business performance.<sup>11</sup> Recent research has also shown that organisational culture is a predictor of CRM success.<sup>12</sup> Adhocracy, one of four organisational cultures named in the Competing Values model (Figure 13.3), shows the strongest association with CRM success. Adhocracies are highly flexible, entrepreneurial, externally oriented organisations. Their core values are creativity and risk-taking.



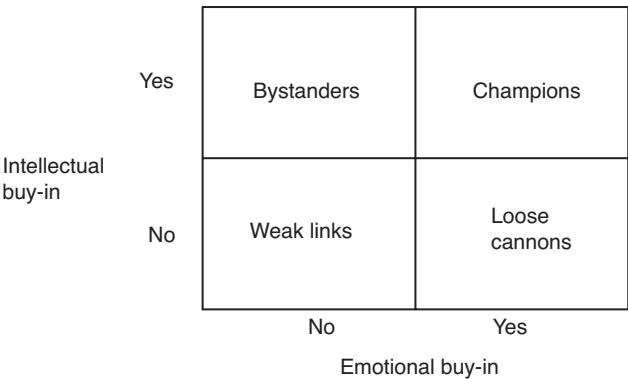
**Figure 13.3** The Competing Values Model of Organisational Culture<sup>13</sup>

Cameron and Quinn have developed a process for companies wishing to change their culture as shown by the Competing Values model.<sup>14</sup> They suggest that cultural change may involve adjustment to the organisation's structure, symbols, systems, staff, strategy, style of leaders, and skills of managers, but emphasise that individual behavioural change is the key to culture change.

## Buy-in

As noted by John Kotter, buy-in works at an emotional or intellectual (rational) level.<sup>15</sup> Intellectual buy-in is where people know what must be changed and understand the justification for the change. New technology adoption occurs more quickly when users believe that the system will be easy to use. Emotional buy-in is where there is genuine heart-felt enthusiasm, even excitement, about the change. The matrix in Figure 13.4 shows the possibility of four employee segments, reflecting the presence or absence of emotional and rational buy-in. Champions are emotionally and rationally committed. Weak links are neither emotionally nor rationally committed. Bystanders understand the changes but feel no emotional buy-in to the change.

The CRM project's vision and goals need acceptance by each of these groups in different ways. The Project Team's challenges are to encourage bystanders to become passionate about



**Figure 13.4** The Buy-in Matrix

the project goals, and to educate loose cannons on the reasoning behind CRM. Weak links can be truly problematic if they are in customer-facing roles or impact on customer experience. It takes many years to win a customer’s confidence and trust, but only one incident to break it. If efforts to win them over fail, weak links may need reassignment to jobs where there is less direct customer impact.

**Identify project management needs**

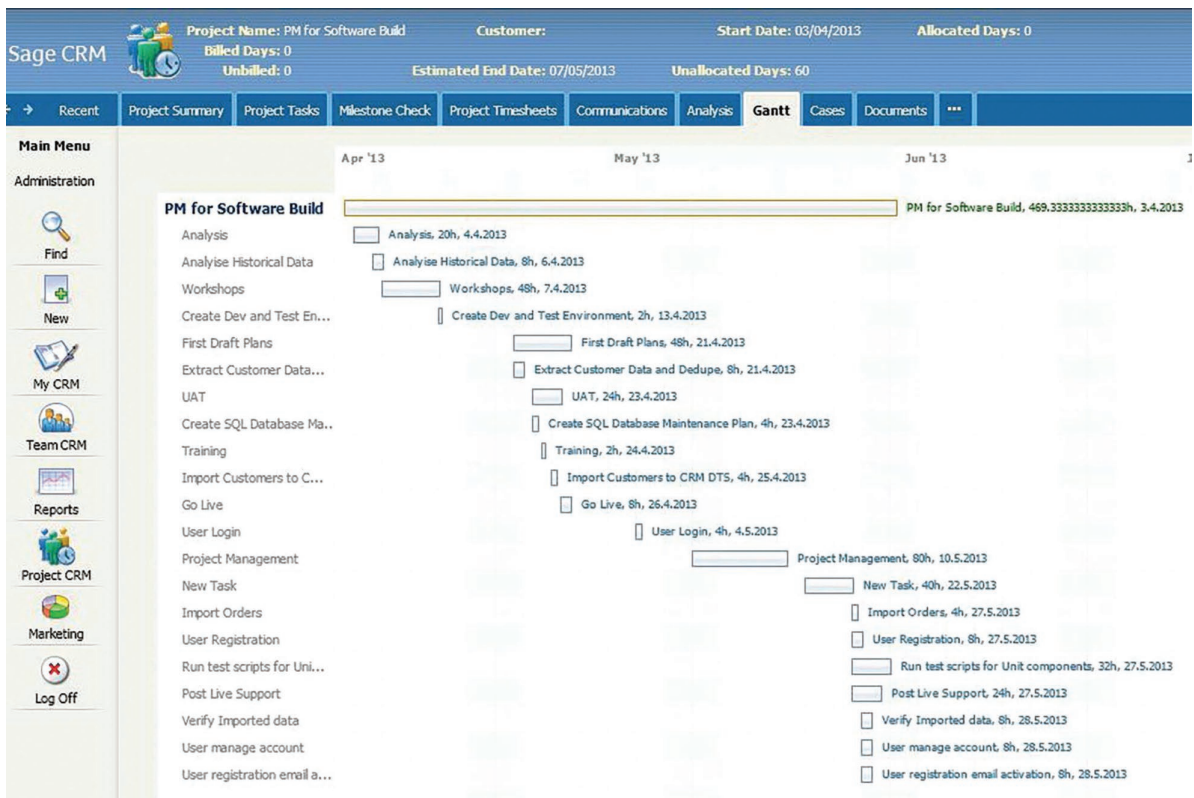
CRM implementations can place considerable demands on project management skills, and CRM project leaders need to understand their organisation’s capacity to manage complex change projects successfully.

The CRM project plan spells out the steps that will get you from where you are now (customer strategy situation analysis) to where you want to be (CRM vision, benefits, and goals), on-time and within budget. The CRM Project Manager performs the project management role, but sometimes uses external resources to deliver individual projects. A project plan sets out the tasks, their delivery order, the time each will take, the resources needed to perform the tasks (including people and money), and the deliverables from each task. Tools such as Gantt charts, Critical Path Analysis (CPA), Programme Evaluation and Review Technique (PERT), or network diagrams are useful tools for project managers. Some tasks will occur in parallel, some in sequence. As the project rolls forward there will periodic ‘milestone’ reviews to ensure that it is on time and on budget. A CRM project that has the goal of improving the productivity of marketing campaigns might be made up of several tasks or mini projects each with its own deliverable and timeline, including the following: market segmentation project, database development project, creation of a new campaign management process/workflow, management reports project, technology search and selection project, and a user training project.

**Identify critical success factors**

Critical Success Factors (CSFs) are the ‘must haves’ that underpin project success. CRM consultants and vendors offer a range of opinions on CSFs, mentioning the following: a clear customer strategy that defines your company’s offers, markets, and channels; an organisational





**Figure 13.5** CRM project Gantt chart<sup>16</sup>

culture that promotes coordination and information-sharing across business units; an agreed definition of what counts as CRM success; executive sponsorship of the CRM project objectives; availability and use of pertinent, accurate, timely, and useable customer-related information; a clear focus on people and process issues, not only technology; starting small with quick wins that are then promoted within the company as success stories; focus on automating processes that have major implications for either costs or customer experience, and engagement of all stakeholders, including end-users and customers, in project planning and roll-out.

There have been very few independent studies of CRM CSF's. Da Silva and Rahimi<sup>17</sup> conducted a single CRM case-study test of three CSF models that had originally been developed in the context of Enterprise Resource Planning (ERP) implementations. They found that CRM CSFs could be categorised as strategic and tactical. Strategic CSFs are met at the beginning of the project, while tactical CSFs become important later. Strategic CSFs include a clear CRM philosophy (we prefer the term 'vision'), top management commitment, and project management expertise. Tactical CSF's include trouble-shooting skills, good communications, and software configuration.

Croteau and Li conducted an empirical assessment of CRM CSFs factors in 57 large Canadian organisations.<sup>18</sup> Focusing only on the technology element – therefore ignoring people and process issues – they conclude that the CSF most strongly associated with CRM



success is an accurate and well-developed knowledge management system. This must be supported by a suitable IT infrastructure which can capture, manage, and deliver real-time customer, product, and service information to improve customer response and decision-making at all customer touchpoints. They also found that another important CSF is top management support.

### Develop risk management plan

Of course, there can be many potential risks, ranging from overly ambitious goals, lack of customer strategy, through inadequate project management, resistance of end-users to the adoption of new technologies, and customer indifference to the new relationship management strategy. At this step of the CRM implementation process, you'll be trying to find the major risks to achieving the desired outcomes. Once found, you can begin to put risk mitigation strategies and contingency plans in place. As you'd expect, some risks reflect an absence of the CSF's identified above. Gartner Inc. names a number of common causes of CRM failure: management that has little customer understanding or involvement; rewards and incentives that are tied to old, non-customer objectives; organisational culture that is not customer-focused; limited or no input from customers; thinking that technology is the solution; lack of specifically designed, mutually reinforcing processes; poor-quality customer data; little coordination between departmental initiatives and projects; creation of the CRM team happens last, and the team is composed of IT people, but lacks business staff; no measures or monitoring of benefits, and lack of testing.<sup>19</sup>

Risk mitigation strategies are your responses to these risks. Let's take the risk of management having little or no customer understanding. How might a firm respond to this? There are several things that could be done – management could work in the front-line serving customers (executives in McDonald's do this), they could listen in to contact-centre interactions for at least one hour a week, or mystery shop their own and competitor organisations.

## PHASE 3: NEEDS SPECIFICATION AND PARTNER SELECTION

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Having built the CRM project foundations, the next phase involves specifying needs and selecting suitable partners.

### Process engineering

The first task of Phase 3 is to identify business processes that need attention – making them more effective or efficient, or flagging them as candidates for automation. A business process is set of activities performed by people and/or technology to achieve a desired outcome. Business processes have a defined start and end point.

Put more simply, business processes are how the company performs activities. Several process classifications are worth considering:

**Vertical** processes are those that exist entirely within a single business function. For example, the customer acquisition process might exist totally within the marketing department. **Horizontal** processes are cross-functional. New product development

processes are typically horizontal and involve sales, marketing, finance, and research and development groups.

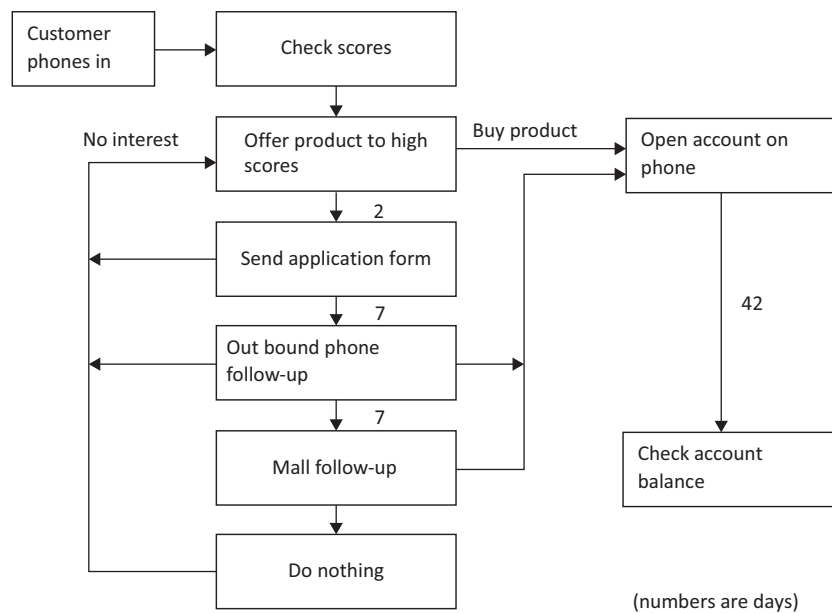
**Front office** (or frontstage) processes are those that customers touch. The complaints handling process is an example. **Back office** (or backstage) processes are invisible to customers, for example, the procurement process. Many processes straddle both front and back offices: the order-fulfilment process is an example. The order-taking part of that process is in the front-office. The production scheduling part is back-office.

A distinction between primary and secondary processes is also worth considering. **Primary** processes have major cost implications for companies, or given their impact on customer experience, major revenue implications. The logistics process in courier organisations – from picking up a package through transporting the package to delivering the package – constitutes about 90% of the cost base of the business and is therefore a primary process. Customers may have a different perspective on what is important. They typically do not care about back-office processes. They care about the processes they touch. In the insurance industry these are the claims process, the policy renewal process, and the new policy purchase process. In the courier business they are the pick-up, delivery, and tracking processes. **Secondary** processes have minor implications for costs or revenues, or little impact on customer experience.

Strategic CRM aims to build an organisation that can create and deliver customer value and experience consistently better than competitors to targeted customers. Designing processes that create value for customers is clearly vital to this outcome. 3M's customer promise is "Practical and ingenious solutions that help customers succeed". It does this in part through new product development processes that are designed to identify good ideas and bring them to the market quickly.<sup>20</sup> For 3M, the innovation process is a primary process that enables the company to differentiate itself from competitors.

Operational CRM involves the automation of the company's selling, marketing, and service processes and requires the support of analytical CRM. Figure 13.6 shows the campaign management process for a particular customer offer made by First Direct, a UK-based online and telephone bank. It shows that the propensity of a customer to open a high interest savings account involves a scoring process that considers both demographic and transactional data. The propensity modelling process is an illustration of analytical CRM. If a target score is reached an offer is made either by the Customer Service Agent during the phone call or later by email. This automation of the selling process is an example of operational CRM.

Customer journey mapping uses principles of workflow design (also known as flow-charting, blueprinting, or process mapping) to make processes visible. Customer journey mapping tracks the customer's interaction with company touchpoints at various stages in the customer journey. The workflow may also identify the people (or roles) that contribute to the process, and the standards by which the process is measured, such as time, accuracy, or cost. Processes always have customers, who may be either internal or external to a company. Customers receive process outputs. Workflow functionality is embedded into many CRM applications and is used for process mapping. Flowcharts can be used to identify fail points where a process frequently breaks down, redundancies, and duplications. They are also usable for induction and training of new people, and for illustrating internal customer-supplier relationships.



**Figure 13.6** Campaign management process for high interest saving account

**Table 13.2** Evaluating processes<sup>21</sup>

	<i>Process rating</i>
Best practice (superiority)	The process is defect-free and contributes to CRM performance; process is superior to comparable competitors and other benchmarks
Parity	A good process which contributes to CRM performance
Stability	An average process which meets expectations with no major problems, but which presents opportunities for improvement
Recoverability	The process has found weaknesses which are being addressed
Criticality	An ineffective and/or inefficient process in need of immediate remedial attention

Processes ratings help evaluate the degree to which improvement is possible and use criteria such as that in Table 13.2.

### Data review and gap analysis

Having identified processes for attention, the next step is to review the data requirements for the CRM implementation, and to identify shortfalls.

The fundamental issue companies must ask is: “What customer-related data do we need to achieve the CRM project goals and objectives?” Members of the Project Team should be

well placed to answer the question. For example, the Project Team's marketing lead would be expected to appreciate the information needs of marketers running campaigns and events.

At this stage of planning the CRM project, you are identifying the data that is needed for the defined CRM purposes and creating an inventory of data that is currently available. The gap between what is available and what is needed may be quite significant. A useful distinction can be made between 'need-to-know' and 'like-to-know', that is, between information *needed* for CRM purposes, and information that *might* be useful at some future point. Given the costs of developing and maintaining customer-related databases, companies need to be rigorous in screening data requirements. Another data review issue is the quality of the available data. It is one thing to have available data; it is another for that data to be of appropriately good quality.

### **Initial technology needs specification and research alternative solutions**

Earlier in this implementation process, you began to consider technology requirements. Now you can return to this question with a clearer focus on the process and data issues. There are a huge number of CRM software applications, many of which we discuss in Chapters 7–9. You now need to decide what applications will deliver your CRM vision and meet the business case requirements. You can learn about these applications by visiting vendor websites, joining online communities such as [www.customerthink.com](http://www.customerthink.com), or attending physical or virtual (online) exhibitions.

The 'real options' approach to CRM investment that we discuss earlier in the book has implications for the decision to build, buy or rent the CRM applications that you choose. Your options are to build your CRM applications from scratch, to buy an on-premise site licence or pay a monthly per-user charge for an on-demand (cloud) solution. If you opt to build from scratch, you may find that some open-source modules provide much or all of what you need. Open-source software is peer-reviewed software that gives CRM application developers the opportunity to view and evaluate source code. Open-source advocates suggest that being able to change source code creates improved software with fewer bugs, and that free distribution leads to more developers working to improve the software. Most contemporary businesses opt for the Software-as-a-Service model and pay user subscription fees.

### **Write request for proposals (RFP)**

Before calling for proposals you need to write a detailed RFP. This document becomes the standard used to evaluate vendors' proposals. It summarises your thinking about the CRM project and invites interested parties to respond in a structured way. Typical contents of the RFP include:

1. Instructions to respondents.
2. Company background.
3. The CRM vision and strategy.
4. Strategic, operational, and analytical CRM requirements.

5. Process issues:
  - a. Customer interaction mapping.
  - b. Process re-engineering.
6. Technology issues:
  - a. Delivery model – cloud, on-premises, blended.
  - b. Functionality required – sales, marketing, and service.
  - c. Management reports needed.
  - d. Hardware requirements.
  - e. Architectural issues.
  - f. Systems integration issues.
  - g. Customisation issues.
  - h. Upgrades and service requirements.
  - i. Availability of free-trial periods.
7. People issues:
  - a. Project management services.
  - b. Change management services.
  - c. Management and staff training.
8. Costing issues – Total Cost of Ownership (TCO) targets.
9. Implementation issues – pilot, training, support, roll-out, timeline.
10. Contractual issues.
11. Criteria for assessing proposals.
12. Timeline for responding to proposals.

### **Call for proposals**

The next step is to invite potential partners to respond to the RFP. You'll see from the RFP contents that CRM projects sometimes require input from several process, people, and technology partners. On the technology side, if your company is already paying for CRM modules as part of its enterprise IT system, you'll certainly want to add this technology vendor to the list of those invited to respond. Between three and six potential technology vendors are typically receive invitations.

### **Revised technology needs identification**

Proposals from technology vendors will sometimes identify opportunities for improved CRM performance that you may not have considered. There may be some functionality or issue that you had not considered. For example, you might not have considered the need to

provide implementation support to sales reps in the field. A vendor who shows that they'll be able to help reps learn the new technology in remote locations might be very attractive.

### **Assessment and partner selection**

The next stage is to assess the proposals and select one or more partners. The Steering Committee normally performs this task. Assessment is easier if you have a structured RFP and scoring system. There are two types of scoring system – unweighted and weighted. An unweighted system simply treats each assessment variable as equally important. A weighted system acknowledges that some variables are more important than others. These have more significance in the scoring process. Some criteria, for example the availability of some essential functionality, may be so important that their absence prevents detailed consideration of the rest of the partner's proposal

## **PHASE 4: PROJECT IMPLEMENTATION**

So far, you have developed the CRM strategy, built the CRM project foundations, specified your needs, and selected one or more partners. It is now implementation time!

### **Refine project plan**

The first step of Phase 4 requires you to co-operate with your selected partners in refining the project plan. Remember, this was defined without consideration of the needs and availability of your partners. You may find that your partner's consultants are already committed to other projects and that you'll have to wait. Your partners will be able to help you set new milestones and refine the budget.

### **Identify technology customisation needs**

It is very common that off-the-shelf technology does not meet all the requirements of users. Some vendors have industry-specific versions of their CRM software. Oracle, for example, tailors its CRM offerings for banking, retail, public sector, and other verticals. Even so, some customisation is often necessary. The Lead Developer, Database Developer, and Front-End Developer, in partnership with vendors, can perform these roles.

### **Prototype design, test, modify, and roll out**

The output of this customisation process will be a prototype that is testable by users on a duplicated dataset, or a dummy dataset, of customer-related data. End-user tests will show whether further customisation is necessary. Final adjustments to marketing, selling and service processes are made at this stage, and further training needs are identified and met. After a final review, a most companies implement a phased roll-out. A new contact management system might be rolled out to the key account team before other members of sales team; a new campaign management module may be trialled on newer brands rather than established

brands; a sales-force automation system might be rolled out first to the ‘champions,’ those identified earlier as buying in both emotionally and rationally. The idea is to iron out any problems before company-wide adoption.

Marketing professionals are increasingly adopting practices from software development. Instead of a sequential process of specification, test, and implementation, often customer focus teams use agile development.<sup>22</sup> Agile is based on breaking up the development of big solutions into very discrete and small parts, each of which involves a short ‘sprint’ undertaken by a cross-functional team called the scrum. The scrum may include customers. At each stage, the team is working up a minimum viable product – MVP – which is continually enhanced through short sprints. Agile is mature in software development and Operations Management; there are standards, processes, software tools, and best practice to guide it. Increasingly there are trained ‘scrum masters’ and others with expertise to manage this fast-paced collaborative development process. CRM is increasingly adapting to a world of Agile.

### **PHASE 5: PERFORMANCE EVALUATION**

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The final phase of the CRM project involves an evaluation of its performance. How well has it performed? Two sets of variables are measurable: project outcomes and business outcomes. Project outcomes focus on whether the project delivery was on time and on budget. Your evaluation of the business outcomes requires you to return to the CRM implementation goals, your definition of CRM success, and the business case and ask whether the desired results occur.

If your single goal was to enhance customer retention rates, with a measurable lift from 70% to 80%, and this is the outcome, then your CRM project has been successful. Congratulations! However, most projects have multiple goals, and it is common to achieve some goals and to miss others. Lead conversion by the sales team might rise but lead generation by campaign managers might fall short of the stated goal, for example. A critical issue concerns the timing of any business performance evaluation. It can take users several months to become familiar with new processes, and competent in using new technology. Periodic measures of business outcomes are useful to evaluate project outcomes. Ongoing training, timed to coincide with software upgrades, can enhance business outcomes. In the short-term it is impossible to assess whether the latent benefits specified in the business case are outcomes.

### **CONCLUSION**

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In this chapter, we discuss the five major phases of a CRM implementation, and the processes and tools that are useful to ensure that CRM projects deliver what is expected of them. The key phases are 1. Develop the CRM strategy; 2. Build the CRM project foundations; 3. Needs specification and partner selection; 4. Project implementation; and 5. Performance evaluation. CRM projects vary in scope, duration, and cost, but it is always important to be clear about what business outcomes are desired, and to measure the performance of the CRM implementation accordingly. By following these steps, we argue that the CRM implementation has a greater chance of success than those that don’t follow these steps.

## DISCUSSION QUESTIONS

1. What are the five major phases in a CRM implementation?
2. What are some common tools and processes relevant to each phase of CRM implementation?
3. What impacts do professional project management and change management have throughout the implementation process?

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## Section F

# THE FUTURE

This section is the last in the book, so Chapter 14 considers some of the current developments affecting CRM and its future. As such, this section also serves as a conclusion – as well as an attempt at crystal ball gazing on our behalf! Of course, since no one can predict the future, the contents of Chapter 14 are our best guesses.

# CURRENT DEVELOPMENTS IN CRM

### CHAPTER OBJECTIVES

After reading this chapter, you will be able to describe:

1. How current advancements in technology are influencing CRM.
2. Current trends in CRM adoption.
3. How old habits continue to limit the potential of CRM in many companies.
4. Privacy and ethics as these relate to CRM.

### INTRODUCTION

CRM is now at a state of maturity. Most of the fundamentals of CRM are now well-established. The emergent trends in CRM, however, reflect growing CRM technology capabilities, a greater sophistication of social and business trends, and responses to existential threats such as COVID-19, the Russia-Ukraine conflict, and climate change, not to mention the prospect of global recession. There is no shortage of crystal ball gazing when it comes to predicting the future of CRM.<sup>1</sup> We discuss some of the more common predictions in this chapter. We also consider the privacy and ethics of CRM, which has become a major concern. CRM systems hold considerable amounts of customer data and, without adequate cyber security provisions in place, companies and customers face considerable risks.

### ADVANCES IN CRM TECHNOLOGY

As we know, CRM involves technological systems. CRM systems continue to benefit from advances in technology. Recent and emerging technological advances promise to help companies manage customer relationships more cost effectively while also lifting customer engagement. We can see core technology advances across three domains: customer interactions, customer analysis, and CRM decision support.

## Customer interaction

Since supporting customer relationships through direct human contact is costly and inefficient, a key goal for many CRM users and vendors is to find ways to use technology to assist or replace human interactions. There are four major trends in this regard at present:

1. **The emergence of voice and conversational user interfaces.** Where the use of chatbots and voice biometrics over the phone are not new, the ability to interact with each technology in a seamless and integrated fashion is only emerging. As technology matures, it will become possible to cut the need for human service provision while still supplying a rich and integrated customer experience. Looking beyond chatbots, we see the development of simulations – like representations of humans able to converse freely. As we write, Meta (formerly Facebook) is investing heavily in a virtual reality ‘metaverse’. While the precise definitions and boundaries of this new world are not yet clear, the investment in both augmented and virtual realities will find its way into customer management. As algorithmic customer experiences displace or augment human interaction, managers are challenged to ensure that their customer experience is differentiated and consistent with their brand values. The nature of customer engagement and contact centres will change with the new technologies.
2. **The Internet of Things (IoT).** There is now scope to access a much broader variety of customer-related data – and the sources of customer data continue to expand and diversify. The IoT casts any device capable of generating data as a data source. The initial purpose of data gathering for a given device might have nothing to do with CRM. However, by integrating these data with many other data sources, companies may be able to uncover unique and rich customer insights. For example, traffic cameras capture traffic flows, often at major intersections, to promote safe driving. By accessing data like this, companies may be able to track the location of customers in real-time. This could allow them to use dynamic prospecting techniques, such that customer-specific advertisements appear in the customer’s line of sight precisely at the time they pass by.
3. **Social CRM.** Many social media platforms are developing a comprehensive suite of CRM tools that companies can use directly on the platform. This means that companies will be able to deploy CRM systems to fit seamlessly into social media platforms. Ownership of software and customer-related data will be contested between the companies, the social media platforms, and CRM software vendors.
4. **Changing customer expectations.** Customers who interact with companies will continue to appreciate doing business with companies that know them well. Rather than actively searching for product options, customers will behave habitually if the company can meet or exceed the customer’s needs. While this is not a new idea, advances in CRM technology should help companies predict customer needs well ahead of time, to a point where the customer can remain passive and still have their needs met. This will support more precise personalisation of offers and communication.

## Customer analysis

Customer analysis is a core feature of CRM, as we discuss in our chapters on analytical CRM. There are some trends that will improve this for companies:

1. **Seamless user interfaces.** While companies often have many systems and databases that align with the different functions of the company, emerging CRM systems will harness all these sources to present a seamless but user-specific view of the customer. Learning algorithms, which track user behaviours, will help calibrate the system by detecting the most common actions a user takes and then adjusts the user's view accordingly.
2. **More robust data analysis techniques.** While we consider several AI-based approaches to customer data analysis earlier in the book, it is likely that analytical algorithms and methods will continue to mature. We believe that new techniques will emerge that will improve the accuracy of CRM analytics while also dealing with many of the common data management challenges (e.g., missing data, incorrect data, duplicate data, etc.).
3. **Greater breadth of data sources.** While many CRM systems can collect data from online sources or from direct data entry, the emergence of the Internet of Things will continue to mature to collect data passively. The means to analyse and process larger data sets which are more diverse will continue to develop, meaning that companies will be able to glean a broader variety of specific customer insights. This ubiquitous data gathering is increasingly controversial, and marketers will be affected by the public anxiety, legislation, and cyber security technology. The CRM 'industry' must find a consensual way forward balancing the benefits of customised, effective, customer experience, service costs, the legitimate right to privacy, control over algorithmic decisions, and authenticity (I know with whom I am dealing).

## CRM decision support

There is a trend towards the greater integration of CRM into business processes in many companies. This means that the company is more able to consider the implications of business decisions in customer terms. This reflects two CRM-relevant developments:

1. **Customer focus.** Any decisions that the company takes will need to consider the implications for customers. For example, a CRM system could be a useful tool when evaluating a company decision to downsize or to offshore production. The probable impacts of decisions will be easier to see due to the integration of multiple company systems.
2. **Cause-effect network analysis.** The integration of CRM systems with other company systems will also allow the company to uncover the implications of a change in marketing, sales, or service activities more clearly and directly. Where many improvements in CRM systems leads to higher demand, often companies do not prepare adequately. This sort of problem will decline with advances in predictive AI.

## CRM ADOPTION

We can also see trends in terms of CRM adoption. The idea that CRM is essential to modern business is no longer new. Many companies now use CRM as a routine part of their daily operations. We see CRM adoption as continuing to increase. This reflects the following trends:

1. **CRM systems proliferation.** Companies now have no shortage of CRM software packages that they can access online and implement. These options continue to grow, with each package now including a vast array of features. Many CRM systems now include mobile device compatibility, making CRM systems access ubiquitous.
2. **CRM as a service.** A significant barrier to CRM systems adoption historically has been the need to also buy IT systems with adequate storage and functionality to support the CRM system. This is no longer the case. Instead, companies can now access CRM through a web interface, along with the services and support necessary to ensure the system runs smoothly and user requirements are satisfied.
3. **Try-before-you-buy.** Most CRM developers now offer a base model at no cost. Companies can access this product variant without an upfront cost. The base model has limitations in terms of the number of features that are available and in terms of the number of records it can handle. This encourages companies to upgrade to more sophisticated options in return for a fee.
4. **Ease of use.** Many CRM systems do not require unique expertise or training. Instead, users only need basic computer literacy and access to an Internet connection to use the technology.

These trends mean that it is no longer necessary for companies to have large, dedicated CRM teams. Indeed, even micro businesses with fewer than five employees can make use of CRM. Furthermore, not-for-profit organisations such as charities are becoming enthusiastic adopters of CRM applications to help them manage relationships with donors, partners, and beneficiaries. As a low-cost, highly accessible resource that has the potential to deliver high value to users, CRM software is now in wide use. The improving capabilities of CRM platforms can replace the need for dedicated data scientists and engineers. This means that CRM is becoming ubiquitous.

## OLD HABITS

While advances in CRM technology continue, many companies still do not adopt CRM or do not use CRM to its fullest extent. While this could reflect a deliberate CRM strategy, it more commonly reflects outdated management practices. Where companies do not actively reflect on their current situations with an intention of improving, CRM adoptions will continue to pose challenges. Of most concern is:

- **Culture.** Where cultural norms and values are internally focused and not externally focused (i.e., on customers), the company is unlikely to adopt CRM successfully or to realise the benefits that await.

- **Structure.** Where the company keeps an existing structure, and that structure does not acknowledge the need to accommodate customer requirements, CRM implementations are likely to fail.
- **Governance.** An overly centralised control over the CRM systems and initiatives such that customer-facing business units lose control over their ability to create the relationships they wish to based on learning acquired through being 'closer' to customers.
- **Systems.** Where companies resist any change or adaptations to existing systems, then CRM implementations will struggle.

The adherence to 'the way we do things here' will remain a challenge facing CRM implementation.

## **PRIVACY AND ETHICS**

The fact that CRM involves collecting, storing, analysing, transporting, and using large amounts of customer-related data gives rise to privacy and ethics concerns. We have seen widespread adoption of legislation in many countries and by economic blocks (such as the European Union) that impact customer data management.

There have been two major responses to the privacy concerns of customers. The first is self-regulation by companies and associations. For example, several companies publish their privacy policies and make a commercial virtue out of their transparency. Professional bodies in fields such as direct marketing, advertising, and market research have adopted codes of practice that members must abide by.

### **The OECD principles**

The second response has been legislation. In 1980, the Organisation for Economic Cooperation and Development (OECD) developed a set of personal data protection principles.<sup>2</sup> Internationally, these principles provide the most used privacy framework; they are reflected in existing and emerging privacy and data protection laws in the European Community and serve as the basis for the creation of best practice privacy programmes and additional principles.

The OECD principles are as follows:

1. **Collection Limitation Principle.** Personal data should be obtained by lawful and fair means and, where right, with the knowledge or consent of the data subject.
2. **Data Quality Principle.** Personal data should be relevant to the purposes for which they are to be used, and, to the extent necessary for those purposes, should be accurate, complete, and kept up-to-date.
3. **Purpose Specification Principle.** The purposes for which personal data are collected should be specified not later than at the time of data collection and the later use limited to the fulfilment of those purposes or other uses compatible with those purposes.



4. **Use Limitation Principle.** Personal data should not be disclosed, made available or otherwise used for purposes other than those specified except a) with the consent of the data subject; or b) by the authority of law.
5. **Security Safeguards Principle.** Personal data should be protected by reasonable security safeguards against such risks as loss or unauthorised access, destruction, use, modification, or disclosure of data.
6. **Openness Principle.** There should be a general policy of openness about developments, practices, and policies with respect to personal data. Means should be readily available of establishing the existence and nature of personal data, and the main purposes of their use, as well as the identity and usual residence of the data controller.
7. **Individual Participation Principle.** Individuals should have the right: (a) to obtain from a data controller, or otherwise, confirmation of whether or not the data controller has data relating to them; (b) to have communicated to them, data relating to them (i) within a reasonable time; (ii) at a charge, if any, that is not excessive; (iii) in a reasonable manner; and (iv) in a form that is readily intelligible to them; (c) to be given reasons if a request made under subparagraphs (a) and (b) is denied, and to be able to challenge such denial; and (d) to challenge data relating to them and, if the challenge is successful, to have the data erased, rectified, completed, or amended.
8. **Accountability Principle.** A data controller should be accountable for complying with measures that give effect to the principles stated above.

The United States Department of Commerce developed the *Safe Harbour* self-certifying legal framework to allow US organisations to comply with the EC Data Protection Directive. Because of the purpose, the framework's principles align closely with OECD's. There are seven *Safe Harbour* principles:

1. **Notice.** Organisations must notify individuals about the purposes for which they collect and use information about them. They must provide information about how individuals can contact the organisation with any inquiries or complaints, the types of third parties to which it shows the information, and the choices and means the organisation offers for limiting its use and disclosure.
2. **Choice.** Organisations must give individuals the opportunity to choose (opt out) whether their personal information will be showed to a third party or used for a purpose incompatible with the purpose for which it was originally collected or later authorised by the individual.
3. **Onward Transfer (Transfers to Third Parties).** To show information to a third party, organisations must apply the notice and choice principles. Where an organisation wishes to transfer information to a third party that is acting as an agent, it may do so if it makes sure that the third party subscribes to the *Safe Harbour* Privacy Principles or is subject to the Directive or another adequacy finding. As an alternative, the organisation can enter into a written agreement with such third party requiring that the third party provide at least the same level of privacy protection as is required by the relevant principles.

4. **Access.** Individuals must have access to personal information about them that an organisation holds and be able to correct, amend, or remove that information where it is inaccurate, except where the burden or expense of providing access would be disproportionate to the risks to the individual's privacy, or where the rights of persons other than the individual would be violated.
5. **Security.** Organisations must take reasonable precautions to protect personal information from loss, misuse, and unauthorised access, disclosure, alteration and destruction.
6. **Data integrity.** Personal information must be relevant for the purposes for which it is to be used. An organisation should take reasonable steps to ensure that data is reliable for its intended use, correct, complete, and current.
7. **Enforcement.** In order to ensure compliance with the *Safe Harbour* principles, there must be: (a) readily available and affordable independent recourse mechanisms so that each individual's complaints and disputes can be investigated and resolved, and damages awarded where the applicable law or private sector initiatives so provide; (b) procedures for verifying that the commitments companies make to adhere to the *Safe Harbour* principles have been implemented; and (c) obligations to remedy problems arising out of a failure to comply with the principles. Sanctions must be sufficiently rigorous to ensure compliance by the organisation. Organisations that fail to provide annual self-certification letters will no longer appear in the list of participants and *Safe Harbour* benefits will no longer be assured.

*Safe Harbour* is one of several cross-border data transfer options for organisations in the USA that conduct business in the EU. For an organisation to employ *Safe Harbour* as a compliance mechanism, the organisation must be subject to the Federal Trade Commission's or Department of Transportation's authority. *Safe Harbour* is a very popular option, particularly for handling customer data.

## General Data Protection Regulation

An important new development in this area is the European Union (EU) directive on data security and privacy: GDPR the General Data Protection Regulation.<sup>3</sup> Its scope is far wider than anything that preceded it, as are its fines for transgressions. For large organisations guilty of data protection failures, fines of €20 million or 4% of global sales revenue (whichever is greater) can apply. The legislation applies to all companies processing data on European citizens regardless of the company's location. Conditions for consent will need to be much clearer; there is no hiding behind pages of small print. Some of the provisions include the right to be forgotten, access data held about you in an inexpensive, quick, and easy manner, protection by design, and strict governance within companies. The legislation took effect in May 2018 and among other concerns, GDPR establishes principles relating to: (1) the processing of personal data; (2) the lawfulness of processing; (3) conditions for consent; and (4) conditions specific to the consent of children.

While legislation and regulations are now more common, and this has made it more difficult for companies to exploit customer data, there is still scope for companies to capitalise

on their understanding of customers. Advances in AI and other technologies mean that companies may not need direct access to customer-specific data. Instead, they may be able to use sophisticated algorithms to infer or indirectly observe customer attributes. For example, a customer purchase of motorcycle oil means they probably own a motorcycle or know someone who does. This is enough information to develop targeted marketing campaigns for motorcycle parts, accessories, and clothing. By comparing other attributes of the purchase situation such as time of day, location, and value, this helps refine the target. Through experimentation, companies can then calibrate and refine their marketing efforts. While this does not require customer data, it shows that companies are still able to manipulate customer behaviour through other means. Companies have clear incentives to continue to develop more sophisticated means to building and retaining customer relationships. The extent to which this shows ethical practice is debatable.

## CONCLUSION

In this chapter, we explore a series of current developments in CRM. Most of these developments reflect advances in CRM technology as well as the integration of CRM technology with other functions, systems, and processes of the company. Companies stand to see advances in the ability of CRM technology in terms of its customer interaction, customer analysis, and CRM decision support functionality. We are also seeing the advent of ubiquitous CRM adoption. Many of the barriers to CRM adoption no longer exist or are not as severe as has been the case historically. Even small companies can access CRM, which is cost effective and user friendly. The proliferation of CRM developers has led to many options in CRM packages and the wide availability of CRM solutions. Adopting CRM in existing companies can still pose challenges, however. The legacy of existing systems, processes and structures can limit CRM adoption success. CRM still gives rise to privacy and ethical concerns due to its use of customer-related data. Directly accessing customer data may not be necessary though – advances in AI can help companies mitigate the need for this by inferring customer attributes and buying behaviour from other data. The extent to which this adheres to ethical standards is debatable.

## NOTES

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- 3 See <https://www.eugdpr.org> Accessed 2 November 2022.

# CRM HOSTING OPTIONS

We can illustrate the ways that companies access CRM functionality (software) as a two-by-two matrix which considers two strategic choices:

1. Whether to adopt point solutions or an integrated, comprehensive CRM suite of applications.
2. Whether to manage the CRM solution on premise (company owned and managed) or to manage it in the cloud (almost always third party owned and managed as a solution).

## **POINT SOLUTION(S) VERSUS INTEGRATED SUITE**

We present the extremes of a continuum for ease of explanation. The reality of practice is that each organisation has a somewhat unique blend of point solutions and integration.

**‘Point solution’** is a term used by IT suppliers to describe single function software applications. In the CRM environment, point solutions include campaign management tools, social media planning tools, call centre software, bid management tools, etc. Often, companies start their CRM strategy with specific problems to solve, e.g.: “We need to recruit more customers so let us improve our marketing campaigns”, or “We wish to improve the percentage of bids won, so let us provide some replicable structure and process to bid management ensuring a level of quality and consistency”. The need is obvious and immediate, the business case is intuitive and easily written. The degree of systems and organisation change required to implement is manageable and the cost of acquiring (access) the technology affordable.

Companies with a limited CRM ambition and scope will find that point solutions meet their needs cost effectively and within their competence to implement.

**Appendix Table 1** Four strategic options for hosting CRM solutions

	<i>Point solution(s)</i>	<i>Integrated suite</i>
On premise (company owned)	Limited CRM ambition and functionality	Company directed strategy and execution
Cloud-based (third party)	Limited ambition and functionality, with room to expand	Strategic partnership with the vendor

The company may also need to consider how CRM might develop. If the point solution is seen as the start of a much more comprehensive customer strategy, the company will want to ensure that its initial point solutions are easy to integrate into a more comprehensive CRM solution. This will provide a single view of the customer across all activities and involve full integration of marketing, sales, and service across all channels. Companies can achieve this outcome by buying point solutions from vendors that offer a full CRM suite either on premise or via the cloud. Practically, almost all comprehensive CRM solutions are cloud-based now.

Conversely, if the company has a strong ambition for a fully comprehensive CRM strategy, and/or has several point solutions that are poorly integrated, it will look at more comprehensive suites. This is the logic behind **integrated suites**. The gold standard for CRM technology is to enable all customer facing people and processes to have a full and common view of each customer, including the activities, issues, and business each customer has with the company. Moreover, the company might want to deliver customer experience that is equivalent across all channels that the customer might use (in store, online, with third parties) at each stage of the customer journey.

Companies have been trying to achieve this for many years, and it is difficult. While there are some powerful arguments for building your own bespoke CRM solution by harnessing one or more of the 10,000 Martech applications available, this requires a very sophisticated in-house systems integration capability. Large software companies often have better resources to manage this and to keep all the pieces of the puzzle together over time as technology evolves, making this a more realistic option for these companies. Of course, the best integrated suites tend to be the most expensive, so budget is a consideration. It is our view that for most companies that require a comprehensive solution, if they can afford it, selecting from one of the leading integrated CRM software packages is preferable. Generating competitive advantage from commonly available CRM tools is more likely if the company can integrate them with business practices while also developing complementary assets (data, people, processes) – and achieving this to a greater extent than competitors. An exception to this applies to companies who focus on creating a truly unique and better customer experience than any competitor. In this case, proprietary solutions might support the strategy best. The argument remains; is it the solution or its implementation that creates the unique experience?

## On-premise versus cloud-based

Thirty years ago, when CRM was just beginning to play a role in business operations, early adopters would typically buy a licence to install CRM software applications on their own servers, the company would install the software on existing IT infrastructure and customer-related data would be secured behind secure firewalls by the business. This is known as **on-premise** CRM. The advantage of this approach is that the company has exclusive access to its CRM assets, develops its CRM-IT capability, and has visible ownership of the associated customer-related data. On-premise CRM systems, however, also presented costs to the company. The CRM software licence could be expensive, there was a cost in building the customer data and in sustaining datasets, companies needed to continually modify systems to keep pace with technology, often individual CRM solutions would not operate seamlessly together (data and systems integration issues) and there was a risk when storing all customer-related data in a single location – without a robust backup process, there was a real risk of data loss.

CRM applications are now almost always **cloud-based**. Cloud CRM adopters do not own the software, but instead pay a monthly subscription (i.e., user licences) often based on number of users. The subscription includes all software updates and often allows companies to add more functionality over time – for a fee of course. Companies can channel all customer-related data to the online CRM application by connecting it to the other systems it currently uses (e.g., to manage order flows, service ticketing, marketing campaigns, and/or finance). More comprehensive cloud-based solutions can allow greater data sharing and application interoperability. Even when embarking upon CRM with limited ambition and functionality, a cloud-based vendor that offers comprehensive solutions provides an easy escalation path for a company that decides to invest further in CRM strategies.

Cloud-based CRM solutions are Software-as-a-Service (SaaS) in that customers access the CRM application(s) for its functionality, and the CRM vendor supports the CRM system (i.e., supplies regular service). This also means that the CRM vendor uses many servers in multiple locations to supply the service, which reduces the risk of system failure.

Cloud data centres have robust disaster protection, fire suppression, access controls, and redundant (multiple) power supplies. The data centres, and the policies governing them, are certified for conformance with the international standard for Information Security Management Systems (ISO 27001).<sup>1</sup> An Information Security Management System is a framework of policies and procedures that includes all legal, physical, and technical controls involved in an organisation's information risk management processes. In addition, Dynamics 365 is certified against the Cloud Security Alliance's Cloud Computing Matrix (CSA CCM). The Cloud Computing Matrix provides organisations with the needed structure, detail and clarity relating to information security tailored to cloud computing.<sup>2</sup>

Cloud-based solutions offer many benefits for IT management of CRM. The best vendors have excellent integration across the functionality for sales, marketing, and service automation. They continually enhance that functionality and make it available to their customers as it is ready. They invest heavily in data management, and one should never underestimate how difficult data integration across technology applications can be; issues of data field definition and database structure are not trivial. Cloud-based solutions are highly scalable and global. So, if you are a rapidly growing company, adding thousands of new people every quarter, it is merely a licencing issue to scale as needed; conversely, if you are downsizing, a licence structure does not leave you with huge 'sunk costs' of legacy on-premise equipment.

### **THREE EXAMPLES OF CRM-RELATED CLOUDS**

It is useful to explore some well-known cloud-based CRM packages. Here, we consider HubSpot, Oracle and Salesforce.com. This is not to ignore other large, well-developed platforms offered by firms such as Microsoft, Adobe, and SAP, but in the interest of being parsimonious, we focus on these three for illustrative purposes.

#### **Example 1: HubSpot's CRM cloud**

HubSpot's CRM cloud platform is hosted by Amazon Web Services. HubSpot's CRM platform provides marketing, sales, support, and service functionalities for companies of all sizes, by locating all company data and marketing efforts, in one location known as a single

source of truth. Integrating all this data reflects HubSpot's key marketing strategy, which is to optimise customer experience through automation.

HubSpot provides their solution through six main (integrated) tools:

1. CRM hub

This is the original platform that HubSpot developed primarily as marketing software to organise company leads, nurture them, and seamlessly hand them over to the sales team. This robust hub allows every company action to be tied together, and links to all the other five tools.

The CRM hub provides everyone in the company with visibility of important data on leads, conversion rates and follow-up call information. Live chatbots integrated into the company website can nurture leads 24/7 and automated surveys can help to track customer satisfaction.

2. Content Management System

HubSpot developed a Content Management System offering to compete with WordPress, Squarespace, and Wix. This website hosting platform enables companies to create a website including landing pages, blogs, contact forms, etc., using simple drag and drop functionality. Data housed in the CRM Hub and data collected via website forms and cookies are automatically integrated to provide a more complete picture of customer behaviours allowing for informed decisions to improve customer experience.

3. Marketing hub

The marketing hub allows companies to create, measure and evaluate content. The hub provides SEO tools for improved content strategy, landing pages that seamlessly integrate with the wider website which can be tracked and optimised, calls to action, social media post scheduling and tracking, and blog and website content creation tools.

The marketing hub collects enormous amounts of additional customer-related data, which seamlessly integrates with the CRM and CMS solutions.

4. Sales hub

Tied to the company website, the sales hub provides information on the movements of prospective clients. For example, if a lead opens a marketing email from the company, then visits the website, the sales team can see this customer journey unfolding, including which pages of the website they viewed and for how long.

At this point, the system can trigger an email sequence related to the page viewed, or even send an email request for a meeting at the customers preferred time.

- 5) Support

The HubSpot platform is also designed to assist customer support functions within the company through services such as:

- Email templates – for example to re-engage with customers or to ask for a review.
- Chatbots and live chat functions – allowing 24/7 customer service.

- Customer portals – allow customers to log in to see service updates, delivery details, etc.
- Example answers to everyday questions.
- Customer information hub – allows your team to see the customer's service history, questions, etc.

#### 6. Operations hub

This hub simply works to integrate all a company's non-HubSpot data into the HubSpot CRM. There are also features to help clean up data and standardise it across multiple platforms. Together these tools provide companies with informed answers for better decision making.

HubSpot's cloud platform is constantly changing. To get the latest insights please visit <https://www.hubspot.com/>.

### Example 2: Oracle's Customer Experience (CX) Cloud

Oracle's Customer Experience Cloud (CX Cloud) has similarities to its major competitors such as Salesforce.com and Adobe, although each starts from a different strength. Oracle has the most extensive suite of applications and a traditional strength in data management.

Over a period of approximately six years Oracle bought and integrated a suite of primarily cloud-based marketing, sales, and service solutions to create its CX Cloud. Key acquisitions to date include:

- Siebel Systems – pioneers of Sales Force Automation and on-premise CRM.
- Eloqua – marketing automation/campaign management.
- BlueKai – an online Data Management Platform that allows personalisation of customer treatment.
- AddThis – analytics.
- BigMachines – configure, price and quote solution.
- Collective Intellect – social media analysis and response.
- Compendium – content management across channels.
- Cross wise – cross device machine learning.
- Crowd Twist – customer loyalty solution.
- DataFox – Artificial Intelligence solution.
- Datalogix – data broker and digital marketing.
- DataScience – Data Science solution.
- Involver – Social Markup Language for building social media content.
- LiveLOOK – online customer service.
- Maxymiser – optimising web and mobile customer experience.
- Moat – digital advertising analytics.
- Responsys – consumer marketing application.



- Verenia – Configure-Price-Quote application.
- Vitruve – social media marketing.

The Oracle CX Cloud has integrated many complementary technologies into one cloud that supports a wide range of relationship management strategies across marketing, sales, and service.

The applications embedded in Oracle's overall CX cloud also cluster into 'mini clouds'; these comprise a subset of applications that lend themselves to deployment within the Marketing-Sales-Service stages of the customer journey. Oracle also clusters applications into other clouds to appeal to other potential clients who want something different from or adjunct to routine Marketing-Sales-Service applications. Appendix Table 2 details components of the Oracle CX cloud.

**Appendix Table 2** The Oracle Customer Experience Cloud

*The Oracle Customer Experience Cloud*

<i>Journey stage</i>	<i>Application</i>	<i>Functionality</i>
Marketing	Marketing cloud	<p>Marketing personalises customer experience:</p> <ul style="list-style-type: none"> <li>• Segments and targets customers based on individual profiles.</li> <li>• Automated campaign management that generates customised messages dynamically as the customer moves through their journey.</li> <li>• Lead Management that scores all leads and manages a sales funnel.</li> <li>• Marketing measurement that provides data and its visualisation.</li> </ul> <p>It:</p> <ul style="list-style-type: none"> <li>• Operates across all channels including social media.</li> <li>• Dynamically manages content for each journey and offers tools for publishing, managing content and measuring customer engagement with it.</li> <li>• Integrates the sales and marketing functions of the firm.</li> <li>• Integrates fully with the DMP, hence all the other applications in the cloud, and</li> <li>• Leverages AI and predictive analytics to support marketing automation.</li> </ul>
Sales	Sales Cloud	<p>Improves sales management processes:</p> <ul style="list-style-type: none"> <li>• Performance management at all levels of the sales force.</li> <li>• Incentives and compensation.</li> <li>• Allows visible metrics for territories and quotas.</li> <li>• Measures sales peoples' productivity.</li> <li>• Account management.</li> <li>• Deal or bid management.</li> </ul> <p>It:</p> <ul style="list-style-type: none"> <li>• Operates analytics at the level of customer, rep, sales team, territory, etc.</li> <li>• Provides full account history.</li> <li>• Operates forecasting and pipeline analysis using analytics and data visualisation.</li> <li>• Operates environmental scanning for deals.</li> </ul>
	Commerce Cloud	<p>Provides e-commerce capability permitting firms to quickly establish online commerce while integrating the online sales channel with its overall customer management. The cloud is offered in B2C and B2B variants.</p>

	CPQ Cloud	Intelligently assists and automates much of the bid management process – CPQ – Configure, Price, Quote. Allows rapid configuration of customer solutions and their pricing to improve sales force effectiveness and efficiency.
	Sales Performance Management Cloud	Focuses upon sales teams' productivity: <ul style="list-style-type: none"> <li>• Territory Management.</li> <li>• Quota Management.</li> <li>• Incentive Compensation.</li> <li>• Sales Crediting.</li> <li>• Objectives Management.</li> <li>• Oracle Social Network – in-company social network.</li> </ul>
	Engagement Cloud	Enhanced sales cloud capabilities for particularly high value accounts.
Service	Service Cloud	Improves customer experience of service by integrating customer management across all channels for each customer cost effectively. It operates: <ul style="list-style-type: none"> <li>• Cross channel.</li> <li>• Automatically – web service, virtual assistance, proactive chat, guided interactions, and screen share.</li> <li>• Knowledge management to improve agent effectiveness.</li> <li>• Policy automation.</li> <li>• Machine learning to improve, reduce time.</li> <li>• Case management.</li> </ul>

Oracle's CX cloud platform is constantly changing. To get the latest insights please visit <https://www.oracle.com/nz/cx/platform/>

### Example 3: Salesforce's CRM cloud

Salesforce.com describes its integrated solution as a CRM cloud and follows the Marketing-Sales-Service journey framing that we've adopted in this book. Salesforce identifies Customer 360 as its prime CRM solution. The table below describes the functionality available in the Customer 360 CRM suite.

Customer 360 offer has complementary add-ins, supporting technology that works across the core sales, marketing, service, and commerce functionality, including:

- Analytics – data visualisation.
- Integration – automation.
- Partners – integration of third-party apps.
- Artificial Intelligence.
- Experience management.
- Genie – data integration and management.

Salesforce's CRM cloud platform is constantly changing. To get the latest insights please visit <https://www.salesforce.com/crm/>

**Appendix Table 3** Salesforce's CRM cloud functionality

<i>Journey stage</i>	<i>Functionality</i>
Marketing	Customised offers and journeys Campaign management Analytics – preferences Look-alike customer finding
Sales	Sales management Pipeline management Sales force automation Territory management Bid management Partner management
Service	Channel integration Case management Self-service tools (e.g., chat) Integration with Sales Rules-based service engines Intelligent automation of tasks and approvals Scheduling (field service)
Commerce	B2B and B2C capabilities Multiple platforms Self-service buying Quotation Payment options Integration of sales, service, and marketing to support Sales and Customer Service centres Product catalogue management Pricing Campaign and content Site search and navigation AI personalisation

## INDUSTRY-SPECIFIC SOLUTIONS

There is wide variation between the structures, marketing/sales/service practices and regulatory environments of different industries, and this has motivated cloud solutions providers to develop industry-specific data models and applications. For example, banks are highly regulated, are subject to Ombudsman overview and sell direct-to-customer; consumer goods manufacturers are typically less regulated, not subject to Ombudsman overview and sell through channel intermediaries. Banks 'own' the end customer relationship but good manufacturers cede the consumer relationship to the retailer. Solutions developers such as Oracle and Salesforce.com have therefore created integrated solutions that map to the requirements of different industries.

## OPEN ARCHITECTURE

One of the challenges of integrated CRM Clouds is the sheer number of applications and the pace of innovation in marketing technology (Martec). We noted in Chapter 7 that Scott Brinker had identified over 10,000 Martec applications.

Brinker's view is that businesses will want the flexibility to use specialised applications to implement tactical campaigns and perform other marketing, sales, and service activities quickly at low cost. The major cloud solutions brands are developing their equivalents of the Apple and Android app stores. Oracle and Salesforce.com are both pursuing this strategy with the Oracle Marketplace and Salesforce AppExchange, respectively. Their publication of Application Programme Interfaces (API) enables third parties to develop specialised applications that integrate with and enhance the cloud solution's capabilities. Making CRM Clouds open platforms in this way potentially creates an environment where there will be a limited number of backbone integrated clouds that are continually augmented with third party applications.

## NOTES

- 1 For more information refer to <https://www.iso.org/isoiec-27001-information-security.html> Accessed 23 April 2018.
- 2 For more information refer to [https://cloudsecurityalliance.org/star/#\\_overview](https://cloudsecurityalliance.org/star/#_overview) Accessed 23 April 2018.



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