Customer Relationship Management

DMGT308

Edited by:
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LOVELY PROFESSIONAL UNIVERSITY

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CUSTOMER RELATIONSHIP MANAGEMENT

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SYLLABUS

Customer Relationship Management

Objectives: Objective of this course is to develop in students an ability to manage effective relationships with customers in a range of business settings. Students would be able to

- Design, develop & integrate CRM mechanism in everything organization does.
- Develop strategies to use CRM mechanism for a competitive edge.
- Develop a customer centric organization culture.

Sr. No.	Topics
1.	***Introduction to CRM:*** Definition, Scope, Evolution and Transformation of Customers, Touch Point Analysis.
2.	***Customer Value:*** Customer Relationship Styles, Types of Customer Value, Value Co-creation.
3.	***Analysing Profitability of Customers:*** Lifetime Customer Value, Base Profit Analysis, Value Chain Analysis, Customer Defection. Customer Retention: Importance, Stages, Measurement, Customer Expectations: Managing and Delivering.
4.	Closed Loop Marketing (360 Degree Marketing) and, Data Mining, Cross-selling/up selling.
5.	***Technology for Customer Relations:*** Contact centre Technology, Front Desk Management Technology, CRM Technology, Customer Data Management. e-CRM ; Its Importance; Recognising Barriers to Internet Adoption.
6.	***Managing Customer Relationship:*** Stages, Techniques to Manage Relations, Customer Experience Management. Creating a Customer Profile; Knowing your Customers; Segmenting & Targeting Customers; Tools used for Segmenting & Targeting Customers.
7.	***Delivering the Customer Offer:*** Developing and Deploying CRM Strategy: CRM Program Life Cycle, Building Blocks.
8.	***CRM Measurement:*** CRM Metrics, Loyalty Programs, Types of Customer Metrics, Customer Indices: Composite and Values, Application of Metrics.
9.	***Customer Privacy:*** Need, Importance and its Various Elements. Analysis of CRM Strategies and Approaches Practised by Successful Business Houses in India and Abroad.
10.	Emerging Trends in CRM, Sales Force Automation.

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Unit 1: Introduction to Customer Relationship Management

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Objectives

After studying this unit, you will be able to:

- Explore the definition and scope of Customer Relationship Management
- Know the history and evolution of CRM
- Examine the transformation of customers
- Analyse the touch point analysis of CRM

Introduction

Customer satisfaction has always been a key element in the pursuit of corporate goals and objectives. However, the current competitive environment fostered by liberalization and globalization of the economy, and the rising customer expectations for quality; service and value have prompted many companies to organize their business around customers they serve, rather than around product lines or geographic business units. This is partly because customer contact, care and insight have been rendered increasingly more practicable and economical through computers, telecom technology and internet, historically, customer relationship existed even in the pre-industrial era due to the direct interaction between producers and customers as between farmers and buyers of agricultural products, or as artisans and craftsmen produced customized products for each customer. It was when mass production of goods in the industrial era led to the emergence of middlemen and transaction-oriented marketing, that direct interaction between producers and customers became less frequent.

In recent years, however, several factors have contributed to the rapid development of direct interaction between producers and customers. The concept of customer relationship management as a co-operative and collaborative process has thus tended to be more common. Its purpose is mutual value creation on the part of the marketer and customer. Customer Relationship Management (CRM) solutions provide customer-oriented services for planning, developing,

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maintaining, and expanding customer relationships, with special attention paid to the new possibilities offered by the Internet, mobile devices, and multi-channel interaction. CRM enables a company to capture a consolidated customer view through multi-channel interactions in a data warehouse solution.

Sophisticated analytical techniques are then applied to this customer information to better understand and predict customer behaviour. CRM can then be used to strategically implement acquired customer knowledge in every area of the company, from the highest management level to all employees who come into direct contact with customers. CRM thus enables an organisation to address its customers' preferences and priorities much more effectively and efficiently. CRM is a tool that can help organisations to profitably meet the lifetime needs of customers better than their competitors.

1.1 Definition and Scope of Customer Relationship Management

Customer Relationship Management is a comprehensive approach for creating, maintaining and expanding customer relationships.

Significance of the words used in the definitions:

(a) ***Comprehensive:*** CRM does not belong to just sales or marketing. It is not the sole responsibility of customer service group or an IT team; i.e. CRM must be a way of doing business that touches all the areas.

(b) ***Approach:*** An approach is broadly a way of treating or dealing with something. CRM is a way of thinking about and dealing with the customer relationship. We can also use the word strategy because CRM involves a clear plan. In fact, CRM strategy can usually serve as a benchmark for other strategies in your organization, because any strategy sets directions for your organization. We can also consider this from a department or area level just as a larger organization has strategies for shareholder management, marketing, etc. Each strategy must support managing customer relationships. Thus CRM is strategic. To realize this, one can make a list of key strategies, to brief your area of responsibility. Then write down organizational approach towards customers. Compare the CRM strategies with other strategies. They should support each other. External customers are those outside the organization who buy goods and the services the organization sales. Internal customers is a way of defining another group in some organization whose work depends upon work of your group. Therefore, they are your customers. It is your responsibility to provide what they need so that they can do their job properly.

(c) ***Customer relationship*:** Finally let us see what we mean by customer relationship. In today's world where we do business with individuals or groups with whom we may never meet and hence much less know in person-to-person sense. CRM is about creating the feel of comfort in this high tech environment.

CRM is a discipline as well as a set of discrete software and technologies which focuses on automating and improving the business process associated with managing customer relationships in the areas of sales, marketing, customer services and support. CRM software applications facilitate the coordination of multiple business functions (such as sales, marketing, customer services, and support) and also coordinate multiple channels of communication with the customer face to face, call centres and the Web – so that organizations can accommodate their customers' preferred channels of interaction.

CRM (Customer Relationship Management) is a comprehensive strategy and process of acquiring, retaining and partnering with selective customers to create superior value for the company and the customer. The basic objective of CRM is to increase marketing efficiency and effectiveness. It is co-operative and collaborative processes that help in reducing transaction costs and overall development costs of the company.

> *Notes* CRM can also be defined as an alignment of strategy, processes and technology to manage customers and all customer-facing departments and partners. CRM in short is about effectively and profitably managing customer relationships throughout the entire lifecycle.

Most CRM initiatives begin with a strategic need to manage the process of handling customer related information more effectively. For beginners it could simply mean better lead management capabilities or sales pipeline visibility. However, as organizations mature in their CRM initiatives, shall visualize as a tool to acquire strategic differentiators, it includes adoption of IT related systems, training of employees and amendments in business processes related to customers. It is not just software but an approach to update and enhance business methods to improve customers' relationship with the organization.

CRM is a comprehensive approach which provides seamless integration of every area of business that touches the customer namely – marketing, sales, customer service and field support – through the integration of people, process and technology, taking advantage of the revolutionary impact of the Internet. CRM creates a mutually beneficial relationship with your customers. In the rapidly expanding world of e-commerce, there is a new generation of empowered customers emerging who demand immediate service with the personalized touch.

Relationship marketing is a term often used in marketing literature. It is sometimes used interchangeably with CRM. Relationship marketing has been defined more popularly with a focus on individual or one-to-one relationship with customers, integrating database knowledge with long term customer retention and growth strategy. Some writers have taken a strategic view and shifted the role of marketing to genuine customer involvement (communicating shared knowledge) rather than manipulating the customer (telling and selling). Overall, the core of CRM and relationship marketing is the focus of co-operative and collaborative relationships between the firm and its customers and for other marketing factors. It must, however, be noted that CRM programs now envisage a wider spectrum of efforts other than data-based one-to-one relationship with customers, which characterizes relationship marketing.

The development of CRM as a strategy is attributable to certain emerging factors. One is the process of disinter-mediation in many industries i.e., direct interaction with end-consumers. This is due to the easy accessibility of companies to the sophisticated computer and telecom technologies. Thus, in the case of financial institutions including banks, insurance companies, computer software, household appliances and even consumables, the process of disintermediation is making relationship marketing more popular. This development is also due to the growth of service sector, so far as services are supplied directly to the customers, it minimizes the role of middlemen. There is inevitably a greater emotional interaction between service provider and user, which is found necessary to be sustained and enhanced.

> *Task* What do you understand by customer relationship?

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Self Assessment

Fill in the blanks:

1. Customer Relationship Management is a comprehensive approach for creating, maintaining and expanding …………………….

2. The concept of customer relationship management as a co-operative and collaborative process is mutual value creation on the part of the …………………… and customer.

3. Customer …………………… is the key element of CRM.

1.2 History and Evolution of Customer Relationship Management

Customer Relationship Management is a concept that became very popular during the 1990s. It offered long-term changes and benefits to businesses that chose to use it. The reason for this is because it allowed companies to interact with their customers on a whole new level. While CRM is excellent in the long-term, those who are looking for short term results may not see much progress.

One of the reasons for this is because it was difficult to effectively track customers and their purchases. It is also important to realize that large companies were responsible for processing tremendous amounts of data. This data needed to be updated on a consistent basis.

In the last few years, a number of changes have been made to customer relationship management that has allowed it to advance. These capabilities have allowed CRM to become the system that was once envisioned by those who created it. However, the biggest problem with these newer systems is the price. A number of personalized Internet tools have been introduced to the market, and this has driven down the cost of competition. While this may be a bane for vendors who are selling expensive systems, it is a bonanza for small companies that would otherwise not be able to afford CRM programs. The foundation for CRM was laid during the 1980s.

Did u know? During this time, it was referred to as being database marketing. The term "database marketing" was used to refer to the procedure of creating customer focus groups that could be used to speak to some of the customers of the company. The clients who were extremely valued were pivotal in communicating with the firm, but the process became quite repetitive, and the information that was collected via surveys did not give the company a great of information. Even though the company could collect data through surveys, they did not have efficient methods of processing and analyzing the information. As time went on, companies begin to realize that all they really needed was basic information. They needed to know what their customer purchased, how much they spent, and what did they do with the products they purchased.

The 1990s saw the introduction of a number of advances in this system. It was during this time that term Customer relationship management was introduced. Unlike previous customer relationship systems, CRM was a dual system. Instead of merely gathering information for the purpose of using for their own benefit, companies started giving back to the customers they deserved. Many companies would begin giving their customers gifts in the form of discounts, perks, or even money. The companies believed that doing this would allow them to build a sense of loyalty in those who bought their products.

Customer relationship management is the system that is responsible for introducing things such as frequent flyer gifts and credit card points. Before CRM, this was rarely done. Customers would simply buy from the company, and little was done to maintain their relationship. Before the introduction of CRM, many companies, especially those that were in the Fortune 500 category, didn't feel the need to cater to the company. In the minds of the executives, they have tremendous resources and could replace customers whenever it became necessary. While this may have worked prior to the 1980s, the introduction of the Information Age allowed people to make better decisions about which companies they would buy from, and global competition made it easier for them to switch if they were not happy with the service they were getting.

Today, CRM is being used to achieve the best of both worlds. Companies want to maintain strong relationships with their clients while simultaneously increasing their profits. The CRM systems of today could be called "true" CRM systems. They have become the systems that were originally envisioned by the pioneers of this paradigm. Software companies have continued to release advanced software programs that can be customized to suit the needs of companies that compete in a variety of different industries. Instead of being static, the information processed within modern CRM systems is dynamic. This is important, because we live in a world that is constantly changing, and an organization that wants to succeed must constantly be ready to adapt to these changes.

Landmarks in the History of CRM: 1960-2010

1960s	Mass Production/Mass Product
1970s	Mass Market
1980s	Total Quality Management
1990s	Customer Relationship Management (CRM)
2000s	Customer Relationship Management (CRM)
2010s	e-Customer Relationship Management (e-CRM)

Mass Production/Mass Product: Mass Production is a system of manufacturing based on principles such as the use of interchangeable parts, large-scale production, and the high-volume Assembly Line. Although ideas analogous to mass production existed in many industrialized nations dating back to the 18th century, the concept was not fully utilized until refined by Henry Ford in the early 20th century and then developed over the next several decades. Ford's success in producing the Model T automobile set the early standard for what mass production could achieve. As a result, mass production quickly became the dominant form of manufacturing around the world, also exerting a profound impact on popular culture. Countless artists, writers, and filmmakers used the image of the assembly line to symbolize either the good or the evil of modern society and technological prowess.

Mass production techniques maximized the profit making ability of corporations, but it dehumanized the lives of workers. Frederick W. Taylor introduced Scientific Management at the beginning of the 20th century, which used time and motion studies (often timing them with a stopwatch) to measure workers' output. Taylor's goal was to find the ideal process and then duplicate it over and over. In the abstract, scientific management was a giant leap forward, but in reality, mass production led to worker unrest, turnover, and social conflict. Unionization efforts, particularly the struggles to organize unskilled workers by the Congress of Industrial Organizations (CIO) in the 1930s and 1940s, and battles between management and employees intensified as workers became more alienated because of the factory setting.

Mass Market: Mass Marketing is a market coverage strategy in which a firm decides to ignore market segment differences and go after the whole market with one offer. It is type of marketing (or attempting to sell through persuasion) of a product to a wide audience. The idea is to broadcast a message that will reach the largest number of people possible. Traditionally mass marketing has focused on radio, television and newspapers as the medium used to reach this broad audience. By reaching the largest audience possible exposure to the product is maximized. In theory this would directly correlate with a larger number of sales or buy in to the product. Mass marketing or undifferentiated marketing has its origins in the 1920s with the inception of mass radio use. This gave corporations an opportunity to appeal to a wide variety of potential customers. Due to this, variety marketing had to be changed in order to persuade a wide audience with different needs into buying the same thing. It has developed over the years into a worldwide multi-billion dollar industry. Although sagging in the Great Depression it regained popularity and continued to expand through the 40s and 50s. It slowed during the anti-capitalist movements of the 60's and 70's before coming back stronger than before in the 80's, 90's and today. These trends are due to corresponding upswings in mass media, the parent of mass marketing. For most of the 20th century, major consumer-products companies held fast to mass marketing-mass producing, mass distributing and mass promoting about the same product in about the same way to all consumers. Mass marketing creates the largest potential market, which leads to lowered costs.

Total Quality Management (TQM): Total Quality Management, a buzzword phrase of the 1980's, has been killed and resurrected on a number of occasions. The concept and principles, though simple seem to be creeping back into existence by "bits and pieces" through the evolution of the ISO9001 Management Quality System standard.

"Total Quality Control" was the key concept of Armand Feigenbaum's 1951 book, *Quality Control: Principles, Practice, and Administration*, in a chapter titled "Total Quality Control" Feigenbaum grabs on to an idea that sparked many scholars interest in the following decades, that would later be catapulted from Total Quality Control to Total Quality Management. W. Edwards Deming, Joseph Juran, Philip B. Crosby, and Kaoru Ishikawa, known as the big four, also contributed to the body of knowledge now known as Total Quality Management.

The American Society for Quality says that the term Total Quality Management was used by the U.S. Naval Air Systems Command "to describe its Japanese-style management approach to quality improvement." This is consistent with the story that the United States Navy Personnel Research and Development Centre began researching the use of Statistical Process Control (SPC); the work of Juran, Crosby, and Ishikawa; and the philosophy of W. Edwards Deming to make performance improvements in 1984. This approach was first tested at the North Island Naval Aviation Depot.

Companies who have implemented TQM include Ford Motor Company, Phillips Semiconductor, SGL Carbon, Motorola and Toyota Motor Company.

Caution The latest changes coming up for the ISO 9001:2000 standard's "Process Model" seem to complete the embodiment. TQM is the concept that quality can be managed and that it is a process.

Total Quality Management (TQM) is a management strategy aimed at embedding awareness of quality in all organizational processes. TQM has been widely used in manufacturing, education, government, and service industries, as well as NASA space and science programs.

Total = Quality involves everyone and all activities in the company.

Quality = Conformance to Requirements (Meeting Customer Requirements).

Management = Quality can and must be managed.

TQM = A process for managing quality; it must be a continuous way of life; a philosophy of perpetual improvement in everything we do.

Customer Relationship Management (in 1990): Customer Relationship Management (CRM) is one of those magnificent concepts that swept the business world in the 1990's with the promise of forever changing the way businesses small and large interacted with their customer bases. In the short term, however, it proved to be an unwieldy process that was better in theory than in practice for a variety of reasons. First among these was that it was simply so difficult and expensive to track and keep the high volume of records needed accurately and constantly update them.

In the last several years, however, newer software systems and advanced tracking features have vastly improved CRM capabilities and the real promise of CRM is becoming a reality. As the price of newer, more customizable Internet solutions have hit the marketplace; competition has driven the prices down so that even relatively small businesses are reaping the benefits of some custom CRM programs.

In the beginning...

The 1980's saw the emergence of database marketing, which was simply a catch phrase to define the practice of setting up customer service groups to speak individually to all of a company's customers.

In the case of larger, key clients it was a valuable tool for keeping the lines of communication open and tailoring service to the clients needs. In the case of smaller clients, however, it tended to provide repetitive, survey-like information that cluttered databases and didn't provide much insight. As companies began tracking database information, they realized that the bare bones were all that was needed in most cases: what they buy regularly, what they spend, what they do.

Advances in the 1990's: In the 1990's companies began to improve on Customer Relationship Management by making it more of a two-way street. Instead of simply gathering data for their own use, they began giving back to their customers not only in terms of the obvious goal of improved customer service, but in incentives, gifts and other perks for customer loyalty.

> *Notes* This was the beginning of the now familiar frequent flyer programs, bonus points on credit cards and a host of other resources that are based on CRM tracking of customer activity and spending patterns. CRM was now being used as a way to increase sales passively as well as through active improvement of customer service.

E-CRM: This is a web based Sales Force Automation tool that helps you to focus on un-covered customer-revenue opportunities that are not possible in a manual sales process. The architecture of the product brings your Customers/Sales Teams/Channel partners into a single centralized structure. This will help you overcome the stumbling block of remote accessibility of information across your organization. Its easy to use web based interface, faster deployment and effective implementation will streamline your sales process quickly and in a cost effective way. It records enquiries, follow ups, complaints and details of any other interaction with the client which helps to build and maintain life long relation with the customer.

> *Task* What are the significant advancements in the field of CRM?

Notes

Caselet

Creating Processes

Firm: WebsterRogers/Florence, S.C.

Size: 120 staff

Product: Results CRM

***Commencement Date*:** January 2012

On Record: Director of practice development Tim Allen

Challenge/Objective: Wanted better tracking and management of the sales processes across eight offices.

Amount Spent: Five users for under US $2,000. This was a one-time fee, plus extra customer care costs for one year, which includes upgrades.

Process: Allen was hired in June 2011 and was already speaking about CRM at a high level in different parts of the firm. Once he garnered partner buy-in on the idea of adopting a CRM system, he began researching them, demoed a few, and made a recommendation in September 2011.

"I had been tasked with managing the sales process; apart from keeping track of activities, we needed to manage that better. If we wanted to grow by US $2.4 million, we need to bring in US $200,000 worth of business each month, and without CRM we'd have no idea what's in the pipeline," said Allen. "It's an evolving activity in our firm. Many of our partners have little to no familiarity with CRM systems; some may have no idea what a CRM system is. I said we need to have this tool for the firm and was tasked by the executive committee to go out and research and make recommendations."

Results CRM was recommended by an outside IT consultant, and Allen, along with the firm's managing partner and client services manager, liked what they saw. Once approved, Results CRM, a cloud and on-premises-based system, was deployed in November 2011 as a pilot, and by January 2012 the firm started using it collectively.

"We really liked the ease of use, and compatibility with our existing (accounting and practice management) systems," said Allen. "It eventually came down to pricing, and it was one third to half the cost of the next logical CRM choice. Because we wanted to do it slowly, we wanted the system on our servers, but we will eventually move to the cloud."

Source: http://www.accountingtoday.com/ato_issues/26_5/CRM-Case-studies-BDO-Hughes-Zoho-Dynamics-WebsterRogers-62476-1.html

Self Assessment

Fill in the blanks:

4. Mass Marketing is a …………………… in which a firm decides to ignore market segment differences and go after the whole market with one offer.

5. Mass marketing or undifferentiated marketing has its origins in the …………………… with the inception of mass radio use.

Notes

6. The elaboration of TQM is …………………….
7. …………………… is a process for managing quality; it must be a continuous way of life; a philosophy of perpetual improvement in everything we do.
8. The full form of E-CRM is …………………….
9. …………………… was the key concept of Armand Feigenbaum's 1951 book, Quality Control: Principles, Practice, and Administration.

1.3 Transformation of Customers

A company in Ontario, Canada, personalizes a case of beer with a picture of the consumer on each of the bottles.

A restaurant in London, 'Just around the Corner', does not list any prices on its menu. Customers pay whatever they think a meal is worth.

At 'The Holne Chase Hotel' in Ashburton, Devon, England, pedicures, luxury baths and spa treatments are offered to guests and their pets.

A Swiss dairy farmer, Paul Wyler, rents out his dairy cows to people who want to make their own cheese from the milk.

This is how the businesses around the world try to get closer to customers.

The first and the foremost requirement for effective Customer Relationship Management is Customer Orientation. Consider the following story:

A complaint was received by the Pontiac Division of General Motors: *"This is the second time I have written to you, and I don't blame you for not answering me, because I sounded crazy. But, it is a fact that we have a tradition in our family of ice cream for dessert after dinner each night. Because the kind of ice cream varies, so, every night, after we have eaten, the whole family votes on which kind of ice cream we should have, and I drive down to the store to get it. It is also a fact that I recently purchased a new Pontiac and, since then, my trips to the store have created a problem."*

"You see, every time I buy a vanilla ice cream, when I start back from the store, my car won't start. If I get any other kind of ice cream, the car starts just fine. I want you to know I am serious about his question no matter how silly it sounds: What is there about a Pontiac that makes it not start when I get vanilla ice cream, and easy to start whenever I get any other kind?"

The Pontiac President was understandably sceptical about the letter, but sent an engineer to check it out any way. The latter was surprised to be greeted by a successful, obviously well educated man in affine neighbourhood. He had arranged to meet the man just after dinner time, so the two hopped into the car and drove to the ice cream store. It was vanilla ice cream that night, and, sure enough, after they came back to the car, it wouldn't start. The engineer returned for three more nights. The first night, they got chocolate; the car started. The second night, they got strawberry, the car started. The third night, they ordered vanilla, the car failed to start. Now, the engineer being a logical man, refused to believe that this man's car was allergic to vanilla ice cream. He arranged, therefore, to continue his visits for as long as it took to solve the problem. And, towards, this, he began to make notes. He jotted down all sorts of data: time of day, type of fuel used, time to drive back and forth, time taken inside the store, etc.; and, in a short time, he had the answer.

What does the above story tell? Customer is always right. Customer is king. Customer comes first. But, why? How come, today, every business is so keen on 'Customer Relationship'?

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As per a report published by the American Society of Quality and Arthur Andersen Consulting, Inc., in 1977, customers tell eight friends about a satisfying experience and 20 friends for a negative experience; it is easier to influence existing customers to buy 10% more than it is to increase the customer base by 10%; 80% of successful new product and service ideas come from existing customers; and, repeat customers cost 1/5 less than new customers, and can substantially increase profits.

These facts make it very compelling on companies to concentrate their efforts on improving customer satisfaction, and retaining them. Thus, all types of business need to focus on successfully developing and effectively managing long-term relationships with their customers.

This is the real import of Customer Relationship Management - a complete business strategy; a comprehensive approach to creating, maintaining and expanding customer relationships. Customer Relationship Management is about making the customer the centre of the business and organizing all processes around him. Thus, we can conclude that CRM is all about 'customer strategies'- "strategies that act as means for making each customer more valuable to the company."

The experience from many companies is that a very clear CRM requirement with regards to reports, e.g. output and input requirements, is of vital importance before starting any implementation. With a proper demand specification a lot of time and costs can be saved based on right expectations versus systems capability. A well operative CRM system can be an extremely powerful tool for management and customer strategies.

Caution CRM is not just a technology, but rather a comprehensive approach to an organization's philosophy in dealing with its customers.

This includes policies and processes, front-of-house customer service, employee training, marketing, systems and information management. Hence, it is important that any CRM implementation considerations stretch beyond technology, towards the broader organizational requirements. The objectives of a CRM strategy must consider a company's specific situation and its customers needs and expectations. The data gathered as a part of CRM must consider customer privacy and data security. Customers want the assurance that their data is not shared with third parties without their consent and not accessed illegally by third parties. Customers also want their data used by companies to provide a benefit to them.

Whether your customers are in the store, online, or on the phone, they expect to get the service they need promptly and efficiently. Great service improves loyalty and grows top-line revenues.

On the phone, a great experience means answering calls quickly and routing customers to the right resource immediately, regardless of where that associate may be located.

Online, a great experience means easy access to the right information or resource whether that information resides in an online repository or through personal interaction with a web agent.

In the store, good service means delighting customers with your brand, store appearance, merchandising, and knowledgeable and attentive staff on the sales floor.

Notes

Caselet

Not Small for Long

Firm: Hughes Accounting Services/Blissfield, Mich.

Size: Two staff

Product: Zoho CRM

Commencement Date: September 2011

On Record: Principal James Hughes

Challenge/Objective: Marketing and building a client base quickly.

Amount Spent: US $24 a month, no set-up fee.

Process: Hughes started up his firm last fall, initially focusing on write-up, basic bookkeeping, complete tax work, tax planning, and business assessments. His main focus is on small, growing business, and he needed to grow his client base as quickly and efficiently as possible.

He engaged the services of a telemarketing firm, which recommended Zoho CRM — a cloud-based system — as a link between his office and their efforts.

"I found Zoho CRM to be very intuitive; there's nothing complicated about it," said Hughes. "I just sign in, it has a dashboard, and it's a point-and-click. I don't put in any data and I use it to retrieve what is put in by my telemarketer."

Hughes picks an area to target marketing efforts, runs ads in a local paper, follows up with letters (direct mail), and then has his telemarketer follow with phone calls. He uses Zoho to keep track of where he had positive response and then follow up with them.

Results/Lessons Learned: Through the fourth quarter of 2011, Hughes added two new clients a month, plus four new ones in March and seven more coming in at press time. "My biggest challenge right now is keeping up with the workflow," he said.

Next Steps: Hughes expects to reach 50 clients by this fall, at which time he plans to look into moving to a storefront, rather than a home office.

"The telemarketing piece of this equation is expensive, but effective, and Zoho CRM ties in nicely," he said. "I will likely augment what I'm currently doing with more networking and direct mail, and then have someone put data in when we get to that point."

Source: http://www.accountingtoday.com/ato_issues/26_5/CRM-Case-studies-BDO-Hughes-Zoho-Dynamics-WebsterRogers-62476-1.html

Self Assessment

Fill in the blanks:

10. The data gathered as a part of CRM must consider …………………… and ……………………

11. Customers expect efficiency in …………………….

12. The theories of CRM tell us that the customers are always …………………….

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1.4 Touch Point Analysis (TPA)

Few marketers would dispute the statement that it is the sum of all customers' interactions with a company, over time, that ultimately creates or destroys that company's brand value. Yet few companies take the time to look at their own business practices comprehensively through the lens of their customers to understand how they measure up to their customers' needs and expectations.

Does each customer interaction live up to the brand experience that the company is trying to create? Are you providing a more consistent and relevant customer experience than your competitors are? Which interactions are the most powerful for creating customer loyalty?

Fielding customer-satisfaction surveys is not enough. To better serve their customer base and more effectively acquire new customers, organizations need to delve into the details of individual interactions to understand the relationship between each customer touch point and the value it delivers to customers.

After all, value may be built through a series of positive experiences, but it is maintained through consistently meeting the needs and expectations of your customers throughout the customer lifecycle—from pre-purchase consideration to post-purchase evaluation. Companies that have recognized and leveraged this insight have reaped the benefits through improved key performance metrics.

So, despite such successes, why do so few companies take a comprehensive look at their customer touch points? And of those companies that have undertaken such initiatives, why have so many faltered?

The challenge lies in the functional silos in which most organizations operate. Customers experience your company horizontally, across organizational boundaries, but most companies approach customer interaction on a functional basis. The typical result? The inability of cross-functional teams to drive holistic change ultimately produces a disjointed experience for your customers.

Touch-point analysis uncovers powerful customer insights as well as opportunities to improve how well you meet customer-segment needs and wants. Systematically evaluating performance across all customer touch points can lead to better organizational alignment; increased brand perception; and concrete improvements in acquisition, retention, and up-sell and cross-sell efforts.

Conducting a Touch-Point Assessment

Managing your customer experience is an ongoing and evolutionary process that takes time and cross-functional commitment if it is to deliver significant results. Because customers' needs and expectations change over time, the way you meet them must evolve in accordance with those shifts.

Customer touch-point management provides a company with a critical baseline from which it can start to evaluate itself through the eyes of its customers and make small improvements to enhance the customer experience.

The approach is simple and relies on using proven process-analysis techniques to see your business through the lens of your customers. Although the process is straightforward, executing it well is far more complex. It requires listening to your customers despite receiving feedback that might challenge internal beliefs, and then aligning the organization around changes that will improve the customer experience.

Following points outlines an approach to assessing and managing customer experience across all your touch points:

1. ***Baseline your performance:*** Customer touch-point projects should begin with a review of the customer insights you already have and a map of customer interactions to understand where data collection is still needed. Gather supplemental data through various research methods, such as direct interviews, short post-event surveys, etc.

   The key is to ensure that the baseline assessment not only collects the relevant information on customers' needs and expectations at every stage in the customer lifecycle but also seeks to objectively measure how well each interaction adds to or subtracts from brand value. Are you delivering a consistent and relevant experience? How does a particular interaction compare with your competitors?

2. ***Analyze value drivers:*** The next step is to analyze which interactions matter most to customers and what dimensions of those interactions drive value from a customer perspective.

   Touch points with high volumes of customer interaction and those that can elicit potentially strong emotions in customers (e.g., websites, customer service, service departments) tend to have the most significant impact on your brand.

   Understanding the value drivers, especially by customer segment, will help you target where to begin improving value for your customers. In doing such an analysis, ask yourself: What do my customers value in an experience? Which experiences are enhancing my relationship with my customers? How do these experiences differ by customer segment?

3. ***Develop and implement an improvement plan:*** Kicking off initiatives to improve customer experience usually requires the effort and support of several cross-functional teams. The level of buy-in across the organization to deliver a consistent brand experience will make or break your efforts.

   For this reason, giving priority to a few quick wins—those that are easy to implement but will have a big impact—will help show your customers (and your internal critics) the benefits of managing the customer experience.

   While mapping out the correct sequence of initiatives, ask yourself the following: What are the needs of my most-profitable segments? What impact can I deliver in the short term? In the long term? How am I going to align the organization to improve the customer experience? Who do I need buy-in from?

4. ***Measure the impact:*** The goal of touch-point analysis is to drive customer value. Measuring the improvement in customer experience and understanding movements in key performance indicators (e.g., lifetime value of the customer, retention rates, customers' willingness to recommend your brand) will help you understand how improving touch points affects loyalty, brand equity, and overall profitability of specific customer segments.

The shifts in some of these metrics will likely occur over the long term rather than immediately; therefore, they must be monitored over time.

The Customer Lens

Every organization, whether it starts with small steps or radically shifts its culture to become more customer-centric, should consider customer touch-point analysis and management as a tool to drive increased business value.

Notes

The mechanics and steps necessary to improve the customer's experience are not rocket science. The challenge comes with developing a truly objective analysis based on a company's cross-organizational boundaries and functional implications.

Companies would benefit from hiring a third party to leads the effort or developing an internal customer advocacy group to ensure that the customer is at the centre of the decisions being made across the organization and to help align the organization behind the effort.

Customer touch-point analysis is akin to taking a really honest look in the organizational mirror; the face you see is not always the one you thought your customers were seeing. And that is also its greatest value: When conducted the right way, customer touch-point analysis can provide invaluable insights that serve as a catalyst for change and increase customer value.

Each of us can recall good and bad customer experiences – whether an online buying experience, the responsiveness from a supplier or the encounter with someone on the front line. We remember and hopefully reward the stellar. And when it comes to the mediocre and downright terrible we react by taking our business elsewhere or not making a referral.

As business leaders we understand the importance of every single interaction a customer or prospect has with our company, especially in today's environment of intense competition, low switching costs, and increased commoditization. In the dynamic environment we're in right now, we need to recognize that customers are re-evaluating everything. Yet, we find that many companies continue to flounder when it comes to managing customer experience and engagement.

Customer experience and engagement have evolved from table stakes to points of differentiation. More and more evidence strongly suggests that there is a link between customer experience/ engagement and the financial success of the company.

The vast number of touch points associated with the overall customer experience makes for a complex process. Therefore it is important to understand how each touch point contributes to the overall customer experience because an issue encountered at any one of these points can dramatically influence the overall experience.

So what are some things your company can do to begin to understand how to improve customer experience and engagement? We have found that companies truly focused on improving customer engagement do at least three things: they identify all the key touch points a customer has with their company, measure the effectiveness of these touch points and use them to create a map of the customer experience.

It All Begins with Touch Points

A customer experience does not begin and end at a transaction, visit to a website, or conversation with customer service. The customer experience process encompasses the moment the customer becomes aware of your company and is comprised of multiple independent interactions, transactions, and contacts along the way. Ron Shevlin, author of Everything They've Told You About Marketing Is Wrong and an analyst at Aite Group, LLC, suggests the following definition for customer engagement: "Repeated interactions that strengthen the emotional, psychological or physical investment a customer has in a brand."

All these repeated interactions are actually touch points. For our discussion, we will define a touch point as any customer interaction or encounter that can influence the customer's perception of your product, service, or brand. A touch point can be intentional (an email you send out) or unintentional (an online review of your product or company). As the stories at the beginning suggest, touch points begin long before the customer actually makes a purchase and long after

Notes

they have made their first transaction. The goal of every company interested in leveraging customer experience as a competitive advantage is to create a positive and consistent experience at each touch point.

Your touch points need to include every encounter in the attraction process, such as your website, blog, email, newsletter, press coverage, articles, industry events, webinars, brochure, product literature, advertisements, etc to samples, white papers, product demos, initial calls, sales presentations and meetings, to your contract, product deployment or delivery process to your customer service, invoice, trouble ticket, to a loyalty card or referral program in your retention process. As you can see for most companies this is going to fairly long list.

Inventory Your Touch Points

Before you can begin measuring the effectiveness of each touch point we have found that it helps to take an inventory of all the touch points encountered by your customers. When you inventory your touch points you will want to know at least the following:

1. Where the touch point is typically encountered in the customer life cycle.
2. The operational purpose of the touch point. On the operational side a touch point may be designed to identify a prospect, resolve a problem, accelerate conversion or support executing a transaction.
3. The role of the touch point should in the customer experience such as influencing perception, building preference, or creating loyalty.
4. Who owns the touch point?

Example: Appointment scheduling may be owned by presales, invoicing by accounting, and the website by marketing.

5. The touch point's value. While all touch points matter, they are not equal. A bad experience on one touch point may be enough to make a customer leave you but a bad experience on another while irritating and potentially damaging if fixed in time can be overlooked.

Assess Each Touch Point's Effectiveness

Now that you have a complete inventory of all of your touch points, and you understand the impact of each touch point in the experience as well as operational purpose and customer experience role for each touch point, you can assess the effectiveness of each touch point in terms of achieving its intended purpose against both operational and customer experience objectives.

Although overarching metrics such as customer satisfaction and customer advocacy are quickly becoming standard metrics today, attempting to measure the customer experience with a single metric can be overly simplistic and risky. Effectively managing the customer experience requires 4 effective measurement and management of a portfolio of metrics, including touch point effectiveness, to gain the insights into what is and isn't working.

We find it is worthwhile to actually plot this analysis on a 2X2 grid, with one axis labelled operational effectiveness and the other labelled customer experience effectiveness. Our analysis methodology enables us to map each touch point onto the grid and place it into one of four quadrants: high/high effectiveness, low/low effectiveness, high operational/low customer role effectiveness, and low operational/high customer role effectiveness. The mapping will allow us visualize whether and where there are weak links in the overall experience.

Notes

Take Action

When we create a touch point inventory, we actually end up with three pieces of data for each touch point: an impact/importance score, an effectiveness score, and a point on the grid. For those touch points that were in low/low quadrant of the grid that have a rating of 8 or higher for importance (they are above the line) we recommend developing, publishing and implementing a corrective action plan. If you it has been awhile since your last acquired customer feedback, don't put off this type of research any longer. In today's environment it pays to be smart.

The goal of this type of effort is to enable you to use these touch points to reinforce your value proposition with customers and employees. EVERY interaction matters. Delivering great customer experience isn't something a few people in the company need to do. It's something that everyone in the company needs to do. Customer experience and engagement is a core competency and one that every company needs to cultivate.

Self Assessment

State whether the following statements are true or false:

13. The TPA applies to Banks.
14. The goal of touch-point analysis is to increase profits of Banks.
15. A customer experience begins and ends at a transaction.

Case Study

The Technology Comes Last

Firm: BDO USA/Chicago

Size: Approximately 2,600

Product: Microsoft Dynamics CRM

Commencement Date: August 2011 (pilot, October 2010)

On Record: Senior manager of IT Jeff Clark and national business development director Erica Yesko

Challenge/Objective: Growing the client base, improved outreach to the existing client base and taking a collaborative approach to doing so.

Amount Spent: Pricing was by seat. Due to firm size, cost was "seven figures with consulting and licensing."

Process: CRM had been on BDO's roadmap for many years, but lack of understanding of what a consolidated CRM system could offer a partnership slowed the process. Many partners in the firm had used other contact management systems, ranging from simple Excel files to Goldmine and ACT!

"I think what finally clicked for us was partners getting clear on the goals and strategy of the firm; technology needs to be the last piece of the puzzle," said Yesko. "This new system would involve anyone who touches the sales process and that was key to building momentum and adoption from partners, administrators and IT. We really spent the better part of a year before we even began the selection process."

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In 2010, BDO asked for requests for proposal from CRM product finalists, and Clark pointed out that what stood out about Dynamics CRM was that it "looked and felt much like Outlook."

The product was piloted in a few offices in Octotber 2010, after which a firm-wide rollout occurred between May and August 2011, but there was much more work outside of just product installation.

"There is massive change management involved with something like this, and I can't underscore enough the importance of executive buy-in and partner involvement in decision-making that leads up to it," said Yesko.

"Once we set our objectives, it was clear who needed to be involved. From there we put together an adoption strategy, set expectations, then a communication and training strategy," Clark added. "We would go in an office, spend two days going through business process training, then system training, and followed up with the offices several weeks later with a shorter session to see where everyone was at. Then monthly calls with users who wanted to learn about specific topics."

The firm also has ongoing training sessions every month for anyone who wants to learn, as well as a CRM newsletter that goes out to update everyone.

Results/Lessons Learned: While it is still too soon to see specific financial results from using the system, approximately 800 employees — including all partners, business development staff and select admins — currently use Dynamics CRM, and that number is expected to grow. It is expected that by this time next year, some return on investment will be seen. "What we are seeing is an enhanced ability in making sure we are growing our client base and being more collaborative in doing so. We also built out additional processes so there is structure and accountability, and hired people who can support the process that the system represents," said Clark. "The investment doesn't end with licensing and consulting costs; you need to have the right people to support the system effectively and a growing understanding and willingness to work with the system."

Next Steps: At press time, the firm was using Dynamics Version 4.0, but looking into using Dynamics CRM 2011, which has added mobility features, among many others. Clark, Yesko and their teams are also identifying what reports partners need.

"This is a multi-year effort; we planned for 24 to 36 months of realizing the full potential of this investment," said Clark. "If CRM is just another initiative brought to you by IT, it will fail miserably."

Questions:

1. Analyse the given case.
2. What is your learning out of the case?

Source: http://www.accountingtoday.com/ato_issues/26_5/CRM-Case-studies-BDO-Hughes-Zoho-Dynamics-WebsterRogers-62476-1.html

1.5 Summary

- CRM is a comprehensive approach which provides seamless integration of every area of business that touches the customer namely – marketing; sales, customer service and field support – through the integration of people, process and technology, taking advantage of the revolutionary impact of the Internet.

Notes

- CRM creates a mutually beneficial relationship with your customers. In the rapidly expanding world of e-Commerce, there is a new generation of empowered customers emerging who demand immediate service with the personalized touch.
- Customer relationship management does not enable a quick win. It is a long-term approach that has to be adopted at a strategic level. However, the journey of understanding the strategic benefits of relationship management has just begun.
- To a greater degree, companies have understood the implications of customer relationship management and have identified the risk to their business of not doing so, namely loss of customers and competitive attack. They are yet to look at the bigger picture and understand all of the associated benefits that would enable their business strategies to be successful.
- The competencies required to deliver these customer benefits are: to deliver on its service promise, integrate products and service channels effectively, customize products, services and their respective prices, create opportunities for cross selling and delivery mechanisms for the onward promotion of these products and services and reduce the gestation period to market by allowing quick and effective introduction of new products and services.
- Customer Relationship Management (CRM) is a business strategy to select and manage customers to optimize long-term value.
- CRM requires a customer centric business philosophy and culture to support effective marketing, sales, and service processes.
- CRM applications can enable effective Customer Relationship Management, provided that an enterprise has the right leadership, strategy, and culture.

1.6 Keywords

***Active Listening*:** Active listening is a communication technique. Active listening requires the listener to understand, interpret, and evaluate what they hear.

Behaviour analysis: Behavior analysis is a science concerned with the behaviour of people, and it attempts to understand, describe and predict their behaviour.

***Body language*:** Body language is the person's expressions, behaviour, body movement, etc., through which you can judge that a person is tense, relaxed, worried, happy, restless, etc.

CLTV: It is a reflection of the possible future business a company can expect from a loyal customer.

Continuity Marketing: These programs are generally aimed at retaining customers and enhancing their loyalty.

Cross-selling: Cross-selling is the act of selling a product or service to a customer as a result of another purchase.

Customer Relationship Management (CRM): Customer Relationship Management (CRM) is a business strategy to select and manage customers to optimize long-term value.

Event-based Marketing: The best definition of event-based marketing is a time-sensitive marketing or sales communication reacting to a customer-specific event.

***Verbal Behaviour*:** Verbal Behaviour, a detailed behavioural analysis of what constitutes as language is provided.

1.7 Review Questions

Notes

1. Write short note on CRM.
2. Describe the history of CRM.
3. How did CRM evolved?
4. What do you understand by Touch Point Analysis?
5. How does TPS help in increasing customer efficiency?
6. Explain the Functionality of Touch Point Analysis.
7. What are the various steps involved in TPA function?
8. Explain how CRM helps in understanding the customer's views?
9. How have the customers transformed in recent times?

Answers: Self Assessment

1. Customer relation
2. Marketers
3. Satisfaction
4. Market coverage strategy
5. 1920's
6. Total quality management
7. TQM
8. Electronic- customer relationship management
9. Total quality control
10. Customer privacy and data security
11. Services
12. Right
13. True
14. False
15. False

1.8 Further Readings

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Notes

Unit 2: Customer Value

CONTENTS

Objectives

After studying this unit, you will be able to:

- Determine the customer relationship styles
- Study the meaning of customer value
- Determine the types of customer value
- Analyse the concept of value creation

Introduction

Recently there has been growing tide of articles, papers and even conferences devoted to the question of the future of business. As we approach through the new millennium, we are living in a world that is the most unstable, dynamic, exciting and frustrating for the last decades. Not only change it but also the rate of change is accelerating. Operating in an uncertain, highly competitive and highly complex business environment brings so many questions to the businesses. Business insights often fail to recognize that their marketplace/market space changes every few years. Leading edge companies increasingly seek ways to measure customer satisfaction, loyalty and value as mean of setting strategies of the companies.

Essentially the point at the issue is whether traditional business approaches for the conditions that now prevail in the beginning of the new millennium, basic principles still apply but with this contribution I will try to clarify the concept of customer value and how the importance for the markets and difference between customer satisfaction and customer value.

Because the focus on the business is to satisfy of the customer needs and wants so the practice may need to be changed fundamentally. Complex business environment brings so many questions to the companies. Their profitability and viability will depend on the efforts of an increasingly diverse customer value. Looking more closely at the question of customer value could help for the challenges for the new millennium.

Notes

"Customer Focus" and "Customer Value" became lovely terms for the marketers and the managers. People generally use it more and more; indeed, who could argue against such a concept? But what does it actually mean? More important, what does it imply for the organization which seeks to be genuinely "customer focused" and what does it mean to understand "customer value"?

Customer value is defined in the marketplace not in the factory or an agency. A small but growing number of companies in the markets draw on their knowledge of what customers value or they value to gain marketplace advantages over their less knowledgeable competitors (Anderson, 1998). There is a market for offering as two elemental characteristics: its value and its practice.

Companies have to look at the changing basis for competition in today's environment and for the future. This paper argues for being more customer-focused, not as a nicer, more socially acceptable way of life but because customer value is becoming a commercial imperative. We live in a world which is more dynamic than ever. Businesses have always had to face competition, but at least in the past companies knew who their competitors were; they knew the competitors' products and their strengths and weaknesses. All of the competition lay within established market sectors, and they were mostly, if not entirely, domestic. Indeed, it isn't so far back when most were regional. Today, companies faced that has changed.

Competitors cross sector boundaries with increasing ease. For example, the distinction between banks, insurance companies, fast food companies becomes increasingly blurred, as does the distinction between such organizations and anyone else who has a large customer base and a strong financial position. In today's world, music stars start airlines, or launch fast-food businesses or soft-drinks companies.

The products, competitors and markets are becoming increasingly globalised.

However basis for the competition is changing. It looks like an iceberg, on the surface; the features on which we compete are the same as ever: products, quality, price, service, and customer base and market access. But if you look beneath the surface you see that these features are now dependent on other issues – they are the product of culture, processes and systems, and the structure of our business. Products/services are obviously at the heart of competition. The problem is that they keep changing: our competitors will not stand still. For example product innovation is much more rapid than in the past. Product cycles are getting shorter, and products, even when delivered by global corporations, are getting more customized. New production and distribution even decision support systems make this possible, but systems development is closely aligned to what the market needs.

Generally companies have to understand their customers better; not just to listen to their requirements but often to anticipate those (Fox, 1997).

If the companies anticipate these requirements the brand "values" may not be as strong in the eyes of the consumer as they once were. The concept of brand values implies that what makes a brand is its "personality" which distinguishes it from others and that the presence of this personality imparts some utility – however tangible – to the consumer. There is a strong body of research supporting the idea of brand personality as a source of value to the consumer (Chiristopher, 1996). However, what seems to be happening is that the changes in the marketing environment are tending to influence the strength of that value.

Notes

2.1 Customer Relationship Management: Components and Architecture

The following stages strive to determine the main components of the various styles of Customer Relationship Management:

(a) Functional

(b) Departmental

(c) Partial CRM

(d) Full CRM

(a) ***Functional CRM:*** This model of implementation is possible only with the large scale organizations. This will be possible only with the organizations which will not be having any departmental coordination. These modules will work only for the particular departments. This can be called as specialized modules. Because of this department-wise implementation the initial amount spent will always be higher than the Return on Investment (ROI). This method will benefit only to the specific area not to the entire organization. For example, we can consider the company like TATA which will be having various types of business with variety of modules where the commonality will be very less. In this kind of situation this type of CRM will come into the picture.

(b) ***Departmental:*** This model is possible for all size of organizations. There will be some departments which will be common for one or more business modules. This intra departmental coordination can be utilized and the modules can be implemented accordingly. This will give success from bottom line to the middle level. That means these modules can help the modules like call centres, SFA etc.

(c) ***Partial CRM:*** This module is possible only when the intra departmental coordination is more among the departments. In this model two to three departments will be sharing a common master database. As the modules are shared among the various business processes the return on investment will be always 4 to 7 times higher than the initial investment. For example the sales, marketing departments will always share a common database of the products and the customers.

(d) ***Full CRM:*** This model is applicable with all levels of organizations. In this model the entire organization will be using a same database. There will be a greater coordination among the departments with this type of organization. As a whole the implementation is done. Because of this common nature, this model provides a greater ROI which is 7 to 10 times greater than the initial investment.

As mentioned above each and every organization will have its own working method. By identifying their level in any of the above mentioned models, the organizations can proceed with the implementation. Customer intelligence is another name for customer facing system. This creates the strong base of data about the customers that the organization is having with itself. Any organization which is having good customer intelligence can create a best customer data repository with which the retention of customer will be easy for the organization.

The customer intelligence is having above mentioned four steps that are to be followed. Each and every step is interrelated with each other.

Notes

Gather data:

1. Gather Customer Data
2. Analyse Data
3. Formulate Strategy Action
4. Data collection
5. Various sources are considered.
6. Various touch points are accessed.
7. Various parameters are considered
8. Data will be accumulated in a single repository

Analyze the data:

1. Patterns are to be designed for the analysis.
2. Detailed analysis will be performed.
3. Samples will be taken into consideration.
4. Final formulation will be done.

Formulation Strategy:

1. Conclusions will be derived from the analysis.
2. Data segmentation will be done.
3. Models will be prepared.

Action:

1. The final step in the customer intelligence.
2. Actions will be taken based on the strategies planned.
3. Final repository will be stored with the plans.
4. Any organization which is following the above mentioned steps can create a good customer data repository.

2.1.1 Technology and CRM Technology Components

There are following types of CRM technology:

(a) Operational CRM

(b) Collaborative CRM

(c) Analytical CRM

Let us discuss the three types of CRM in detail.

Operational CRM

This is an ERP like segment of CRM.

Typical business functions involving customer service, order management, invoice or billing or sales and marketing automation and management are the parts of operational CRM.

It provides support to "Front Office" business processes, including sales, marketing and service.

Each interaction with a customer is generally added to a customer's contact history, and staff can retrieve information on customers from the database when necessary.

One of the main benefits of this contact history is that customers can interact with different people or different contact channels in a company over time without having to describe the history of their interaction each time.

It process customer data for a variety of purposes such as managing campaigns, Enterprise Marketing Automation (EMA) and Sales Force Automation (SFA).

Till now, this is the primary use of CRM. One characteristic of operational CRM is the possibility of integrating with the financial and human resources functions of ERP applications.

With this integration, end-to-end functionality from lead management to order breaking can be implemented.

Analytical CRM

Analytical CRM is the capture, storage, extraction, processing, interpretation and recording customer data to the user.

Companies such as Micro Strategy have developed applications that can capture this customer data from multiple resources and then use hundreds of algorithms to analyze and interpret the data as needed.

The value of the application is not just in algorithm and storage, but also in ability to individually personalize the response using the data.

It generally makes heavy use of data mining.

It analyzes customer data for the following purposes.

i. Design and execution of targeted marketing campaigns to optimize marketing effectiveness.

ii. Design and execution of specific customer campaigns.

iii. Analysis of customer behaviour to aid product and service decision-making such as pricing etc.

iv. Aid in taking management decisions such as financial forecasting.

v. Provide a tool in predicting the probability of customer defection.

Collaborative CRM

It is the communication centre, coordination network that provides neural paths to customer and its suppliers.

It could mean a Partner Relationship Management [PRM] application or a customer interaction centre.

It could mean communication channels such as web or e-mail, voice applications and even channel strategies.

In other words, it is any CRM function that provides a point of interaction between customer and the channel itself.

Notes

CRM Technology Components

The following are the components, which are common to different CRM approaches.

CRM Engine: This could be the customer data repository. The data mart, the data warehouse is the one where all the data on customer is captured and stored. This could include basic stuff such as your name, address, telephone number, birth date etc. It could also include more sophisticated information like how many times you have accessed a particular web site and what you did on the web pages you accessed. It could also include the help desk support and the purchase history. Ultimately, the purpose is a single gathering point for all individual customer information so that a unified customer view can be created throughout the company departments that need to know the data stored in this CRM engine house.

Front Office Solutions: These are the unified applications that run on the top of the customer data warehouse. They could be sales force automations, marketing automation, or service and support customer interaction applications. In the client server environment (and now in the internet environment), they provide employees with the information on the basis of which the decision of "what is to be done? or "What next is to be done with the customer is made?" The more specific applications provide an element of self-service for the customer.

Enterprise Application Integration: They sit between back office and front office. They also sit between the newly installed CRM system and old systems implemented by the enterprise. They permit CRM to CRM communication. They are pieces of codes, connectors and bridges that as a body are called as EAIs. EAIs provide messaging services and data mapping services that allow one system to communicate with different other systems regardless of their formatting.

Notes Consumer insight helps identify hidden meanings in consumer feedback, such as discovering latent consumer needs or value that they themselves might not be aware of and applying this information to our products. LG Electronics is making every effort to explore consumer insight and to reflect it in product development and marketing, thereby increasing consumer value.

Did u know? LG Electronics opened a global marketing portal site as an in-house marketing centre in July 2008 so that marketing personnel around the world could share and learn from important best practices as well as marketing strategies and activities. LGE will continue to expand the portal and strengthen its function as a Global Insight Hub.

Task What are important components of CRM?

Self Assessment

Fill in the blanks:

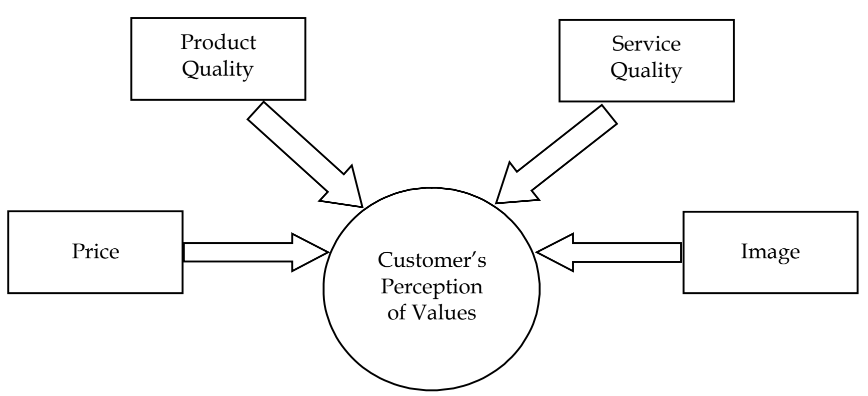
1. The first model component of CRM architecture is …………………….
2. There are …………………… types of technological components of CRM.
3. Departmental model is possible for …………………… size of organizations.

4. …………………… is the capture, storage, extraction, processing, interpretation and recording customer data to the user.
5. …………………… is any CRM function that provides a point of interaction between customer and the channel itself.

2.2 Customer Value

The components of customer value are deceptively simple. Product quality, service quality, price, and image shape a customer's perception of value. A firm's strategy and performance in these areas are integrated by customers into a perception of the value proposition. This is particularly important for first time customers. In this highly competitive business environment, the customer will compare the perceived value of competitive offerings. The ultimate "winner" in the battle for the customer's pocket book is the firm that delivers the "best value" from the customer's perspective. These components of customer value can be shaped into a simple model

Figure 2.1: Components of Customer Value



Source: http://notablur.com/wp-content/uploads/2012/09/2_customer_value_questions.jpg

Once a customer has made a purchase decision, a fifth component of value emerges.

That component is the relationship between the customer and the vendor. Over time the relationship component can develop into an extremely important element. Unfortunately, firms often have explicit strategies to develop the other four components of value but simply expect the relationship to happen naturally and spontaneously. Such an expectation can be unrealistic.

Each of these components can and should be broken down into much more detail to be managerially useful. Let's use a full line department store as an example, since most of us have experience with such purchases. Product quality refers to the tangible features that a customer evaluates. For a department store, product quality can be partitioned into two dimensions. One dimension deals with the characteristics of the store itself. These characteristics would probably include location, accessibility, convenient parking, store design and layout, lighting, signs, fixtures, and furnishings. The other product dimension would include characteristics of the products themselves. These would probably include characteristics such as variety and assortment of products in each area.

Example: Men's clothing, women's clothing, and house wares might each be evaluated individually.

Notes

Other product mix characteristics might include the quality of the products, specific brands, and merchandise displays. In total, it may be possible for customers to identify thirty, forty, or even fifty different characteristics of the store and products that shape perceptions of value.

In addition to the product characteristics, service factors also shape value perceptions.

These might include the availability, knowledge, and helpfulness of cashiers and clerks or the ease of making returns and exchanges. Service factors would also include the customer service issues of call centres, complaint handling, and information availability.

Since products are often fairly homogeneous across competitors, these service factors have become increasingly important to customers in differentiating between competitors.

In fact, many managers feel that service factors are the only area to create a real competitive difference.

Price factors would include everyday prices, sales prices, acceptance of credit cards, and promotional financing. Price might also include life cycle costs that the customer would incur such as maintenance, repair, and operating costs. Customers balance the product and service performance of a firm against these price considerations in some way to form perceptions of value.

Customers will also use a store's image in evaluating value. Very often customers cannot easily evaluate all of these product, service, and price characteristics. So the store image becomes a surrogate cue for product or service quality. For example, a customer may not be technically knowledgeable about shoes, but if Harrods or Saks or Nordstrom carries the brand, they must be good. Customers may use a variety of factors to evaluate image. These could include the attire and professionalism of personnel, quality of advertising, innovativeness, corporate citizenship, and community involvement.

Collectively, these dimensions of image help customers make decisions about product, service, and price issues.

Based on the day to day interactions between a customer and employees, more personal relationships may develop. Customers may prefer to deal with a particular sales clerk.

Example: It is likely that relationships are more critical in business to business situations than in a retail consumer situation.

While the previous example was for a department store, the same concepts will apply to almost any business. The categories of product, service, price, image, and relationship will shape the customers' perceptions of value in any business. What does change are the specific attributes within each category? The components of service would be quite different for a department store versus auto repair. Usually managers are also surprised at the number of different attributes that customers use to evaluate a firm's value proposition.

Collectively, customers may be able to identify between fifty and one hundred different attributes that shape perceptions of value. In numerous cases, over one hundred attributes have been identified. The challenge for managers becomes the identification of the key drivers of value, those really important things that the customers want or expect. If managers can identify and manage these key drivers of value, their organizations will be far more successful, and they will grow and prosper. If managers cannot identify what the key drivers of value are, their organizations will be in a weaker competitive position.

So it becomes critical that managers have a clear view of the key drivers of value, normally a subset of 20 - 30 attributes that shape the customers' view of a firm's value proposition. Since the customer evaluates a value proposition relative to competitive alternatives, a firm must also

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understand its competitive position on each of these attributes. Few firms can clearly identify these areas of competitive strengths or weaknesses.

Customer Value Leads to Growth

Growth is important to virtually every business, and there are only a few generic approaches to growth. A firm can acquire new customers or rely on old customers. A firm can expand into the sale of new products and services or rely on the traditional product mix. The success of each approach to growth is dependent upon one thing, delivering better value than the competition.

The growth matrix of the customer value includes four combinations:

Existing Customers - Existing Products: This growth strategy probably has the greatest potential for growth but is often overlooked. Very few businesses have a 100% share of a customer's expenditures.

Normally a customer will purchase from several competitors.

Example: A grocery shopper may shop at four grocery stores during a month. Or a lady may purchase clothes at four or five stores. Or a couple may dine at numerous restaurants. In each case, a particular store may have only 30 - 40% of a customer's expenditures.

If a firm could move from an average share of expenditure of 30% to an average share of expenditure of 40%, it would have a 33.33% sales increase. And if it went from 30% to 60%, its revenues would double. Unfortunately, many firms assume that all customers are loyal, devoted, and make 100% of their expenditures with a firm. However, this is seldom the case. Most firms have no idea of what share of expenditure they are getting from their customers. Studies have shown that the best predictor of share of spend is the customer's perception of value. The greater the customers' perception of value, the greater will be the share of pocketbook of a firm.

Existing Customers - New Products: This growth strategy occurs when a firm tries to build upon an existing relationship with customers by offering new products. It could be a restaurant that adds a home delivery or take-out option to a dining operation. It could be a grocery store that adds floral, video rentals, and film developing. It could be a telecommunications firm offering an array of new services, such as caller identification, voice messaging, or call forwarding.

The key to success here is that the new products must be a logical extension of the core competency of the firm and create good value for the customer. The economic landscape is littered with the remains of firms that fiercely clung to the "traditional mode of operation" and were passed by firms willing to innovate with new value propositions.

Unfortunately the customer's desires are often not readily apparent. The implication is that a firm must understand how a customer perceives a value proposition and to tie the new product to that perception.

Existing Products - New Customers: The focus of this growth strategy is on market expansion through the acquisition of new customers. Domestically, this means capturing more shares from traditional competitors.

In slow growth markets, this is usually quite difficult. But the key success factor remains the same; create better value for the customer than the competition.

The most common marketing strategy is to hire a sales force and invest them to acquire new customers. Make no mistake, acquiring customers through internal growth or acquisition is critical for the long term growth of a firm. But those newly acquire customers must be retained to be valuable. And retaining new customers can be accomplished only be delivering good customer value relative to the competition.

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New Products – New Customers: This growth strategy is one of diversification. The biggest challenge here is for managers to gain an awareness of the new expected value proposition. Managers must learn what the key drivers of value are for new customers. And at the same time they must align internal processes to create value in fundamentally new product offerings. Because the benefit of experience is lacking, this is usually the highest risk growth strategy.

If the new products are simply an extension of traditional products, then the benefit of experience may be at least partially transferable. But the challenge of creating better value for new customers with new products while competing against new competitors is daunting.

Concept of Value in Business Markets

A number of aspects need to be considered in defining the concept of value in business markets. Christopher (1982) considers value in terms of the price a customer is willing to pay for a product offering, and points out that willingness to pay needs to be understood in terms of the set of perceived benefits that the product offering provides to a customer firm. He relates this aspect of value to the notion of a customer surplus, which he expresses as the amount by which the monetary equivalent of the set of perceived benefits exceeds the price paid for it. Reuter (1986) introduces the notion of "usage value" which represents the value associated with the performance of the product in a given customer application. As Reuter (1986, p. 79) writes, "Especially in industrial products, the value analyst is primarily concerned with use value—the performance and reliability of the product — rather than its *existing* value (based on prestige or aesthetics, cost value, or exchange value)." Usage value appears to be closely related to the concept of a product offering's value-in-use (Wind 1990). Forbis and Mehta (1981) emphasize the aspect of competition in considering value. They introduce the concept of "economic value to the customer (EVC)," which refers to the maximum amount a customer firm would be willing to pay, given comprehensive knowledge of a focal product offering and the other, available competitive product offerings. This suggests that customer firms consider the value of a product offering relative to alternative offerings.

In sum, the concept of value in business markets: is perceptual in nature and should be expressed in monetary terms; needs to be viewed with respect to the set of benefits that the customer receives from usage of the product offering; and is inherently framed against a competitive backdrop.

Thus, we define value in business markets as the perceived worth in monetary units of the set of economic, technical, service and social benefits received by a customer firm in exchange for the price paid for a product offering, taking into consideration the available alternative suppliers' offerings and prices.'

Task What do understand by customer value?

Caution Information providers should be guaranteed the right to withdraw their agreement, to require to see/provide/correct, to deny requests to see/correct/ delete information, and be given the right to a legal representative about the information they have provided. The company should also respond immediately to the information provider's request with the appropriate measures and publish or inform the information provider of the results.

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Caselet

A Consumer Insight Success: Nigerian TV

Nigerian TV was developed by LG Electronics Africa Logistic FZE (LGEAF) to support the On-screen Display (OSD) of the country's three major languages (Ibo, Yoruba, and Hausa). Released in May 2008, Nigerian TV sparked an explosive response from local consumers by improving on previous TVs, which until then had only supported English text. Other features, such as the CRT TV rotating stand (especially useful for larger families) and higher volume range for loud surroundings, were also included to reflect the unique conditions of the local environment based on newly identified consumer in-sights. LG Electronics has positioned itself as the runaway market leader in Nigeria—over 50% of market share in big ticket items such as air conditioners, refrigerators, and TVs—thanks to active such as air conditioners, refrigerators, and TVs—than marketing efforts that truly reflect consumer insights.

Self Assessment

Fill in the blanks:

6. Product quality, service quality, price, and image shape a customer's perception of …………………….
7. The growth matrix of the customer value includes …………………… combinations.
8. The first combination of customer value growth matrix is …………………….
9. The last combination of customer value growth matrix is …………………….
10. We define …………………… as the perceived worth in monetary units of the set of economic, technical, service and social benefits received by a customer firm in exchange for the price paid for a product offering.

2.3 Value Creation

Value creation is performing activities that increase the value of goods or services to consumers.

Spend enough time in the business world and you will hear the words "value added" or "value creation" thrown around. Everyone tells you they can "add value" or that they want to "create value." But what is value? How is value created?

For a high growth company, profits are traded off for growth and market share. But this trade off still occurs with an eye towards the future when at some point value creation will kick in. As Mark Suster says, "*This is the trade-off between profits & growth. You can drive profits up by not investing today's dollars in tomorrow's growth.*"

And why then are there companies that get acquired for their teams or their technology or other "strategic" purposes and not for their profits? In these cases, the acquiring company expects to acquire resources which will add value to their own organization (some companies are better than others at acquiring other companies.)

Real value creation is not easy. The world is overall fairly efficient at pricing goods and services. Competition in most places/industries is high. In the end, you must take input resources (i.e. labour, capital, goods, and services) and produce an output with a total cost that is lower than the

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price which you receive in exchange for providing the output to others. That said, there are always opportunities, inefficiencies, and ways to create value.

The essence of investing is putting funds at risk with the hopes of receiving a greater amount in return. If this is accomplished, it can be said that one has created value. The purpose of this article is to explore the theoretical basis of value creation as well as its practical application in the context of a going business.

Most corporations have some sort of capital budgeting process in place to evaluate their opportunities for investment. While the metrics used vary widely, they typically revolve around calculations of the net present value of the future benefits associated with the investment. They may also include measures of internal rate of return or payback period. Investments that clear the hurdles established by management can then be pursued based on their future benefits and strategic importance. These investments are pursued because they are expected to deliver economic profits and create value.

While capital budgeting is a routine activity at most corporations, most do not have a similar process in place to evaluate the performance of their existing operations.

Take a company with a market capitalization of US $200 million that is considering how to spend its US $20 million capital budget.

Wouldn't the company benefit far more from evaluating the value contribution of each aspect of its operations and the opportunities for value improvement than focusing its financial inspection on the deployment of additional capital?

When evaluating a capital project, the decision point is basically binary, to invest or not to invest. When evaluating existing businesses, the decision point is more complex. Essentially, four courses of action may be indicated by this sort of analysis.

When allocating capital and resources, first priority should be given to business activities that show significant return on investment and have significant opportunity for growth.

These activities hold the greatest potential for value creation. Activities that have high returns but limited growth opportunities should be managed and exploited. Cash flow from these activities can be distributed to owners or used to fund more attractive investments. Activities which produce poor returns but have significant promise should be fixed. Perhaps the most difficult decisions are faced when it is demonstrated that an activity produces low returns and has limited promise. Companies should exit these activities and re-invest proceeds in other areas.

As you can see, value creation analysis is instrumental in assessing the merits of existing corporate strategy and forming optimal strategies for the future.

The path to value creation requires that economic profits be earned. In order tonsure that economic profits are being earned, the same type of capital budgeting analysis used to evaluate new investments must be applied to the existing assets and operations of the going concern business. This process is vital not only to forming a coherent strategy for the future, but to prioritizing management resources as well.

Value creation is a never-ending cycle. It begins with modelling business operations, prioritizing areas for more detailed investigation, identifying opportunities for improvement, implementing the changes required to maximize success and the measurement and revision that starts the process over again and allows management to stay abreast of company and market changes.

Value creation analysis is a critical but often overlooked component in the financial management of every company. Without this type of inspection, value will not be created at the maximum pace.

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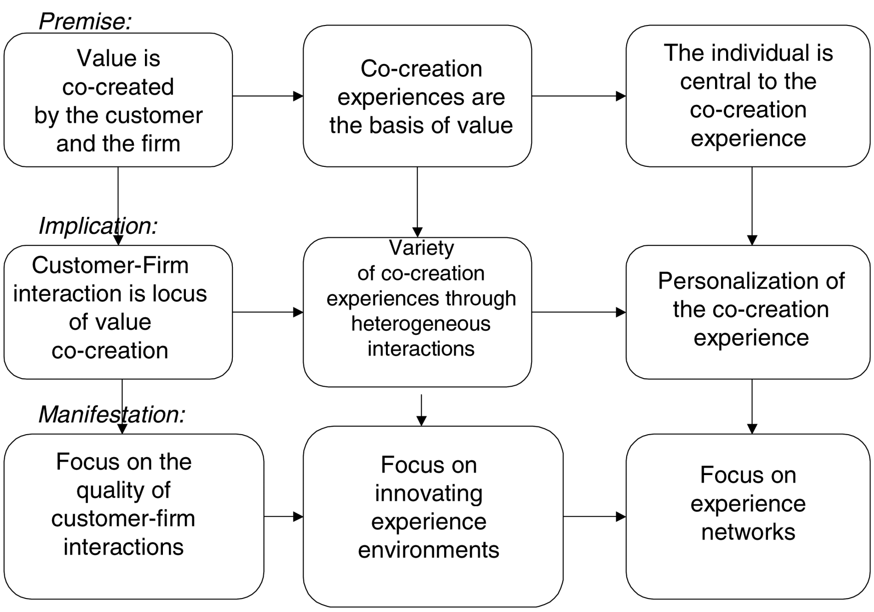
The figure given below explains the phenomenon of value creation in a much simpler form.

Figure 2.2: Value-Creation-Strategy



*Source:*http://business-fundas.com/wp-content/uploads/2011/05/Value-Creation-Strategy.png

Value Creation: The Ultimate Goal of Innovation

Why Innovate?

Some would argue that companies innovate to achieve a heightened competitive advantage, streamline the organization, or create intellectual property – including patents, trademarks and other protected property – that create value in the portfolio.

Many reason and rationales can be argued for the pursuit of innovation. Yet no purpose for or result from innovation can be more compelling than Value Creation. This metric is the ultimate measure of return on investment when measuring innovation's role in creating value.

Simply put: Innovation did well drives value creation – for the organization, its customers, its internal stakeholders and its external shareholders.

Successful innovation turns ideas into money. All the processes, creativity, time, sweat, research, dreaming, refining, modelling and retesting transform effort into tangible, valuable results.

This includes innovation that touches all sectors in the company or organization – not just in the creation of a new product or service. Enhancing the business model or networking, enabling a new core process, creating a new channel, brand or customer experience delivery model, or offering a new product system, boosting product performance, or providing a new service each creates value.

Nowhere is this more relevant and apparent than in the acquisition process. If one were to look at acquisitions with and without a patent portfolio, a well-created and -managed patent or IP portfolio can double company value. Airspray created of the novel packaging and dispensing process that turned liquid soap into foam. It was a company with a typical value of 7-8x EBIT. Yet, the addition of this patent to its portfolio resulted in 15x EBIT paid when the company was acquired in 2006.

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This is especially important in today's market. Current economics continue to hold down already devalued corporate stock prices. Companies are challenged to find ways to boost their value to stakeholders – as well as to keep customers and prospects engaged and purchasing goods. Value creation borne from innovation can be critical indeed. As evident in the Airspray example, one item in our patent portfolio almost doubled the EBIT paid at acquisition. This example is not unique, but was the result of painstaking and thoughtful focus on value created by innovation.

Moreover, value creation and innovation done well can immeasurable enhance the corporate brand. Between adding new products, reviving the corporate dress, even launching new marketing creative or advertising campaigns, customer value can be created through the value-added components and enhanced public face of these endeavours.

Of course, it's essential to find that delicate balance between cost, price, and return. Balance is found, in part, by seeking stakeholder input and customer feedback during development of any innovation process.

The arguments for innovation are, frankly, inarguable. Value, brand enhancement, share price and perception among various stakeholders can be elevated by innovation done well. Add to the equation the inclusion of intellectual property derived during the process, and the overall ROI can be well worth the investment.

Value Proposition: The Key to Successful Innovation

What defines successful innovation? Innovation is the process of using intellectual capital to create new products or services that generate positive business results in the form of financial returns. Discovering new findings then spurs more innovation which leads to further financial returns, and so on.

Innovation is successful when positive outcomes result in return on investment (ROI). That is why Value Creation is so important. Adding perceived value to a new product or service will drive ROI. The value proposition is the key to successful innovation. Develop an innovation with high perceived value to your customer, and strong sales will follow.

It's all about understanding your customer and giving them what they want. Customer input and feedback is the key. Look at Ford for example. The car manufacturer observed and listened to their large customer base on what they wanted in a car. They launched the "Your Ideas" initiative that invited people to make suggestions for improvement in all areas of comfort, convenience, connectivity, performance and safety. The result? Ford added iPod, MP3 player and USB connections touch screens, and voice activated communication systems, intelligent push-start buttons and more. Sales are soaring – not because of the traditional four wheels and performance but because of perceived value added features. Ford Motor Company now has the highest customer satisfaction rating among all major automakers.

When was the last time you tried or experienced your product or customer experience? Create value and not just onerous processes. Consumer input should be considered at multiple stages of your new product development process in order to increase perceived value. Enhanced product value means higher margins, greater returns, improved loyalty and increased stakeholder value.

Finally, when you find that delicate balance between cost, manufacturability and consumer perceived value, be sure to protect your intellectual property (IP) portfolio through patents. Invest the time and money into constantly updating patents and managing your product or service portfolio because it will lock in the value of your Innovation IP.

Sustainable Value Creation is a new mode of business that addresses fundamental societal issues by identifying new, scalable sources of competitive advantage that generate measurable profit and community benefit.

Business at its Best is organized around five implementation imperatives for planning, managing and scaling a sustainable value creation strategy. These imperatives are:

1. ***Recognize the Opportunity:*** Analyze the root causes of existing core business challenges to uncover underlying societal problems that, if addressed, may lead to new sources of competitive advantage.
2. ***Recalibrate Your Radar:*** Pinpoint the optimal role the company can play in helping to address those issues by expanding internal and external networks to tap into trends. Improve the company's ability to screen ideas based on need, uniqueness, strategic fit, and core competencies.
3. ***Research, Develop, Repeat:*** Plan and manage sustainable value creation initiatives as R&D projects and subject them to the same rigor as any corporate initiative, accommodating an iterative development cycle and being prepared to learn from setbacks.
4. ***Rewire the Organization:*** When bringing a project to scale, embed new governance structures, communications, incentives, and metrics across the organization to sustain new behaviours and attitudes.
5. ***Reinforce the Value:*** CEOs will need to assume leadership to ensure the entire company remains focused and motivated, and its stakeholders committed. This requires courageous conversations with employees, consumers, investors, and partners.

Creating Shared Value (CSV)

Creating Shared Value is a business concept first introduced in *Harvard Business Review* article *Strategy & Society: the Link between Competitive Advantage and Corporate Social Responsibility*. The concept was further expanded in the January 2011 follow-up piece entitled "Creating Shared Value: Redefining Capitalism and the Role of the Corporation in Society". Written by Michael E. Porter, a leading authority on competitive strategy and head of the Institute for Strategy and Competitiveness at Harvard Business School, and Mark R. Kramer, Kennedy School at Harvard University and co-founder of FSG, the article provides insights and relevant examples of companies that have developed deep links between their business strategies and corporate social responsibility (CSR).

The central premise behind creating shared value is that the competitiveness of a company and the health of the communities around it are mutually dependent. Recognizing and capitalizing on these connections between societal and economic progress has the power to unleash the next wave of global growth and to redefine capitalism.

Mechanism

Companies can create shared value opportunities in three ways:

- ***Reconceiving products and markets:*** Companies can meet social needs while better serving existing markets, accessing new ones, or lowering costs through innovation.
- ***Redefining productivity in the value chain:*** Companies can improve the quality, quantity, cost, and reliability of inputs and distribution while they simultaneously act as a steward for essential natural resources and drive economic and social development.
- ***Enabling local cluster development:*** Companies do not operate in isolation from their surroundings. To compete and thrive, for example, they need reliable local suppliers, a functioning infrastructure of roads and telecommunications, access to talent, and an effective and predictable legal system.

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Many approaches to CSR pit businesses against society, emphasizing the costs and limitations of compliance with externally imposed social and environmental standards. CSV acknowledges tradeoffs between short-term profitability and social or environmental goals, but focuses more on the opportunities for competitive advantage from building a social value proposition into corporate strategy.

Ecological Accounting Challenges

A significant challenge of CSV resides in accounting for ecological values and costs that are generated within the realm of agricultural production. Up to 90% of the ecological footprint in food processing can be attributed to land management activities outside the control of corporations. An eco commerce model that accounts for ecosystem services at the production unit (farm) level allows "shared value" to emanate from the production unit outward. Centring the shared value at the farm level allows for utilities, biomass processors, food processors, environmental liability insurers, landlords, and governments to participate in the shared value process. This Eco commerce shared value process accounts for and includes positive [environmental] externalities within the economic system.

Comparison with Corporate Social Responsibility

Corporate social responsibility (CSR) differs from Creating Shared Value, although they share the same ground of "doing well by doing well". Mark Kramer, the co-writer of *Harvard Business Review* article on Creating Shared Value, states in his "Creating Shared Value" blog that the major difference is CSR is about responsibility, whereas CSV is about *creating value*. Whether it is an extended "new form of CSR" or "shared value", CSV is fundamentally different from the CSR activities of the past.

Rather, CSV is a transition and expansion from the concept of CSR. Business responsibility has evolved from Traditional CSR 1.0 (Stages: Defensive, Charitable, Promotional and Strategic), Transformative CSR 2.0 and to CSR 3.0 what is similar to CSV. Such development of stages by redefining CSR has laid theoretical foundations for companies and society to sustainably and communally overcome societal issues. As capitalism matures, it is companies' duties to break itself out of the traditional CSR by realizing its limitations and try to restructure and pursue new market strategies that value both economic and societal development.

CSV concept supersedes CSR for it is a way for corporations to sustain in the competitive capitalistic market. Whereas CSR focuses on reputation with placing value in doing well by societal pressure, it generates both economic and societal benefits relative to cost in real competition of maximizing the profits. Instead of being pushed by external factors, CSV is internally generated not confined to financial budget as CSR is. With the advent of CSV and following strong worldwide advocacy for it, companies started to overthink about their vision for their sustainable growth.

From a customer's perspective, customer value is what they "get" (benefits) relative to what they have to "give up" (costs or sacrifices) (Zeithaml 1988). The creation of customer value has long been recognized as a central concept in marketing (Woodruff 1997) and the fundamental basis for all marketing activity (Holbrook 1994). It has been suggested as the purpose of organizations (Slater 1997), a main key to success via differential positioning (Cooper 2001), and a precursor to customer satisfaction and loyalty (Woodall 2003). The call for more attention to this concept by Hunt (1999) has been answered recently with more work within this area. One of the critical parts of customer value research is the design of frameworks and typologies to help firms better understand value creation. Although there have been recent attempts to develop these typologies (e.g., Holbrook 2005; Ulaga 2003; Woodall 2003), there is little consistency in the approaches and none stand out as being particularly potent in the development of marketing strategy or in conducting marketing research. In this respect, we aim to build on the valuable previous work undertaken in this area to enable marketers to think more creatively about customer value creation.

The strategy literature also recognizes the importance of value creation and of value creation activities, such as value chains (e.g., Porter 1985). New product development research, for example, finds that products offering superior customer value are more successful than those that offer limited value or offer value already provided by other brands, as are those with a well-defined product concept (Cooper 2001). Little has been written in the strategy literature, however, on what value to create, when, why, and how, or what constitutes a well-defined product concept from a value perspective. Opportunity recognition and exploitation are considered definitive concepts in both new product development (Cooper 2001) and entrepreneurship (Shane and Venkataraman 2000). However, scholars have paid relatively little attention to the opportunity recognition process (Ucbasaran, Westhead, and Wright 2001) or to tools that assist in this process (Gaglio 1997).

In light of this, we present an alternative framework for marketers to assist in their efforts to create customer value; this will be useful for developing both marketing strategy and measures of customer value for marketing research. The aim of this paper is to build on the strengths of previous frameworks.

Caselet

General Electric's Ecomagination

We did it from a business standpoint from Day 1. It was never about corporate social responsibility.

— *Jeffrey R. Immelt, CEO of General Electric.*

General Electric's redirection of its business plan to "Ecomagination" program in 2005 was a result of the societal and governmental push for reduction in electrical and fuel costs and in carbon emissions. With the help of environmental consulting firm, Green Order, G.E. managed to modify its products more eco-friendly and energy saving. Their sale reached US $18 billion in 2009 and is predicted to grow twice as fast as overall company revenues over the next five years.

Dow AgroSciences

Dow AgroSciences, a wholly owned subsidiary of the Dow Chemical Company, developed a line of Omega-9 rich canola and sunflower oils, with zero Trans fats and the lowest levels of saturated fats, since 2005 Omega-9 Oils have eliminated nearly a billion pounds of trans fat and 250 million pounds of saturated fat from North American foods.

Nestlé

Companies can also improve the competitive context in which they operate by investing in their communities. Nestlé, for example, worked closely with the farmers of the Moga Milk District in India, investing in local infrastructure and transferring world-class technology to build a competitive milk supply chain that simultaneously generated social benefits through improved health care, better education, and economic development.

Source: smithcolgate-2007-customer-value-creation-a-practical-framework

Notes

Self Assessment

Fill in the blanks:

11. …………………… is performing activities that increase the value of goods or services to consumers.
12. The ultimate goal of value creation is …………………….
13. …………………… ……………………, …………………… is the process of using intellectual capital to create new products or services that generate positive business results in the form of financial returns.
14. Companies can create shared value opportunities in …………………… ways.
15. Creating Shared Value is a business concept first introduced in …………………… article Strategy & Society: The Link between Competitive Advantage and Corporate Social Responsibility.

Conceptual Foundations

The emerging customer value paradigm and theory of the firm (e.g., Hunt 1999; Hunt and Morgan 1997; Slater 1997) suggests that firms exist to create value for others where it is neither efficient nor effective for buyers to attempt to satisfy their own needs. From this perspective, the objective of marketing is to achieve personal, organizational, and societal objectives by creating superior customer value for (exchange with) one or more market segments with a sustainable strategy.

Despite the centrality of customer value to marketing thought, customer value research is still nascent and in the early stages of conceptual development. Although popular works have focused on normative customer value creation strategies (e.g., Slywotzky 1996; Treacy and Wiersama 1993), preliminary academic work has focused on the importance of the customer value concept (e.g., Band 1991; Gale 1994) and definitions, conceptualizations, and typologies of customer value (e.g., Ulaga 2003; Woodall 2003; Woodruf1997).

Customer Value Creation Frameworks

Just as there is no commonly accepted definition of customer value, there is no definitive conceptualization, framework, or typology of customer value. Some attempts have been made; and while each has its merits, none are particularly well suited as aids for either developing marketing strategy or for developing measures of customer value.

In an early conceptualization of consumer needs, Park, Jawarski, and MacInnis (1986) describe three basic consumer needs that reflect value dimensions—functional needs, symbolic needs, and experiential needs. Functional needs are those that motivate the search for products that solve consumption-related problems. Symbolic needs are desires for products that fulfill internally generated needs for self-enhancement, role position, group membership, or ego-identification. Experiential needs are desires for products that provide sensory pleasure, variety, or cognitive stimulation. Consumer needs, wants, and preferences underlie value perceptions. Consequently, three basic types of value are implicitly suggested by Park, Jawarski, and MacInnis (1986)—functional value, symbolic value, and experiential value. This typology, however, does not capture the cost/sacrifice aspect of customer value suggested by the simple definition, nor does it suggest sub dimensions of the higher-order constructs.

Sheth, Newman, and Gross (1991) describe five types of value that drive consumer choice—functional value, social value, emotional value, epistemic value, and conditional value. Functional

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value represents the perceived utility of an alternative resulting from its inherent and attribute- or characteristic-based ability to perform its functional, utilitarian, or physical purposes. Social value represents the perceived utility of an alternative resulting from its image and symbolism in association or disassociation with demographic, socioeconomic, and cultural-ethnic referent groups. Emotional value represents the perceived utility acquired by an alternative as a result of its ability to arouse or perpetuate feelings or affective states, such as comfort, security, excitement, romance, passion, fear, or guilt. Epistemic value is the perceived utility resulting from an alternative's ability to arouse curiosity, provide novelty, or satisfy desire for knowledge. Finally, conditional value is the perceived utility acquired by an alternative as a result of the specificfi situation or the physical or social context faced by the decision maker. This typology identifies dimensions of customer value that related to the higher-order constructs suggested by Park, Jawarski, and MacInnis (1986), but it does not specifically capture the cost/sacrifice aspect of customer value. In addition, there are other functional, experiential, and symbolic dimensions of customer value that are not captured in this framework.

More recent frameworks have focused on customer value in specific contexts. Ulaga (2003), for example, identifies eight categories of value in business relationships—product quality, delivery, time to market, direct product costs (price), process costs, personal interaction, supplier know-how, and service support. For each category Ulaga identifies three or four specific benefits that are reective of this category. This framework is quite comprehensive in delineating relationship value, but there are other types of customer perceived or received value in a business-to-business context.

Woodall (2003) identifies five primary forms of value for the customer (VC)—net VC (balance of benefits and sacrifices), derived VC (use/experience outcomes), marketing VC (perceived product attributes), sale VC (value as a reduction in sacrifice or cost), and rational VC (assessment of fairness in the benefit–sacrifice relative comparison).

This framework is the most comprehensive of previous works, and Woodall identifies many specific types of value associated with his higher order: derived VC, marketing VC and sale VC constructs. There is, however, considerable overlap in the categories in the sense that the same benefits appear under multiple headings. In addition, the benefits and sacrifices identified do not fully capture the domain of the higher-order value dimension and Woodall does not identify the sub dimensions of customer value of which the specific benefits and sacrifices might be illustrative examples. These limitations make the framework difficult to use either for developing marketing strategy recommendations, or as a basis for developing measures of key dimensions of customer value.

Similar limitations apply to Holbrook's (1999; 2005) customer value typology (axiology) that considers the source of motivation behind a value assessment (intrinsic or extrinsic), the orientation of the value assessment (self or other oriented), and the nature of the value assessment (active or reactive). Holbrook identifies eight types of value: efficiency, excellence, status, esteem, play, aesthetics, ethics and spirituality. Although this typology has a clear conceptual basis, it is consumer outcome and meaning focused, does not fully capture the domain of the customer value construct, and may not apply as well to business-to-business contexts.

Finally, Heard (1993–94) takes a different perspective. He conceptualizes customer value in terms of three factors— product characteristics, delivered orders, and transaction experiences— that are linked to basic value-chain activities or processes (design, production, marketing) that reflect where value is created within organizations. These factors, or sources of value, are evaluated by customers along four value dimensions—being correct, timely, appropriate, and economical. The specification of three value sources (product characteristics, delivered orders, and transaction experiences) is parsimonious, but other sources of value are created by other processes within organizations.

Notes

Example: Product and corporate information and, in particular, the ability to understand the features, functions, benefits, and use of a product enhance the perceived value of a product during its purchase and consumption. The physical environment in which a product is purchased or consumed is also an important source of value, particularly in the retail and service industries. Finally, transaction experiences are created through customer interactions with salespeople, other staff, and transaction systems or processes. The source of this value is the customer–employee–organization interaction. The type of value created is usually experiential, but interactions could provide functional/instrumental value (such as taking a correct order in a restaurant), symbolic/expressive value (such as being upgraded to first class on an airline flight), or even value concerned with the cost/sacrifice aspect of value (such as being served quickly or in a stress-reducing manner).

Drawing on, integrating, and extending previous conceptual foundations, a customer value framework is proposed that builds on the strengths of previous frameworks and mitigates their key weaknesses (as identified above). This framework adopts a strategic orientation in that the focus is on identifying categories of value that could differentiate offerings and not on identifying all of the specific benefits and sacrifices that may be perceived by consumers or customers. Our intent is to develop a comprehensive framework applicable to consumer and business contexts, and goods as well as services. The specific benefits and sacrifices considered in an overall assessment of value are known to differ in these different contexts, but we suggest that the categories of value are the same.

The framework identifies four major types of value that can be created by organizations—

- Functional/instrumental value,
- Experiential/hedonic value,
- Symbolic/expressive value, and
- Cost/sacrifice value.

The framework also identifies five major sources of value—information, products, interactions, environment, and ownership—that are associated with central value-chain processes. The resultant 4 × 5 table is useful for describing and documenting customer value creation strategies and serves as a tool for opportunity recognition and product concept specification. It also provides a foundation for measuring or assessing value creation strategies.

Framework Application

The framework for customer value creation strategies serves as a tool for:

(1) describing a generic marketing strategy,

(2) enhancing product concept specifications,

(3) identifying value creation opportunities, and

(4) developing measures of customer value.

These will be discussed in order.

Marketing Strategy

The framework is useful for describing generic marketing strategies, understanding positioning, and identifying sources of competitive advantage.

Notes

Consistent with the work of Treacy and Wiersama (1993), the four types of value depicted in the framework suggest four value creation strategies. Firms such as 3M, Volvo, Nike, and Rubbermaid, which compete by superior creation of functional/instrumental value, follow a product-leadership (product-innovation) strategy and invest and excel in value creating processes relating to new product development, market research, quality, and technology research and development. These firms place an emphasis on continuous innovation and time to market, tend to have loose-knit, organic, and team-oriented structures, and promote an entrepreneurial and creative culture with a willingness to experiment and take calculated risks (Treacy and Wiersama 1993).

Firms such as Club Med, Nordstrom, and Disney, which compete by creation of superior experiential value, follow a customer responsiveness (or customer intimacy) strategy and typically invest in, and excel at, customer service, customer support technology, exible manufacturing, market research, and facilities (Treacy and Wiersama 1993). These firms place an emphasis on customer relationships and service quality and provide tailored or customized solutions to narrowly defined market segments.

Firms such as the Body Shop, Gap Inc., Lexus, and Hallmark, which compete by creation of superior symbolic/expressive value, follow a brand image/brand equity strategy and typically invest in, and excel at, advertising and public relations, product quality, and customer service and support. These firms often structure and define their business around a "family" corporate culture, place an emphasis on stakeholder relationships, and promote and reward creativity and novelty.

Firms such as Wal-Mart, Dell, Amazon.com, and South-west Airlines, which compete by creating superior cost/sacrifice value, follow an operational excellence strategy. The firms that compete on price and convenience typically focus on efficiency and effectiveness goals, invest in, and excel at, purchasing, manufacturing, and distribution processes. They tend to have a top-down emphasis on standard operating procedures and are tenacious at minimizing intermediate processing steps and overhead.

Few firms create just one type of value, and our framework extends the work of Treacy and Wiersama (1993) by suggesting the subtypes of value that can be created from different value creating processes. Our framework can thus be used to describe the value creation strategy of an organization. Starbucks, for example, creates functional/instrumental value mainly via appropriate features and attributes (product quality, customization, hot drinks for cold days, and cold drinks for warm days). They create experiential/hedonic value mainly via sensory value (aesthetics, ambiance, and aromas), emotional value (pleasure or enjoyment), social-relational value (by providing comfortable spaces where friends and colleagues can interact), and epistemic value (such as novelty avours and information about coffees). Starbucks creates symbolic/expressive value through personal meaning (many Starbucks' customers consider their relationship with Starbucks as personal, if not spiritual), self-expression (the ability to personalize the beverage and experience), and social meaning (there is some status in the brand name). Finally, with respect to cost/sacrifice value, Starbucks creates economic value (an affordable luxury) and reduces psychological costs (they are very convenient to find).

Also consistent with the work of Treacy and Wiersama (1993), it is difficult for organizations to be "world class" at creating more than one of the higher-order value categories, as they require different resource investments, organization structure, and culture; but organizations need to be competitive in the value offering across all four dimensions as most customers are thought to use a compensatory model in making brand choices. Although not yet investigated empirically, anecdotal evidence suggests (consider most industry leaders such as Starbucks above) that organizations with a more comprehensive value creation strategy (greater breadth or depth of value creation) will outperform competitors with less rich value offerings—so long as the value offered is desired and cost effective to create.

Notes

Positioning and Product Concepts

The framework provides a relatively easy way for organizations to document their value creation strategies—for individual products or for the organization as a whole.

Example: Sharkey mainly offers experiential/hedonic value to the children of upper-middle-class parents through its hairstyling products and environment. Sensory value is created through the purchase/consumption environment (colourful cartoon themed decor, television programs, music, video games, mini arcade, and retail store), as is emotional value (play, fun, excitement, and enjoyment). They create social-relational value through "glamour girl parties" (pampering and friendship bonding), "karaoke nights for moms" (network benefits and personal interactions), and special certificates and photos for first haircuts. Epistemic value is created through the novelty of themed chairs (such as a Harley-Davidson motorcycle, a Barbie car, and a sparkling Mercedes) and through the novelty of different hairstyling, and particularly in the glamour parties that feature different makeup and "updos." Sharkey's creates functional value in terms of appropriate outcomes through their haircutting service product (good-looking styles) and interactions with employees and systems (no tears). They create symbolic/expressive value through self-expression (different hairstyles, and some locations offer art classes for kids), and to some extent, personal meaning in the karaoke nights by means of a personal recording of the songs sung. The main cost/sacrifice value created is a reduction in the psychological cost (stress and conflict) of getting a child's hair cut (making it easier for both the parent and child) through personable staff and the purchase/consumption environment.

By delineating the value creation strategy of an organization using the framework, marketers can clearly define product concepts, a new product key success factor (Cooper 2001). By mapping all of their brands onto the framework, organizations can illustrate their value creation portfolio. Used as part of an industry analysis, the framework helps marketers illustrate their value creation positioning relative to key competitors, similar to the "customer value maps" proposed by Gale (1994)—recognizing that the framework may need to be applied to specific market segments to achieve an appropriate product–market match comparison. By illustrating gaps in the value creation strategies of an industry, the framework is useful for identifying value creation opportunities—either for new products or for how the product concepts may be enhanced to produce a richer value proposition. For enhanced product concepts, marketers could ask themselves, for each cell in the framework, whether it would make sense (financially and competitively) to create additional value in each area. Above given example of Sharkey's, for example, does not appear to offer much value through information-related processes. They could create greater epistemic value (knowledge) by means of information dissemination relating to active and healthy lifestyles for kids. There is also little value created through interactions with employees or systems. Greater functional/instrumental value could be created in terms of appropriate outcomes (safeguards) via product sources by letting kids and parents "see" different hairstyles on their own heads using video technology. It is recognized, of course, that gaps in the value map may indicate value propositions for which there is no demand or market.

Competitive Advantage

Not only does the framework help describe product concepts and positioning strategies but it also helps marketers specify sources of competitive advantage—which value creation processes they are going to focus on to create the value on which they plan to compete. For example, much of the value offered by Starbucks concerns:

(1) the purchase/consumption environment where they have developed expertise in facilities management, interior design, and merchandizing, and

Notes

(2) interactions with customers, supported by expertise in recruitment and training, service quality, and operations. Similarly, much of the value created by the Sharkey's franchise is also in the purchase/consumption environment and customer interactions. This is to be expected with consumer services. For goods, one might expect greater focus on value creating processes relating to product development and manufacturing. In business-to-business contexts, there may be greater focus on the value created by means of interactions (social-relational value) and ownership transfer activities (distribution, logistics, etc.).

Marketing Research

The framework also provides some direction for operationalising the customer value creation strategy construct. Such a construct could be viewed as having four main facets or dimensions relating to the four types of value described.

A battery of questions could then be developed for each dimension and sub dimension based on the key sources of value. Items could then be summed across sources of value to create formative indices of functional/instrumental, experiential/hedonic, symbolic/expressive, and cost/sacrifice value, similar to a "balanced scorecard" approach (e.g., Kaplan and Norton 1992). Alternatively, the framework could be used to assess the customer value creation strategy of an organization by means of content analysis of business plans, marketing plans, communication plans, or other documents and materials that describe marketing activity.

Task Explain the framework of value creation.

Case Study

Nestle: Helping to Develop Local Dairy Industry

Nestlé's dairy development heritage in India began humbly in Moga on 15 November 1961, collecting only 511 kgs of milk on our first day. Today Nestlé's Moga factory collects over 1.3 million kgs of milk per day during the flush season, with over 110,000 farmers in India selling milk to Nestlé.

Nestlé's milk collection area has expanded over the years and today covers 30,000 square kilometres. We have also constructed 2,815 milk collection centres in villages across the country to facilitate our considerable daily milk collection.

One of Nestlé's many success stories in the dairy sector is that of milk farmer Jagdeep Singh Sandhu, who hails from the village Assal in Ferozepur. Jagdeep began dairy farming in 2001 with one buffalo as he found the milk market remunerative. By 2004, he had managed to gradually increase his herd of buffaloes to 25. He soon associated himself with Nestlé who, by 2007, had assisted him in procuring a loan and encouraged him to increase his cow herd to 36 animals. In 2008, Nestlé sponsored Jagdeep's visit to the World Dairy Exposition in USA to gain more knowledge regarding commercial dairy farming. After his visit, Nestlé introduced best practices for dairy farming at his farm, including better calf management, silage preparation and shed expansion.

With the adaptation of best practices at Jagdeep's farm, he soon saw increased milk productivity. Nestlé consequently installed a milk chilling facility at his farm to ensure 'chilling at source'. In 2010, we also installed a milking parlour at his farm.

Contd...

Notes

Today Jagdeep owns 78 cows in all, with 40 cows in milk, producing an average of 700 kgs of milk daily. His total income from milk is INR 32, 00,000 every year. In his six year long relationship with Nestlé, Jagdeep has come a long way and is today a role model for other farmers in the area. In September 2010, the Deputy Commissioner of Ferozepur visited Jagdeep's farm and highly commended his efforts.

Questions:

1. Has nestle succeeded in changing business through CRM?
2. State your observations regarding CRM in the case.

*Source:*http://www.accountingtoday.com/ato_issues/26_5/CRM-Case-studies-BDO-Hughes-Zoho-Dynamics-WebsterRogers-62476-1.html

2.4 Summary

- Customer value creation is a central marketing concept that has been under investigated (Hunt 1999). The customer value creation strategy framework developed in this paper offers a useful tool for specifying and illustrating value creation strategies, illustrating brand and organization positioning, identifying opportunities for new value creation propositions, and suggesting enhancements to the value propositions of existing products.
- In addition to these contributions, the framework also suggests directions for future research. For example, it leads to the following questions: Under what conditions are some types of customer value creation more or less appropriate than others? Under what conditions are some value migration strategies (patterns and progressions of value creation) more or less appropriate than others? Are some sources of value more or less strategically important than others?
- Other value creation observations suggest other testable propositions. Symbolic/expressive value, for example, appears to be more difficult to create (fewer firms follow a brand image/brand equity strategy than other value creation strategies), but it may provide more sustainable competitive advantage.
- Most start-up businesses compete by creating functional/instrumental value or cost/ sacrifice value. Would start-up performance be enhanced by more complex value creation strategies? If a firm started with a focus on functional/instrumental value, what type of value should they next try to add to the product concept?
- The customer value creation framework presented here provides some assistance in this task by extending and integrating extant conceptualizations of customer value creation.
- Future work is required to develop measures of customer value creation strategies consistent with this framework.
- Being able to differentiate new products and services is at the heart of marketing. Without a unique position, businesses (and their associated products and services) struggle to survive let alone thrive. Being creative about creating customer value can enable marketers to be more successful in discovering opportunities. Our goal, with the presented framework, is to provide some structure to this creative process.
- Understanding what customers' value in different contexts, and what customer value creation strategies are more (less) appropriate in particular contexts, is central to marketing strategy and marketing thought.

- It has been difficult to use this construct in either practice or marketing research, however, because of competing definitions and competing conceptualizations, frameworks, and typologies of customer value—none of which fully capture the domain of the construct or are particularly well suited for either making marketing strategy decisions or for operationalising the construct. These issues need to be resolved before empirical studies can properly address key customer value research questions and improve early attempts at measurement. For example, we attempt to address these issues by integrating and extending previous works in a more comprehensive and useful typology of customer value creation. In doing so, we adopt the marketing manager's perspective of customer value: what kinds of value can be created, and how this value can be created by an organization.

2.5 Keywords

Competitive Advantage: An advantage that a firm has over its competitors, allowing it to generate greater sales or margins and/or retain more customers than its competition. There can be many types of competitive advantages including the firm's cost structure, product offerings, distribution network and customer support.

Corporate Social Responsibility: Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large

Customer Value Framework: The framework identifies five major sources of value—information, products, interactions, environment, and ownership—that are associated with central value-chain processes.

Customer Value: It is defined as the difference between what a customer gets from a product, and what he or she has to give in order to get it. It helps people and companies unlock their inner creative power and achieve amazing results.

Marketing Research: It is the systematic gathering, recording, and analysis of qualitative and quantitative data about issues relating to marketing products and services. The goal of marketing research is to identify and assess how changing elements of the marketing mix impacts customer behaviour.

Marketing Strategy: Marketing strategy is a process that can allow an organization to concentrate its resources on the optimal opportunities with the goals of increasing sales and achieving a sustainable competitive advantage.

Technology Components: The CRM technology components combine the functions of CRM engine, Front-office solutions, Enterprise Application Integrations (EAIs) for CRM.

2.6 Review Questions

1. Write short note on customer value.
2. How customer value is important to business?
3. Explain the framework of customer value creation.
4. What are the technological components of CRM?
5. How is value creation significant in enhancing brand loyalty?

Notes

6. How many components are there in CRM and what explain them?
7. What are positioning and product concepts?
8. What is marketing research?
9. How is the strategies made for product identity enhancement?
10. Write short note on CSV.

Answers: Self Assessment

1.	Functional	2.	Three
3.	All	4.	Analytical CRM
5.	Collaborative CRM	6.	Value
7.	Four	8.	Existing product & existing customer
9.	New product & new customer	10.	Value in business markets
11.	Value creation	12.	Innovation
13.	Value creation innovation	14.	Three
15.	Harvard business review		

2.7 Further Readings

Books

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Notes

Unit 3: Analysing Profitability of Customers

CONTENTS

Objectives

After studying this unit, you will be able to:

- Study customer profitability
- Learn about maintaining and increasing customer profitability
- Assess the process of turning unprofitable customers into profitable ones
- Analyse base profit analysis
- Know what is value chain analysis
- Determine what is customer defection

Introduction

A company can outperform rivals only if it can establish a difference that it can preserve.

It must deliver greater value to customers or create comparable value at a lower cost, or do both.

—Michael E. Porter. 1996.

Organizations use customer profitability analysis to identify the most valuable customers or customer segments to prioritize marketing, sales and service investments. By studying profitability metrics such as lifetime value, repeat purchase rate, and churn rate, analysts can identify profitable segments, uncover defining characteristics of those segments and target similar populations for acquisition.

Similarly, retention programs may be created for particularly profitable customers. Business intelligence provides the statistical and data mining capabilities to calculate lifetime value, identify product affinities for cross-sell campaigns, and perform predictive analysis of profits resulting from additional marketing investment. Customer segments or individual customers may be further investigated through ad hoc analysis, lists of customer segments may be automatically generated, or alerting rules may be applied to customer segments to automatically notify relationship managers when profitable customers have executed a transaction.

Within any given customer base, there will be differences in the revenues customers generate for the firm and in the costs the firm has to incur to secure those revenues. While most firms will know the customer revenues, many firms are unaware of all costs associated with customer relationships. In general, product costs will be known for each customer, but sales and marketing, service, and support costs are mostly treated as overhead. Customer profitability analysis (CPA) refers to the allocation of revenues and costs to customer segments or individual customers, such that the profitability of those segments and/or individual customers can be calculated.

The impetus for the increasing attention for CPA is twofold. Firstly, the rise of activity-based costing (ABC) in the 1990s led to an increased understanding of the varying extent to which the manufacturing of different products used a firm's resources (Cooper & Kaplan, 1991; Foster & Gupta, 1994). When using ABC, firms first identify cost pools: categories of activities performed within the organization (e.g., procurement). For all cost pools, cost drivers are identified: units in which the resource consumption of the cost pool can be expressed (e.g., number of purchase orders). Costs are then allocated to cost objects (e.g., products) based on the extent to which these objects require certain activities (measured in cost driver units). Once it became accepted that not every product requires the same types and same levels of activities, it was a small step to see that customers, too, differ in their consumption of resources. The size and number of orders, the number of sales visits, the use of helpdesks, and various other services can be very different for each customer. Consequently, some customers incur more relationship costs than others, leading to different levels of customer profitability. Although this has long been recognized, it fits better in the logic of ABC than in the traditional costing systems. Secondly, information technology makes it possible to record and analyze more customer data—both in type and in amount. As data such as number of orders, number of sales visits, number of service calls, etc. is stored at the level of the individual customer; it becomes possible to actually calculate customer profitability.

It is considered good industrial marketing practice to build and nurture profitable relationships with customers. To be able to do this, a firm should know how current customer relationships differ in profitability, as well as what customer segments offer higher potential for future profitable customer relationships. CPA can deliver such knowledge. While many publications extol the virtues of knowing which customers are profitable and which are not (Cooper & Kaplan, 1991; Jacobs, Johnston, & Kotchetova, 2001; Shapiro, Rangan, Moriarty, & Ross, 1987; Storbacka, 1997), most publications provide no more than a cursory description of the actual implementation process of CPA. One notable exception is the case description by Noone and Griffin (1999) set in the hotel market. Firms operating in industrial markets face specific implementation issues however. These issues are related to characteristics such as the use of account management and personal selling, indirect selling via distributors, maintenance and repair services, demonstrations of equipment at customer sites, and extensive discounting and bonus structures for customers and distribution partners. The objectives of this article are to develop a general approach for the implementation of CPA in industrial firms and to share what was learned from the actual implementation of such a process in one national subsidiary of a multinational industrial firm.

3.1 Managing Customer Profitability

Before heading towards the discussion about what is meant by customer lifetime value, we must understand the concept of managing the customer profitability.

Notes

3.1.1 Customer Profitability Management (CPM)

Managing profitability requires not only a customer-centric focus but also a thorough understanding and effective management of customer profitability. Customer profitability management is a strategy-linked approach to identifying the relative profitability of different customers or customer segments in order to devise strategies that add value to most profitable customers, make less-profitable customers more profitable, stop or reduce the erosion of profit by unprofitable customers, or otherwise focus on long-term customer profitability.

Managers are often surprised to find out that a small percentage of customers generate substantially more than 100% of profits, and the remaining customers are either breakeven or unprofitable. Using a customer profitability management system replaces intuitive impressions of customer profitability with fact-based information and supporting analysis.

The backbone of a CPM system is a costing system that is focused on tracing and causally assigning costs to each customer or customer segment without arbitrary broadly averaged cost allocations. Assigning revenues to customers or customer segments can present a few issues, but the major challenge in implementing a CPM system is the selection and implementation of an accurate and informative costing system. A costing system should not only accurately assign product costs and gross margin to customers or customer segments, but it should also assign the costs to serve.

Cost accuracy and visibility are important in CPM. Using Time-driven Activity-based Costing (TDABC) provides costs that identify resource consumption by customers or customer segments. The signals provided by the CPM system, based on full costing of traceable costs to customers and making visible business-sustaining costs, will lead management to consider strategies to increase profits. The signals do not provide answers in themselves, but they could lead to generating alternative courses of action. Decisions related to customer profitability strategies require tailor-made analysis.

There are system issues that must be considered in the design and implementation of a CPM system. Awareness of the commitment of time, financial, and personnel resources required by a CPM system is critical to its success.

Investments in customers should be considered in view of an estimate of customer life value. That is, in addition to current customer profits, the potential of generating future profits from a customer should also be considered. Managing customer life value is a means to enhancing long-term profitability.

Essential to the success of CPM is the buy-in by employees and managers who will be affected by its implementation. Resistance to change is a phenomenon that applies equally to CPM as it does any other organizational change. To develop the CPM system and then seek the support of employees and managers is not likely to result in developing a sense of ownership, nor will it guarantee an effective CPM system. To get employees and managers to buy in at the outset, they should be involved in its development and their ideas must be sought. Only with a sense of ownership will the organization be able to navigate the troubled waters of change.

Customer Profitability Management focuses upon an organisation's most profitable customers and products with the aim of improving "bottom line" performance. According to Marko Seppanen and Jouni Lyly-Yrjanainen (2002) of the Cost Management Centre at the Tampere University of Technology, over the past decade the focus of management accounting has shifted from product based costing towards customer profitability management. The authors cite a Connolly and Ashworth (1994) statement that profitability analysis in its development has moved through three distinct phases i.e.:

1. Product or brand profitability analysis,
2. Market sector, or customer account, profitability analysis, and
3. Customer profitability analysis.

An understanding of customer profitability can provide a valuable opportunity to better manage cost structures and the quality of customer revenue streams. The resources used to serve customers typically have a degree of flexibility enabling them to be reshaped relatively easily to serve different customer groupings.

Building Loyalty Programmes for CPM

Effective loyalty programmes target both customer attitudes and customer behaviour. These programmes utilise customer profitability management to drive the desired behaviours from targeted customer segments. Carlos Dunlap (2004), Director of Strategic Services for Maritz Loyalty Marketing, describes the following eight steps towards building customer loyalty programmes designed to nurture an organisation's most profitable customers:

1. ***Situation Analysis:*** Conduct a thorough examination of the present environment in order to provide a sound foundation from which to commence. Questions to ask include:
   (a) What is the organisation's long-term vision and goals?
   (b) How is business conducted on a daily basis, and how are profits earned?
   (c) What customer data is currently captured, and how is this achieved?
   (d) What market and competitive drivers affect current loyalty programmes?
   (e) What is the current brand recognition, and how is this promoted?
   (f) How many lines of business exist in the organisation, and do these have different business models, products, and target customers?
2. ***Gap Analysis:*** Determine how the organisation's best customers are to be managed for growth. Data types gathered may include:
   (a) Customer demographics;
   (b) Purchasing/activity levels;
   (c) Customer segments;
   (d) Customer activity scores;
   (e) Profit analyses;
   (f) Recency, frequency and monetary information.

   This data can be used to build profiles of the organisation's best customers and to identify gaps existing between the current and the desired positions.
3. ***Projected Earnings:*** Profiles for the organisation's most profitable customers may used to project earnings based on established loyalty marketing models. The lines of business envisaged, and targeted key customer segments may also be identified.
4. ***Program Impact Assessment:*** Profitability goals may be set for the proposed loyalty programmes. At this point programmes may be designed which aim at changing customer behaviour. Potential cross-selling and up-selling opportunities can be identified, along with opportunities for segment migration, customer retention and acquisition.

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5. ***Building the loyalty programme:*** The structure, payout levels and reward systems associated with the loyalty programme may then be constructed; the intention being to drive desired behaviour from the organisation's most profitable customers.

6. ***Estimating the costs to establish proposed loyalty programmes:*** The costs to build, maintain and improve the loyalty programme should be ascertained.

7. ***ROI Model:*** This model should record investments, incremental profit expected, unredeemed rewards, and liability projections over time. By measuring ROI on an ongoing basis, organisations can ensure that their loyalty programmes continue to reward profitable behaviour. As a rule of thumb a well-crafted loyalty programme should break even in its first year and cover the set up/implementation costs. It is estimated that a well-designed programme should cover internal rates of return in the second year, and continue to improve in the third year and beyond.

8. ***Testing:*** Prior to the full implementation of the programme it is advisable to carry out testing using a select group of customers or special focus groups.

Data Mining

Data mining can provide a better understanding of customer behaviour and provide insights into ways of reducing customer defections and churn rates. Gordon Linoff (2004), founder and principal of Data Miners, describes graphical techniques for plotting "hazard probabilities" which reveal the patterns underlying customer churn rates for subscription paying customers. By correctly stratifying the available data, the clarity of the output was greatly improved. Linoff described, as an example, a scenario where it became evident that customers who paid by credit card were the most likely to continue on the books of the organisation. Other patterns revealed were:

1. Initial spikes in the dropout rate of customers who were due to matters such as poor customer information being gathered at the point of sale, or perhaps by buyer's remorse.

2. After 60 days there was a very strong peak related "forced churn" due to non payment action being taken.

3. After 90 days there was a significant peak due to customers leaving at the end of promotions when the full fees were applied.

4. After 120 days the probability of customer loss gradually continued to decline which underscored an important facet of customer loyalty i.e., the longer customers remained with the company, the less likely they were to leave. The long-term decline in hazard probability was therefore a powerful indicator of customer loyalty.

Grading

John I. Coffey and Gene Palm (2005), principals of Profit Resources consulting company, give examples of CPM in a banking environment. To effectively assess the value of particular customers, decisions need to be made concerning how these should be graded e.g. as individual customers or by household.

The standard by which to assess a customer's value also needs to be ascertained. Customers can then be ranked according to profitability, and placed into quartile ranges, with the "A" range being the top group and "D" being the lowest group. It is beneficial to grade customer behaviour in a number of ways, and a wide variety of variables can be used to achieve this e.g.:

1. Total profits;

2. Total deposits;

Notes

3. Total loans;
4. Date first account opened;
5. Total account;
6. Total services; and
7. Various demographics.

By assigning weights to variables, an econometric formula can be constructed allowing the effective grading of customers. It is then possible to determine who the best customers are e.g. those that have been with the organisation the longest; those that purchase a variety of profitable services, or those that maintain the highest balances. Grades can be used to identify those customers that have the potential to be shifted for example from the B to the A quartiles through cross-selling. These categories may also be intelligently used on a day-to-day basis by sales representatives and other staff as they interact with customers. Special attention can be given to "A" level customers, whilst "D" level customers may be treated courteously although not given the same privileges as the bank's most valuable clients.

Total Cost of Ownership

Customers are becoming more interested in the lifetime costs associated with their intended purchases. The total cost of ownership, particularly for high priced items, may have a significant bearing upon the value that a buyer perceives concerning that item. Robert Hall, group executive for Enact (2004), says that customers are becoming increasingly aware of costs e.g. shipping, hidden fees, poor service, unanticipated maintenance and low resale value. All of these drive up the cost of ownership.

Caution Customers search the internet for factual information, which they can trust, and which is devoid of sales hype. Important decisions are made using this information; hence the provision of good comparative metrics can form an important key for managing customer profitability.

Customer Equity

CPM has an impact upon:

(a) customer relationship management

(b) product promotion

(c) pricing

In addition CPM embeds a greater degree of customer behaviour modelling and metric analysis which can lead to a better ability to make informed customer service decisions. Customer lifetime value (CLV), customer equity (CE), and activity based management (ABM) are relevant tools used in association with customer profitability management practices.

Roland Rust, director of the Centre for E-Service at the University of Maryland, Katherine Lemon, assistant professor at the Wallace E. Carroll School of Business, and Valarie Zeithaml, professor of marketing at the University of North Carolina, wrote (2001) that an understanding of customer profitability is an essential component of modern business marketing. In this regard customer lifetime value (CLV) and customer equity are two key metrics which enable organisations to calculate the expected ROI of their marketing initiatives. CLV is defined as the total net income a company can expect from a given customer, and customer equity is the total

Notes

future value anticipated from all, or part, of the organisation's customer base. Rust et al believe that to improve an organisation's customer equity requires the building up of three central drivers i.e., value equity, brand equity, and relationship equity.

1. ***Value equity*** is related to a customer's perception of the price, quality, and convenience of purchasing products or services. Value equity is most important when:
   (a) There are discernable differences between competing products;
   (b) Complex decision making with trade-offs between costs and benefits is involved in purchases;
   (c) Options involve long-term business partnerships and high costs;
   (d) Innovative products and services are offered leading customers to seek out detailed information from web sites etc.;
   (e) Mature products are being revitalised with the introduction of new benefits and features.
2. ***Brand equity*** is associated with customer awareness and attitudes towards brands. Brand awareness is particularly influenced through marketing communications. Customers' attitudes towards brands are related to the close connections, or emotional ties, created by organisations. The importance of brand equity rises to prominence in the following situations:
   (a) For low-involvement purchases with simple decision processes, including frequently purchased consumer packaged goods;
   (b) When the use of the product is highly visible;
   (c) When experience associated with the brand can be passed on between generations and peers;
   (d) When it is difficult to ascertain and evaluate quality prior to consumption.
3. ***Relationship equity*** is associated with the things that tie customers into a brand e.g., frequent buyer programmes. Specifically, relationship equity may be defined as the tendency for customers to stick with the brand, above and beyond their objective and subjective assessments of that brand. Key levers which can enhance relationship equity are loyalty programs, special recognition and treatment, affinity programs, community-building programs, and knowledge-building programs.

In essence customers choose to do business with an organisation because (a) it offers better value, (b) it has a stronger brand, or (c) switching away is too costly. By using this information organisations can identify key opportunities for growth and improvement.

CLV analysis can assist with forming the right decisions concerning the acquisition and retention of customers. In the customer classification scheme below (Niraj et al, 2001) the customers in cell 4 are candidates for divestment, those in cell 3 require the most nurturing. Customers in cells 1, 2, and 5 could be lifted to more favourable characteristics with greater profits. Customers in cell 6 are possibly the backbone of the organisation's profitability but not its growth.

Customer's Future Potential	High	1	2	3
	Low	4	5	6
		Poor	Marginal	High
	Current Customer Profitability			

Source: Customer classification scheme - Niraj, R., Gupta, M., Narasimhan, C. (2001).

Unprofitable customers may be handled through changing incentives and prices by adopting service-based, or menu based, pricing as a means of improving profitability. The authors cite a United Kingdom survey (Innes and Mitchell 1995) in which the most important use of customer profitability analysis was found to be for pricing policies.

An analysis of customer service costs and customer profitability can enable the revaluation of business processes and practices. Product lines can be rationalised leading to cost savings. Business practices can be streamlined and sales force incentives can be restructured to create a better understanding of costs and profits which can help management and salespeople in their pursuit of additional revenue, or in offering special services.

Caselet

Marshall & Ilsley (M&I) Corporation

Implementing a CPM Strategy

To enhance their ability to maximise client profit potential while staying focused on client needs Marshall & Ilsley Corporation (M&I), a financial services company, implemented a (CPM) strategy which included a comprehensive data warehouse system. Beginning in 1995 the company:

- Developed and gained senior management commitment to 5 strategic project goals and set up an executive steering committee for the project;
- Communicated the strategic project goals and conducted information meetings with affiliate bank presidents;
- Reviewed the strategic information needed to meet the corporate objectives;
- Established a data warehouse to capture the information needed to analyse customer profitability within 28 affiliates, and the affiliate's 243 offices;
- Introduced management information initiatives including Activity-Based Costing, Product Profitability Reporting, Delivery Channel Performance and Retail Customer Profitability;
- Identified product activity and product activity costs, and analysed and translated data into customised reports for employees at all levels.

With the CPM system in place M&I management was able to identify the profit and financial drivers of products and product mixes improving the decision-making process. (Hutt 2000)

Source: http://www.accountingtoday.com/ato_issues/26_5/CRM-Case-studies-BDO-Hughes-Zoho-Dynamics-WebsterRogers-62476-1.html

Measure and Evaluate Customer Profitability Management

The following provides an indication of how Customer Profitability Management processes may be assessed:

1. ***Customer Lifetime Value (CLV),*** e.g. customer lifetime revenue potential - lifetime costs = customer lifetime value. CLV is a measure of customer profitability over the lifetime of the organisation/customer relationship.
2. ***Customer Loyalty,*** seeks to measure overall customer loyalty. This may be presented as an index and used in conjunction with other leading measures such as customer satisfaction

Notes

to predict market trends and assess current organisational performance. Customer loyalty can be quantified using an aggregation of loyalty measures such as repeat purchases, no. of different products purchased, relationship duration, and loyal customers.

3. ***Customers – Loyal,*** e.g. (a) number of current customers not purchasing, or intending not to purchase, new competitor products as a % of total current customers, or (b) % of customers of particular duration or longer. This measure provides an indication of customer retention/loyalty. The first formula could be used where repeat purchases are not measurable due to the nature of the product or service offered. Typically this can be measured by survey.

4. ***Customer Relationship – Duration,*** is the average duration of relationships of an organisation with its customers or, the duration of relationships with key/individual customers

5. ***Customer – Projected Retention,*** is commonly measured via surveys and is expressed as the 'number of customers over the past year who intend to repurchase as a % of total number of customers'. This measure provides an indication of projected customer retention/ loyalty and may be effective in the measurement of current customer satisfaction as opposed to measurements relating to customers already lost.

6. ***Customers – Value of Key Customers,*** e.g. (a) value of total sales or contracts to key customers as a % of total value of gross sales or contracts, per period, or, (b) value of sales or contracts gained through referrals from key customer as a % of total sales or contracts. This is a measure of the performance of identified key customers, allowing the effectiveness of special relationship strategies to be assessed and refocused as necessary.

7. ***Customer – Repeat Purchasers,*** e.g. (a) number of repeat purchase customers over the past year as a % of total number of customers or, (b) Value of repeat sales as a % of total sales or, (c) % of purchases by current customers. This measure provides an indication of customer retention/loyalty.

8. ***Customer Account Profitability,*** e.g. profit from customer account/sales turnover of customer account. This is a measure of the value of specific customer accounts.

9. ***Customer Acquisition Cost,*** e.g. average cost of attracting new customers. This is a measure of the cost involved in attracting or retaining customers.

10. ***Return on Investment (ROI),*** e.g. net profit before taxes/total assets. This measure provides an indication of how well profits are being generated from use of the organisation's resources. A measure commonly used to compare performance between organisations; ROI is useful for assessing an organisation's competitive advantage. In this context it can be used to track the success of a CPM initiative.

11. ***Market Share Projection,*** e.g. projected % total market sales accounted for by company's products. This is a measure of projected market share, commonly used in setting goals or targets in new product promotions or when penetrating new markets with existing products.

3.1.2 Customer Lifetime Value

In the past two decades, the firms tended to focus on either cost management or revenue growth. When a firm adopts one of these approaches it loses out on the other (Rust, Lemon, & Zeithaml, 2004). For instance, if a firm focuses only on revenue growth without emphasis on cost management, it fails to maximize the profitability. Similarly, cost management without revenue growth affects the market performance of the firm.

What is needed is an approach which balances the two, creating market-based growth while carefully evaluating the profitability and return on investment (ROI) of marketing investments.

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Optimal allocation of resources and efforts across profitable customers and cost effective and customer specific communication channels (marketing contacts) is the key to the success of such an approach. This calls for assessing the value of individual customers and employing customer level strategies based on customers' worth to the firm.

The assessment of the value of a firm's customers is the key to this customer-centric approach. But what is the value of a customer? Can customers be evaluated based only on their past contribution to the firm? Which metric is better in identifying the future worth of the customer? These are some of the questions for which a firm needs answers before assessing the value of its customers. Many customer oriented firms realize that the customers are valued more than the profit they bring in every transaction. Customers' value has to be based on their contribution to the firm across the duration of their relationship with the firm. In simple terms, the value of a customer is the value the customer brings to the firm over his/her lifetime. Some recent studies (Reinartz & Kumar, 2003) have shown that past contributions from a customer may not always reflect his or her future worth to the firm. Hence, there is a need for a metric which will be an objective measure of future profitability of the customer to the firm (Berger & Nasr, 1998). Customer lifetime value takes into account the total financial contribution—i.e. revenues minus costs—of a customer over his or her entire lifetime with the company and therefore reflects the future profitability of the customer. Customer lifetime value (CLV) is defined as the sum of cumulated cash flows—discounted using the Weighted Average Cost of Capital (WACC) — of a customer over his or her entire lifetime with the company.

The shareholder value and the customer lifetime value approach are conceptually and methodically analogous. Both concepts calculate the value of a particular decision unit by discounting the forecasted net cash flows by the risk-adjusted cost of capital. However, virtually no scholarly attention has been devoted to the question if any of the components of the shareholder value could be determined in a more market-oriented way using individual customer lifetime values. Therefore, the main objective of this unit is to systematically explore the contribution of both concepts to the field of corporate valuation. At first we present a comprehensive calculation method for estimating both the individual lifetime value of a customer and the customer equity. After a critical examination of the shareholder value concept, a synthesis of both value approaches allowing for a disaggregated and more realistic corporate valuation will be presented.

The Significance of the Customer in Corporate Valuation

In recent years, the proliferation of value-based management has led to an increasing demand for corporate valuation methods. This development is rooted in external factors, namely in the capital market's requirements. The fulfillment of the need to effectively assess companies is particularly important at a time when a strongly merger-driven economy with a growing monetary transaction volume fosters the danger of false evaluation and misinterpretation. However, internal reasons also play a major role in this context, such as the support of efficient resource allocation, which requires the measurement of the value contribution of functions or business units (Srivastava/Shervani/Fahey 2000, pp.168 f.; Blattberg/Deighton 1996, pp. 136–144).

These days, market orientation does not represent a company's key success factor, market value orientation does. In this context, market value orientation is usually interpreted as capital market orientation; for this reason, the concept of shareholder value is frequently employed. Resulting from the financial origins of the shareholder value concept as a predominant evaluation method, marketing as a likewise value-creating area has long been neglected. It is an accepted fact that the field of marketing and – within this broad area – the field of sales represents the crucial company-customer interface, the customer being the most valuable resource of the company (Srivastava/Shervani/Fahey 1999, p. 169). It is the customer who creates value – all

Notes

preceding stages only produce costs. Creation of value solely emerges from economic exchange in business relations.

Against this background, it appears sensible to consider the concept of customer value with regard to tactical decisions and, more importantly, as a strategic metric to assess the overall value of a firm, for example in the context of mergers and acquisitions.

The concept of customer value represents the link between the customer as the external factor with regard to a company's revenue and the internal processes representing the costs of a company. Thus, it serves as a useful tool in determining the free cash flow in a more market-oriented way by disaggregating the sales market into different partial profit streams yielded by the customers. Consequently, if corporate valuation is based on the single value-enhancing customer activities (up selling, cross selling, referrals etc.) and the marketing costs incurred to induce these effects, a more realistic and precise determination of the free cash flow is assured. We suggest that long-term values of customers are more stable and relevant metrics of firm value than market capitalization or price-earnings-ratios. The latter are difficult to utilize when a company has negative earnings, as is typical in the early periods of internet-based businesses

Example: Our unit efforts are aimed at the synthesis of the customer value concept and the shareholder value concept in a corporate valuation framework. It is not within the scope of this unit to explore the causal relationships between the two constructs in order to contribute to the implementation of the value management process (for a review of this unit stream see Payne/Holt/Frow2001). Instead, this unit seeks to formally infuse the customer value concept into the shareholder value model by developing an integrated, marketing-based method for the calculation of corporate value. Since both concepts are methodically analogous, this approach seems to be beneficial. Both concepts calculate the value of a particular decision unit by discounting the forecasted net cash flows by the risk-adjusted cost of capital. Nevertheless, as Payne/Holt/Frow (2001) indicates, customer value and shareholder value have been treated as separate constructs in individual unit streams. Consequently, an integrative modelling of this topic has been neglected so far.

Customer lifetime value (CLV) is rapidly gaining acceptance as a metric to acquire, grow, and retain he "right" customers in customer relationship man- (CRM). However, many companies do not use CLV measurements judiciously. Either they work with undesirable customers to begin with, or they do not know how to customize the customer's experience to create the highest value (Thompson 2001). The challenge that most marketing managers currently face is to achieve convergence between marketing actions (e.g., contacts across various channels) and CRM. Specifically, they need to take all the data they have collected about customers and integrate them with how the firm interacts with its customers. In the academic literature, Berger and colleagues (2002) support the allocation of resources to maximize the value of the customer base, and they strongly argue that such resource allocation models are needed.

Self Assessment

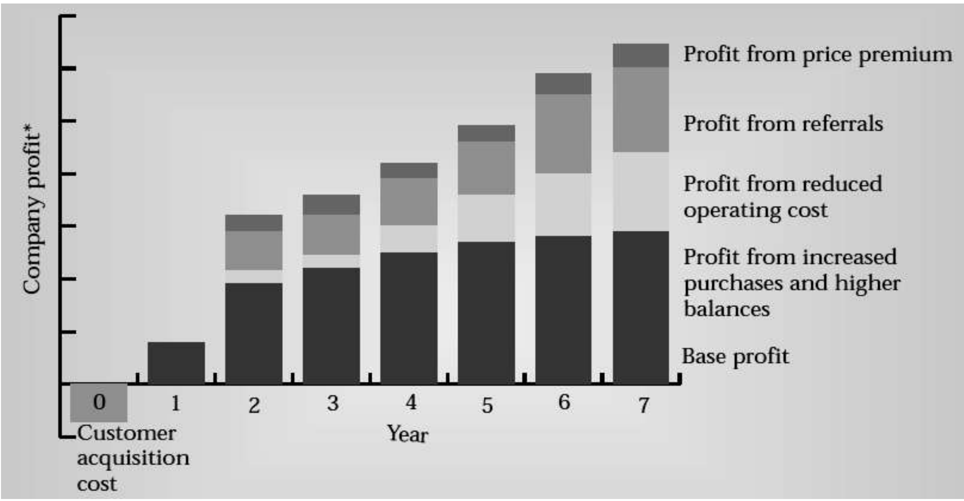
Fill in the blanks:

1. Full form of CPM is …………………….
2. Full form of ROI is …………………….
3. Data mining provides better understanding of …………………….
4. …………………… means effectively assessing the value of particular customers.

3.2 Base Profit Analysis

Base profit is the difference between sales revenue generated by a specific product or service and the cost to produce or provide the product or service. To a customer, value involves the expected benefits and costs of a product or service, and the customer's perception is of significant relevance. The expected benefits are derived from the product and service attributes and the expected costs include the transaction costs, the life-cycle costs, and the risk. Transaction costs are typically the immediate financial outlay, which includes the price, delivery, and installation costs. The lifecycle costs are the additional expected costs that the customer will incur over the life of the product. The risk is associated with the lifecycle costs. Conceptually, the profit levels generated by customers due to retention, related sales, and referrals are shown in Figure 3.1. Customers do not determine corporate strategy, but their values and expectations for the company's products and services are influential.

Figure 3.1: Customers Are More Profitable Over Time



Source: Heskett, Sasser and Schlesinger 1997: 64.

Organisations place great value on their customers and depend on them for long-term viability. Five fundamental customer value axioms apply to most companies and help explain a customer's value to the firm:

1. the customer defines the product quality, service quality and acceptable price;
2. customers form their expectations relative to competitive alternatives;
3. customer expectations change, usually upward;
4. product and service quality must extend throughout the value chain; and
5. maximising customer value requires that the whole organisation be involved.

Did u know? Fed Ex analysed the profitability of the 30 large customers that generated about 10% of the total sales volume. The company found that certain customers, including some that required a lot of residential deliveries, were not bringing in as much revenue as they had agreed to initially when they negotiated discounted rates. The company increased the rates for some customers and lost those who would not agree to the rate hikes. In this case the focus is not merely on customers, but on profitable customers.

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Traditional cost accounting assumes that products and services cause costs to occur. Therefore, direct labour, direct material and other direct costs are traced directly to products. All other costs are considered indirect costs and allocated to products on arbitrary bases, such as product volume or direct labour hours. This costing system can work well as long as indirect costs and product diversity are minimal. As the product mix costs to occur rather than on merely allocating what has been spent. ABC traces costs to activities in the production process using resource drivers and activity drivers based on cause and effect.

There are five primary steps in the ABC costing process:

1. identify activities;
2. identify resource measures (inputs) from the consumption of resources by the activities;
3. identify activity measures (outputs) by which the costs of a process vary most directly;
4. calculate the driver rate; and
5. trace activity costs to cost objects such as products, processes and customers based on the usage of activities.

ABC has developed into a broad-based tool that provides information on many aspects of company functions in addition to product cost data. ABC can show how products, brands, customers, customer groups, facilities, regions or distribution channels both generate revenue and use company resources. Even though not a complete solution to all business problems, a good ABC system provides useful information that in conjunction with other management information, can facilitate improved business decision making.

ABC offers a new way to analyse the allocation of costs to non-production activities such as marketing, selling, distribution and administration. Customer profitability is more easily determined through the use of ABC, since the costs can be driven directly to individual customers, some of whom place more demands on the company than others. Some may require special orders, purchase just-in-time inventory, or have special delivery requirements, each of these has a cost that can be allocated to the specific customer using activity-based drivers. Understanding the needs and costs of each client, and how each impacts corporate profitability, can help to determine the level of customer service that will benefit both the customer and the company. The special needs of both large and small customers can be accommodated through a better understanding of the drivers of both the revenues and the costs associated with each customer.

Customer Profitability Analysis

Typically traditional cost accounting is not able to identify product and service costs or distribution and delivery costs for individual customers. ABC can help identify customer activities and track those costs that are allocated to specific customers. This can provide management with unique information about customers and customer segments. The benefits include:

1. protecting existing highly profitable customers;
2. repricing expensive services, based on cost to serve;
3. discounting to gain business with low cost to serve customers;
4. negotiating win-win relationships that lower service costs to co-operative customers;
5. conceding permanent loss customers to competitors; and
6. attempting to capture high-profit customers from competitors.

Customer profitability analysis has become an important new management accounting tool based on the recognition that each customer is different and that each dollar/pound of revenue does not contribute equally to the firm's profitability. Customers utilise company resources differently; thus customer costs vary from one customer to another. The following issues should be considered when analysing customer profitability:

1. how to develop reliable customer revenue and customer cost information;
2. how to recognise future downstream costs of customers;
3. how to incorporate a multi-period horizon in the analysis; and
4. how to recognise different drivers of customer costs.

This requires a broader examination of the costs associated with customer service. For example, post-sale customer service costs must be included in any analysis of customer costs. Some customers require substantially more post-sale service than others. In addition, future environmental liabilities related to the sales of current products are additional downstream costs that must be included. With management's increased focus on customers, this analysis can provide forward looking information about individual customers and customer segments and more broadly examine both the revenues and costs related to customer transactions. Revenues can vary among customers due to variations in volume levels, and differences in price structures, products and services.

Costs can also vary depending on how customers use the company's resources such as marketing, distribution, and customer service. Unless a complete analysis of the benefits and costs of customer relationships is undertaken, companies will unknowingly continue to service unprofitable customers. Only after a thorough analysis of the costs and benefits can a firm decide which customers to service and strategically price its products and services. There are many costs that are often hidden within the production, support, marketing, and general administrative areas. To better understand customer profitability these costs should be examined and assigned appropriately using ABC methods. These currently hidden customer costs may include items such as:

1. inventory carrying costs;
2. stocking and handling costs;
3. quality control and inspection costs;
4. customer order processing;
5. order picking and order fulfilment;
6. billing, collection and payment processing costs;
7. accounts receivable and carrying costs;
8. customer service costs;
9. wholesale service and quality assurance costs; and
10. selling and marketing costs.

ABC was recently used by a telecommunications company to improve customer profitability. The company developed a process for identifying the drivers of training costs, which is an important component of the company's contract bids. The company's activities included the submission of bids to large organisations for the installation of telecommunications systems. The bids were reasonably accurate in estimating the cost of the equipment hardware, the installation cost of the new equipment, and the programming costs. However, the cost of training the customer's employees about the new equipment was more difficult to determine.

Notes

Notes Using ABC, analysts have often found that 20% of the customers generate 300% of the profits.

Task Search the names of the firms which use base profit analysis as their tool of measurement of revenues and profits.

Self Assessment

Fill in the blanks:

5. Full form of ABM is …………………….

6. …………………… is related to a customer's perception of the price, quality, and convenience of purchasing products or services.

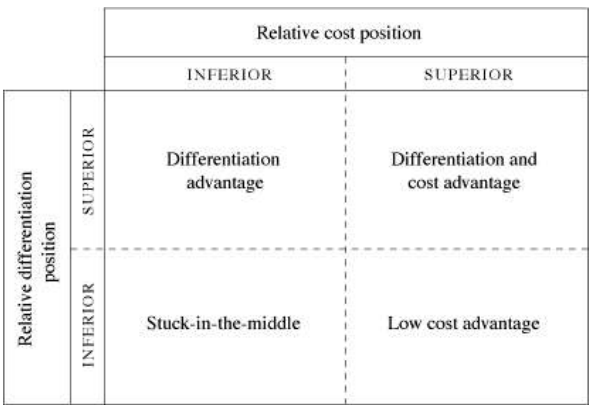
7. The concept of customer value represents the link between the customer as the …………………… with regard to a company's revenue and the internal processes representing the costs of a company.

3.3 Value Chain Analysis

The value chain framework is an approach for breaking down the sequence (chain) of business functions into the strategically relevant activities through which utility is added to products and services. Value chain analysis is undertaken in order to understand the behaviour of costs and the sources of differentiation (Shank & Govindarajan, 1993). In education, *differentiation* is achieved by creating a perception among targeted learners that the course, the program, or the university's offerings as a whole are unique in some important way, usually by being of higher quality. The appeal of differentiation is strong for higher education institutions, for which image and the perception of quality are important. This perception allows the institution to charge higher tuition fees, and so to outperform the competition in revenues without reducing costs significantly.

Porter (1980) argued that a business can develop a sustainable competitive advantage based on cost, differentiation, or both, as shown in Figure 3.2.

Figure 3.2: Developing Competitive Advantage



Source: Shank and Govindarajan (1993, p. 49).

To survive in today's highly competitive business environment, any organization must achieve, at least temporarily, a competitive advantage. A low cost/price strategy focuses on providing goods or services at a lower cost than the competition, or superior goods or services at an equal cost. In education, it might be accomplished by limiting programs and courses offerings, by reducing the complexity of the course design and production process, or by limiting service or learner support. This strategy requires as well a tight cost-control system, benefiting from economies of scale in production, and experience curve effects.

Example: At the University of Phoenix online (UOP), managers determined that faculty, facilities, and support staff accounted for a large portion of their costs. They targeted these three components to make a dramatic reduction in their cost structure. Almost all faculty members at UOP teach part time and hold other full-time jobs.

According to Jackson (2000, p. 34), faculty are paid U.S. $900-U.S. $1200 to teach a course, and are expected to focus almost exclusively on teaching rather than on other responsibilities that are common in most universities (student advising, course creation, university management, research, and community service). UOP estimates that faculty must spend 100 hours on their first course, less as they become more proficient (referring to the learning curve benefits). Faculties at the University of Phoenix are not provided with offices, thus reducing the investment in buildings and the cost of operating them. UOP seems to realize costs savings by marginalizing academics and reducing their pay and advantages. On the other hand, there are few support services for students, and the library is accessible only via the World Wide Web, thus reducing dramatically the cost of housing books and paying for professional support staff. UOP is an accredited university (since 1978, by the North Central Association of Colleges and Schools). Courses and instructors are constantly measured for both learning and student (customer) satisfaction. Perhaps most critically, UOP has eliminated the role of research—except as it affects online education—from the traditional role of the University. UOP receives no government subsidies, has consistently returned profits to its shareholder owners, and charges competitive tuition rates. UOP uses a business approach rather than an academic approach to education, and is one of the few profitable for-profit universities in the U.S. (Jackson, 2000).

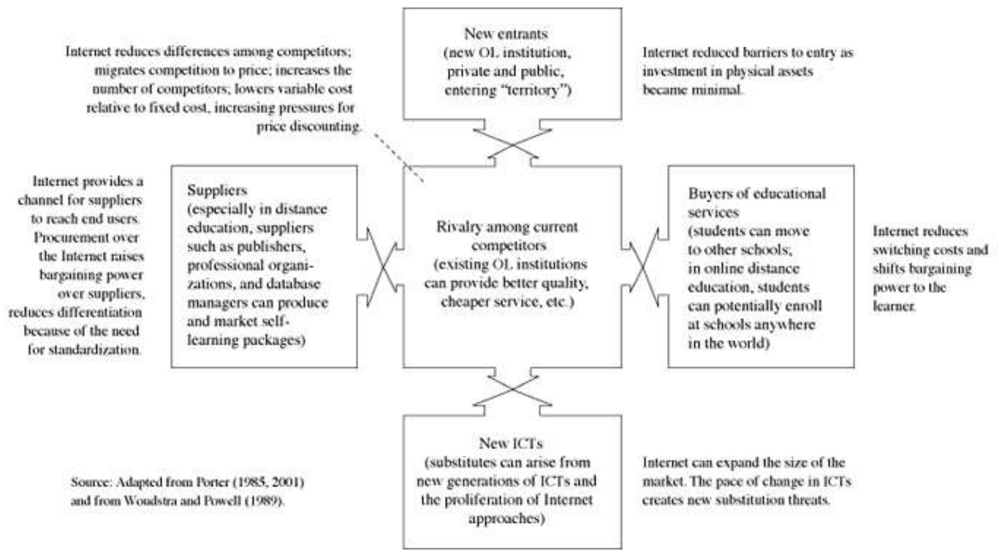
The second strategy for gaining competitive advantage is differentiation. The primary focus of this strategy is to create a unique position in the market through provision of goods or services that are valued for their uniqueness or fit to the needs of a particular group of buyers. A differentiating strategy also requires ongoing cost control efforts within a strategic management emphasis geared towards differentiating offerings. For example, the course package by itself could not provide competitive differentiated advantage, as it is fairly easy for other institutions to duplicate it, either by buying it directly from the producing institution, or by creating a very similar package. However, when the services of highly competent academics and tutors, registry staff, student advisors, and counsellors are added, a strong and unique bond can be created between the university and its learners. This unique bond becomes a differentiating competitive advantage when the institution subscribes to a vision of quality, support, service, and excellence (Woudstra & Powell, 1989).

A third competitive strategy not depicted by Porter's framework is called *focus*: a strategy for targeting a very specific segment of the market as defined, for example, by type of learner (e.g., Aboriginal students), specific type of program offered, or specific characteristics of a geographic area. This strategy is used to choose market niches where competition is the weakest, or where the online learning institution has a competitive advantage because of technology or other forms of differentiation. The focused institution succeeds by avoiding direct competition. It may also have strong differentiation advantage, a low cost advantage, or both, for its market segment. For example, professional organizations, such as the Certified General Accountants Association, the Society of Management Accountants of and Chartered Accountants School of Business fall into this category of focused competitive advantage.

Notes

Value chain analysis can help an institution determine which type of competitive advantage to pursue, and how to pursue it. There are two components of value chain analysis: the industry value chain and the organization's internal value chain. The industry value chain is composed of all the value-creating activities within the industry, beginning with the first step in the course development process, and ending with the completed delivery of courses and related services to the learner. Porter (1985) identified five competitive forces interacting within a given industry: the intensity of rivalry among existing competitors, the barriers to entry for new competitors, the threat of substitute products and services, the bargaining power of suppliers, and the bargaining power of buyers (see Figure 3.3). Analyzing these forces will reveal the industry's fundamental attractiveness, expose the underlying drivers of average industry profitability, and provide insight into how profitability will evolve in the future, given different changes among suppliers, channels, substitutes, competitors, or technology.

Figure 3.3: Industry Competitive Forces



Source: Shank and Govindarajan (1993, p. 58).

The structural attractiveness of the distance education industry is also determined by the same five underlying forces. In 2001, Porter argued that, while the Internet has helped distance education to expand impressively, it has only changed the front end of the industry process

The concepts of fixed and variable costs are central to cost analysis, in particular to understanding the behaviour of costs, and to cost/volume/profit (CVP) analysis.

CVP analysis is concerned with how profit is determined by sales volume, sales price, variable expenses, and fixed expenses. A major application of CVP is in breakeven analysis, which provides a concise presentation of the relationship between cost and volume changes, and their effect on profit. The breakeven point is the point where total revenue equals total expenses, resulting in neither a profit nor a loss. Once "breakeven" is achieved, net income will increase by the contribution margin per unit for each additional unit sold. From a managerial perspective, fixed costs increase the risk to the company because they cannot be altered once incurred; therefore, online learning increases the risk to the institution. This kind of cost structure creates greater pressure for managers to engage in destructive price competition.

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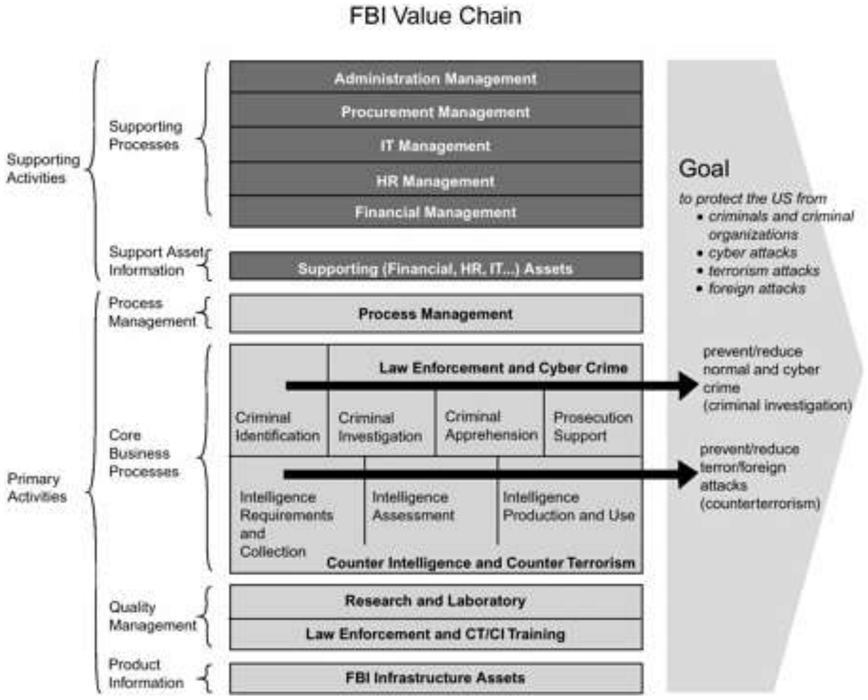
Figure 3.4: FBI Value Chain—An Example of a Framework for "the view from 40,000 feet" of Serious Enterprise Architecture



Source: http://www.nap.edu/openbook.php?record_id=10991&page=19

Figure 3.5: Value Chain Activities/ Cost Drivers

Value Chain Activities	Cost Drivers
Manage location and articulate strategy. Location and strategic choices need constant articulation and are considered cost drives Activities in this category include framing the market opportunity managing the scope of the market. managing the value proposition and managing the organization unique resources.	Number and location of satellite campuses. number of industry and social segments in which the institution is present number of students or registrants
Manage technology. What process does the online learning institution use to manage its technology through the value chain? The level of expertise and effectiveness or use compared to competitors will affect overall organization-level costs.	Types of process Technologies
Manage complexity of university offerings. The breadth of the progress and courses being offered is an important driver of costs.	Number of different courses and programs
Manage institutional structure, Financial structure, accountability and debt level affect many costs and the organization's flexibility.	Debt level, Debt capacity and Tax status (favorable or unfavorable)
Gain experience, team, and manage skill sets. An organization, learning, growth, experience, and application of that experience drive a significant portion of the cost.	Effectiveness of professional training, team building knowledge sharing, economies of scale

Source: http://www.gartner.com/newsroom/id/1074615

Notes

To understand why managers adopt price competition strategies when corporate cost structure is predominately fixed, it is necessary to understand the concept of operating leverage. Operating leverage is the measure of the extent to which fixed costs are being used in an organization. Using fixed costs, managers apply operating leverage to convert small changes in revenue to significant changes in profitability. The idea of operating leverage is consistent with the economies of scale concept developed by economists to describe the fact that cost per unit can be reduced by taking advantage of opportunities that become available as the size of an operation increases.

The degree of operating leverage is very important to managers, as it enables them to focus on the appropriate activities. For example, when the company operates near the breakeven point, managers should focus their attention on activities that increase sales (hence, the destructive price strategy), because increased sales will have a significant impact on profitability. On the other hand, when the company operates far from the breakeven point, the focus of managers should be oriented to cost control or new product development.

Self Assessment

Fill in the blanks:

8. Sales revenue – cost of production/provision = ……………………
9. There are …………………… steps in ABC costing process
10. ABC is often used by telecommunications companies to improve customer ……………_
11. …………………… is concerned with how profit is determined by sales volume, sales price, variable expenses, and fixed expenses.

3.4 Customer Defection

Understanding consumer behaviour is a great topic of discussion. Now, while we are at it, customer defection relates a lot to consumer complaint behaviour. Let us discuss the same before taking a leap towards the main topic of customer defection.

Consumer Complaint Behaviour

Consumer complaint behaviour is also known as consumer complaint responses (Singh & Widing, 1991). Crie (2003: 61) defined consumer complaint behaviour as a process that ''constitutes a subset of all possible responses to perceived dissatisfaction around a purchase episode, during consumption or during possession of the goods or services''. He argued that consumer complaint behaviour is not an instant response, but a process, which does not directly depend on its initiating factors but on evaluation of the situation by the consumer and of its evolution over time. Broadbridge and Marshall (1995) explained that consumer complaint behaviour is a distinct process, which begins when the consumer has evaluated a consumption experience (resulting in dissatisfaction) and ends when the consumer had completed all behavioural and non-behavioural responses.

Singh (1990) identified consumer complaint behaviour as the consumer dissatisfaction response style. Thus, complaint is actually the response following the consumer dissatisfaction. These responses/actions include among others, switching patronage, telling friends and family and complaining to a consumer agency. Mason and Himes (1973) categorized the response styles into action group and no action group. The consumers who complain to member(s) of distribution (e.g. retailer or seller) with intention to seek relief are classified as action group, while others, and are classified as no action group. In another study, Warland, Heerman, and Willits (1975) categorized the consumer complaint behaviour into upset action and upset no action. They argued that consumers might not complain, even though they are dissatisfied; they regard them as the upset but no action group. Otherwise, they are in upset action category. Other researchers have different labels for these styles, such as complainers and non-complainers and activists and non-activists (Singh, 1990).

Action taken by consumers is not only to complain to the seller, but also include warning families and friends, stopping patronage, diverting to mass media, complaining to consumer council and complaining by writing a letter to management (Heung & Lam, 2003). This buttresses the two-level hierarchical classification (public or private action used in this study) first proposed by Day and Landon in 1976.

Public action refers to the direct complaint actions to the seller or a third party (e.g. consumer agency or government), which included seeking redress directly from retailer or manufacturer, and taking legal action (Bearden, 1983; Bearden &Oliver, 1985; Cornwell, Bligh, & Babakus, 1991). The public actions that could be taken by consumer included verbal complain to retailer/ manufacturer, writing comment card or complaint letters, writing to newspaper or complaint to consumer council (Heung & Lam, 2003). Private action indicates that complaint is privately through negative word-of-mouth communications to family and friends or the decision not to repurchase the product or services again or boycott store (Bearden, 1983; Broadbridge & Marshall, 1995; Cornwell et al., 1991). Private actions generally do not get the direct attention of the seller and thus could have a serious impact on sales and profitability (Heung & Lam, 2003).

Bearden and Oliver (1985: 228) pointed out that ''private complaint has no effect on the firm's responses, but may reinforce negative attitudes through the process of consensual validation whereby individuals seek confirmation of their feelings by selectively exposing themselves to agreeable others''. It is important to know that a consumer may only either involve in one action (the public or private complaint) or will involve in both public and private complaint (Kolodinsky, 1995).

Defection

Customer defection is also termed as ''customer exit'' or ''switching behaviour''. In Colgate and Hedge (2001), the terms switching, defection and exit were used interchangeably, which showed that the terms have similar definition. Defection can be defined as customers forsaking one product or service for another (Garland, 2002). The customer decides not to purchase a product or service again.

Crie (2003) defined defection as an active and destructive response to dissatisfaction, exhibited by a break of the relationship with the object (brand, product, retailer, supplier, etc.). According to Colgate and Hedge (2001), defection is the customer's decision to stop purchasing a particular service or patronising the service firm completely, which is a gradual dissolution of relationships due to problem(s) encountered over time. They explained that defection is a complex process following customers faced with problem(s).

Stewart (1998) in studying the customer defection in the banking industry tried to define defection as the ending of the relationship between customer and bank. He explained further that the relationship is marked by a customer ''run down'' the account to a negligible balance and have no future transaction or formally close the account.

Previous research has shown that complaint has impact on the defection intention by the customer. Arnould (2004) pointed out that dissatisfied customers who do not complain are more likely to discontinue purchase, which means, they are more likely to defect than those who complain.

In other words, majority of customers who complained will continue to buy the product or service, compared to those who are dissatisfied but do not bother to complain (Sheth, Mittal, & Bruce, 1999). Buttle and Burton (2002) also stated that non-complainers were found to be the least loyal customers, even more disloyal than complaining dissatisfied customers whose problems were not resolved. For complaint customer, defection is often the last resort after complaint has failed (Kim et al., 2003; Colgate & Hedge, 2001). So they will likely choose to stay after the complaint is resolved. In other occasions, customer defection will increase in accordance with complaint. According to Colgate and Hedge's (2001) study, up to 80% of customers do make an effort to complain to the bank prior to defect.

In relation to the Malaysians context, complaint style may likely be influenced by the people's lifestyle. Abdullah (1996) claimed that Malaysians are less forthright in expressing views and opinions and giving negative feedback can be awkward and difficult as indirectness is the more acceptable norm than directness in day to day behaviour. One of the consequences of this norm is that it is more difficult for organizations to understand why customers are unhappy (Ndubisi& Tam, 2005). As the choice of complaint style might differ across cultures, it is expected to find some differences in the Malaysian consumer complaint behaviour.

Example: One would expect private complaint to be more strongly associated with defection than public complaint, and defection to be higher among private complainants compared to public complainants (Ndubisi & Tam, 2005). It is also logical to believe that Malaysian customer might be more willing to engage in private complaint rather than public complaint because a customer who chooses public complaint will have to confront the service provider directly, which may not be deemed normative (Ndubisi& Tam, 2004). Customer complaint behaviour can explain defection. Although both public and private complaints have significant impact on defection, the strength of the impact produced by private complaint is greater than that produced by public complaint. This indicates that among customers who defect, many are unlikely to complain to the bank before leaving.

Those who will complain before leaving are in the minority. In other words, the likelihood of customers complaining privately rather than publicly before defecting is higher. This result is not moderated by the gender of the customer; instead it is a generic view of male and female customers of Malaysian banks.

Irrespective of their sex type, they are generally less likely to complain to the bank before defection. Ndubisi (2003a) had earlier shown that dissatisfied customers blame the company when served poorly, and rather than complain directly to the company, they typically patronize one another.

There are few implications of this study on customer management by banks in Malaysia. Managers should recognize that zero complaint is not tantamount to customer satisfaction because not all unsatisfied customers are likely to complain directly to the bank. They may choose to complain to friends and family members instead. The fact that private complaint explained defection better than public complaint shows that management may not know that customers are dissatisfied until they defect from the bank. Moreover, the generic nature of this result (without significant difference between men and women) indicates a strong consensus and demands genuine efforts that are not gender discriminatory to forestall customers from abandoning the organization without a word of caution.

Notes

Self Assessment

Fill in the blanks:

12. Consumer complaint behaviour is also known as …………………….

13. Complaint has impact on the …………………… by the customer.

14. Consumer complaint behaviour is a …………………… process

15. …………………… is the measure of the extent to which fixed costs are being used in an organization.

Case Study

Service Failure and Recovery within an International Airline

Purpose: This paper seeks to examine the effectiveness of internal processes of service quality recovery for an international airline.

Design/methodology/approach: An action research methodology was adopted. The research involved: a review of available service quality literature; the identification of causes of failure/errors within the host company; the development of key lessons and management guidelines.

Findings: It is argued that, for service recovery to be effective, it must be external (to the customer) as well as internal (to the organisation). The need to incorporate employees and not overlook their significance, power and influence on the delivery of quality service is highlighted. Through comparison with another airline the findings re-assert that service quality excellence can only be achieved through employee satisfaction, commitment and loyalty as a result of senior management commitment, focus and drive.

Research limitations/implications: The methodology applied was appropriate, generating data to facilitate discussion and from which to draw specific conclusions. A perceived limitation is the single case approach; however, Remenyi argues that this can be enough to add to the body of knowledge. For further investigation, there is an ongoing opportunity for future research in the area of service quality, failure and recovery, as well as the service quality gaps within the airline.

Practical implications: Key lessons and management guidelines for improving service quality are presented.

Originality/value: The paper describes how an international airline has tangible service quality failure and recovery systems in place, but fails to capitalise on the data and information generated.

Questions:

1. How far was the approach helpful for the Airline?

2. What were the positive outcomes of implications they made or what could have been?

Source: http://www.emeraldinsight.com/journals.htm?articleid=1500356

Notes

3.5 Summary

- At best-practice organizations, customer profitability is owned by marketing, with finance as a key stakeholder.
- Study participants have defined a small, dedicated group of two to five individuals who are involved in calculating and reporting customer profitability. Best-practice partners have developed an enterprise-wide view of the customer.
- Best-practice partners have clearly defined customer segments and sub segments. Most have developed five to nine macro customer segments. Best-practice partners use multiple bases for customer segmentation such as needs, geography, and customer profitability.
- Best-practice organizations capture revenues and costs at the transaction level for each specific customer account. Best-practice organizations take a holistic view of customer profitability and include lifetime value and customer valuation metrics in the calculation.
- Best-practice organizations include the majority, but not all, of their costs in the customer profitability calculation. Best-practice organizations use appropriate methods for cost assignment.
- Best-practice organizations all work closely with IT. Enabling technologies for calculating customer profitability include data warehousing, CRM systems, data mining, external databases, and predictive analytics. At best-practice organizations, customer profitability information is used as an input in many areas.
- Best-practice organizations emphasize intelligence (e.g., decision support), not routine reporting, in customer profitability information dissemination. Best-practice organizations secure buy-in from the users and upper-level support for customer profitability initiatives.
- Best-practice organizations hold employees accountable for customer profitability. Best-practice organizations use customer profitability and segmentation to appropriately align sales and marketing resources.

3.6 Keywords

Customer - Repeat Purchasers: (a) number of repeat purchase customers over the past year as a % of total number of customers or, (b) Value of repeat sales as a % of total sales or, (c) % of purchases by current customers. This measure provides an indication of customer retention/ loyalty.

Customer Account Profitability: This is a measure of the value of specific customer accounts.

Customer Acquisition Cost: This is a measure of the cost involved in attracting or retaining customers.

Customer Relationship – Duration: Customer relationship – duration is the average duration of relationships of an organisation with its customers or, the duration of relationships with key/ individual customers.

Customer-Projected Retention: This measure provides an indication of projected customer retention/loyalty and may be effective in the measurement of current customer satisfaction as opposed to measurements relating to customers already lost.

Customers - Value of Key Customers: (a) value of total sales or contracts to key customers as a % of total value of gross sales or contracts, per period, or, (b) value of sales or contracts gained through referrals from key customer as a % of total sales or contracts. This is a measure of the performance of identified key customers, allowing the effectiveness of special relationship strategies to be assessed and refocused as necessary.

Market Share Projection: Market share projection is a measure of projected market share, commonly used in setting goals or targets in new product promotions or when penetrating new markets with existing products.

Return on Investment (ROI): This measure provides an indication of how well profits are being generated from use of the organisation's resources. A measure commonly used to compare performance between organisations; ROI is useful for assessing an organisation's competitive advantage. In this context it can be used to track the success of a CPM initiative.

3.7 Review Questions

1. What is meant by Lifetime customer value?
2. What do you mean by customer defection?
3. Give examples of customer's defection from your surroundings.
4. Explain the concept of service failures.
5. What drives the customer defection?
6. What is base profit analysis?
7. Is there any difference between cost-volume profit analysis and base profit analysis, if yes, what?
8. What is meant by value chain analysis?
9. How are calculations of sales and revenue made in value chain analysis?
10. Explain the scope of failures and defection made by customers.

Answers: Self Assessment

1. Customers Profitability Management
2. Return on Investment
3. Consumer Behaviour
4. Grading
5. Activity-based management
6. Value equity
7. External factor
8. Base profit
9. Five
10. Profitability
11. CVP analysis
12. Consumer complaint responses
13. Defection intention
14. Distinct
15. Operating leverage

Notes

3.8 Further Readings

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http://www.gartner.com/newsroom/id/715308

Unit 4: Customer Retention, Acquisition and Expectation

Notes

CONTENTS

Objectives

After studying this unit, you will be able to:

- Discuss the meaning of customer retention
- Learn the mechanism of customer retention
- Study the expectation of customers
- Analyse the importance customer retention
- Explain the management and delivery of customer expectations

Introduction

The explanation below aims to discuss the concept of customer acquisition and retention. Under the present context of competitive environment, the focus of the organizations is more on customer retention than simply on customer acquisition. Customer retention is the process of keeping customers in the customer inventory for an unending period by meeting the needs and exceeding the expectations of those customers. It is the approach of converting a casual customer into a committed loyal customer. Acquisition is a vital stage in building customer relationship. Certain key issues connected with customer acquisition are dealt here.

Notes

Medical science teaches us the "life is in the blood". When blood stops flowing, life stops very quickly. It is the same with our businesses; customers are the life blood of our business. When we stop having a "flow" of customers, our business will die very soon. So it is very important to acquire and keep customers. Our business is not about ourselves, it is about our customers. The focus of your business shouldn't be on yourself; rather it should focus on your customers. They are not really interested in how long you have been in business or how much education you have. Customers are interested in what your business can do or provide for them. We call these "customer benefits".

The dynamics of the business ecosystem have changed the way in which companies do business both in relationship management and the streamlining of their operations. Relationship marketing is emerging as the core marketing activity for businesses operating in fiercely competitive environments. On an average, businesses spend six times more to acquire new customers than to keep them. Therefore, many firms are now paying more attention to their relationships with existing customers to retain them and increase their share of customer's purchases. The practice of relationship marketing also has the potential to improve marketing productivity through improved marketing efficiencies and effectiveness.

Customer retention is the key to any organization's effectiveness. Customer centric approach to marketing programme helps retain customers and win back lost customers. An organisation needs to study the needs of the various market segments and design the marketing programmes tailor made to suit the segments. Customer anticipates several things from the company in addition to the product; which the firm has to study well to bridge the gaps between customer expectations and firm's delivery.

4.1 Customer Retention

The dynamics of the business ecosystem have changed the way in which companies do business both in relationship management and the streamlining of their operations. Relationship marketing is emerging as the core marketing activity for businesses operating in fiercely competitive environments. On an average, businesses spend six times more to acquire new customers than to keep them. Therefore, many firms are now paying more attention to their relationships with existing customers to retain them and increase their share of customer's purchases. The practice of relationship marketing also has the potential to improve marketing productivity through improved marketing efficiencies and effectiveness.

Customer retention is the activity that a selling organization undertakes in order to reduce customer defections. Successful customer retention starts with the first contact an organization has with a customer and continues throughout the entire lifetime of a relationship. A company's ability to attract and retain new customers is not only related to its product or services, but strongly related to the way it services its existing customers and the reputation it creates within and across the marketplace.

Customer retention is more than giving the customer what they expect; it's about exceeding their expectations so that they become loyal advocates for your brand. Creating customer loyalty puts 'customer value rather than maximizing profits and shareholder value at the centre of business strategy'. The key differentiator in a competitive environment is more often than not the delivery of a consistently high standard of customer service.

An important distinction can be made between strategies that lock the customer in by penalizing their exit from a relationship, and strategies that reward a customer from remaining in a relationship. The former are generally considered negative, and the latter positive customer retention strategies.

4.1.1 Negative and Positive Retention Strategies

Notes

Negative customer retention strategies impose high switching costs on customers, discouraging defection. In a B2C context, mortgage companies have commonly recruited new customers with attractive discounted interest rates. When the honeymoon period is over, these customers may want to switch to another provider, only to discover that they will be hit with early redemption and exit penalties. Customers wishing to switch retail banks find that it is less simple than anticipated: direct debits and standing orders have to be reorganized. In a B2B context, a customer may have agreed a deal to purchase a given volume of raw material at a quoted price. Some way through the contract a lower cost supplier makes a better offer. The customer wants to switch but finds that there are penalty clauses in the contract. The new supplier is unwilling to buy the customer out of the contract by paying the penalties.

Some customers find that these switching costs are so high that they remain customers although unwillingly. The danger from CRM practitioners is that negative customer retention strategies produced customers who feel trapped. They are likely to agitate to be freed from their obligations, taking up much management time. Also, they may utter negative word-of-mouth. They are unlikely to do further business with that supplier. Companies that pursue these strategies argue that customers need to be aware of what they are buying and the contracts they sign. The Total Cost of Ownership (TCO) of a mortgage can include early redemption costs.

When presented with a dissatisfied customer who is complaining about high relationship exit costs, companies have a choice. They can either enforce the terms and conditions, or not. The latter path is more attractive when the customer is strategically significant particularly if the company can make an offer that matches that of the prospective new supplier.

In the following section we look at a number of positive customer retention strategies, including meeting and exceeding customer expectations, finding ways to add value, creating social and structural bonds, and building commitment.

4.1.2 Meet and Exceed Expectations

It is very difficult to build long-term relationships with customers if their needs and expectations are not understood and well met. It is a fundamental precept of modern customer management that companies should understand customers, then acquire and deploy resources to ensure their satisfaction and retention. Customers that you are not positioned to serve may be better served by your competitors.

Exceeding customer expectations means going 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. You cannot really strategize to delight the customer if you do not understand the customer's fundamental expectations. You may stumble onto attributes of your performance that do delight the customer, but you cannot give consistent efforts to delight customers to show your commitments to the relationship. Commitment builds trust. Trust begets relationship longevity.

Customer delight occurs when the customer's perception of their experience of doing business with you exceeds their expectation. In formulaic terms:

Customer delight = $P > E$

Where P = perception and E = expectation.

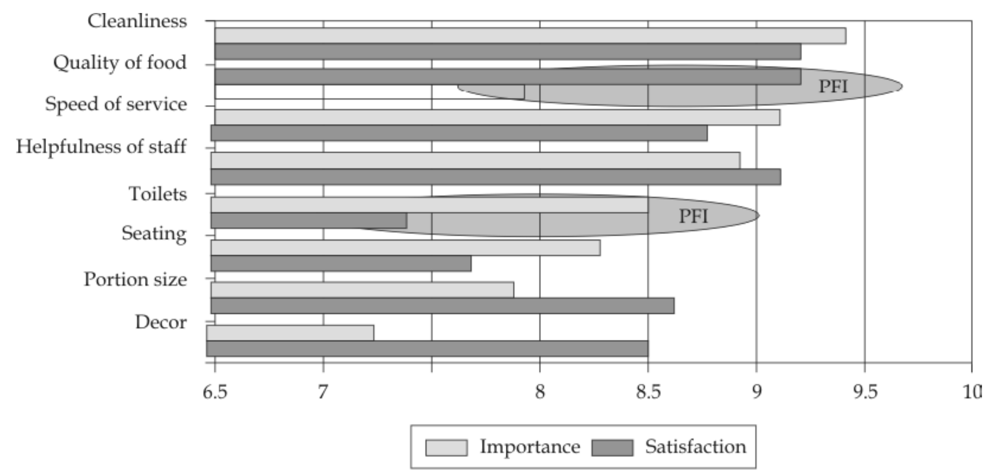
This formula implies that customer delight can be influenced in two ways: by managing expectations or by managing performance. In most commercial contexts customers expectations

Notes

are ahead of perceptions. In other words, customers generally can find cause for dissatisfaction. You might think that this would encourage companies to attempt to manage customer expectation down to levels that can be delivered. However, competitors may well be improving their performance in an attempt to meet customer expectations. If your strategy is to manage expectations down, you may well lose customers to the better performing company. This is particularly so if you fail to meet customer expectations on important attributes.

Customers have expectations of many attributes, for example product quality, service responsiveness, price stability, and the physical appearance of your people and vehicles. These are unlikely to be equally important. It is important to meet customer expectations on attributes that are important to the customer. Online Customers, for example, look for rapid and accurate order fulfilment good price, high levels of customer service and website functionality. Dell Computers believes that Customer retention is the outcome of their performance against three variables: order fulfilment on time, in full, no error, product performance and after sales service. The comments in parentheses are the metrics that Dell uses. Figure 4.1 identifies a number of Priorities for Improvement (PFIs) for a restaurant company. The PFIs are the attributes where customer satisfaction scores are low, but the attributes are important to customers. In the example the PFIs are food quality and toilet cleanliness. There would be no advantage in investing in speedier service or more helpful staff.

Figure 4.1: Using Customer Satisfaction and Importance Data to Identify



Source: https://www.google.co.in/search?hl=en&site=imghp&tbm=isch&source=hp&biw=1366&bih=677&q=crm&oq

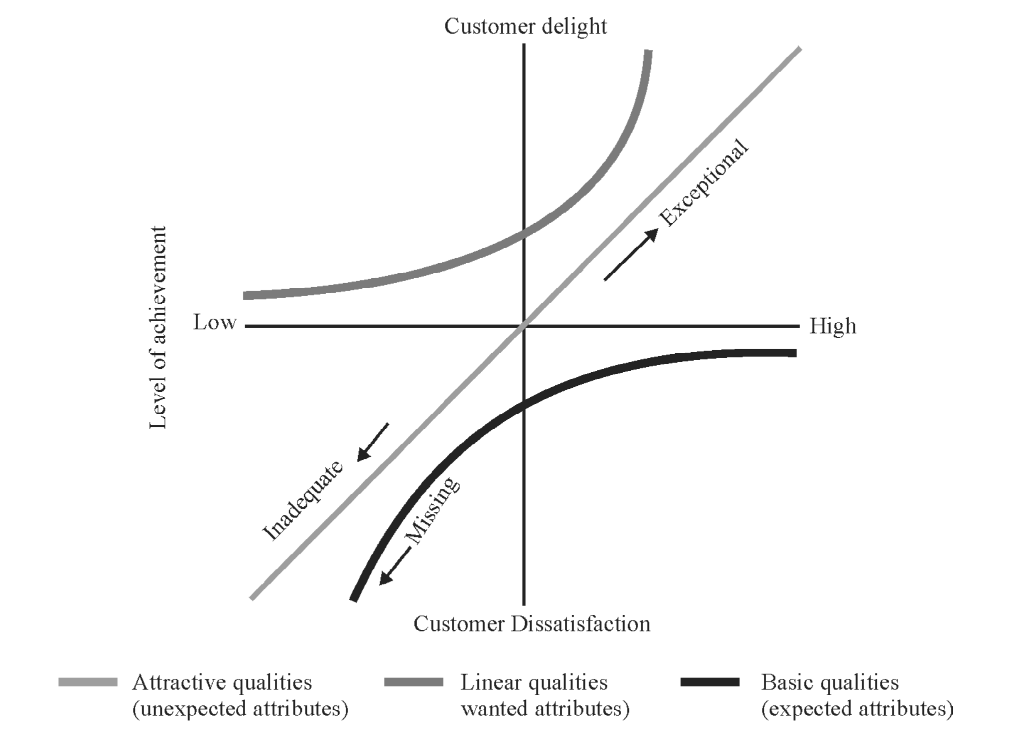
Priorities for Improvement

Kano has developed a product quality model that distinguishes between three forms of quality. Basic qualities are those that the customer routinely expects in the product. These expectations are often unexpressed until the product fails. For example, a car's engine should start first time and the sunroof should not leak. The second form is linear quality. These are attributes of which the customer wants more or less; for example, more comfort better fuel economy and reduced noise levels. Marketing research can usually identify these requirements. Better performance on these attributes generates better customer satisfaction. The third form is attractive quality. These are attributes that surprise, delight and excite customers. They are answers to latent, unarticulated needs and are often difficult to identify in marketing research. As shown in Figure 4.2, Kano's analysis suggests that customers can be delighted in two ways: by enhancing linear qualities beyond expectations and by creating innovative attractive qualities.

Notes

A number of companies have adopted 'customer delight' as their mission, including Cisco, American Express and Kwik-Fit, the auto service chain. Other pays homage to the goal, but do not organize to achieve it. In the service industries customer delight requires front-line employees to be trained, empowered and rewarded for doing what it takes to delight customers. It is in the interaction with customers that contact employees have the opportunity to understand and exceed their expectations. The service quality attributes of empathy and responsiveness are on show when employees aim to delight customers.

Figure 4.2: Customer Delight through Product Quality



Source: https://www.google.co.in/search?hl=en&site=imghp&tbm=.3.3.0.0.0.0.219.604.0j1j2.3.0...0.0...1ac.1.7.img.lht30OO7YYM

Exceeding expectations need not be costly. For example, a sales representative could do a number of simple things such as:

Volunteer to collect and replace a faulty product from a customer rather than issuing a credit note and waiting for the normal call cycle to schedule a call on the customer.

Offer better, lower cost solutions to the customer, even though that might reduce margin.

Provide information about the customer's served market. A packaging company, for example, might alert a fast-moving consumer goods manufacturer customer to competitive initiative in the market.

Customer retention is not only a cost effective and profitable strategy, but in today's business world it's necessary. This is especially true when you remember that 80% of your sales come from 20% of your customer and clients.

Take for instance the wireless telephone companies; if you sign a new contract you are given a large rebate or even a free cellular telephone. If you are a current customer you have the privilege of paying full price.

Notes

Perhaps we need to rethink our marketing and sales strategies, after all many experts will tell you that it's five times more profitable to spend marketing and advertising dollars to retain current customers than it is to acquire new customers. In years past the importance of focusing on customer retention was not as important, stickiness came naturally. We shopped in our neighbourhood shops and our corner grocery stores. We had a personal connection with our service providers and the thought of shopping at another store would have never crossed our minds.

That has all changed now. Our stores our larger, the majority of the sales personnel don't know that you even exist. Not to mention that now we have the convenience of the Internet and do a large portion of our shopping online, where you are known by your email address. As a result, customer loyalty has disappeared and large corporations and virtual storefronts are unable to ask the millions of disloyal customers what caused them to stray.

However, there is a solution. Sophisticated technology and database equipment has made it possible for specialized firms to make attempts at customer retention through database marketing programs. Establishing a detailed client database will allow these companies to keep track of personal information and individual preferences of all their customers. This enables them to provide better service and value. Just like the corner grocery store owner kept information on 200 customers in his head, the large superstore can now keep track of 20,000 customers through its customer database. With effective implementation of customer databases, companies will be able to re-establish contact with customers, and will be able to work successfully towards increasing customer retention, repeat sales, and customer referrals.

To achieve the objectives of the database and customer retention programs, the entire campaign should be designed and carried out with the customer in mind. The exercise will only be effective if the customer recognizes and associates some value with being part of your database. If they do not perceive value in your program all of your communications, coupons, special offers, and newsletters will be discarded. Your customers have been inundated with meaningless "junk" mail and email spam, so embed your campaign with value.

A few values-add strategies that you can use include:

1. membership cards and programs that entitle your customers to special offers, discounts, or preferential treatment;
2. welcome, acknowledgement, sales recognition, thank you statements;
3. after sales satisfaction and complaint inquiries and surveys;
4. event oriented communications in which the customer is genuinely interested; and
5. enhanced and empowered customer, after sales, and technical support.

Everyone wants to retain their existing customers. Few companies, however, are implementing positive strategies aimed at retention. Most companies are organized for acquisition. Their advertising and sales programs are designed to find and promote their products and services to new customers. The companies are organized on a product or brand basis, not on a customer segment basis. While they all have customer service departments, and most have a customer service toll free number, they lack an integrated marketing strategy that is directed at retention, and that defines retention as the measurement of success. In this unit, we will explore the meaning of a retention strategy, showing how it can be set up, and how lifetime value can be used to measure it.

You have often heard it said that "It is five times more profitable to spend your marketing dollars to retain the customers that you have than to use the dollars to beat the bushes for new customers." Most people would agree with this statement, even though they have no way of proving it. Indeed, the majority of large American and Canadian firms today are experimenting with database marketing programs aimed, in large part, at retention. Most of these companies are not yet sure whether their experiments will be successful. A significant number of the programs will fail and ultimately be scrapped. How do such programs work? Let's look at the theory.

We like to go back to the old corner grocer. Prior to 1950, most groceries in the US and Canada were sold in small grocery stores. The proprietor would meet them at the door. He knew them by name. He knew their preferences. He would put things aside for them. He built his business through recognizing his customers and doing favours for them. Customers were loyal to these stores because of the recognition and personal attention they received. These small stores have been virtually wiped out through the advent of supermarkets. Supermarkets have a much wider variety of goods. The average grocery store had 800 Stock Keeping Units (SKUs) on their shelves. Supermarkets today have 30,000 SKUs. Mass marketing took over. Prices came down. Variety increased. Food purchases fell from 31% of the average family budget in 1950 to about 10% today; yet the food we buy with that 10% is better in quality and quantity then to what we bought with 31% in 1950. We have all gained.

4.1.3 Trends in Customer Retention

Retaining and developing customers has long been a critical success factor for businesses. In that sense, Customer Relationship Management is not new, previously falling under the guise of customer satisfaction. Worldwide, service organizations have been pioneers in developing cause retention strategies.

1. ***Innovative Measures:*** Banks have relationship managers for select customers, airlines have frequent flyer programs to reward loyal customers, credit card companies offer redeemable bonus points for increased card usage, telecom service operators provide customized services to their heavy users, and hotels have personalized services for their regular guests. It is, however, with the rapid rise of new entrants into the market place and increased competition that companies in other sectors have recognized the business potential within a captured base.

2. ***Improved Operating Performance:*** Sluggish growth rates, intensifying competition and technological developments businesses induced to reduce costs and improve their effectiveness. Business process reengineering, automation and downsizing reduced the manpower costs. Financial restructuring and efficient fund management reduced the financial costs. Production and operation costs have been reduced trough Total Quality Management (TQM), Just in Time (JIT) inventory, Flexible Manufacturing Systems (FMS) and efficient Supply Chain Management (SCM).

3. ***Increased Focus:*** However, reduction in costs alone is no longer enough or is necessarily an effective strategy. In facing the competitive threats, such as new entrants, pricing pressures, technology along with the related costs and also including the time lags in procuring, maintaining and strengthening one's market, more and more organizations are realizing that the traditional marketing model is no longer effective. With a flood of new entrants offering quality products and services at lower prices, many sectors have been turned into commodity markets. In a market place where loyalty has plummeted and the cost of acquiring new customers is prohibitive, companies have turned to their current customers in an attempt not only to retain them but also to exploit the potential within. This has enabled them not only to respond to the threats in their market place but also positioned them strategically to take advantage of the opportunities available.

Notes

Keys for Customer Retention

1. ***SFA (Sales Force Automation):*** CRM also incorporates enhanced Sales Force Automation (SFA) functionality. SFA puts account information directly in the hands of field sales staff, making them responsible for maintaining it and thus helps them to be more productive. Now, as part of CRM, SFA is also focused on cultivating customer relationships and improving customer satisfaction.
2. ***TQM (Total Quality Management):*** TQM has been another driving force. TQM is aimed at improving quality and reducing costs. The TQM philosophy has been prevalent in many companies, which find it necessary to involve both suppliers and customers for implementing TQM at all levels of the value chain. Companies like IBM, Motorola, General Motors, Xerox, Ford and Toyota are consistent users of TQM and hence also of CRM. Other programs like JIT supply and MRP (Material Resource Planning) have also made for the use of interdependent relationship between supplier and customer.
3. ***SSA (Systems Selling Approach):*** SSA is yet another factor which has become more common with the advent of digital technology and complex products. The systems selling approach involves the integration of parts, supplies and the sale of services along with a particular capital equipment. In the capital goods market, customers appreciate the idea of system integration. Sellers have been able to sell augmented products and services. This has also been extended to consumer packaged goods and services sector.
4. ***KAM (Key Account Management):*** Another offshoot of CRM has been the development of Key Account Management Program as some companies insisted upon new purchasing approaches like national contracts and master purchasing agreements to be adopted by vendors.
5. ***SCM (Supply Chain Management):*** Regarding suppliers' loyalty, again it has been observed that it pays more to develop closer relations with a few suppliers than to deal with more vendors. More often marketers find it beneficial to retain existing customers for life rather than making a one-time sale to several new customers.
6. ***GAMP (Global Account Management Programs):*** An extension of CRM is reflected in the emerging tend of large internationally oriented companies to become global. For this purpose, such companies are seeking the assistance of vendor's co-operating and collaborating solutions for global operations. This has made it obligatory for markets interested in the business of global companies, to adopt CRM programs, particularly global account management programs.
7. ***KM (Knowledge Management):*** Knowledge about customers is a pre-requisite for CRM. Indeed, in depth knowledge of the customer's habits, desires, needs and the analysis of their cognitive effective behaviour and attributes need to be applied through CRM to develop and design marketing strategies as well as to develop ad cultivate interaction and relationship with customers for mutual benefit.

Finally, it is recognizable that customers' expectations have changed significantly in recent years. With the advent of new technology and increased availability of new and advanced product features and services, consumers are least prepared to compromise their preferences for quality of products/services. Cross selling and up selling are possible to a greater extent for customers, if they are loyal and committed to the firm and its offerings.

Customer Loyalty

Building customer loyalty is the basic platform of relationship formation. In a highly competitive and challenging business environment, organisations are really blessed if they are fortunate to have loyal customers in their customer inventory. With the backup of loyal customers, the organisation could enjoy a number of advantages. In short, having loyal customers will serve as a sustainable competitive edge to the organisation concerned in the present day context. Therefore, organisations should keep "building customer loyalty" as their prime agenda.

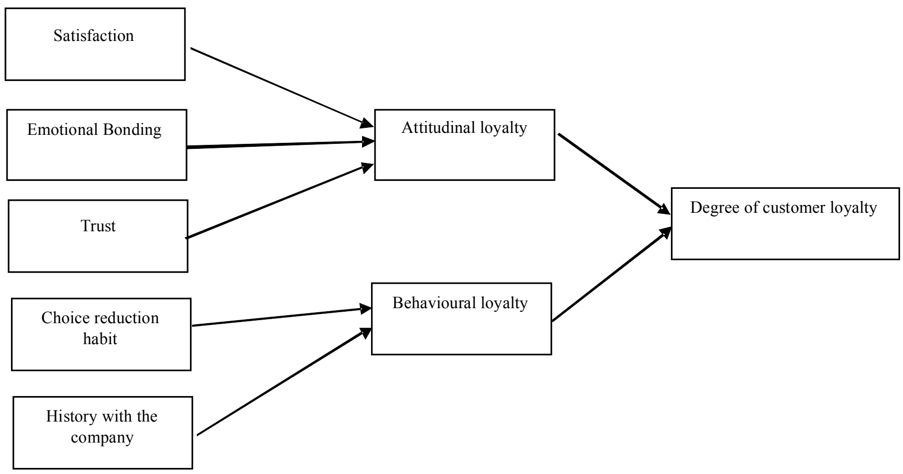
Customer loyalty is a company's ability to retain satisfied customers. Maintaining customer loyalty is one of the toughest challenges for any marketing department in a business enterprise, since the wants of a customer are modified at much faster rate than their needs. It requires a business enterprise to follow a pro-active approach that includes formulating strategies for brand consolidation, researching and continuing with new product development, following TQM (Total Quality Management), implementing CRM systems, and also, working out Pipeline Management tactics.

A customer loyalty program is based on a simple premise: as a company develops stronger relationships with their best customers, those customers will stay with the company longer and become more profitable.

Since every marketer wants customers, a logical question to ask is "what affects customer loyalty". The factors that affect the customer loyalty are:

1. Customer satisfaction
2. Emotional bonding
3. Trust
4. Choice reduction and habit
5. History with the company

Figure 4.3: Factors affect Customer Loyalty



Source: https://www.google.co.in/.3.0...0.0...1ac.1.7.img.lht30OO7YYM

1. ***Customer Satisfaction:*** People develop belief about what they expect to happen before they make a choice. Customer satisfaction is a post-purchase or post-choice evaluation that results from a comparison between those pre-purchase expectations and actual performance. Fulfilment of an expectation is confirmation. If there is a disconfirmation expectations are not met. Dissatisfied customers may complain, choose never to purchase the transactional experience is thus seen to result in confirmation or disconfirmation yet for most organizations, the goal is to measure and manage customer satisfaction with the cumulative experiences customers have with the brand, product, organization, or location.

Notes

Notes Needs are expressions of customers, indicating the requirement to be fulfilled by a select product or service.

Effective marketers try to understand if the discrepancy between expectations and performance is large or small. The term delightful surprises has been use to describe situations in which customer receive fulfilment that exceeds the satisfaction of unexpected needs or wants. A delightful surprise may be a defining moment in which a regular customer becomes a loyal advocate. Effective marketers likewise try to understand the degree of discrepancy when marketers fail to meet expectations and the causes of consumer dissatisfaction.

Satisfied customers may not be loyal customers. One explanation is that expectations, which shape satisfaction, are complex and exist at different levels. People may formulate expectations in terms of a desired level – what should be done – and in terms of an adequate level – what will be done. Many marketers believe customers have a zone of tolerance where expectations range from what they hope to receive to what is minimally in a study of satisfaction. The company ranked satisfaction on a 5-point scale ranging from 1 for completely dissatisfied to 5 for completely satisfied. It found that customers who rated their satisfaction as 4 were six times more likely to switch to a competitive offering than those who marked 5 were. So, while satisfaction is important in knowing what shapes loyalty, we have to go deeper to fully understand loyalty.

Why do satisfied customers often switch brands or buy from other companies? There are several explanations. The first is that a company's satisfied customer might also have a positive experience with and be equally satisfied with a competitor's offering. Thus relative satisfaction should be considered in the role that customer satisfaction plays in shaping customer loyalty. Another explanation has to do with familiarity and a need for variety. People may simply opt for an experience because they get less and less satisfaction from the old one. A third explanation is that new information changes customer expectations about a previously untried offering.

2. ***Emotional Bonding:*** The second component of the model shown in Figure 4.3 builds on the idea that, over time customer loyalty requires emotional bonding. Customers have a positive brand affect, which is an affinity with the brand, or they have a company attachment, which means they like the company. In many circumstances, consumers may identify with and become emotionally attached to mental images that a company or a brand develops or acquires.

   For example, many customers identify with Polo Ralph Lauren. They identify with the brand because the brand identifies them and their friends.

   From a consumer's perspective the brand equity associated with Polo leads to customer loyalty. Brand equity is the value of the brand name associated with a product or service that goes beyond the functional aspect alone.

   For example, many customers feel a closeness with other people who also use the good or service.

   Some companies know how to connect emotionally with their customers while others have more difficulty in accomplishing this level of commitment. CRM must reach beyond the idea of the rational consumer and strive to establish feeling of closeness, affection, and trust as true emotional bonding is often based on trust and respect.

3. ***Trust:*** Trust the third component of the model, is interrelated with emotional bonding. Trust exist when one party has confidence that he or she can rely on the other exchange partner. Trust can be defined as the willingness of the customer to rely on the organization or brand to perform its stated function. Trust reduces uncertainty/risk and is viewed as a carefully thought out process, whereas brand affect may be an instantaneous response. In many situations, trust means a customer believes that the marketer is reliable and has integrity. In many personal selling situations, trust means that a customer has confidence that the sale representative is honest, fair and responsible and that his or her word can be relied on. If a delivery date is given the buyer has confidence that the product will be shipped on time. When there is trust in a relationship, all partners believe that none will act opportunistically. Marketers, especially the marketers of services, establish trust by maintaining open and honest communication and by keeping the promises they make.

4. ***Choice Reduction and Habit:*** Contrary to traditional economic theory, consumer research shows that people have a natural tendency to reduce choices. In fact consumers like to reduce their choices to a manageable set, usually not more than three. People feel comfortable with familiar brands and well known situations that have been rewarding. Part of customer loyalty, such as the absence of brand switching behaviour is based on an accumulation of experiences over time. With simple repetition we become familiar with a brand, store, company, Web site, or search engine. We develop habits that result in continuity. For example, it has been estimated that consumers go to the same supermarkets up to 90 percent of the time.

   There can be a switching cost associated with change to the unfamiliar, the untried or the new. There may be a cost in time, money, or personal risk. In other words, as the adage "if it ain't broke, don't fix it" suggest there may be a perceived risk in change. Perceived risk means the customer may be uncertain about the consequences of making a purchase. There may be perceived performance risk or social risk. The customer may think the new brand will not perform as well as the current brand. The customer may believe his/her friends will not like the new brand as well.

5. ***History with the Company:*** Final component of customer loyalty involves the customer's history with the company. One's history with the company influences one's habits. But we should draw a distinction between repeat behaviour and contact history with the company and its image. A positive corporate image – the perception of the organization as a whole – can have a favourable impact on customer loyalty, creating habitual responses to the company name itself. Wal-Mart, for example is known for everyday low prices while another department store, such as Nordstrom, may be known for excellent customer service. Thus, perceptions of the company's historical image can impact customer intentions, loyalty and likelihood of buying. The CRM system, however, is usually more focused on a customer's actual purchasing history.

4.1.4 Strategic Customer

Customer interaction channels encapsulate all the possible ways of interacting with customers. This comprises a mix of old legacy channels such as call centres, mail, sales force, and new channels such as mobile, Internet, voice automation, and interactive TV. The issues here are which of the new channels will provide an efficient means of improving customer access and convenience, and which of the "old" channels need to be re-engineered to improve customer service and cost effectiveness. Internet could fall in either category for some companies. Internet sales and service capabilities are still to be implemented, whilst for others these are in place but failing to achieve their potential.

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Create a Synchronous Customer Strategy

This should be one of the first activities in a CRM program. Initially prepared in outline it evolves and expands as new capabilities are implemented and new customer information becomes available. It is important to start with at least an outline strategy, as this will help to ensure that all subsequent design and implementation activities are totally focused on achieving specific customer goals with quantifiable business value. A customer strategy comprises set of strategic goals that will provide initiatives that can be applies to customers in identifiable segments to achieve the overall objective of sustained profitable growth.

Typical Elements of a Strategy

Obtaining high value customers to improve market-shares; rewarding the best customers to improve loyalty ranges of sleeping customers and to reduce agitation; stimulation of occasional customers to bring more frequent contact; cross-selling to frequent low-value customers to improve the share of wallet reduction of cost to market, sell, and serve to low-value customers. The ability to create intuitively sound actionable segmentation is important. It is important to as segment customers for a meaningful CRM. An enterprise should start by examining what data is available or is going to be available and use common sense to determine the level of segmentation that will be possible.

Prioritize Initiatives

The next step is to prepare the business case. This will entail assessing the commercial impact of the customer strategy in terms of growth of customer base, development of customer relationships, and reduction of service costs. This should be carried out in a detailed manner such that the value of different elements can be evaluated. This will help support the prioritization of development of initiatives. This prioritization will also allow a phased implementation plan to be created, which will generate an early-benefits stream whilst moving towards the goal of a fully functional CRM capability. The plan will typically involve three types of activity: (i) Quick wins – activities that rollout existing best practices across the business; (ii) Short-term developments – initiatives that can exploit the existing infrastructure to create benefits quickly; and (iii) Long-term developments – detailed design and implementation activities that will create the technical infrastructure, processes, and an organisation that will finally support the fully functional capability.

Measurement of the Customer

CRM will to be able to deliver significant benefits with a good data. However, this can bring significant challenges. Effective target marketing, for example, depends on the availability of discriminatory information on customers. To do well, a good mix of demographic, psychograph, geographic, behaviour, and attitudinal information maybe required. This could mean implementation of new capabilities to strengthen the ability to measure the customer. In certain situations where customer transactions are infrequent or non-descriptive, third party information might be employed, acquired through affinity partnerships, or purchase of commercially available data.

Adopt a Piloting Study

CRM business cases are often highly theoretical, and it can be unclear how well a solution element will work in practice. The careful implementer will adopt a piloting approach where, critical elements are tried out in the field prior to commitment to full roll out. This will also help to refine the solution and expose significant problems and organizational issues at an early stage. Repeat problems will also give the opportunity to think about how to apply the technology to improve the processes, thereby leading to an entirely new way of working.

Customer Performance Measures

The presence of good, concise management reports describing all aspects of the customer base can be invaluable in helping to refine the customer strategies and shape future precut services and promotional activities. Such customer performance measures would typically describe the size and value of key customer segments, profile, the behaviour and attitude of the segments, and track how the value, behaviour and attitude is changing in response to CRM initiative.

Full Range of Technology

Rapidly advancing technology means e-structuring, ways in which how business is to be conducted. New communications technology connects remote employees with the rest of the enterprise; the internet deepens self-service options; telephone advances make virtual call centre operations possible; call centres or website provide selling opportunities by marketing products that are relevant to the individual. An effective CRM program makes technology a base to be used in an iterative process that considers what technology can do for an organisation and vice versa.

Assess Package Solutions

Given the importance of making the right CRM technology choices, sorting through the endless applications on the market today can be intimidating and frustrating. Applications should be sorted by the broad view of functionality including, communication channels and IT platforms supported and size of company they fit the best. Consideration should also be given to vendor viability in terms of financial stability and service and support capabilities. No single vendor currently provides all the required applications, so users typically must patch together a set of components to fit the overall solution requirement.

Skills and Organisational Implications

In implementing CRM capabilities, attention must be paid to addressing people, process ad organisational issues as well as technological needs. For example, the analysis of customer information, to achieve customer segmentation and target marketing initiatives are rarely successful without the involvement of experienced statisticians who are trained to develop and apply their skills whilst being driven by business requirements.

Proactive Leadership

At its best, CRM combines the information, systems, policies, processes, and employees of an enterprise in a unified effort to identify, attract, and retain profitable customers. Clearly, no single department can drive the cross-functional process changes required to achieve a well-defined customer focus. CRM must be achievement within the fabric of a company, not bolted on to it. This means that CRM initiatives must be planned at the top and implemented from the boardroom.

Customer Involvement in Product/ Service Development

Companies are facing highly competitive situations, only constant innovation and development of new products/services could guarantee a competitive advantage. However, as consumerism

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rises, traditional innovation models are unable to quickly and accurately satisfy the needs of customers. In order to reduce risks and accelerate the speed of new product/service development, customers' involvement has become one of the most important issues concerning new product/ service development.

New Product/Service Development

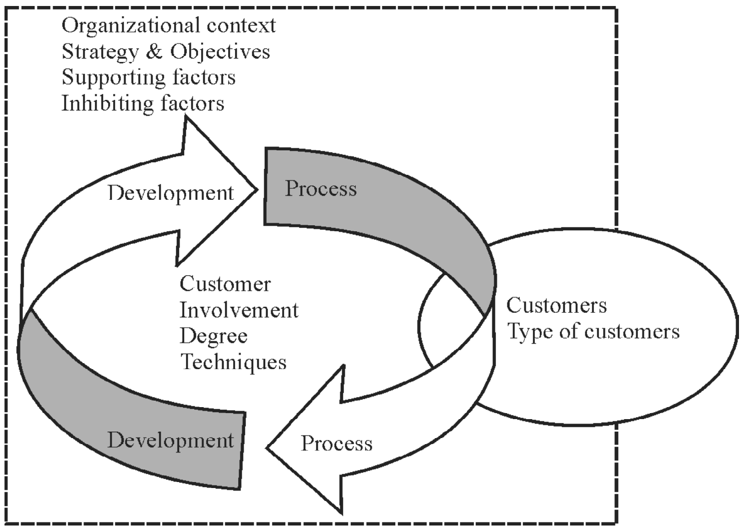
Facing the fierce competition from domestic as well as foreign rivals, companies can only beat their competitors through rapid introducing new products/services which could meet the changing needs of customers. However, developing a new product/service often takes a very long time; in order to reduce risks, scholars start study the new product/service development process to enhance the efficiency and effectiveness of this process.

In the late 80s, as the importance of the manufacturing sector has become well recognized, scholars are focused on the development of new products. They proposed a stage-gate model to efficiently manage different stages of the new product development process.

As the service industry has played a crucial role in the world economy, academics started to pay more attention on new service development however, most of the new service development models are based on new product development. Apart from incorporating the concept of project management, the overlapped activities during the development process, and the information sharing inside and outside the company, scholars and practitioners have yet not find an easier way to facilitate the process and improve the effectiveness as well as efficiency of new product/ service development. However, studies approved that interacting with different kinds of customers and inviting them to participate in the development process might significantly improve the performance of new product/service development.

Customer involvement is defined here as those processes, deeds, and interactions where a product or service provider collaborates with current customers at the program, project, and/or stage level of innovation, to anticipate customer's latent needs and develop new product or service accordingly.

Figure 4.4: Elements of Customer Involvement in Product and Service Development



Source: https://www.google.co.in/.3.0...0.0...1ac.1.7.img.lht30OO7YYM

The elements of customer involvement that are illustrated in Figure 4.4, which are the two arrows symbolize an on-going, iterative development program where development projects build up the product and service portfolio of a firm. Customer involvement requires making a decision about the following factors:

1. What type of customers to involve?
2. To what extent they should be involved?
3. How it should be done?

The broken line illustrates the organizational context, in which a firm decides on the strategy of the development organization.

The motives to involve customers are also important and will determine how customer involvement is carried out and what results can be achieved. Finally, there might be problems associated with customer involvement.

4.1.5 Different Types of Customers

A traditional approach of product and service development is to obtain information form representative customers at the centre of the intended target market. Companies often obtain information about customer needs only, and assign manufacturers with the task of generating ideas for solutions leading to new products. Company employees are required to translate needs into solutions that should fit these needs. Lead users present strong needs that will become general in a market place months or years in the future. As there are no products or services available on the market to fulfil their needs, lead users often develop a solution on their own and can therefore provide design data as well. Consequently, the lead user process takes a different approach from that of traditional methods, collecting information about both needs and solutions from the leading edges of the target market and from markets facing similar problems in a more extreme form. In slow-moving industrial markets, "average users" may provide satisfactory input to the development process. Four customer characteristics were used including technical attractiveness, financial attractiveness, closeness and relationship with the customer, and lead user characteristics. They found that financially attractive customers, lead users, and close customers have a positive impact on new product success. Technically attractive customer, on the other hand, had a negative impact on new product success. A possible explanation is that they have needs that are different from those of the market in general and therefore can mislead the company.

Some companies choose to primarily work with financially attractive customers, whereas about 30% of the companies do not make any special selection of customers. An overview of the results from the investigated companies is provided in Figure 4.5. For some companies the strategy is to work with the customers who are interested in co-operation or to co-operate with the customers who are available at a specific moment.

When comparing different types of market characteristics, that is B2B or B2C, we found that companies on the business market are more likely than companies on the consumer market to use customers with a special expertise (Chi-square = 23.9, $p<0.01$).

Caution The organisations should pay attention to the profile of the target market segment, its changing needs and make efforts for fulfilling the same, and this would yield better results in customer retention.

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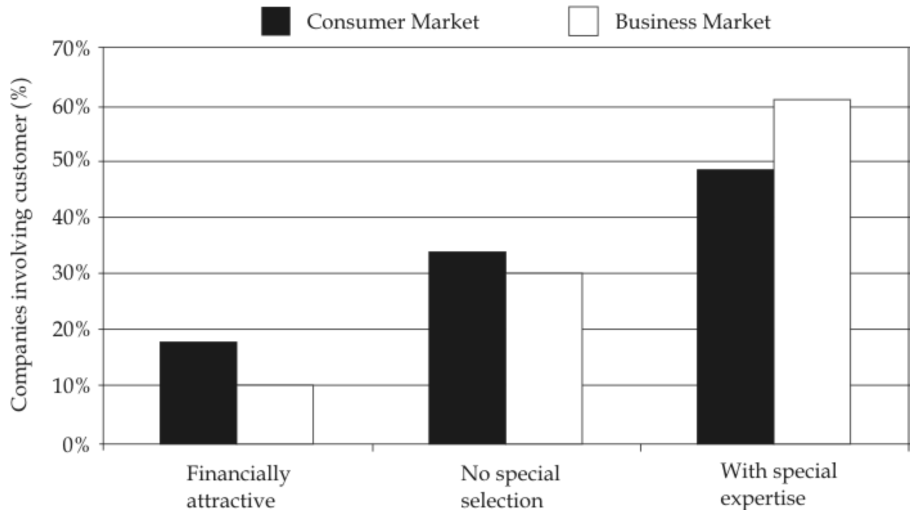
Figure 4.5: Overview of the Type of Customers that are involved in the Development Process



Source: http://www.google.co.in/imgres?hl=en&biw=1366&bih=677&tbm=isch&tbnid=4OuToaQeQ-eVsM:&imgrefurl=http://www.socialmediaexaminer.com/what-is-social-

Task Explain the usage of retention for large firms.

Self Assessment

Fill in the blanks:

1. …………………… is the activity that a selling organization undertakes in order to reduce customer defections.
2. Customer delight = ……………………
3. Full form of SFA is …………………….
4. Full form of GAMP is …………………….
5. The third component of customer loyalty model is …………………….

4.2 Customer Acquisition

One of the primary areas of growth for an organization is the acquisition of new customers. Customer acquisition involves identification of potential customers, understanding their strengths and weaknesses, risk assessment and formulation of an acquisition strategy. The explosion of customer segments, products, media vehicles, and distribution channels coupled with intense competition bent on growth has made the acquisition of new customers more complex, more costly, and less effective than ever.

Today’s consumer is more demanding, more informed and more able and prepared to “vote with their wallet” if they don’t get what they want. At the same time, business pressures and revenue accountability have led marketers to take a more results focused approach to consumer marketing.

Today's demanding customers and savvy competitors are causing many companies to rethink and restructure their new customer acquisition marketing efforts significantly.

Some Key Concepts

There are usually many kinds of customers, and it can often take a significant amount of time before someone becomes a valuable customer. When the results of an acquisition campaign are evaluated, there are often different kinds of responses that need to be considered. The responses that come in as a result of a marketing campaign are called "response behaviours." The use of the word "behaviour" is important because the way in which different people respond to a particular marketing message can vary. How a customer behaves as a result of the campaign needs to take into consideration this variation. A response behaviour defines a distinct kind of customer action and categorizes the different possibilities so that they can be further analyzed and reported on.

Binary response behaviours are the simplest kind of response. With a binary response behaviour, the customer response is either a yes or no. If someone is sent a catalogue, did they buy something from the catalogue or not? At the highest level, this is often the kind of response that is talked about. Binary response behaviours do not convey any subtle distinctions between customer actions, and these distinctions are not always necessary for effective marketing campaigns.

Beyond binary response behaviours are categorical response behaviours. As you would expect, a categorical response behaviour allows for multiple behaviours to be defined. The rules that define the behaviour are arbitrary and are based on the kind of business you are involved in. Going back to the example of sending out catalogues, one response behaviour might be defined to match if the customer purchased women's clothing from the catalogue, whereas a different behaviour might match when the customer purchased men's clothing. These behaviours can be refined a far as deemed necessary, for example, "purchased men's red polo shirt."

Some of the general categories of response behaviour are the following:

1. ***Customer inquiry:*** The customer asks for more information about your products or services. This is a good start. The customer is definitely interested in your products – it could signal the beginning of a long-term customer relationship. You might also want to track conversions, which are follow-ups to inquiries that result in the purchase of a product.
2. ***Purchase of the offered product or products:*** This is the usual definition of success. You offered your products to someone, and they decided to buy one or more of them. Within this category of response behaviour, there can be many different kinds of responses. As mentioned earlier, both "purchased men's clothing" and "purchased women's clothing" fit within this category.
3. ***Purchase of a product different that the ones offered:*** Despite the fact that the customer purchased one of your products, it wasn't the one you offered. You might have offered the deluxe product and they chose to purchase the standard model (or vice-versa). In some sense, this is very valuable response because you now have data on a customer/product combination that you would not otherwise have collected.

There are also typically two kinds of negative responses. The first is a non-response. This is not to be confused with a definite refusal of your offer. For example, if you contacted the customer via direct mail, there may be any number of reasons why there was no response (wrong address, offer misplaced, etc.). Other customer contact channels (outbound telemarketing, email, etc.) can also result in ambiguous non-responses. The lack of response does not necessarily mean that the offer was rejected. As a result, the way you interpret a non-response as part of additional data analysis will need to be thought out (more on this later).

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A rejection (also known simply as a "no") by the prospective customer is the other kind of negative response. Depending on the offer and the contact channel, you can often determine exactly whether or not the customer is interested in the offer (for example, an offer made via outbound telemarketing might result in a definitive "no, I'm not interested" response). Although it probably does not seem useful, the definitive "no" response is often as valuable as the positive response when it comes to further analysis of customer interests.

4.2.1 Traditional Approach to Customer Acquisition

The traditional approach to customer acquisition involved a marketing manager developing a combination of mass marketing (magazine advertisements, billboards, etc.) and direct marketing (telemarketing, mail, etc.) campaigns based on their knowledge of the particular customer base that was being targeted. In the case of a marketing campaign trying to influence new parents to purchase a particular brand of diapers, the mass marketing advertisements might be focused in parenting magazines (naturally). The ads could also be placed in more mainstream publications whose readership demographics (age, marital status, gender, etc.) were similar to those of new parents.

In the case of traditional direct marketing, customer acquisition is relatively similar to mass marketing. A marketing manager selects the demographics that they are interested in (which could very well be the same characteristics used for mass market advertising), and then works with a data vendor (sometimes known as a service bureau) to obtain lists of customers who meet those characteristics. The service bureaus have large databases containing millions of prospective customers that can be segmented based on specific demographic criteria (age, gender, interest in particular subjects, etc.). To prepare for the "diapers" direct mail campaign, the marketing manager might request a list of prospects from a service bureau. This list could contain people, aged 18 to 30, who have recently purchased a baby stroller or crib (this information might be collected from people who have returned warranty cards for strollers or cribs). The service bureau will then provide the marketer with a computer file containing the names and addresses for these customers so that the diaper company can contact these customers with their marketing message.

New customers are the hardest and most expensive to get. You will spend more time, money and energy attracting new customers to your business. If you are just starting a business, listen closely, because your success here will determine whether you are in business two years from now.

Many companies have adopted customer relationship management (CRM) systems that can support both acquisition and retention by gathering data from every contact with prospects and customers. Just collecting data should not be an end unto itself, however. The real focus should be on developing a data strategy and tuning the CRM system to help your company acquire and retain the right types of customers.

4.2.2 Customer Acquisition Strategy

Now let us discuss the strategies that affect the acquisition of customers:

Supporting Acquisition

Most acquisition marketing campaigns begin with the prospect list. A prospect list is simply a list of customers that have been selected because they are likely to be interested in your products or services. There are numerous companies around the world that will sell lists of customers, often with a particular focus (for example, new parents, retired people, new car purchasers, etc.).

The goal for the acquisition phase of your program should be deciding which prospects most closely match your company's "ideal prospect" profile, but you should also decide which prospects don't meet your criteria for acquisition and eliminate them up front. This simple decision helps focus your marketing and acquisition efforts while saving costs and increasing your Return on Investment (ROI).

Analyzing your marketing campaigns to determine which are most effective in bringing in new customers is also important. A CRM system that is able to tag data (assigning each contact to a specific campaign) lets you analyze the return on the investment you are making in your marketing effort as well as its overall effectiveness in identifying likely prospects. Another benefit of tagging is that it lets you look at marketing programs and their related expenses by leads generated, customers acquired, and potential and realized revenue. This will enable your company to better tailor campaigns to individual customers and prospects based on response or effectiveness rates.

While looking at data for individuals can help you better understand their needs and interests, analyzing data in the aggregate can show which groupings or classes of customers respond best to your company's campaigns. This step can help you develop products or services that meet the needs of specific groups of customers or prospects.

There are a number of other questions you should consider as you develop the acquisition part of the data strategy. For example,

1. What is our best source of customers?
2. Did they find us on their own initiative or were they referrals?
3. Did they come from external sources such as a direct marketing list or were they from our own marketing campaigns?
4. When customers first contact us, what information are they interested in?
5. What was the ROI for that campaign?
6. Was it self-service or assisted interaction that eventually leads to a sale?

The absence of certain types of inquiries should also be investigated. For instance, why are there no Web inquiries from groups of prospects that you know are part of your regular customer base? Analyzing the use of self support via the Web (such as searches of the knowledge base or support cases initiated) allows you to see where customers' interests lie and where self support can be improved.

Keep in mind that prospects may have significantly different information and support needs than customers and use this knowledge to tailor your acquisition program to their needs.

Finally, consider how well the company is responding to prospects. As an example, data may indicate that inquiries responded to within 30 minutes are twice as likely to result in sales as those responded to the next day. This type of analysis can reveal areas where the company's performance can be improved.

Test Campaigns

Once you have a list of prospect customers, there is still some work that needs to be done before you can create predictive models for customer acquisition. Unless you have data available from previous acquisition campaigns, you will need to send out a test campaign in order to collect data for analysis.

Besides the customers you have selected for your prospect list, it is important to include some other customers in the campaign, so that the data is as rich as possible for future analysis.

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For example, assume that your prospect list (that you purchased from a list broker) was composed of men over age 30 who recently purchased a new car. If you were to market to these prospective customers and then analyze the results, any patterns found by data mining would be limited to sub-segments of the group of men over 30 who bought a new car. What about women or people under age 30? By not including these people in your test campaign, it will be difficult to expand future campaigns to include segments of the population that are not in your initial prospect list. The solution is to include a small random selection of customers whose demographics differ from the initial prospect list. This random selection should constitute only a small percentage of the overall marketing campaign, but it will provide valuable information for data mining. You will need to work with your data vendor in order to add a random sample to the prospect list.

More sophisticated techniques than random selection do exist, such as those found in statistical experiment design and Multi-Variable Testing (MVT). Deciding when and how to implement these approaches is beyond the scope of this unit, but there are numerous resources in the statistical literature that can provide more information.

Although this circular process (customer interaction, data collection, data mining, and customer interaction) exists in almost every application of data mining to marketing, there is more room for refinement in customer acquisition campaigns. Not only do the customers that are included in the campaigns change over time, but the data itself can also change. Additional overlay information can be included in the analysis when it becomes available. Also, the use random selection in the test campaigns allows for new segments of people to be added to your customer pool.

Evaluating Test Campaign Responses

Once you have started your test campaign, the job of collecting and categorizing the response behaviour begins. Immediately after the campaign offers go out, you need to track responses. The nature of the response process is such that responses tend to trickle in over time, which means that the campaign can go on forever. In most real-world situations, though, there is a threshold after which you no longer look for responses. At that time, any customers on the prospect list that have not responded are deemed "non-responses." Before the threshold, customers who have not responded are in a state of limbo, somewhere between a response and a non-response.

Building Data Mining Models using Response Behaviour

With the test campaign response data in hand; the actual mining of customer response behaviour can begin. The first part of this process requires you to choose which behaviour you are interested in predicting, and at what level of granularity. The level at which the predictive models work should reflect the kinds of offers that you can make, not the kinds of responses that you can track. It might be useful (for reporting purposes) to track catalogue clothing purchases down to the level of colour and size. If all catalogues are the same, however, it really doesn't matter what the specifics of a customer purchase for the data mining analysis. In this case (all catalogues are the same), binary response prediction is the way to go. If separate men's and women's catalogues are available, analyzing response behaviour at the gender level would be appropriate. In either case, it is a straightforward process to turn the lower-level categorical behaviour into a set of responses at the desired level of granularity. If there is overlapping response behaviour, the duplicates should be removed prior to mining.

In some circumstances, predicting individual response behaviour might be an appropriate course of action. With the movement toward one-to-one customer marketing, the idea of catalogues that are custom-produced for each customer is moving closer to reality. Existing channels such as the Internet or outbound telemarketing also allow you to be more specific in the ways you target the exact wants and needs of your prospective customers. A significant drawback of the modelling of individual response behaviour is that the analytical processing power required can grow dramatically because the data mining process needs to be carried our multiple times, once for each response behaviour that you are interested in.

How you handle negative responses also needs to be thought out prior to the data analysis phase. As discussed previously, there are two kinds of negative responses: rejections and non-responses. Rejections, by their nature, correspond to specific records in the database that indicate the negative customer response. Non-responses, on the other hand, typically do not represent records in the database. Non-responses usually correspond to the absence of a response behaviour record in the database for customers who received the offer.

There are two ways in which to handle non-responses. The most common way is to translate all non-responses into rejections, either explicitly (by creating rejection records for the non-responding customers) or implicitly (usually a function of the data mining software used). This approach will create a data set comprised of all customers who have received offers, with each customer's response being positive (inquiry or purchase) or negative (rejections and non-responses).

The second approach is to leave non-responses out of the analysis data set. This approach is not typically used because it throws away so much data, but it might make sense if the number of actual rejections is large (relative to the number of non-responses); experience has shown that non-responses do not necessarily correspond to a rejection of your product or services offering.

Once the data has been prepared, the actual data mining can be performed. The target variable that the data mining software will predict is the response behaviour type at the level you have chosen (binary or categorical). Because some data mining applications cannot predict non-binary variables, some finessing of the data will be required if you are modelling categorical responses using non-categorical software. The inputs to the data mining system are the input variables and all of the demographic characteristics that you might have available, especially any overlay data that you combined with your prospect list.

In the end, a model (or models, if you are predicting multiple categorical response behaviour) will be produced that will predict the response behaviour that you are interested in. The models can then be used to score lists of prospect customers in order to select only those who are likely to response to your offer. Depending on how the data vendors you work with operate, you might be able to provide them with the model, and have them send you only the best prospects. In the situation in which you are purchasing overlay data in order to aid in the selection of prospects, the output of the modelling process should be used to determine whether all of the overlay data is necessary. If a model does not use some of the overlay variables, you might want to save some money and leave out these unused variables the next time you purchase a prospect list.

When Prospects Become Customers

As the focus of your program shifts from acquisition to retention, the goals become those of establishing loyalty, advancing the relationship and building a sense of community, participation and affinity. As with prospecting, however, the data strategy should also help determine whether customers do or don't meet the company's criteria for retention.

Look for factors that will feed back into the acquisition cycle to reduce marketing costs, increase success rates or both. Look for trends in the length of customer relationships and determine if

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steps can be taken to avert the loss of customers at critical points along the way. Even a small improvement in retention can result in a significant rise in profitability and your overall ROI.

Since all organizations continually update customer data, reviewing and analyzing the data will identify opportunities where up-selling, cross-selling and service sales can be increased. Sales data, for instance, can indicate which customers are due for product/service upgrades or warranty extensions.

The development of the data strategy as it relates to retention issues should address questions such as:

(a) What characterizes our best customers, and what keeps them loyal?

(b) How do the information and service needs of new customers differ from those of established customers?

(c) Is it necessary to keep all prospect information once a customer relationship is established?

(d) What changes does the organization need to make as the relationship goes along?

(e) Were any products returned and why?

(f) How many service calls did customers place?

(g) How were they resolved?

(h) What was the time to resolution on those calls?

(i) What is the potential for developing other customers such as these?

(j) Why does one group or class of customer respond to opportunities when another does not?

(k) Choice of a CRM Platform

A company's choice of a CRM solution will affect its ability to collect, analyze and use data. A balanced CRM solution should offer the functionality the organization needs and provide the agility to help users address changing demands in the marketplace. The ideal CRM solution should be timely in that it is quick to install and deploy, and it should be cost-effective from its initial deployment through its long-term use.

All information about a particular customer should be in one database (not separate databases for marketing, sales or support), and everyone in the organization should be looking at the same data. Universal access to information by all departments makes it possible to present a unified face to each customer.

In addition, the CRM solution should be customizable to reflect the unique business outlook and preferences of the organization using it. It should be readily reconfigurable to record new types of information or to discontinue collecting information that is no longer relevant or is not useful. In short, it should be adaptable to new requirements as the needs of the organization evolve.

Today's Internet technology enables companies to use customized relationship management services hosted by Application Service Providers (ASPs). An Internet-based solution can make it easy for prospects and customers to use self-service tools and information request forms via the Web. The CRM solutions offered by the best ASPs include management and administrative tools to monitor application usage and provide expected levels of service.

Developing an effective data strategy for the CRM process is a way to develop the information you need to better run your company. Ultimately, it comes down to deciding who you want to pursue as prospects and retain as customers. Your CRM solution should provide you with the tools and flexibility to support that quest on an ongoing basis.

Intelligent analysis of data can indicate whether a company's activities are in line with its goals for customer acquisition and retention. It can be crucial to both the speed and the quality of the company's response, and it can influence the future direction of your product and service offerings.

Most importantly, a well-developed data strategy and its effective use in concert with your CRM system will allow you to be selective in the types of customers with whom you choose to deal.

Common Mistakes in Customer Acquisition Strategies

Understanding these common mistakes is an important step toward overcoming them and toward developing effective customer acquisition programs.

1. ***Confusion Regarding New Customer:*** Marketing professionals have long recognized the semantic confusion over the concept of "new." The question is what is a 'new' customer? The most frequent answer is that a new customer is someone new to the community. Individuals just moving into the community are important to the business, and most retailers would like to capture as many of these new customers as possible. However, "new to the community" constitutes a narrow definition that leads many retailers to mistakenly underestimate the opportunity to attract new customers.

   Demographic information about many communities suggests that the number of new households or individuals moving into markets is small. In some markets, the demographics may suggest that the community is losing population. With such information, it is easy for marketers to conclude that the opportunity a "new customer acquisition" strategy provides is small at best.

   A substantially broader definition of new is new customer for the business. Effective new customer acquisition programs recognize the importance of capturing new relationships among individuals and households already in the market who need some type of new product and are not currently customers of the company. It is important to capture a major share of customers, "new to the community" as well as the "new accounts of existing residents" who are not currently customers.

2. ***Targeting Promotional Messages Poorly:*** Often, retailers that pursue an active customer acquisition strategy tend to have a marketing strategy so broad that it produces little success. These broad customer acquisition programs tend to use newspapers as their primary marketing medium. In some markets, newspaper advertising efforts are supported by television or radio advertising.

   In reality, the best opportunities to attract new customers are directly associated with their geographic proximity. The closer the customer is to a business establishment, the more likely it is that the marketers can turn that non-customer into a new customer.

   The best medium to deliver promotional messages to a clearly identifiable set of customers or prospective new customers is direct mail. However, many marketers refuse to consider direct mail seriously because they continue to associate it with "junk mail."

   But direct mail provides a cost-effective, highly targeted way to get promotional messages to specific groups at a desired frequency. It avoids the substantial waste of broader promotional media, including newspapers.

3. ***Paying Inadequate Attention to New Customer Products:*** The new customer promotional programs of many businesses tend to focus on one product. This approach fails to recognize

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the variety of circumstances individuals and households face in purchasing new products. To succeed, it is necessary to promote a number of different products that meet the customer's specific needs.

4. ***Failing to Offer Price Appeals:*** While marketing arenas are intensely competitive with consumers increasingly demanding discounts, coupons and other price benefits when making decisions; many retailers' customer acquisition programs ignore the importance of price appeals.

5. ***Failing to Offer Premiums:*** Premiums operate at two levels within customer acquisition programs. The first involves the prospective customer, and the second involves the current customer. Many customer acquisition programs do not offer an attractive, immediate incentive to which prospective customers may respond, despite substantial evidence that such premiums motivate prospective customers to take immediate action. Substantial evidence also exists that premiums are cost-effective in customer acquisition programs.

Customer Acquisition Cost

Customer acquisition cost is the cost associated with convincing a consumer to buy your product or service, including research, marketing, and advertising costs. An important business metric, customer acquisition cost should be considered along with other data, especially the value of the customer to the company and the resulting Return on Investment (ROI) of acquisition. The calculation of customer valuation helps a company decide how much of its resources can be profitably spent on a particular customer.

At the height of the dot.com bubble, companies frequently ignored such calculations in their pursuit of growth. For example, according to Optimize Magazine, at one point CDnow Online was spending about US $40 to acquire each customer, although the average lifetime value of a customer to them was only about US $25. The Optimize article suggests that it is not good business sense to spend more acquiring a customer than the amount that customer will net the company in return.

Customer acquisition cost is calculated by dividing total acquisition expenses by total new customers. However, there are different opinions as to what constitutes an acquisition expense. For example, rebates and special discounts do not represent an actual cash outlay, yet they have an impact on cash (and, presumably, on the customer).

Acquisition costs vary across industries and mediums. When acquisition data is available, try to determine if you are comparing apples to apples, so to speak. This is not always easy, as customer acquisition data can be scarce, and the methodology is often sketchy.

4.2.3 Customer Acquisition Management

Customer acquisition management is a term used to describe the methodologies and systems to manage customer prospects and inquiries, generally generated by a variety of marketing techniques. It can be considered the connectivity between advertising and customer relationship management. This critical connectivity facilitates the acquisition of targeted customers, in the most effective fashion.

Customer acquisition management has many similarities to lead management. Sometimes missing from lead management definitions, but always included in customer acquisition management, is a closed loop reporting system. Such a reporting system typically allows the organization to quantify the effectiveness of results of various promotional activities. This allows organizations to realize continuous improvements in both promotional activities and customer acquisition systems.

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Customer acquisition management also often includes the original response to a prospect immediately after their inquiry. This response could come in many forms – a personalized fulfilment letter and brochure, an e-mail responses or a telephone call. In each case the initial response is targeted to further the interest of the prospect and simplify the initial sales call for the sales channel.

Like lead management, customer acquisition management creates an orderly architecture for managing large volumes of customer inquiries, or leads. The architecture must be able to organize numerous leads, at various stages of a sales process, across a distributed sales force. In order to understand this process it is helpful to examine a simplified linear lead flow process, such as the following:

1. Advertising and CRM
2. Customer inquiry or response
3. Inquiry captured
4. Inquiry filtered
5. Lead graded and prioritized
6. Lead distribution
7. Sales contact
8. Lead nurturing or retention
9. Sales result
10. Analysis of promotions effectiveness

The lead flow process can become enormously complex as customers and sales professionals begin to interact. These various interactions and subsequent actions can create a variety of scenarios, both productive and counterproductive. This exponential number of scenarios can provide for numerous opportunities to mishandle leads in such a way as to reduce their value. Managing these scenarios is the function of lead management.

Task What is meant by customer acquisition?

Self Assessment

Fill in the blanks:

6. Choice Reduction and Habit is a component of …………………….
7. Binary response behaviour is the …………………… kind of response behaviours.
8. Full form of CAC is …………………….
9. …………………… include the methodologies and systems to manage customer prospects and inquiries, generally generated by a variety of marketing techniques.
10. The best medium to deliver promotional messages to a clearly identifiable set of customers or prospective new customers is …………………….

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4.3 Customer Expectation

Customer expectations are beliefs about service delivery that serve as standards or reference points against which performance is judged. Because customers compare their perceptions of performance with these reference points when evaluating service quality, thorough knowledge about customer expectations is critical to services marketers. Knowing what the customer expects is the first and possibly most critical step in delivering good quality service. Being wrong about what customers want can mean losing a customer's business when another company hits the target exactly. Being wrong can also mean expending money, time and other resources on things that do not count to the customer. Being wrong can even mean not surviving in a fiercely competitive market.

Among the aspects of expectations that need to be explored and understood for successful services marketing are the following: what types of expectation standards do customers hold about services? What factors most influence the formation of these expectations? What role do these factors play in changing expectations? How can a service company meet or exceed customer expectations?

Meaning and Types of Service Expectations

To say that expectations are reference points against which service delivery is compared is only a beginning. The level of expectation can vary widely depending on the reference point the customer holds. Although most everyone has an intuitive sense of what expectations are, service marketers need a far more thorough and clear definition of expectations in order to comprehend, measure and manage them.

Let us imagine that you are planning to go to a restaurant. Figure 4.6 shows a continuum along which different possible types of service expectations can be arrayed from low to high. On the left of the continuum are different types or levels of expectations, ranging from high (top) to low (bottom). At each point we give a name to the type of expectation and illustrate what it might mean in terms of a restaurant you are considering. Note how important the expectation you held will be to your eventual assessment of the restaurant's performance. Suppose you went into the restaurant for which you held the minimum tolerable expectation, paid very little money and were served immediately with good food. Next suppose that you went to the restaurant for which you had the highest (ideal) expectations, paid a lot of money and were served good (but not fantastic) food. Which restaurant experience would you judge to be best? The answer is likely to depend a great deal on the reference point that you brought to the experience. Because the idea of customer expectations is so critical to evaluation of service, we start this unit by talking about the levels of expectations.

Expected Service: Levels of Expectations

As we showed in Figure 4.6, customers hold different types of expectations about service. For purposes of our discussion in the rest of this unit, we focus on two types. The highest can be termed desired service: the level of service the customer hopes to receive – the 'wished for' level of performance. Desired service is a blend of what the customer believes 'can be' and 'should be'.

For example, consumers who sign up for a computer dating service expect to find compatible, attractive, interesting people to date and perhaps even someone to marry. The expectation reflects the hopes and wishes of these consumers; without these hopes and wishes and the belief that they may be fulfilled, consumers would probably not purchase the dating service. In a similar way, you may use an online travel-planning and flight-booking site such as Expedia to

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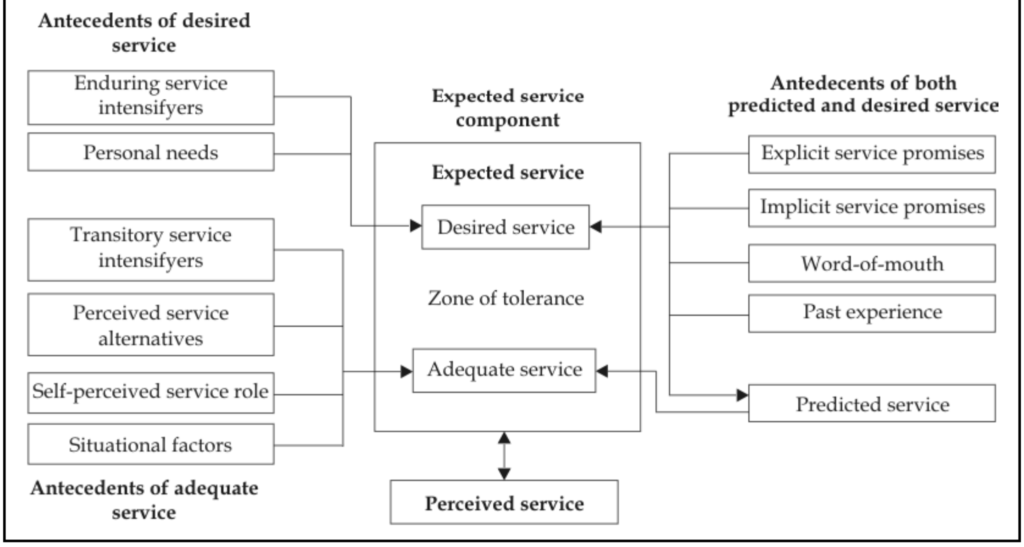
book a short holiday to Venice at Easter. What are your expectations of the service? In all likelihood you want Expedia to find you a flight exactly when you want to travel and a hotel close to the key sights in Piazza San Marco at a price you can afford – because that is what you hope and wish for.

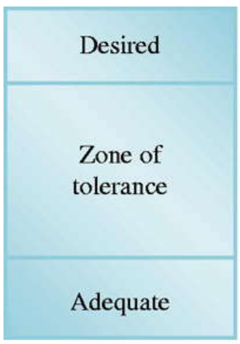
Figure 4.6: Possible Levels of Customer Expectations



Source: http://www.sciencedirect.com/science/article/pii/S0967070X0600062X

However, you probably also see that demand at Easter may constrain the availability of airline seats and hotel rooms. And not all airlines or hotels you may be interested in may have a relationship with Expedia. In this situation and in general, customers hope to achieve their service desires but recognise that this is not always possible. We call the threshold level of acceptable service adequate service – the level of service the customer will accept. So the customer may put up with a flight at a less than ideal time and stay at a hotel further away from the key Venetian sites, if he or she really wants to travel at Easter. Adequate service represents the 'minimum tolerable expectation,' the bottom level of performance acceptable to the customer.

Figure 4.7: Dual Customer Expectation Levels



Source: Parasuraman et at. (1991 a, b)

Figure 4.7 shows these two expectation standards as the upper and lower boundaries for customer expectations. This figure portrays the idea that customers assess service performance on the basis of two standard boundaries: what they desire and what they deem acceptable.

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Among the intriguing questions about service expectations is whether customers hold the same or different expectation levels for service firms in the same industry. For example, are desired service expectations the same for all restaurants? Or just for all fast-food restaurants? Do the levels of adequate service expectations vary across restaurants? Consider the following quotation:

"Levels of expectation are why two organizations in the same business can offer far different levels of service and still keep customers happy. That is why, McDonald's can extend excellent industrialized service with few employees per customer and why an expensive restaurant with many tuxedoed waiters may be unable to do as well from the customer's point of view."

Customers typically hold similar desired expectations across categories of service, but these categories are not as broad as whole industries. Among subcategories of restaurants are expensive restaurants, ethnic restaurants, fast-food restaurants and airport restaurants. A customer's desired service expectation for fast-food restaurants is quick, convenient, tasty food in a clean setting. The desired service expectation for an expensive restaurant, on the other hand, usually involves elegant surroundings, gracious employees, candlelight and fine food. In essence, desired service expectations seem to be the same for service providers within industry categories or subcategories that are viewed as similar by customers.

The adequate service expectation level, on the other hand, may vary for different firms within a category or subcategory. Within fast-food restaurants, a customer may hold a higher expectation for McDonald's than for Burger King, having experienced consistent service at McDonald's over time and somewhat inconsistent service at Burger King. It is possible, therefore, that a customer can be more disappointed with service from McDonald's than from Burger King even though the actual level of service at McDonald's may be higher than the level at Burger King.

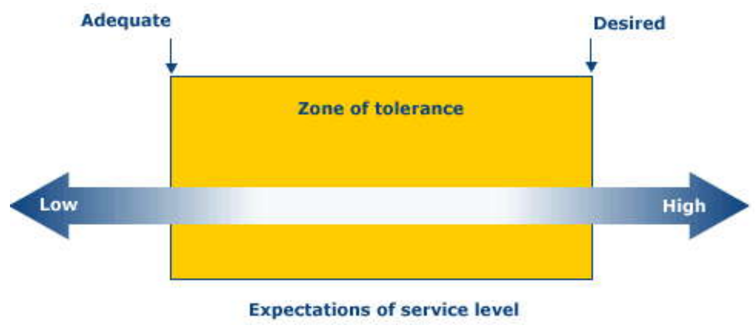
Notes Organisations should practice total quality marketing with emphasis on internal marketing. Effective internal marketing practiced would indicate the quality standard of the input process, output, and other related aspects as viewed by the organisation's internal customers. This would enable the organisation to initiate steps to improve the practice, procedure, process and performance of people associated with external customers. This attempt would obviously contribute towards customer retention.

4.3.1 Zone of Tolerance

Services are heterogeneous in that performance may vary across providers, across employees from the same provider, and even with the same service employee. The extent to which customers recognize and are willing to accept this variation is called the zone of tolerance and is shown in Figure 4.8. If service drops below adequate service – the minimum level considered acceptable – customers will be frustrated and their satisfaction with the company will be undermined. If service performance is higher than the zone of tolerance at the top end – where performance exceeds desired service – customers will be very pleased and probably quite surprised as well. You might consider the zone of tolerance as the range or window in which customers do not particularly notice service performance. When it falls outside the range (either very low or very high), the service gets the customer's attention in either a positive or negative way. As an example, consider the service at a checkout queue in a grocery store. Most customers hold a range of acceptable times for this service encounter – probably somewhere between five and 10 minutes. If service consumes that period of time, customers probably do not pay much attention to the wait. If a customer enters the line and finds sufficient checkout personnel to serve him or her in the first two or three minutes, he or she may notice the service and judge it as excellent. On the other hand, if a customer has to wait in line for 15 minutes, he or she may begin to grumble and look at his or her watch. The longer the wait is below the zone of tolerance, the more frustrated the customer becomes.

Customers' service expectations are characterized by a range of levels (like those shown in Figure 4.7) bounded by desired and adequate service, rather than a single level. This tolerance zone, representing the difference between desired service and the level of service considered adequate, can expand and contract within a customer. An airline customer's zone of tolerance will narrow when he or she is running late and is concerned about making it in time for his or her plane. A minute seems much longer, and the customer's adequate service level increases. On the other hand, a customer who arrives at the airport early may have a larger tolerance zone, making the wait in line far less noticeable than when he or she is pressed for time.

Figure 4.8: Zone of Tolerance



Source: http://www.open.ac.uk/cpdtasters/gb011/images/QU4.gif

This example shows that the marketer must understand not just the size and boundary levels for the zone of tolerance but also when and how the tolerance zone fluctuates with a given customer.

Different Customers Possess Different Zones of Tolerance

Another aspect of variability in the range of reasonable services is that different customers possess different tolerance zones. Some customers have narrow zones of tolerance, requiring a tighter range of service from providers, whereas other customers allow a greater range of service.

Example: Very busy customers would likely always be pressed for time, desire short wait times in general and hold a constrained range for the length of acceptable wait times. When it comes to meeting plumbers or repair personnel at their home for problems with domestic appliance, customers who work outside the home have a more restricted window of acceptable time duration for that appointment than do customers who work in their homes or do not work at all.

An individual customer's zone of tolerance increases or decreases depending on a number of factors, like company-controlled factors such as price. When prices increase, customers tend to be less tolerant of poor service. In this case, the zone of tolerance decreases because the adequate service level shifts upward. Later in this unit we will describe many different factors, some company controlled and others customer controlled, that lead to the narrowing or widening of the tolerance zone.

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Caselet

Customer Expectations of Virgin Trains

Virgin Trains is a brand that has had the major challenge of bringing the UK rail industry into the 20th century. The company is responsible for linking towns and cities across the length and breadth of the country with over 35 million passenger journeys each year. It has therefore undertaken a signicant level of marketing research to identify what people expect from train travel. Many passengers have now had the experience of travelling on airlines or on overseas railways and as a result their expectations from long-distance train travel have increased.

The research has highlighted the signicant and highly diverse expectations that customers have of train travel. No longer is a seat and access to toilets and basic refreshments acceptable; passengers now expect – demand even – a choice of on-board meals, health-conscious snacks, reading material and entertainment. Business, and increasingly leisure, travellers also want access to the Internet and emails through on-board wireless Internet and the opportunity to use and charge their laptop and mobile. This clearly demonstrates that customer expectations of service performance do not remain constant. Organizations need to be aware of how these expectations are changing and adapt their service offering accordingly.

Source: Adapted from Knight, T. and Deas, S., 'Across the tracks', Research (February 2006)

4.3.2 Expectation Management Strategies

Managing expectations explicitly may not be a daily praxis in most organisations. Companies that tend to be past-oriented use the laissez-faire strategy where attention is paid neither to changing conditions, needs and/or wants on the customer's side nor inside own organisation. The traditional ways of doing things seem to be good enough for the management. However, in today's turbulent business context this strategy is a 'highway to heaven'.

Companies may have a market position where they are not compelled to compete.

Example: In a monopolistic or stabilized oligarchic situation, this may also be the case in the public sector organisations. Therefore, intra-organisational focus is adopted.

Intro-reactive strategy is utilised when paying attention to and reacting on expectation issues raised by employees or business units inside an organisation. This strategy focuses on contemporary action on a short term basis; it is a strategy of 'extinguishing a fire'. This situation occurs mainly when existing expectations, whatever kind they may be, are not met in an everyday praxis. Meeting the defeat in budget allocations, delays and mistakes in internal deliveries, quality failures in products, disappointments in career opportunities etc. are examples of situations where the unmet expectations may be sources of intra-firm conflicts.

When adopting an introvert strategy, an actor ignores the customers and concentrate on the expectations expressed within own organisation. This may be the case in a development unit where future products are innovated and developed in isolation from customers. Medical laboratories, top secret innovations and their development are good example of these. Also the fashion industry as well as many art organisations may use this strategy. In an introvert strategy future is strongly present. History and today may serve as starting points but change is the goal of this strategy.

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In a situation when employee resources are no limitation to a company, main attention may be directed to inter-organisational customers (buyers, bistomers2, and other stakeholders). In an extro-reactive strategy their expectations are handled in a parallel way to that discussed earlier in connection with intro-reactive strategy. The extro-reactive strategy can further be divided into extro-intrareactive and extro-interreactive strategies. In the former, expectations within one relation are in focus while in the latter, the network of relations is taken into account.

Co-reactive strategy refers to a situation where all relation parties in a dyad or network act on short term basis and expectations become an issue mainly in case of a business transaction or when parties express their dissatisfaction, i.e. complain. Then and only then, issues are negotiated to settle the somehow adverse situation. This is the case in many buyer-seller relations where no commitment exists.

Intro-proactive strategists focus heavily on the future of a company or organization and the well-being of the staff. They recognise the role of satisfied, innovative employees, and deploy their creativeness to develop the company. A genuine intercommunication exists; organisational research is a solid part of the overall action, not an ad-hoc hobby. Knowledge acquired by the research is implemented in existing systems and operations. Intro-proactive strategy requires stable market conditions.

An extrovert strategy is appropriate in situations where the company management can rely on the employees' commitment, and need to concentrate on gaining or defending its market share or share of customer. Market and competitor intelligence, as well as identification and utilisation of weak leads become crucial when implementing this strategy. In the organisation, management is preferred to leadership, and the measures used tend to be mainly financial.

Extro-proactive strategies are dividable into extro-introproactive and extro-interproactive depending on the number of collective actors taken into account. Extro-introproactive parties pay a considerable attention on the future expectations of the other party or parties in a relation while being only reactive to the expectations of their own company and employees. Extro-interproactive strategists deploy a wider perspective to the contextual expectations, for instance, those of the industries and societies. Tactics in implementing this strategy add to the earlier mentioned ones leadership to the extent that is needed to 'keep the engines going without ongoing maintenance'.

Co-proactive strategy in managing expectations is the one needed in committed relationships. From the managerial point of view, both management and leadership play crucial roles. The parties understand the importance of intercommunication both inside their organisation as well as in other stakeholder relations. All kinds of expectations are identified as well as their role in the future of intra-organisational, customer and other relations. The process of expectation development must be familiar to the organisation's all management levels. This is crucial because, as we have stated earlier, otherwise we may fall into a trap of taking things for granted and not paying enough attention to important issues. In long institutionalised relationships this may be the fact. However, in the new competition companies have to 'earn' even their relationships over and over again.

Task What are customer's expectations from a product?

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Caution The fact to be noted at this juncture is that the customer, whom an organisation can retain by rendering expected satisfaction, cannot continue to be retained when the customer changes his satisfaction level from expected to desired level and further from desired level to exciting level. Therefore organizations must keep on building up their ability to continuously satisfy their target customers so as to have customer retention. A suitably designed customer satisfaction audit would serve the purpose.

Self Assessment

Fill in the blanks:

11. Companies that tend to be past-oriented use the …………………… strategy.
12. When adopting an …………………… strategy, an actor ignores the customers and concentrate on the expectations expressed within own organisation.
13. …………………… strategists focus heavily on the future of a company or organization and the well-being of the staff.
14. Co-proactive strategy in managing expectations is the one needed in …………………… relationships.
15. An …………………… strategy is appropriate in situations where the company management can rely on the employees' commitment,

Case Study

Customer Retention

Synergy partners with one of America's largest banks to retain customers amidst economic stressors and other difficult challenges.

A large US banking organization and longstanding partner of Synergy's was working with a product wholesaler to offer a variety of fee-based products focused on fraud and identity theft prevention. Essentially, the product wholesaler (also one of Synergy's long-standing business partners) supported the marketing, customer service and retention channel for these particular fee based credit monitoring products.

The product wholesaler, acting as a TPA on behalf of the Bank, sought a solution to address shrinking membership during the economic downturn. Customers, who enrolled in the programs through a variety of channels (outbound telesales, direct mail, IVR, inbound up-sells, banking centre promotions, etc.), were provided a specific toll free number for customer support. An IVR menu offered these customers an option to cancel their subscription to the service. When a consumer opted to cancel, the call was transferred to a contact centre CSR who attempted to retain the customer through a variety of persuasive methods and special offers. The Bank and product wholesaler realized that existing retention efforts were not easily or readily scalable to address the increased volume of potential cancellations they were experiencing, thus an incremental retention solution was required.

Initial conversations with the business partner(s) revealed that the key drivers of cancellation were the "poor economy" and recent changes in the credit card industry.

Contd...

Inasmuch as credit protection services are a primary revenue stream, Synergy was asked to implement a retention program which had the capacity for up to 100K calls per month.

Synergy's Solution

After several "fact-finding" sessions, synergy utilized a comprehensive approach, focusing on systems, processes and people to develop a foundation for success with this challenge.

Systems

Because the nature of this program required CSRs to access highly sensitive data including customers' credit reports, Synergy underwent an extensive "build out" for this campaign, including installation of a walled area with separate entry, card access and security cameras that was separate from Synergy's other client programs. A hybrid technology platform, comprised of the partner's customer account system and Synergy's sophisticated technology interface, was created to insure the highest level of confidentiality and data security while enabling dynamic scripting, contact tracking and reporting/analytics.

Using these tools, along with the banking partner's existing Customer Satisfaction Surveys, Synergy was able to capture and understand Voice of the Customer data, which drove process improvement and ongoing training efforts.

Process

Through continuous interaction and collaboration with both partners, a customized recruiting and training program was developed to cultivate the highest level of CSR success. In keeping with the stringent security requirements, all CSRs were required to undergo an extensive background and credit check as well as other screenings. After completing an extensive initial training period, which focused on the benefits of the various fee based product offerings, CSRs were intensively monitored and coached via "on the-job-training" for a period of time prior to full certification.

Only after certification were CSRs given a marginal amount of flexibility to work with a dynamic script, which provided for specific "touch point" requirements (topics which were required for each call), while allowing for innovative and creative responses to customer objections. This approach significantly increased the conversion rate because it enabled CSRs to overcome objections with a variety of consultative selling approaches that focused on the product value and benefits to that specific consumer. Ongoing call monitoring and reporting enabled Synergy to coach and reinforce best practices.

Synergy also leveraged its direct relationship with the Bank to better understand the Bank's business model and service levels. Because Synergy also provided outbound telesales and inbound up-sells directly for the Bank for the same product they were able to create a "closed loop" information channel between the retention groups and the front end. This enabled all teams to create better scripting, rebuttals and training materials, which focused on the goal of long-term retention.

Synergy used this closed loop process to build on best practices and more effectively coach CSRs. Weekly one-on-one coaching sessions established rapport and trust between the CSRs, supervisors and trainers and drove continual improvement and engagement. Product-specific coaching sessions (developed in a collaborative effort between the partners and Synergy), required the CSR to select a recorded call he/she had completed that day; listen to the call with his/her supervisor; and identify opportunities for improvement and areas of focus.

The supervisor was responsible for coaching the agents on both strong aspects of the call and areas of opportunity. This business intelligence was then used for role playing with the CSR and to inform the entire team via daily "Rally Notes."

Contd...

Notes

Rally Notes (an innovative process developed by Synergy's Operations team and used in many other campaigns) were circulated daily by the front line supervisors. Typically, Rally Notes information about top agents for the day, overall "save rate," retention tips, Synergy updates and partner updates. This method was extremely effective in maintaining a superior level of CSR quality and engagement. Finally, CSR Monthly "re-education" courses were required to provide CSRs with the most up-to-date program information and to share best practices.

People

Synergy's strong emphasis on the front end CSR was demonstrated through a variety of coaching and incentive programs aimed at optimizing performance and engagement while fostering a continual focus on customer delight.

Synergy worked in concert with the partners to recognize several top performers each month. Incentive categories were developed using input from the leadership team and Voice of the Customer feedback. All certified CSRs were eligible for the monthly "Celebrating Success" Awards. Specific awards changed every month based on business drivers and performance. Incentives were built around performance attributes such as: highest save rate, best attendance, team spirit, customer delight and most improved quality.

These categories continually reinforced the "right" behaviour and drove a high level of CSR satisfaction. Because many of the incentives hinged on key performance requirements which included 60-day stick rate, attrition levels were lower for this group, because CSRs were aware that there was always incentive "in the pipeline" for them.

Questions:

1. What are your significant observations about the case?
2. How synergy did gained success over the case?
3. Explain your key learning's of the case.

Source: http://www.synergysolutionsinc.com/customer-retention/

4.4 Summary

- Relationship marketing is emerging as the core marketing activity for businesses operating in fiercely competitive environments.
- On an average, businesses spend six times more to acquire new customers than to keep them. Therefore, many firms are now paying more attention to their relationships with existing customers to retain them and increase their share of customer's purchases.
- Most acquisition marketing campaigns begin with the prospect list. A prospect list is simply a list of customers that have been selected because they are likely to be interested in your products or services.
- As the focus of your program shifts from acquisition to retention, the goals become those of establishing loyalty, advancing the relationship and building a sense of community, participation and affinity. As with prospecting, however, the data strategy should also help determine whether customers do or don't meet the company's criteria for retention.
- Berry and Parasuraman, two early advocates of relationship marketing have developed a framework for understanding the type of relationship strategies.
- The framework suggests that retention marketing can occur at different levels and that each successive level of strategy results in ties that bind the customer a little closer to the firm.

- At each successive level, the potential for sustained competitive advantage is also increased.
- Firms should realize the benefits of effective CRM and invest sizable funds and time to make it appropriate and working.

4.5 Keywords

***Customer Acquisition Cost*:** It is the cost associated with convincing a consumer to buy your product or service, including research, marketing, and advertising costs.

Customer Delight: Customer delight occurs when the customer's perception of their experience of doing business with you exceeds their expectation.

Customer Retention: It is the activity that the selling organization undertakes to reduce customer account defections.

Fear, Uncertainty and Doubts (FUD): Fear, Uncertainty and Doubts, is a marketing strategy. FUD is generally a strategic attempt to influence perception by disseminating negative and dubious or false information. An individual firm, for example, might use FUD to invite unfavourable opinions and speculation about a competitor's product; to increase the general estimation of switching costs among current customers; or to maintain leverage over a current business partner who could potentially become a rival. The term originated to describe disinformation tactics in the computer hardware industry but has since been used more broadly. FUD is a manifestation of the appeal to fear.

GAMP: Global Account Management Programs

***Prospect List*:** A prospect list is simply a list of customers that have been selected because they are likely to be interested in your products or services.

***Response Behaviour*:** The responses that come in as a result of a marketing campaign are called response behaviour.

4.6 Review Questions

1. What do you mean by customer retention strategy?
2. Describe the keys of customer retention.
3. Write short note on emotional bonding.
4. Explain the benefits of customer involvement in product/service development.
5. Define customer acquisition. Discuss the reason for customer acquisition.
6. Describe, in detail, various strategies for customer acquisition.
7. Describe the methodologies and systems to manage customer prospects and inquiries, generally generated by a variety of marketing techniques.
8. What do you understand by the term customer retention? Discuss its importance.
9. Discuss the strategies of customer retention.
10. What are the costs and difficulties of customer retention programs? How will you overcome these hurdles?

Notes

Answers: Self Assessment

1.	Customers retention	2.	P>E
3.	Sales Force Automation	4.	Global Account Management Program
5.	Trust	6.	Customer loyalty
7.	Simplest	8.	Customers Acquisition Cost
9.	Customers acquisition management	10.	Direct mail
11.	laissez-faire	12.	introvert
13.	Intro-proactive	14.	Committed
15.	extrovert		

4.7 Further Readings

Books

Alex Berson, Stephen Smith, Kurt Thearling, *Building Data Mining Applications*, 2004

CGI Group Inc. White Paper, *Building Competitive Advantages through Customer Relationship Management*, January 2001

Customer Relationship Management: A Strategic Perspective, G Shainesh, Jagdish N Sheth

Mohammed H. Peeru and a Sagadevan, *Customer Relationship Management*, Vikas Publishing House, 2004, Delhi

Paul Greenberge, *CRM-Essential Customer Strategies for the 21st Century*, Tata McGraw Hill, 2005

William, G. Zikmund, Raymund McLeod Jr., Faye W. Gilbert,*Customer Relationships Management*, Wiley, 2003

Online links

http://www.beyondphilosophy.com/customer-experience/customer-retention

http://www.customerloyalty.org/

http://www.journalofaccountancy.com/Issues/2008/Dec/ManagingCustomer Profitability.htm

http://www.managementstudyguide.com/customer-retention.htm

Unit 5: Closed Loop Marketing

Notes

CONTENTS

Objectives

After studying this unit, you will be able to:

- Explain the concept of closed loop marketing
- Study the meaning of 360 degree marketing
- Explore the concept of data mining
- Discuss cross selling
- Describe the meaning and usage of up selling

Introduction

The significance of CRM solution lies in its ability to store and retrieve data. The processes that are followed, the systems that are designed and the methods and equipment used all have to be synchronized to deliver the best output to the executives of CRM for realizing the fruits of effective e-CRM. Data mining and knowledge discovery are receiving increasing attention in the business and technological press, among industry analysis and among corporate management.

Aberdeen surveyed 315 enterprises to identify current closed-loop marketing challenges, tactics, and strategies. The study reveals astounding results about the strategic value of closed-loop marketing. Top performing organizations are improving message relevancy, conversion, and Return on Marketing Investments (ROMI) with closed-loop marketing practices and processes.

Along with the study of closed loop marketing, the study of other marketing techniques acquires the status of 360 degree marketing.

Notes

Data mining, the extraction of hidden predictive information from large databases, is a powerful new technology with great potential to help companies focus on the most important information in their data warehouses. Data mining tools predict future trends and behaviours, allowing businesses to make proactive, knowledge-driven decisions. The automated, prospective analyses offered by data mining move beyond the analyses of past events provided by retrospective tools typical of decision support systems. Data mining tools can answer business questions that traditionally consumer time to resolve. They scour databases for hidden patterns, finding predictive information that experts may miss because it lies outside their expectations.

Most companies already collect and refine massive quantities of data. Data mining techniques can be implemented rapidly on existing software and hardware platforms to enhance the value of existing information resources, and can be integrated with new products and systems as they are brought online. When implemented on high performance client/server or parallel processing computers, data mining tools can analyze massive databases to deliver answers to questions such as, "Which clients are most likely to respond to my next promotional mailing, and why?"

5.1 360 Degree Marketing

The concept of 360 Degree Marketing implies developing holistic marketing campaigns that reach all points of contact that surround potential customers. It's the next step in the evolution of cross-channel marketing, dealing mostly with client-centred media strategy and media integration. A full 360 Degree Marketing strategy must include a heavy component of online marketing initiatives, encompassing all aspects of internet marketing, such as SEM and SEO, social media optimization and mobile web applications and technologies, but it also needs to rely on traditional offline marketing strategies, including television, radio, print advertising, promotional events and other offline media.

Eric Grenier says, "The 360 degree marketing concept looks holistically at all of the touch points surrounding the consumer, wherever they are. You can think of it as the next evolution of "cross-channel" marketing, as it's less about media integration and more about a consumer-centric media strategy. It not only includes a heavy online component, but also television, radio, print, events and other offline media."

5.1.1 Concept

Markets are all around us. The idea that, as marketers, we simply need to focus on our external customers and prospects is mistaken, because in this connected world of ours, markets go way beyond this limited view. Think of the whole market and look around you all 360 degrees. It might help to think of it in terms of an old fashioned ship's compass (or a high tech one if you prefer). When you do that you can plot markets at each point of the compass rose and this is what, for me, that compass looks like in figure.

There are, then, four distinct points that we need to consider in 360 Degree Marketing™ and they consist of:

1. External markets (our traditional market focus)
2. Internal markets (our own organisation)
3. Suppliers (their support and continued faith in our organisation is key)
4. Stakeholders (the many organisations that influence the well being of our business)

In a connected world they are all inter-related and networked up. So what we say to one part of this 360 Degree market has impact and implications on many or all of the others. Yet for most marketers their focus is almost exclusively the traditional external markets. The other points of my 360 degree compass barely register. So, it may pay to review each of these in turn.

Notes

Figure 5.1: 360° Marketing Principle

Source: www.coussinsassociates.co.uk Page

90° – The External Market

This involves the marketing that all marketers know and love. As you'll know, the overall approach to make marketing work for you involves understanding your customers and prospective customers (their needs and wants, their aspirations and goals, and their challenges and 'pain') and working out what you can make and supply in response to this at a price that they would be willing to pay. Then it is simply about making sure that they know you supply this stuff and persuading them to buy it. I say 'simply' and, put in those terms, it sounds simple enough, but of course there's a life's work involved in learning how to do that well, getting it right, and making it happen. This is why the universities and business schools make so much money teaching the topic and why there are endless books, articles and blogs on how to do it and make it work for you. Incidentally, if you want fresh marketing communications ideas and especially (but not exclusively) on new media, then you could do a lot worse than subscribe to Marketing Profs (you'll find their home page by clicking here).

180° – The Internal Market

This is solely about marketing to your own organisation. It took me a long while to get this, but internal marketing is vitally important. In fact, in sales and service dominated companies it is probably more important than external marketing. However, in my experience, it is something that most marketers completely neglect or do very poorly. For some reason or another, when it comes to marketing within our own organisation we just don't do it. We don't use our marketing skills and marketing smarts to persuade. Oh sure we tell people about our campaigns, and we may even flag to sales and other departments what is coming up in our marketing communications schedules. But in terms of treating © them as we would a market place, and using our skills to understand their needs and concerns, make things that help and work for them and then communicate benefits and persuade them – in my experience very few marketers have any strategy for this.

But the rewards for everyone involved are substantial, because if you focus some of your marketing skills on persuading your own organisation you can get:

- Better motivated and enthusiastic sales and customer service staff
- More effective sales programmes

Notes

- Increased loyalty and cooperation from your operational team
- A better aligned and motivated R&D team
- Full support for your ideas, product and service developments, and campaigns from the finance guys
- A supportive and engaged senior and non executive management
- All the benefits of an integrated commercial 'community' fully aligned and working together

270° – The Suppliers

Why Market to the Suppliers?

"They're our suppliers for goodness sake. They should be grateful for whatever orders we give them. It's them that should be marketing to us not us to them. We control their success. It's them that should be worried about our issues and challenges not us about theirs."

Well not necessarily. You'll know from your own point of view that when your customers deal considerately with you, you tend to work harder for them. If they are loyal to you, you tend to be more loyal to them, more involved with and interested in them. So it will be the same for your suppliers.

If you want them to work with and support you, to offer you the best deals on their products and services, to see you as a key customer that they admire and like and want to go the extra mile for, then you need to convince them of your worth (and that means much more than simply the order value). You need to tell them about your successes and to sell them the idea of seeing you as one of their key customers. You want them, too, to believe in your future. Where possible you might want their help and support in your campaigning, in offering you discounts and special deals and in giving you exclusives and even financial support. To do all of this you need to market the benefits of doing business with your organisation to them and keep doing it so that they too support you in all you are doing.

All of this is especially true for organisations involved in wholesaling, distribution or who are a providing a channel to the consumer. As you can only be as good as the products that are supplied to you and the organisations that supply them, then you are completely dependent on them. Without their wholehearted support your business will always be held back and your potential limited.

360° – The Stakeholders

You may well recognise this term. It simply refers to all of those who have a stake in your organisation. At first sight you may be thinking that this merely means your shareholders, but, in fact your stakeholder group is almost certainly wider than this. In fact the term 'stakeholders' classically refers to:

1. Staff
2. Suppliers
3. Shareholders (and the analysts that advise them)
4. Other investors and backers (banks and bondholders)
5. The local communities in which you operate
6. Unions

7. Any government organisations and agencies with an interest in your field

8. Any professional or industry body you belong to or who has an impact on your business

Caution The 360 Degree Marketing™ concept strongly advocates a pre-emptive approach to marketing to your union stakeholders.

Caselet

Starbucks: Mobile Campaign to Fight Aids

Right now, there are a lot of key players in the Mobile arena but right now, Starbucks in particular caught our attention. They have shown that knowing your customers is just as important as innovation and ingenuity for executing mobile campaign. Starbucks has a clear track record for leading the way in mobile. The latest mobile strategy by the coffee giant suggests that isn't about to change anytime soon.

Scenario: Increase awareness for the RED initiative that aims to fight AIDS while gaining visibility for users who are new to using mobile apps in conjunction with their Starbucks purchases.

Solution: In partnership with Foursquare, Starbucks developed a campaign in which consumers check-in using their Foursquare app. For every check-in Starbucks donates $1 towards fighting AIDS. Since this campaign centres on in-store activities, Starbucks promotes this campaign right where it counts, in the store itself.

Why it works: Starbucks implemented 3 core strategies – Engage Customers, Partnering and Advertising through Insights

1. Customers leave the store feeling good about their purchase and are likely to associate that feeling with Starbucks moving forward.

2. By partnering with Foursquare, Starbucks is also leveraging a widely used app that in turn provides critical data with insights into mobile marketing and its effect on in-store traffic.

3. Consumers like to participate, and this mere fact will be sure to drive in-store traffic.

4. Advertising the campaign at key checkpoints within the store ensures visibly right when it counts. Who doesn't have time to check-in while waiting for their latte?

Source: http://tuxedotech.com/starbucks

Task What do understand by 360 degree marketing?

Self Assessment

Fill in the blanks:

1. When wee consider 360 degree marketing, it include studying …………………… components of it.

2. …………………… involves the marketing that all marketers know and love.

Notes

3. The concept of marketing inside your own organization relates to …………………….
4. Better motivated and enthusiastic sales and customer service staff is a …………………… for the internal market.
5. Shareholders can also be termed as …………………….

5.2 Data Mining

Data mining is the process for extracting and presenting new knowledge, previously undetectable, selected from databases for actionable decisions. It is the process of analyzing detailed data, to extract and present actionable, implicit, and novel information to solve a business problem.

It is the process of extracting valid, previously unknown, and ultimately comprehensible information from a large database and using it to make crucial business decisions. It is the process of selecting, exploring and modelling large amounts of data to uncover previously unknown patterns for business advantage.

More and more managers are using data mining to help solve their most critical business problems, for example, to increase market shares to improve internal productivity, or to gain a competitive edge.

Data mining expectations need to be realistic, and they must be found on a true understanding of what it is and what it can and cannot do. It is to relate real-world business problems where data mining can play a key role in relationship solutions. There are applications for the technology of data warehousing and/or data mining towards solving business problems, like:

(a) Customer profitability

(b) Customer retention

(c) Customer segmentation

(d) Customer propensity

(e) Channel optimization

(f) Targeted marketing

(g) Risk management

(h) Fraud prevention

(i) Market-basket analysis

(j) Demand forecasting

(k) Price optimization

5.2.1 Stages of Learning

Successfully using relationship technologies is as continually evolving leaning process. The stages that make up the management maturity process are interdependent and inter-related, and the continuous learning becomes highly valuable, through an early understanding of the future maturation actions, experiences, and combining the learning of management. It is vital to know the future; based on historical experiences of the past, which can truly accelerate the maturity process and position for greatly enhanced opportunities.

As the enterprise realises new opportunity and potential, it gains much greater benefits from info-structure by providing universal data access or a new and sophisticated management reporting system. Knowing the future derives enlightened people to seize the opportunity. The knowledge can be applied again and again in a changing business environment this represents a major step forward in information technology, towards the ultimate goal of "continuous insight," where the system will one day constantly monitor events and automatically adapt to a new environment.

As the next step towards this goal, companies should make data mining an integral and continuous part of their business processes. Having built a model, they can regularly calibrate its accuracy and revise it when necessary or on a scheduled basis. They can continue to build more sophisticated and more pin-pointed models, such as around customer segments that they identify. They can map customers in to segments and follow and predict their progress from one segment to another. They can develop "customer lifetime value" models to guide their marketing and product development efforts during the next campaign. Data mining then becomes a way of life and a means of staying ahead of the competition.

Did u know? Data mining algorithms that address tasks have four basic components:

1. ***Model or Pattern Structure:*** determining the underlying structure or functional forms that we seek from the data
2. ***Score Function:*** judging the quality of a fitted model
3. ***Optimization and Search Method:*** optimizing the score function and searching over different model and pattern structures
4. ***Data Management Strategy:*** handling data access efficiently during the search/ optimization

5.2.2 Statistical Perspective on Data Mining

The information age has been matched by an explosion of data. This surfeit has been a result of modern, improved and, in many cases, automated methods for both data collection and storage. For instance, many stores tag their items with a product-specific bar code, which is scanned in when the corresponding item is bought. This automatically creates a gigantic repository of information on products and product combinations sold. Similar databases are also created by automated book-keeping, digital communication tools or by remote sensing satellites, and aided by the availability of affordable and effective storage mechanisms – magnetic tapes, data warehouses and so on. This has created a situation of plentiful data and the potential for new and deeper understanding of complex phenomena. The very size of these databases however means that any signal or pattern may be overshadowed by "noise".

Consider for instance the database created by the scanning of product bar codes at sales checkouts. Originally adopted for reasons of convenience, this now forms the basis for gigantic databases as large stores maintain records of products bought by customers in any transaction. Some businesses have gone further: by providing customers with an incentive to use a magnetic-striped frequent shopper card, they have created a database not just of product combinations but also time-sequenced information on such transactions. The goal behind collecting such data is the ability to answer questions such as "If potato chips and ketchup are purchased together, what is the item that is most likely to be also bought?", or "If shampoo is purchased, what is the most common item also bought in that same transaction?". Answers to such questions result in what are called association rules. Such rules can be used, for instance, in deciding on store layout or on promotions of certain brands of products by offering discounts on select combinations. Applications of association rules transcend sales transactions data — indeed.

Notes

An oft-stated goal of data mining is the discovery of patterns and relationships among different variables in the database. This is no different from some of the goals of statistical inference: consider for instance, simple linear regression. Similarly, the pair-wise relationship between the products sold above can be nicely represented by means of an undirected weighted graph, with products as the nodes and weighted edges for the presence of the particular product pair in as many transactions as proportional to the weights. While undirected graphs provide a graphical display, directed a cyclic graphs are perhaps more interesting – they provide understanding of the phenomena driving the relationships between the variables. The nature of these relationships can be analyzed using classical and modern statistical tools such as regression, neural networks and so on.

Another aspect of knowledge discovery is supervised learning. Statistical tools such as discriminant analysis or classification trees often need to be refined for these problems. Some additional methods to be investigated here are k-nearest neighbour methods, bootstrap aggregation or bagging, and boosting which originally evolved in the machine learning literature, but whose statistical properties have been analyzed in recent years by statisticians. Boosting is particularly useful in the context of data streams – when we have rapid data flowing into the system and real-time classification rules are needed. Such capability is especially desirable in the context of financial data, to guard against credit card and calling card fraud, when transactions are streaming in from several sources and an automated split-second determination of fraudulent or genuine use has to be made, based on past experience.

Another important aspect of knowledge discovery is unsupervised learning or clustering, which is the categorization of the observations in a dataset into an a priori unknown number of groups, based on some characteristic of the observations. This is a very difficult problem, and is only compounded when the database is massive. Hierarchical clustering, probability based methods, as well as optimization partitioning algorithms are all difficult to apply here. Maitra (2001) develops, under restrictive Gaussian equal-dispersion assumptions, a multipass scheme which clusters an initial sample, filters out observations that can be reasonably classified by these clusters, and iterates the above procedure on the remainder. This method is scalable, which means that it can be used on datasets of any size.

The field of data mining, like statistics, concerns itself with "learning from data" or "turning data into information".

5.2.3 Clustering

Cluster analysis is used to form groups or clusters of similar records based on several measures made on these records. The key idea is to characterize the clusters in ways that would be useful for the aims of the analysis. This data has been applied in many areas, including astronomy, archaeology, medicine, chemistry, education, psychology, linguistics and sociology.

Example: Biologists have made extensive use of classes and subclasses to organize species. A spectacular success of the clustering idea in chemistry was Mendeleev's periodic table of the elements.

One popular use of cluster analysis in marketing is for market segmentation: customers are segmented based on demographic and transaction history information and a marketing strategy is tailored for each segment. Another use is for market structure analysis identifying groups of similar products according to competitive measures of similarity. In marketing and political forecasting, clustering of neighbourhoods using U.S. postal zip codes has been used successfully to group neighbourhoods by lifestyles. Claritas, a company that pioneered this approach, grouped neighbourhoods into 40 clusters using various measures of consumer expenditure and demographics. Examining the clusters enabled Claritas to come up with evocative names, such as "Bhoemian Mix," "Fur and Station Wagons," and "Money and Brains," for the group that captured the dominant lifestyles. Knowledge of lifestyles can be used to estimate the potential demand for products (such as sports utility vehicles) services (such as pleasure cruises).

In finance, cluster analysis can be used for creating balanced portfolios: Given data on a variety of investment opportunities (e.g., stocks), one may find clusters based on financial performance variables such as return (daily, weekly, or monthly), volatility, beta, and other characteristics, such as industry and market capitalization. Selecting securities from different clusters can help create a balanced portfolio. Another application of cluster analysis in finance is for industry analysis. For a given industry, we are interested in finding groups of similar firms based on measures such as growth rate, profitability, market size, product range, and presence in various international markets. These groups can then be analyzed in order to understand industry structure and to determine, for instance, who is a competitor.

Cluster analysis can be applied to huge amounts of data. For instance, Internet search engines use clustering techniques to cluster queries that user submit. These can then be used for improving search algorithms.

Typically, the basic data used for clusters are a table of measurements on several variables, where each column represents a variable and a row represents a record. Our goal is to form groups of records so that similar records are in the same group. The number of clusters may be pre-specified or determined from the data.

Application of Clustering

In business, clustering may help marketers discover distinct groups in their customer bases and characterize customer groups based on purchasing patterns. In biology, it can be used to derive plant and animal taxonomies, categorize genes with similar functionality, and gain insight into structures inherent in populations. Clustering may also help in the identification of areas of similar land use in an earth observation database, and in the identification of groups of motor insurance policy holders with a high average claim cost, as well as the identification of groups of houses in a city according to house type, value, and geographical location. It may also help classify documents on the WWW for information discovery. As a data mining function, cluster analysis can be used as a stand-alone tool to gain insight into the distribution of data, to observe the characteristics of each cluster, and to focus on a particular set of clusters for further analysis. Alternatively, it may serve as a preprocessing step for other algorithms, such as classification and characterization, operating on the detected clusters.

Data clustering is under vigorous development. Contributing areas of research include data mining, statistics, machine learning, spatial database technology, biology, and marketing. Owing to the huge amounts of data collected in databases, cluster analysis has recently become a highly active topic in data mining research. As a branch of statistics, cluster analysis has been studied extensively for many years, focusing mainly on distance-based cluster analysis. Cluster analysis tools based on k-means, k-medoids, and several other methods have also been built into many statistical analysis software packages or systems, such as S-Plus, SPSS, and SAS.

In machine learning, clustering is an example of unsupervised learning. Unlike classification, clustering and unsupervised learning do not rely on predefined classes and class-labelled training examples. For this reason, clustering is a form of learning by observation, rather than learning by examples. In conceptual clustering, a group of objects forms a class only if it is describable by a concept. This differs from conventional clustering which measures similarity based on geometric distance. Conceptual clustering consists of two components:

1. It discovers the appropriate classes, and
2. It forms descriptions for each class, as in classification.

Notes

The guideline of striving for high intraclass similarity and low interclass similarity still applies. In data mining, efforts have focused on finding methods for efficient and effective cluster analysis in large databases. Active themes of research focus on the scalability of clustering methods, the effectiveness of methods for clustering complex shapes and types of data, high-dimensional clustering techniques, and methods for clustering mixed numerical and categorical data in large databases.

Clustering is a challenging field of research where its potential applications pose their own special requirements. The following are typical requirements of clustering in data mining.

1. ***Scalability:*** Many clustering algorithms work well in small data sets containing less than 200 data objects; however, a large database may contain millions of objects. Clustering on a sample of a given large data set may lead to biased results. Highly scalable clustering algorithms are needed.

2. ***Ability to deal with different types of attributes:*** Many algorithms are designed to cluster interval-based (numerical) data. However, applications may require clustering other types of data, such as binary, categorical (nominal), and ordinal data, or mixtures of these data types.

3. ***Discovery of clusters with arbitrary shape:*** Many clustering algorithms determine clusters based on Euclidean or Manhattan distance measures. Algorithms based on such distance measures tend to find spherical clusters with similar size and density. However, a cluster could be of any shape. It is important to develop algorithms which can detect clusters of arbitrary shape.

4. ***Minimal requirements for domain knowledge to determine input parameters:*** Many clustering algorithms require users to input certain parameters in cluster analysis (such as the number of desired clusters). The clustering results are often quite sensitive to input parameters. Parameters are often hard to determine, especially for data sets containing high-dimensional objects. This not only burdens users, but also makes the quality of clustering difficult to control.

5. ***Ability to deal with noisy data:*** Most real-world databases contain outliers or missing, unknown, or erroneous data. Some clustering algorithms are sensitive to such data and may lead to clusters of poor quality.

6. ***Insensitivity to the order of input records:*** Some clustering algorithms are sensitive to the order of input data, e.g., the same set of data, when presented with different orderings to such an algorithm, may generate dramatically different clusters. It is important to develop algorithms which are insensitive to the order of input.

7. ***High dimensionality:*** A database or a data warehouse may contain several dimensions or attributes. Many clustering algorithms are good at handling low-dimensional data, involving only two to three dimensions. Human eyes are good at judging the quality of clustering for up to three dimensions. It is challenging to cluster data objects in high-dimensional space, especially considering that data in high-dimensional space can be very sparse and highly skewed.

8. ***Constraint-based clustering:*** Real-world applications may need to perform clustering under various kinds of constraints. Suppose that your job is to choose the locations for a given number of new automatic cash stations (ATMs) in a city. To decide upon this, you may cluster households while considering constraints such as the city's rivers and highway networks, and customer requirements per region. A challenging task is to find groups of data with good clustering behaviour that satisfy specified constraints.

9. ***Interpretability and usability:*** Users expect clustering results to be interpretable, comprehensible, and usable. That is, clustering may need to be tied up with specific

semantic interpretations and applications. It is important to study how an application goal may influence the selection of clustering methods.

With these requirements in mind, our study of cluster analysis proceeds as follows. Firstly, we study different types of data and how they can influence clustering methods. Secondly, we present a general categorization of clustering methods. We then study each clustering method in detail, including partitioning methods, hierarchical methods, density-based methods, grid-based methods, and model-based methods. We also examine clustering in high-dimensional space and outlier analysis.

A Categorization of Major Clustering Methods

There exist a large number of clustering algorithms in the literature. The choice of clustering algorithm depends both on the type of data available and on the particular purpose and application. If cluster analysis is used as a descriptive or exploratory tool, it is possible to try several algorithms on the same data to see what the data may disclose.

In general, major clustering methods can be classified into the following categories.

Partitioning Methods

Given a database of n objects or data tuples, a partitioning method constructs k partitions of the data, where each partition represents a cluster, and k< n. That is, it classifies the data into k groups, which together satisfy the following requirements:

1. Each group must contain at least one object, and
2. Each object must belong to exactly one group. Notice that the second requirement can be relaxed in some fuzz partitioning techniques.3

Given k, the number of partitions to construct, a partitioning method creates an initial partitioning. It then uses an iterative relocation technique which attempts to improve the partitioning by moving objects from one group to another. The general criterion of a good partitioning is that objects in the same cluster are "close" or related to each other, whereas objects of different clusters are "far apart" or very different. There are various kinds of other criteria for judging the quality of partitions.

To achieve global optimality in partitioning-based clustering would require the exhaustive enumeration of all of the possible partitions. Instead, most applications adopt one of two popular heuristic methods:

1. The k-means algorithm, where each cluster is represented by the mean value of the objects in the cluster; and
2. The k-medoids algorithm, where each cluster is represented by one of the objects located near the centre of the cluster.

These heuristic clustering methods work well for finding spherical-shaped clusters in small to medium sized databases. For finding clusters with complex shapes and for clustering very large data sets, partitioning-based methods need to be extended.

Hierarchical Methods

A hierarchical method creates a hierarchical decomposition of the given set of data objects. A hierarchical method can be classified as being either agglomerative or divisive, based on how the hierarchical decomposition is formed. The agglomerative approach, also called the "bottom-up" approach, starts with each object forming a separate group. It successively merges

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the objects or groups close to one another, until all of the groups are merged into one (the topmost level of the hierarchy), or until a termination condition holds. The divisive approach, also called the "top-down" approach, starts with all the objects in the same cluster. In each successive iteration, a cluster is split up into smaller clusters, until eventually each object is in one cluster, or until a termination condition holds.

Hierarchical methods suffer from the fact that once a step (merge or split) is done, it can never be undone. This rigidity is useful in that it leads to smaller computation costs by not worrying about a combinatorial number of different choices. However, a major problem of such techniques is that they cannot correct erroneous decisions.

It can be advantageous to combine iterative relocation and hierarchical agglomeration by first using a hierarchical agglomerative algorithm and then refining the result using iterative relocation. Some scalable clustering algorithms, such as BIRCH and CURE, have been developed based on such an integrated approach.

Density-based Methods

Most partitioning methods cluster objects based on the distance between objects. Such methods can find only spherical-shaped clusters and encounter difficulty at discovering clusters of arbitrary shapes. Other clustering methods have been developed based on the notion of density. Their general idea is to continue growing the given cluster as long as the density (number of objects or data points) in the "neighbourhood" exceeds some threshold, i.e., for each data point within a given cluster, the neighbourhood of a given radius has to contain at least a minimum number of points. Such a method can be used to filter out noise (outliers), and discover clusters of arbitrary shape.

DBSCAN is a typical density-based method which grows clusters according to a density threshold. OPTICS is a density-based method which computes an augmented clustering ordering for automatic and interactive cluster analysis.

Grid-based Methods

Grid-based methods quantize the object space into a finite number of cells which form a grid structure. All of the clustering operations are performed on the grid structure (i.e., on the quantized space). The main advantage of this approach is its fast processing time which is typically independent of the number of data objects, and dependent only on the number of cells in each dimension in the quantized space. STING is a typical example of a grid-based method. CLIQUE and Wave-Cluster are two clustering algorithms which are both grid-based and density-based.

Model-based Methods

Model-based methods hypothesize a model for each of the clusters, and find the best fit of the data to the given model. A model-based algorithm may locate clusters by constructing a density function that reflects the spatial distribution of the data points. It also leads to a way of automatically determining the number of clusters based on standard statistics, taking "noise" or outliers into account and thus yielding robust clustering methods.

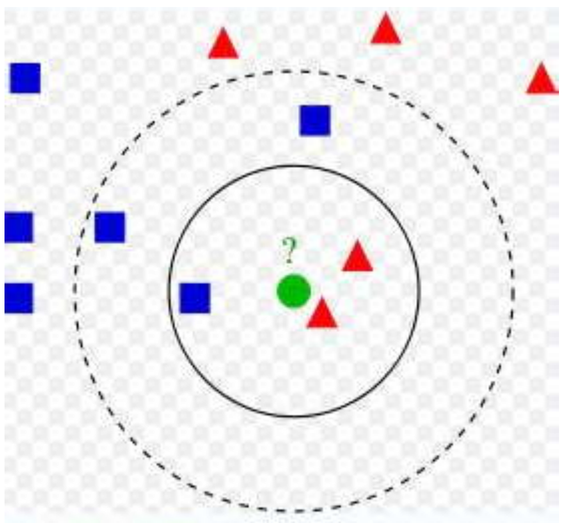
Nearest Neighbour

In pattern recognition, the k-nearest neighbour's algorithm (k-NN) is a method for classifying objects based on closest training examples in the feature space. k-NN is a type of instance-based learning, or lazy learning where the function is only approximated locally and all computation is deferred until classification. It can also be used for regression. The k-nearest neighbour algorithm is amongst the simplest of all machine learning algorithms. An object is classified by a majority vote of its neighbours, with the object being assigned to the class most common amongst its k nearest neighbours. k is a positive integer, typically small. If k = 1, then the object is simply assigned to the class of its nearest neighbour. In binary (two class) classification problems, it is helpful to choose k to be an odd number as this avoids tied votes.

The same method can be used for regression, by simply assigning the property value for the object to be the average of the values of its k nearest neighbours. It can be useful to weight the contributions of the neighbours, so that the nearer neighbours contribute more to the average than the more distant ones.

The neighbours are taken from a set of objects for which the correct classification (or, in the case of regression, the value of the property) is known. This can be thought of as the training set for the algorithm, though no explicit training step is required. In order to identify neighbours, the objects are represented by position vectors in a multidimensional feature space. It is usual to use the Euclidean distance, though other distance measures, such as the Manhattan distance could in principle be used instead. The k-nearest neighbour algorithm is sensitive to the local structure of the data.

Figure 5.2: Example of k-NN Classification



The test sample (green circle) should be classified either to the first class of blue squares or to the second class of red triangles. If k = 3 it is classified to the second class because there are 2 triangles and only 1 square inside the inner circle. If k = 5 it is classified to first class (3 squares vs. 2 triangles inside the outer circle)

Source: http://scn.sap.com/docs/DOC-5036

Algorithm of Nearest Neighbour

Example of k-NN classification: The test sample (green circle) should be classified either to the first class of blue squares or to the second class of red triangles. If k = 3 it is classified to the second class because there are 2 triangles and only 1 square inside the inner circle. If k = 5 it is classified to first class (3 squares vs. 2 triangles inside the outer circle).

The training examples are vectors in a multidimensional feature space. The space is partitioned into regions by locations and labels of the training samples. A point in the space is assigned to the class c if it is the most frequent class label among the k nearest training samples.

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Usually Euclidean distance is used as the distance metric; however this will only work with numerical values. In cases such as text classification another metric, such as the overlap metric (or Hamming distance) can be used.

The training phase of the algorithm consists only of storing the feature vectors and class labels of the training samples. In the actual classification phase, the test sample (whose class is not known) is represented as a vector in the feature space. Distances from the new vector to all stored vectors are computed and k closest samples are selected. There are a number of ways to classify the new vector to a particular class; one of the most used techniques is to predict the new vector to the most common class amongst the K nearest neighbours. A major drawback to using this technique to classify a new vector to a class is that the classes with the more frequent examples tend to dominate the prediction of the new vector, as they tend to come up in the K nearest neighbours when the neighbours are computed due to their large number. One of the ways to overcome this problem is to take into account the distance of each K nearest neighbours with the new vector that is to be classified and predict the class of the new vector based on these distances.

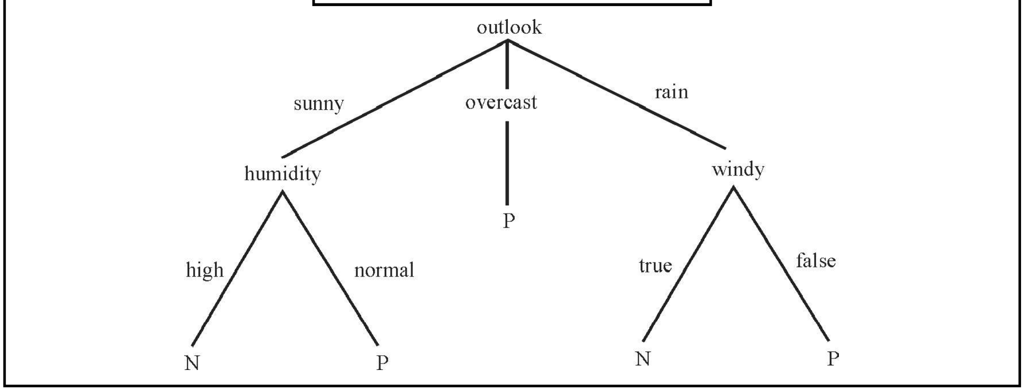
Decision Trees

A decision tree is a structure that can be used to divide up a large collection of records into successively smaller sets of records by applying a sequence of simple decision rules. With each successive division, the members of the resulting sets become more and more similar to one another. The familiar division of living things into kingdoms, phyla, classes, orders, families, genera, and species, invented by the Dwedish botanist Carl Linnaeous in the 1730s, provides a good example. Within the animal kingdom, a particular animal is assigned to the phylum chordata if it has a spinal cord. Additional characteristics are used to further subdivide the chordates into the birds, mammals, reptiles, and so on. These classes are further subdivided until, at the lowest level in the taxonomy, members of the same species are not only morphologically similar, they are capable of breeding and producing fertile offspring.

Decision trees are simple knowledge representation and they classify examples to a finite number of classes, the nodes are labelled with attribute names, the edges are labelled with possible values for this attribute and the leaves labelled with different classes. Objects are classified by following a path down the tree, by taking the edges, corresponding to the values of the attributes in an object.

The following is an example of objects that describe the weather at a given time. The objects contain information on the outlook, humidity etc. Some objects are positive examples denote by P and others are negative i.e. N. Classification is in this case the construction of a tree structure, illustrated in the following diagram, which can be used to classify all the objects correctly.

Figure 5.3: Decision Tree Structure



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Rule Induction

Try to find rules of the form:

IF <left-hand-side> THEN <right-hand-side>

This is the reverse of a rule-based agent, where the rules are given and the agent must act. Here the actions are given and we have to discover the rules!

Prevalence = probability that LHS and RHS occur together (sometimes called “support factor,” “leverage” or “lift”)

Predictability = probability of RHS given LHS (sometimes called “confidence” or “strength”)

Rule-based Algorithms

One of the most well-studied methods for producing sets of classification rules from examples is rule algorithms. They attempt to cover all instances of each class while excluding instances not in the class. The main point is that covering algorithms (rule-based) work on a specific class at a time, ignoring the rest of the classes. For instance, if a rule is desired to classify the weather as warm, then the covering algorithm attempts to x in the statement.

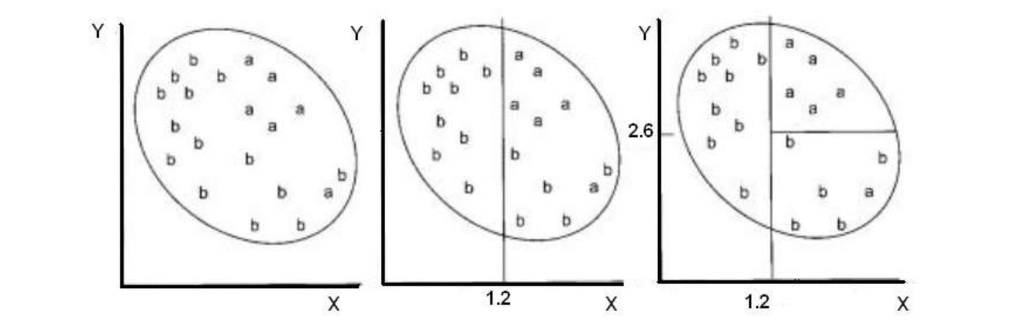
If x, then class = warm,

With the condition that produces the best probability for the weather to be warm. Covering algorithms follows these three steps:

1. Generate rule R on training data S
2. Remove the training data covered by rule R
3. Repeat the process

This method can be visualized in the 2D space of instances illustrated in Figure 5.4. Firstly, a rule is constructed to cover a’s by splitting the space vertically at x = 1.2 and then further splitting it horizontally at y = 2.6, leading to the rule.

Figure 5.4: Covering Algorithm Demonstration



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If x > 1.2 AND y > 2.6, then class = a

Secondly, the following procedure is used to construct rules to cover b’s:

If x d” 1.2, then class = b

If x > 1.2 AND y d” 2.6, then class = b

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Notes Note that one a is incorrectly covered by these rules, and more tests can be added to exclude that a from b's cover and include it in the a's cover.

1R Algorithm

One of the simple approaches used to find classification rules is called 1R, as it generated a one level decision tree. This algorithm examines the "rule that classify an object on the basis of a single attribute".

The basic idea is that rules are constructed to test a single attribute and branch for every value of that attribute. For each branch, the class with the best classification is the one occurring most often in the training data. The error rate of the rules is then determined by counting the number of instances that do not have the majority class in the training data. Finally, the error rate for each attribute's rule set is evaluated, and the rule set with the minimum error rate is chosen.

A comprehensive comparative evaluation of the performance of 1R and other methods on 16 datasets (many of which were most commonly used in machine learning research) was performed. Despite it simplicity, 1R produced surprisingly accurate rules, just a few percentage points lower in accuracy than the decision produced by the state of the art algorithm (C4). The decision tree produced by C4 was in most cases considerably larger than 1R's rules, and the rules generated by 1R were much easier to interpret. 1R therefore provides a baseline performance using a rudimentary technique to be used before progressing to more sophisticated algorithms.

Other Algorithms

Basic covering algorithms construct rules that classify training data perfectly, that is, they tend to over fit the training set causing insufficient generalization and difficulty for processing new data. However, for applications in real world domains, methods for handling noisy data, mechanisms for avoiding over fitting even on training data, and relaxation requirements of the constraints are needed. Pruning is one of the ways of dealing with these problems, and it approaches the problem of over fitting by learning a general concept from the training set "to improve the prediction of unseen instance". The concept of Reduced Error Pruning (REP) was developed by, where some of the training examples were withheld as a test set and performance of the rule was measured on them. Also, Incremental Reduced Error Pruning (IREP) has proven to be efficient in handling over-fitting, and it forms the basis of RIPPER. SLIPPER (Simple Learner with Iterative Pruning to Produce Error Reduction) uses "confidence-rated boosting to learn an ensemble of rules."

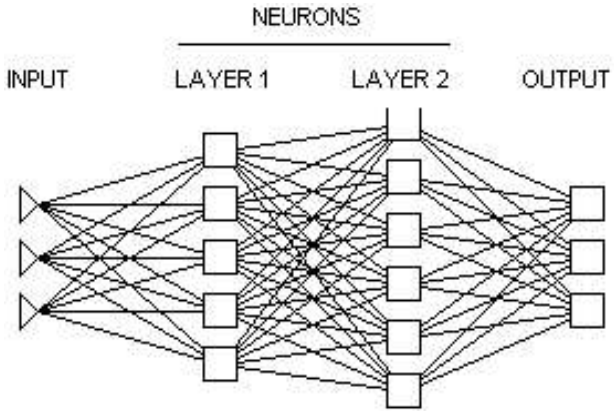
Applications of Rule-based Algorithms

Rule based algorithms are widely used for deriving classification rules applied in medical sciences for diagnosing illnesses, business planning, banking government and different disciplines of science. Particularly, covering algorithms have deep roots in machine learning. Within data mining, covering algorithms including SWAP-1, RIPPER, and DAIRY are used in text classification, adapted in gene expression programming for discovering classification rules.

Neural Networks

Neural Networks are analytic techniques modelled after the (hypothesized) processes of learning in the cognitive system and the neurological functions of the brain and capable of predicting new observations (on specific variables) from other observations (on the same or other variables) after executing a process of so-called learning from existing data. Neural Networks is one of the Data Mining techniques.

Figure 5.5: Neural Network



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The first step is to design a specific network architecture (that includes a specific number of "layers" each consisting of a certain number of "neurons"). The size and structure of the network needs to match the nature (e.g., the formal complexity) of the investigated phenomenon. Because the latter is obviously not known very well at this early stage, this task is not easy and often involves multiple "trials and errors."

The new network is then subjected to the process of "training." In that phase, neurons apply an iterative process to the number of inputs (variables) to adjust the weights of the network in order to optimally predict (in traditional terms one could say, find a "fit" to) the sample data on which the "training" is performed. After the phase of learning from an existing data set, the new network is ready and it can then be used to generate predictions.

Neural networks have seen an explosion of interest over the last few years, and are being successfully applied across an extraordinary range of problem domains, in areas as diverse as finance, medicine, engineering, geology and physics. Indeed, anywhere that there are problems of prediction, classification or control, neural networks are being introduced. This sweeping success can be attributed to a few key factors:

Power: Neural networks are very sophisticated modelling techniques capable of modelling extremely complex functions. In particular, neural networks are nonlinear (a term which is discussed in more detail later in this section). For many years linear modelling has been the commonly used technique in most modelling domains since linear models have well-known optimization strategies. Where the linear approximation was not valid (which was frequently the case) the models suffered accordingly. Neural networks also keep in check the curse of dimensionality problem that bedevils attempts to model nonlinear functions with large numbers of variables.

Ease of use: Neural networks learn by example. The neural network user gathers representative data, and then invokes training algorithms to automatically learn the structure of the data. Although the user does need to have some heuristic knowledge of how to select and prepare data, how to select an appropriate neural network, and how to interpret the results, the level of user knowledge needed to successfully apply neural networks is much lower than would be the case using (for example) some more traditional nonlinear statistical methods.

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Neural networks are also intuitively appealing, based as they are on a crude low-level model of biological neural systems. In the future, the development of this neurobiological modelling may lead to genuinely intelligent computers.

Applications for Neural Networks

Neural networks are applicable in virtually every situation in which a relationship between the predictor variables (independents, inputs) and predicted variables (dependents, outputs) exists, even when that relationship is very complex and not easy to articulate in the usual terms of "correlations" or "differences between groups." A few representative examples of problems to which neural network analysis has been applied successfully are:

1. ***Detection of medical phenomena:*** A variety of health-related indices (e.g., a combination of heart rate, levels of various substances in the blood, respiration rate) can be monitored. The onset of a particular medical condition could be associated with a very complex (e.g., nonlinear and interactive) combination of changes on a subset of the variables being monitored. Neural networks have been used to recognize this predictive pattern so that the appropriate treatment can be prescribed.
2. ***Stock market prediction:*** Fluctuations of stock prices and stock indices are another example of a complex, multidimensional, but in some circumstances at least partially-deterministic phenomenon. Neural networks are being used by many technical analysts to make predictions about stock prices based upon a large number of factors such as past performance of other stocks and various economic indicators.
3. ***Credit assignment:*** A variety of pieces of information are usually known about an applicant for a loan. For instance, the applicant's age, education, occupation, and many other facts may be available. After training a neural network on historical data, neural network analysis can identify the most relevant characteristics and use those to classify applicants as good or bad credit risks.
4. ***Monitoring the condition of machinery:*** Neural networks can be instrumental in cutting costs by bringing additional expertise to scheduling the preventive maintenance of machines. A neural network can be trained to distinguish between the sounds a machine makes when it is running normally ("false alarms") versus when it is on the verge of a problem. After this training period, the expertise of the network can be used to warn a technician of an upcoming breakdown, before it occurs and causes costly unforeseen "downtime."
5. ***Engine management:*** Neural networks have been used to analyze the input of sensors from an engine. The neural network controls the various parameters within which the engine functions, in order to achieve a particular goal, such as minimizing fuel consumption.

5.2.4 Data Mining Application in Customer Segmentation

Businesses have become increasingly sophisticated in their efforts to capture consumer information, but the process of exploiting consumer information remains relatively immature. Data mining is a process that applies the techniques of artificial intelligence to the task of discovering useful patterns in data, and is proving particularly powerful in the identification of customers sharing the same characteristics. This segmentation of customers into affinity clusters presents new possibilities for customer segmentation.

Many segmentation approaches have been devised and each of these has merit. Experience suggests that most enterprises use a combination of approaches to deliver maximum benefit. The ability to deliver sophisticated segmentation techniques to the business enhances the ability of the enterprise to deliver more tailored marketing programmes, to identify segments that are more important to the business, to identify segments that have been neglected and to become more attentive to previously unrecognized consumer needs.

Increasingly companies realise that consumers differ in their needs, preferences, sensitivities, opinions and behaviours. The transition from mass marketing to target marketing that is currently in progress creates demands for more sophisticated customer segmentation techniques. The key enabler of any segmentation strategy is customer data. Customer data are the raw material that must be captured, integrated and effectively analysed in order to achieve the goal of profiling customers. Before customer data can be integrated they must first be assessed for quality. Inconsistencies in semantics (what the data mean) and the occurrence of null fields are encountered as well as incorrect data. These so-called 'noisy' data must be conditioned and cleansed before proceeding to uncover meaningful patterns.

Once the data are cleansed and integrated they can be interrogated to discover groups of customers sharing the same characteristics and needs. Market segmentation is the process of partitioning the heterogeneous market into separate and distinct homogeneous segments. A segment consists of a group of consumers who react in a similar way to a given set of marketing stimuli. Usually the enterprise defines a segmentation matrix and then, based on the data, would allocate customers to segments. This a priori approach to segmentation defines, in advance, a framework or system that describes characteristics of customers or prospects based on information that is known about those individuals. Some common a priori approaches to looking at segments include loyalty, profitability, sensitivity, usage, demographics, psychographics and attitude. Table 5.1 provides an overview of the common a priori approaches to segmenting customers.

In addition to the a priori approach, data-mining techniques make possible a different approach to segmentation— namely cluster segmentation. The cluster segmentation approach, in direct contrast to the a priori method, seeks to discover naturally occurring clusters of customers who share common characteristics or behave in the same way.

Regardless of the segmentation technique used, the starting point is the collection of the data that provide the variables to construct the segments.

Table 5.1: Common a Priori Customer Segmentation Categories

Segmentation type	Segment definition
Buyer-readiness segmentation	The division of prospects and customers into groups reflecting the different stages which consumers normally pass through during the purchase process. These usually comprise ignorance, awareness, knowledge, preference and conviction.
Benefit segmentation	Dividing the market into groups according to the different benefits that consumers seek from the product.
Occasion segmentation	The division of customers into groups which consume a product or service at particular times, in certain situations, in response to particular events or according to seasonal or cyclical times.
Psychographic/lifestyle segmentation	The division of customers into groups based on lifestyle, social behaviour, values, sensitivities and personality characteristics.
Demographic segmentation	The division of customers into different groups based on demographic variables such as age, gender, family size, income, occupation, education, language, religion, race and nationality.
Life-cycle segmentation	The division of customers into different groups that recognise the different needs of consumers at different stages in their life.

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Geographic segmentation	The division of customers into different groups based on countries, regions, climate and population density.
Loyalty segmentation	The division of customers into different groups based on different degrees of loyalty to supplier or brand.
Product segmentation	The division of customers into different groups based on levels and type of usage of the product or service.
Profitability segmentation	The division of customers into different groups based on the different levels of value or profitability of the customers.
Interaction segmentation	The division of customers into different groups based on their preferences regarding channels, payment method, promotions and communications.
Satisfaction segmentation	The division of customers into different groups based on their recorded satisfaction levels, complaint history, fault history and upgrade history.

The segmentation proposed is compounded for magnitudes such as age, rent level, potential value, and customer connection.

These magnitudes clearly define the reasons for specialized commercial strategy.

Age: There is no doubt that age conditions different behaviours or attitudes in customers.

Income Level: The customer's income level is, in banks, one of the main parameters used to define a customer profile and what they are expecting to receive from the entity.

Customer Value: Understood that future expected fluxes of profitability, incomes, etc., it fixes the investment for each type of customer.

Client Connection: This links the customer relationship and loyalty level with the entity.

We are now going to show in detail the methodological process to calculate the income level and the potential value of the parameters.

Income Level

The procedure to calculate a customer's income level has several steps:

1. ***Direct Income Calculation:*** There are a certain percentage of customers for whom the income calculation is obtained directly from derived transformations of other variable values. For example, payroll or pension, recurring incomes, etc. . . . On average, in the Spanish Banking Sector is able to calculate income level by this process for 40% of the population.
2. ***Advance Income Estimation:*** For the other 60% of the population, the income calculation is obtained by statistical inference. They assign to each customer, whose rent is unknown, the same rent interval of those others with which the distance in behavioural terms is lowest.

This is calculated with the following:

1. ***Behavioural clustering:*** By vote algorithm or a distance-based algorithm (mainly k-means), we are able to identify, through an iterative procedure defined in five steps, customer segments with similar behavioural. This previous step is essential in order to set a predictive algorithm to assign each customer a winning probability of having a certain income level.

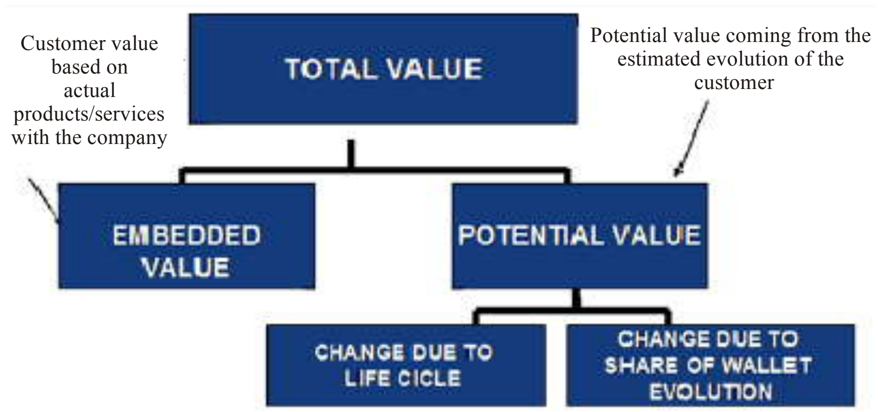
2. *Forecasting classification:* For each of the identified segments and desired levels of income forecast (i.e. low, medium, high), a forecasting algorithm is created (i.e. Chaid, RRNN) that will determine the probability that a customer belongs to each of the categories.

3. *Distribution and transformation analysis:* Once the probability of belonging to each level of income for each customer is calculated, a comparison of the income distribution over the population will be performed. This income will be calculated with direct methods, whose final value has been forecasted by data mining.

Customer Value Calculation

The methodological procedure of the customer value calculation is developed by taking into account the present positioning of each customer and the future projections derived of the potential increase.

Figure 5.6: Total Customer Value



Source: http://misbridge.mccombs.utexas.edu/knowledge/topics/crm/&docid=AjVlEPe06p17DM&imgurl

From a strategic point of view, the breakdown of the total customer value into the present and potential value will allow the definition of differential commercial strategies.

There are two variants in the potential value calculation: complete and derived, understanding that derived is the value of the customer, also considering the possible risk of attrition.

Caution The final component in any data mining algorithm is the data management strategy; the ways in which the data are stored, indexed, and accessed.

Task Explain the applicability of data mining techniques.

Self Assessment

Fill in the blanks:

6. Data mining expectations need to be …………………….

7. Neural networks are non …………………….

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8. A …………………… is a structure that can be used to divide up a large collection of records into successively smaller sets of records by applying a sequence of simple decision rules.
9. Cluster analysis is used in marketing for market …………………….
10. …………………… techniques make possible a different approach to segmentation, namely cluster segmentation.

5.3 Cross Selling and Up Selling

Cross-selling and up selling are marketing techniques that are applied during the sales process to increase the value of the transaction to both the buyer and the seller. Technically, they only increase the value to the seller – but they *should* also be increasing the value to the buyer.

The key idea behind both cross-selling and up selling is that you are changing a transaction that is *already in process*. You might think that marketing ends once buying begins. Not so. Marketing is about getting the right message (buy something from us) to the right person (someone who needs our products) at the right time (when they are ready to buy).

1. *What better time to market* than when someone is in the process of buying already?
2. *Who better to market to* than someone who is in the process of buying from us?

The trick then, is in sending the right marketing message.

Cross-selling and up selling only make sense in the context of an ongoing sales process. For an eCommerce retailer (a company that sells a product online), that means that the customer (technically, the prospective customer, also known as a prospect) is in the process of making a purchase – either looking for the right product, evaluating a specific product, or having selected (but not yet purchased) a product.

1. ***Cross-selling*** is defined as selling an additional product when the customer is purchasing the original product.
2. ***Up selling*** is defined as selling a more expensive product instead of the product that the customer was originally purchasing.

As a retailer, you have to know when to attempt to cross-sell, and when to propose an up sell – and when to do both. To decide when to try and modify (and risk losing) a sale, you have to look at the economic impact on your business of trying to change an ongoing sale. Cross-selling does not help you make a sale that you wouldn't already have made – although an up sell suggestion may help a customer discover a "better" product for their needs, and close a sale that would have been abandoned otherwise.

Notes To keep the language of this article easier to read, the word "product" is being used to represent (traditional) products and services – anything a business would sell.

Economics of Selling

To evaluate the economics of cross-selling, you have to first establish the economic measures of selling. When you sell something you have the following:

1. ***Price:*** The price the customer pays for the product being purchased. This is also known as revenue.
2. ***Cost:*** The cost to the merchant to acquire or create the product being purchased. Also known as "COGS" – an acronym for cost of goods sold.

3. ***Gross Profit:*** The price paid by the customer minus the cost of the product.
4. ***Cost of Sale:*** The cost the merchant incurs to make the sale. For an individual transaction, this is called "cost per quote" or "cost per order" or "cost per sale."
5. ***Net Profit:*** The gross profit minus the cost per sale. This is also known as operating income.

As an online retailer, you will likely track all of the above. Your *Cost of Sale* is potentially difficult to measure – you will probably have a mixture of variable costs and fixed costs that can be allocated to the cost of sales.

1. If you pay US $1,000 per month to host your eCommerce website (making sales possible) and you make 1,000 sales per month, you could allocate US $1 per sale as a cost per sale.
2. If you pay 2.5% of the price collected to a credit card processing service, and you sold a product for US $100, you would incur a US $2.50 cost per sale for that transaction.

A financial analysis of your business will involve aggregating all of the revenue and costs, and calculating the total operating income (all revenue minus all costs) for a period of time. Since you sell different products (with different costs) at different prices, any given transaction will have a different net profit. As part of managing your sales and pricing, you may also measure

1. ***Average Revenue per Order:*** 100 orders for a total US $1,500 in revenue would yield and average revenue per order of US $15. Calculated as Revenue/Number of Orders – in this example US $1,500/100 = US $15.
2. ***Average Gross Profit per Order:*** 100 orders at US $1,500 in revenue with US $1,100 in COGS would yield an average gross profit of US $4 per order. Calculated as (Total Revenue – Total COGS)/Number of Orders – in this example (US $1,500 – US $1,100)/100 = US $4.
3. ***Gross Profit Margin (Percentage):*** a product purchased for US $100 for which the retailer paid US $60 to acquire the product has a gross profit margin of 40%. Calculated as (Revenue – COGS)/Revenue – in this example (US $100 – US $60)/US $100 = 40%.

Economics of Cross-selling

Cross-selling is when you convince a customer (who is in the process of buying something) to buy an additional product. When you successfully cross-sell a product, you are increasing the revenue for the order. This results in an increase in average revenue per order. The sale of the additional product will also increase the average gross profit per order. The cross-sell may increase the gross profit margin of the order, or it may not. When the product originally being purchased is less profitable than the additional product being cross-sold, the margin is increased. When the original product is more profitable than the additional product, the margin is decreased.

If your current operations strategy involves increasing your profit margins, you need to make sure your cross-sell activities only recommend additional products with higher margins than the products against which they are being cross-sold. When your strategy is prioritizing growth over profitability, your cross-sell activities should focus on conversion – increasing the percentage of the time are you successfully cross-selling additional products.

Economics of Up Selling

Up selling is when you convince a customer (who is in the process of buying something) to buy something else – specifically, something more expensive. This replacement of the original item with a new item is known in economics as product substitution. Since the products are not identical (one is more expensive and presumably "better" than the other), the products are by

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definition imperfect substitutes. A perfect substitute is one that would be identical to the product it replaced.

Successfully up selling a product results in an increase in revenue, and ideally an increase in profits. It may also result in an increase in profit margin (but may not). Consider a customer who intends to purchase a 200GB hard drive for US $100 (at a cost of US $45). This purchase would yield US $100 is revenue, and US $55 dollars in profit at a 55% profit margin. If you successfully uphold the customer to purchase a 500GB hard drive for US $200 (at a cost of US $100), the purchase would yield US $200 in revenue and US $100 in profit at a 50% profit margin.

You have to understand if your strategy is prioritizing an increase in revenue, profits, or profit margins. This will determine which up selling recommendations you want to make to customers.

Measuring Cross-selling and Up selling

In addition to measuring your sales you want to specifically measure the impact that cross-selling and up selling have on your measurements. Those measurements are described above. You may be breaking those measurements down by product category, product price levels, market segments, or any other decomposition that helps guide future decisions. You also want to measure the effectiveness of your cross-selling and up selling solutions. You do that by measuring conversion – the percentage of customers that change their purchases in response to your cross-sell and up sell marketing.

Get Elastic, the eCommerce blog, shares some 2009 survey data provided by the e-tailing group on cross-sell and upsell conversion statistics. Two-thirds of retailers that measure cross-sell and up sell conversion rates reported less than 5% conversion rates. At the same time, Get Elastic reports that Amazon reported 35% of their 2006 revenue came from cross-sells.

If you're adding cross-selling and up selling capabilities to your eCommerce website, you should set your initial expectations of effectiveness low, and your aspirations high. You won't start out with results like Amazon's – no more than 98% of retailers that measure conversion see results far lower than Amazon's. In fact, most of them see results an order of magnitude smaller.

The hugely competitive and ever evolving battle to win the hearts and minds of the mobile user is bringing marketers within this sector new and escalating challenges, but also huge opportunities. In addition to rapid churn rates and high customer acquisition costs, marketers are now also faced with an economic downturn, during which it is likely they will see, if they have not already, a reduction in consumption levels. Therefore it is essential now, more than ever, that marketers use all the tools at their disposal to maintain customer loyalty and retention.

The key to building long-lasting relationships is to continuously present the consumer with services, offers, merchandise and bundles, which meet their requirements at exactly the right time. In this sense the key is to always think of 'what's next?' for the customer. Instead of trying to predict what users want, operators need to adopt a system which acknowledges a customers response, or lack of response, immediately and keeps the dialogue open based on their decisions, whilst executing the offers in real-time. It's an essential part of the Customer Relationship Management mix and will help to deliver optimum results yet it's not something that can be achieved through 'traditional' campaign management systems. This means operators cannot maximise tried and tested techniques such as up-sell and cross-sell if they do not address the customer, just at the right time, and based on his actual behaviour.

Gartner forecasts that within the next three to five years the techniques of up-sell, offering the customer a higher priced or better version of the product they are purchasing; and cross-sell, offering a related product, will soar. These are important techniques in optimising the lifetime value of customer relationships, so how can marketers' best implement them in order to ensure maximum return on investment?

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Get your facts straight. Whilst it sounds like stating the obvious, it is something that many operators can often fail to maximise because they don't have the right tools at their disposal. Current and past behaviour patterns are the best predictors of future action; to be able to up-sell and cross-sell effectively, operators must monitor usage of services or products in real-time to enable behavioural-based targeting; an approach that, until now, has been hard and costly to adopt. Yet with the development of tools, like our own Marketing Delivery Platform, which is able to monitor and harness data on usage and behaviour patterns and execute marketing offers in real-time, this can be addressed. Tools such as these will enable operators to be better equipped to launch targeted, personalised and perfectly timed offers delivered through the right channel; increasing the chances of users purchasing the additional offering.

Many operators may claim to understand the importance of personalisation; however they often fail to deliver. It is all very well offering deals such as buy-one-get-one-free, 3-for-2, but does the offer address what the user wants? Operators often send marketing offers to customers in a non-targeted way that is irrelevant to the user. Users won't purchase content or subscribe to a new service if it is not relevant and delivered at the right time. It is ineffective to offer new, more expensive services to a customer who has, for example, not paid their bill. Equally, it is pointless to offer content relating to Heavy Metal bands if previous purchases made by the user have been related to R&B – it will simply not work. What's more, if users are bombarded with multiple, irrelevant offers, there's a possibility it will be seen as spam, not a term you want associated with your brand. To prevent this, marketers should adopt a personalised, multi-step online marketing plan rather than generic, multiple, one-trick-pony plan. In this sense, operators need to follow the example set by online service providers who have maximised the potential of personalisation with "Amazon-like" recommendations linked to the users' preferences and real time behaviour.

This personalised approach has been proven to deliver compelling results, for example, a cable operator recognised its key competitive advantage was the delivery of video on demand (VoD), yet subscribers weren't purchasing this premium content. Through targeted marketing offers to different consumer categories the operator was able to convert users that had never previously bought content, and by analysing relationships between content categories was able to design cross-sell offers that leveraged purchases from one category to promote purchases in another relevant category. This not only drove VOD subscribers to pay for premium movies but also introduced customers to new categories; increasing overall sales in the promoted categories by 42 per cent over a nine month period. This is the strategy that operators will need to embrace if they want to out-perform the competition and improve levels of customer retention and profitability.

Timing is a critical component within the equation. All too often an opportunity can be missed if an operator does not react in time to retain relationships with users – meaning lost revenue and the potential of alienating the user by offering a mistargeted, mistimed offer. If a customer is buying a ringtone, it is best to offer a related cross-sell before the purchase is completed and not two weeks later as the user is less likely to want to spend extra on additional products or services. This is an opportunity which operators will miss if they don't have a full profile of the customer or have the ability to implement offers in real-time. So often it is only when you address the customer 'here and now' – when their mindset is open to marketing offers and they are about to purchase, that you will achieve a high success rate and customer satisfaction. The chances of cross-selling or up-selling will have dramatically dropped if there is a lapse between time of purchase and offer. Furthermore by offering a deal at the point of purchase it will make the user feel as though they have a personalised service and, as long as it is something they will like, and there is a saving, the chances of the user following through with the offer increases. In this sense, it is essential operators react to the user's responses in real-time; keeping the communication with the user open to allow the execution of offers based on requirements. Even if the customer is not in the process of purchasing a service, this does not mean that they could

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not be tempted by a marketing offer. For example, with pre-paid mobile customers, operators should automatically offer a silent customer, with a low balance, a special top-up benefit. Through this the operator can improve response rates and drive ARPU from cross-sell and up-sell offers whilst user satisfaction increases.

One of the key advantages with cross-selling is the ability to promote products that are not necessarily one of the big sellers but something consumers would be interested in if marketed correctly. Initially when a new product is launched it can be a bestseller, but over time interest wanes and items can seem like one-hit wonders; this immediate surge of revenue is known as the Short Head. Mobile service providers play to this model by refreshing on-deck content to keep people engaged and encouraging them to make fresh purchases. Yet it is the less popular products that can deliver consistent revenue when offered alongside the latest content; this is known as the Long Tail and gives operators the unprecedented opportunity to cross-sell by promoting products being left behind. To do it effectively, service providers need a flexible platform to launch a diverse range of products in real-time, whilst exploiting the limited window of opportunity for content-related offerings. So when a customer is purchasing the latest remix of a particular song that is topping the charts, it is also the perfect opportunity to cross-sell the original version of the song. By doing this, the operator is selling an item which is not particularly popular but is still available to purchase; increasing the ARPU. The Long Tail theory is that the Long Tail, over a period of time, will equal the Short Head in size; that collectively many products account for as many sales as the few bestsellers. With cross-platform selling exploiting the Long Tail and Short Head simultaneously, operators need to be able to capture and analyse customer preferences and lifestyle characteristics to support this one-to-one marketing. By using these factors to create packages and bundles – operators can turn on-the-fly promotions into optimal marketing offers.

Figure 5.7: Various Fears of Cross-selling and Up Selling

Resistant to CHANGE	FEAR	TRUST	DELAY	CREDIBILITY
Big reasons why sales professionals continue to resist cross-selling and up-selling:	"Will I risk the order I just received if I ask for more?"	"I'm not going to confuse this account by pitching a bunch of new products"	"I'll ask for a referral later-once we are in a better position with this account"	"This isn't my area of expertise."

Source: http://www.pontisblog.com/2009/04/25/cross-selling-and-up-selling-a-lasting-relationship/

So the bottom line is that to be able to run effective marketing offers you need to have current statistics of what is going on with all your products – what's popular, what's not. Through implementing effective marketing tactics, operators will be able to analyse in real-time the results they are achieving and measure any level of reduction in consumption; giving them ample time to rectify problems and turn them into a positive outcome.

Central to the effectiveness of these methods is having a full view of a customer's profile; that is, having full visibility of their preferences, behaviour and buying patterns in real time so offers can be personalised to suit individual needs and delivered when, and in a manner, that is most appropriate for the customer. This is the key to ensuring that cross-sell and up-sell – the 'what's next?' part of the CRM mix – delivers optimum results: driving revenue, improving customer loyalty and reducing churn.

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5.3.1 The Six Essential Strategies to Increase Cross-selling and Up-selling Revenues

The six essential strategies presented here are intended to facilitate the larger paradigm shifts necessary to bring your entire organization into alignment with dynamic cross-selling and up-selling. Embracing these strategies will help to stop customer frustration, improve business efficiencies, and increase your revenues.

Strategy 1: Deliver your Best Service to your Highest-value Customers

Delivering excellent service to the customer that represents your highest potential revenue goes well beyond putting your agents on their best behaviour. It involves planning for and applying the steps outlined here:

1. Identify your best customers.
2. Handle their calls differently.
3. Be ready to act when opportunity knocks.

Example: A customer enters their account or some other identifying number when they first interact with the call queue. The contact centre system immediately recognizes that this customer is of high-value. (This can be based on the customer's income, account history, the type of product or service they currently have—whatever meets the unique criteria of your business.) This system takes the customer out of the "first come, first-served" queue they started in and places them into a specific high-value queue. Concurrently, the system searches for an available agent that also has the right skill set to take advantage of this particular selling opportunity. With a minimum of waiting, the customer is connected with the live agent best prepared to turn a routine service call into revenue.

The keys to making this kind of dynamic selling possible are two powerful capabilities: data-driven routing and intelligent business routing. Data-driven routing uses customer information to intelligently direct calls within the system, and then attaches that data for delivery to the agent's desktop. This will prepare the agent with the customer's identity and the reason they are calling. Intelligent business routing then matches the caller's specific needs and profile with the right agent, ensuring an optimal customer experience and maximizing the value realized from every interaction.

Be ready

Successful financial services contact centres make it a priority to centralize access to data and apply the analytics required to profile customers based on behaviour, profit potential, product or service type, or any other relevant criteria. The result is a series of statistical models that can then be consulted in real-time to intelligently route high-value calls. Having the backend analysis of value complete *before* the customer calls gives you the ability to serve the specific needs of high-value customers the moment they enter your call queue.

Strategy 2: Link Inbound Channels with Business Analytics and Customer Databases

Once your customer analysis is complete and your statistical models are in place, you must apply the technologies required to link these models and your customer database to your inbound channels. While obviously including phone calls, with the growing Internet banking trend your system must also be prepared to link inbound communications via e-mail and web

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forms, and even payment systems. This gives the system the most relevant information upon which to base call routing. In some cases, these may be disparate systems living in unique computing environments, but the imperative to link them together is high.

Linking multiple incoming channels with customer databases enables the customer's complete account and contact history to be delivered to the agent's desktop via a pop-up window. This is critical to reducing the likelihood that the customer Bringing your statistical models into the process enables the system to further target the experience by suggesting relevant offers for this particular customer. This "offer engine" makes the most of the customer's most recent data by comparing it to the list of currently available offers and analyzing how they match with offer profiles. The system can then present sales scripts for the targeted products and services within the agent's display.

Make Business Decisions-based on Real-time Intelligence in Real Time

Creating predictive models, centralizing customer databases, and linking them to inbound channels requires solutions that work across disparate systems, but the effort to make these connections happen will provide a significant return in customer satisfaction, operational efficiency, and revenue generation.

Strategy 3: Match Callers and Cross-sell Opportunities to the Best Agent

One of the most valuable benefits enabled by linking inbound channels with customer data is the ability to intimately understand your customer's sales preferences. As discussed in Essential Strategy 2, it allows you to personalize offers based on their history. However, it also enables you to apply an even more potent strategy: the ability to increase success rates by intelligently matching the caller and the offer with the agent best suited to close the sale.

> *Notes* Identifying your best agents is a process that echoes Pareto's Principle once again— who are the top 20% of your agents that are responsible for generating the highest percentage of your revenue? These are the agents you want to spend your valuable time training in preparation for linking them to your high-value customers.

And it doesn't stop there. Once this premier tier of agents has been identified, you must be prepared to move on to evaluate more subtle agent qualities that can make or break your sales quotas.

Example:

1. Do your customers respond more favourably if the agent has the same native language or local dialect?
2. Are agents of one gender more successful at selling to portions of your audience than the other?
3. If an agent can be conversant about activities or events that are local to the customer, does it impact response?

Your system must be able to deliver this level of visibility into your call results. Using this intelligence to increase the opportunity of a successful sale on a high-value call is essential to reaping the revenue benefits of dynamic cross-selling.

Take Advantage of Every Opportunity for Cross-selling Success

Maximize your ability to extract the most from high-value customers by getting them to the right agent to implement the sale. Program your business rules to account for such variables as gender, language, and geography. With the right agent selected, be certain your push of customer data and product offers to the agent's desktop includes sales will be asked to repeat any information or account numbers—the number one source of customer frustration. It allows the agent to rapidly solve the original service issue or inquiry, create a favourable impression, and quickly move the conversation into a selling environment

Strategy 4: Set Business Rules to Automatically Respond to Changes

The advantage of dynamic selling is that it provides much more in-depth information upon which business rules can be established. This kind of ability enables the design of rules that can create real process efficiencies and drive operational costs down by keeping your execution nimble. For this reason, it's critical that you be able to apply your business rules to automatically respond to the changing contact centre environment.

Staying responsive requires your system to intelligently evaluate current call volumes and wait times and automatically tweak selling activities to maximize overall efficiency. When volumes are high and handle times need to be shorter, the system can recognize the volume increase and automatically turn off cross-sell offers. As volumes shift, the system will adjust and enable a layer of cross-selling that is best for those conditions. When volumes are low, the system can compensate by routing more customers into selling situations. Because the system automatically looks for and responds to these rules, the contact centre is in a constant state of optimum use.

Engage in Cross-selling when your Call Volume Allows it

The ability to automatically respond to the changing environment is critical to creating process efficiencies that save money. Not only can you flexibly apply very advanced data customizations around offers, geographies, services, etc., it's an essential component in keeping satisfaction high by avoiding selling when call volumes could impact your customer service levels.

Strategy 5: Rapidly Apply New Business Rules to Respond to Evolving Market Strategies

Hand in hand with keeping your contact centre responsive to call volume and environmental changes on a real-time basis, true competitive ability requires being able to tune and apply refinements to your business rules and selling mechanisms as the market and competitive landscape changes. This means committing to technologies that let you start and stop campaigns easily, and that allow fast reprogramming of business rules to respond to competitive changes in your market.

Deploy, Track, Analyze, and Refine

At all times, you must be prepared to respond to competitive threats by rapidly implementing new promotions that keep you competitive. Engaging in regular tracking and analysis of offers, as well as the performance of your entire system, will give you the information you need to keep your offers fresh and in alignment with your products and services on a real-time basis. It's critical that you stay ready to fine-tune cross-sell programs to respond to new information, and keep data profiling and routing rules responsive to customer behaviours.

Strategy 6: Keep your Technology Nimble and your Systems Agnostic

Keeping your solution cost-effective requires leveraging existing investments in equipment and database architectures. Any new technologies that you bring on must not only integrate with the widest variety of equipment, software, and components, they must remain easily extensible and scalable in the future. This requires you to identify call centre software that is built on open platforms. Software applications that are hardware or vendor dependent may lock you into a system that won't offer the nimbleness required to adapt to and take advantage of inevitable market changes.

Look at it this way: the technologies that enable dynamic cross-selling and up-selling have only recently evolved, and obviously these evolutions will continue. Make sure you keep the doors open for future technologies by planning for extensions to your existing resources, and you won't get stuck with depreciating capital investments on outmoded equipment.

Stay Responsive and Cost-efficient

Leverage existing resources with platform agnostic software solutions that enable the links between hardware and databases. The result will be a dynamic selling solution that increases business efficiencies while delivering a lower Total Cost of Ownership.

Realizing the Benefits of Dynamic Cross-Selling and Up-Selling

The primary benefit of adopting these six essential strategies is in focusing the contact centre organization—people, process, and technology—around the value of the customer relationship. Dynamic selling transforms the customer experience from a routine, sometimes frustrating phone call to a thoughtful sales experience. It links a vast quantity of hardware, software, information, and processes into a unified and cost-efficient whole.

And it accelerates business innovation by enabling advanced cross-selling and up-selling opportunities that focus on revenue growth, leveraging existing investments to deliver dramatic results.

Stop customer frustration, drive contact centre efficiency, and accelerate business innovation. Financial services organizations no longer need to be asked to trade excellent customer experiences for operational efficiencies or the creation of new revenue streams. Dynamic selling is now well within reach of every contact centre that wishes to leverage these essential strategies to stay competitive and profitable.

Task Explain the difference between cross selling and up selling.

Self Assessment

Fill in the blanks:

11. There are …………………… strategies that are stated to increase cross & up selling
12. …………………… is defined as selling an additional product when the customer is purchasing the original product.
13. …………………… is defined as selling a more expensive product instead of the product that the customer was originally purchasing.

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14. The first strategy of increasing cross and up selling states to deliver your best service to your ……………………-…………………….
15. Successfully up selling a product results in an increase in …………………… , and ideally an increase in …………………….

Case Study

Leadway Assurance Company

Nigeria-Based Insurance Company Boosts Cross-Selling Opportunities with CRM Tool

Leadway Assurance Company wanted to improve cross selling and create an automated system to replace paper-based processes. It deployed Microsoft Dynamics® CRM 4.0 customer relationship management (CRM) software for its sales, marketing, and client services teams. With customer information centralised, staff easily track policy life cycles and anniversaries at the click of a mouse, and the application has integrated well with existing IT assets.

Business Needs

With more than 86,000 active customers and a range of insurance products in its sales portfolio, Leadway Assurance Company in Nigeria is a significant contributor to the national economy. Founded in 1970, Leadway specialises in a wide range of health, life, and non-life insurance policies.

Rapid expansion in recent years posed challenges to its ageing business management solution while its CRM system was largely dependent on e-mail messaging and paper systems. Leadway developed an application to manage claims and store all policy information, but the solution was not suited for CRM. As a result, new sales and cross-selling opportunities were often missed by Leadway employees operating in a highly competitive market.

Ayuba Oladele, Customer Relationship Management Project Coordinator, Leadway Assurance Company, says: "*Sales agents and marketers were not able to follow up leads, and lacked any analytics systems to generate new prospects from within the existing customer base. We needed to implement a set of tools to manage client profiles across the organisation and connect customers to their insurance policies. We were also unable to track the history of our interactions with customers and brokers, making it difficult to fully understand those customers' and brokers' needs.*"

With existing paper-based systems, tracing customer histories was often a slow process, and risked more than one employee contacting the same customer, duplicating work and compromising the organisation's professional image. Services agents needed an improved automated logging system for their daily call reports so they could generate detailed analysis and reporting from single data entry.

Solution

Microsoft Gold Certified Partner Global 4sight Vantage (G4V), which has offices in Ghana, Nigeria, and the United Kingdom, demonstrated its ability to deploy Microsoft Dynamics CRM 4.0 to the key business decision makers at Leadway. An important factor in the presentation concerned linking the core insurance application to the proposed CRM tool set. By centralising customer information, Leadway would immediately gain an in-depth view of a customer portfolio and a history of the relationship from first contact to after-sales service.

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Sales agents access client policy information through a Web-based portal in Microsoft Dynamics CRM. This was made possible due to G4V using the Microsoft® .NET Framework to develop two-way integration between Microsoft Dynamics CRM and Legis. Sales and marketing agents can now manage these functions from their desktops and the toolset provides native integration with Microsoft Office Outlook® software. Sales agents use the system to:

- Report their daily interactions with brokers and customers and extract relevant data when they need to compile management reports.
- Access financial information about their clients from Microsoft Dynamics CRM. Track client policy life cycles and customer histories without having to go to different units within the company to compile the information.

Benefits

Since deploying Microsoft Dynamics, managers can see the interplay between, staff, customers, and agents and brokers in a way that promotes better management. CRM task and schedule management features ensure that outstanding issues are not left unattended. Oladele says: *"With everyone having access to customers' histories, we are in a position to build trusted relationships with our clients. Everything about our relationship with a client today depends on issues we shared in the past. We are better able to keep our service promises."*

- ***Enhanced customer retention:*** With better tracking of new customer leads and client information at their fingertips, sales agents have strengthened customer loyalty and increased sales figures.
- ***Reduced administration and greater productivity:*** Oladele calculates that customer-facing employees save an average of an hour a week—time that was previously spent on administration and paper work.
- ***Integration with existing IT assets:*** By using the .NET Framework development system, Leadway has successfully integrated its existing business management system with the CRM software without the need for expensive third-party solutions.
- ***Automated reporting for senior managers:*** Senior managers now have improved visibility over the whole business. Analytical reports are available in real time so they no longer have to wait for paper reports that could be out of date when produced.
- ***Increased cross-selling opportunities:*** Better and more simplified access to client information has improved the potential for cross selling. Previously, customer data was stored in a table and sent around the company through the e-mail system.

Questions:

1. What are your observations about the case?
2. Do you think the benefits expected were actually achieved?

Source: http://www.microsoft.com/casestudies/Case_Study_Detail.aspx?casestudyid=4000005180

5.4 Summary

- CRM is a complicated yet fruitful process by which a company gains enormously, if deployed properly. To process the data effectively many e-CRM solutions are available and a firm has to choose the best possible solution to suit the needs of the firm.
- The benefit of e-CRM should not be lost in the cost and time to process the information and as such the significance of a solution depends upon its simplicity and authenticity of

implementing the solution. While acquisition and retention are fairly well understood, customer profitability through expansion requires some scrutiny.

- Since expansion presents enormous untapped value; an e-CRM strategy must be able to identify the expansion potential for each customer. It consists of creating space for online catalogue that helps customer to research products thoroughly by accessing all the information they need. Secondly, lead capture and profiling captures prospect information on website, and leverages that information for a follow-up.
- The significance of CRM solution lies in its ability to store and retrieve data. It is the process of analyzing detailed data, to extract and present actionable, implicit, and novel information to solve a business problem.
- Above everything, marketers are now under compulsion to be concerned about customer relations and loyalty. Studies have shown that retaining customers is less expensive and perhaps a more sustainable competitive advantage than winning over new customers.
- Relationship building and strategies aimed towards customer retention are a plenty in the web-world and all it depends on deciding which strategy suits best under which market condition.
- In this unit, you learnt about the data mining technique. Data Mining is an analytic process designed to explore data (usually large amounts of data - typically business or market related) in search of consistent patterns and/or systematic relationships between variables, and then to validate the findings by applying the detected patterns to new subsets of data.
- The ultimate goal of data mining is prediction - and predictive data mining is the most common type of data mining and one that has the most direct business applications.
- The process of data mining consists of three stages: (1) the initial exploration, (2) model building or pattern identification with validation/verification, and (3) deployment (i.e., the application of the model to new data in order to generate predictions).
- In this unit you also learnt about a statistical perspective of data mining, similarity measures, decision tree and many more.

5.5 Keywords

360 degree Marketing: Marketing activities which take into consideration brand identity and take an inclusive approach so that the brand is presented at all points of consumer contact.

Competitive Advantage: An advantage that firms have over its competitors, allowing it to generate greater sales or margins and/or retain more customers than its competition. There can be many types of competitive advantages including the firm's cost structure, product offerings, distribution network and customer support.

Consumer Behaviour: Consumer Behaviour is a branch which deals with the various stages a consumer goes through before purchasing products or services for his end use.

Cross-selling: Selling the customer additional, related, products

Data Mining: Data mining (sometimes called data or knowledge discovery) is the process of analyzing data from different perspectives and summarizing it into useful information - information that can be used to increase revenue, cuts costs, or both.

Economy: The system of production and distribution and consumption.

Marketing: The management process through which goods and services move from concept to the customer.

Up selling: Selling the customer a more expensive version of the product

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5.6 Review Questions

1. Explain the utilization 360 degree marketing in enhancing sales.
2. What do you understand by marketing strategies?
3. Discuss the advantages of data mining.
4. Differentiate between cross and up selling.
5. How will you use up selling for increasing sales of your product?
6. Assume that each item in supermarket is bought by 1% of transactions. Assume that there are 10 million transactions and that items are statistically independent. Assume mid-sup = 10. What is the expected size of a frequent set? What is the expected number of frequent sets?
7. Suppose that you have data describing the closing prices of the stock you own for the last 1000 days. Suppose you are interested in generating all rules which tell you about chances of your stock going up on a given day provided you know the pattern (up or down) on K preceding days, with some minsup and minconf defined. How would you model this problem as association rule mining problem, is there a way to represent this as transactions with binary attributes like in the supermarket case?
8. Summaries the data mining technique and its significance in today's scenario.
9. What are six strategies for increasing cross and up selling?
10. Give live examples used in businesses about up selling.

Answers: Self Assessment

1. Four
2. The external market
3. The internal marketing
4. Reward
5. Stakeholder
6. Realistic
7. Linear
8. Decision tree
9. Segmentation
10. Data mining
11. Six
12. Cross selling
13. Up selling
14. High valued customers
15. Revenue; profits

5.7 Further Readings

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Unit 6: Technology for Customer Relations

CONTENTS

Objectives

After studying this unit, you will be able to:

- Explore about the evolution of contact centres/call centres
- Describe what is a contact/call centre?
- Determine the technologies for contact/call centre infrastructure
- Identify the meaning and appliance of call centre to contact centre
- Know what is front desk management technology

Introduction

No company operates in a vacuum, devoid of contact with customers or the general public. If you have the need to communicate with others outside of your company (who doesn't?), then you are a prime candidate for developing or using a contact centre. Heck, you may already have a contact centre and not even know it!

This unit introduces you to contact centres—what they are and how they benefit customers and companies. You'll even discover some of the traits that distinguish a good contact centre from a bad one. By the end of the unit you should have a good grasp of how good management, sound skills, and great technology can help make a good contact centre into a great one.

How did the evolution of contact centres/call centres happened? The answer lies within the points and observations stated below.

- Customers need the comfort of a central point of contact.
- Growth in the industry, because the customer can contact by any means, from any place, at any time.
- The customers can easily obtain information.

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- Of the Advantages
- It is Economical
- Of Ease of contact and Time Saving
- Of the Availability of standardized product/customer information
- Of the Service availability 24 hours a day, 7 days a week, 365 days a year.

6.1 Contact Centre Technology

Sometimes a contact centre is just one or two people sitting beside a phone answering customer calls. Often it's a very large room with lots and lots of people neatly organized into rows, sitting beside their phones, answering customer calls.

But contact centres are more than headset-wearing switchboard operators. The modern contact centre handles phone calls, e-mail, online communication, and sometimes even old-fashioned written letters. In short, contact centres deal with any type of contact for a company (other than in-person) — contact with the general public and customers of all types: potential, happy, or even disgruntled. Contact — good, bad, or downright ugly—is the name of the game.

To a customer or client, contact centre personnel are the voice and face of the company. If you (as a customer) are angry, you often get mad at the person on the other end of the phone—after all, you're talking to the company, right?

Inbound/Outbound

Contact centres communicate with customers in a number of ways, but who initiates the contact defines the type of contact centre. If the outside world initiates contact, then the contact centre is said to be an inbound contact centre.

Conversely, if the contact centre itself is responsible for initiating contact, then the contact centre is said to be an outbound contact centre.

Customers contact inbound centres to buy things, such as airline tickets; to get technical assistance with their personal computer; to get answers to questions about their utility bill; to get emergency assistance when their car won't start; or for any number of other reasons for which they might need to talk to a company representative.

In outbound centres, representatives from the company initiate the call to customers. Your first reaction might be, "telemarketing, right?" Well, yes, telemarketing is a reason for a company to contact you, but companies have lots of other good reasons to contact their customers, as well.

Companies might call because the customer hasn't paid a bill, when a product the customer wanted is available, to follow up on a problem the customer was having, or to find out what the customer and other customers would like to see by way of product or service enhancements. Outbound contact centres are, most often, very telephone centric.

Whereas inbound centres can handle many different ways of contact, outbound centres most often use telephones because of, well, tradition and perception. It is not unusual for a company's representatives to call a customer on the phone, but it is more unusual for them to send an e-mail to a customer.

If companies send out e-mail to customers, it is often done through some mass-mailing effort, not as one-on-one contact. Perception enters into the picture because people are very quick to categorize unexpected e-mail as spam, but less likely to be upset by unexpected phone calls.

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Notes A new breed of inbound centres is starting to emerge—self-service centres. In traditional contact centres, all interaction between the customer and the centre is done with human agents. However, in self-service centres a good portion of the load is being shifted toward non-human systems, such as automated response or even speech-enabled. Automated response systems enable the customer to use the keypad on their phone to answer questions by pushing buttons.

Each button push brings them closer to the information for years, giving the customer access to simple (and common) information, such as addresses, balances, and procedural instructions.

Speech-enabled systems are more sophisticated and easier for the customer to use. In such a system the customer actually speaks a response, rather than needing to press keypad buttons. Speech-enabled systems are a great boon for cell-phone using customers because they no longer need to perform gymnastics to keep pressing buttons on their phone. As speech-enabled systems become more sophisticated, customers will be able to ask questions directly to the self-service system and get a wide variety of answers.

Internal/External

Just as contact centres can be designed as inbound or outbound, they can also be designated as internal or external.

(I almost said in-house or out-house, but figured that the unintended allusion might be distracting.) When companies are small, they often develop their own contact centre capabilities internally. As companies grow, they often look to outsource their contact centre functions, or they spin off those functions to a subsidiary or partner company.

This is where the concept of the external contact centre comes into play—the centre is external to the main company.

In fact, companies that provide nothing but contact centre functions to other companies have grown into a multi-million dollar industry. At last count the traditional call centre industry employed more than 6 million people in North America alone, and accounted for the sale of more than US $700 billion in goods and services. Through today's contact centres you can purchase, complain, or just talk about almost anything from the comfort of your home, office, car, or wherever you can get to a phone (or log on to the Internet) customer service person or entire departments, the principles by which a contact centre are operated are still the same. People involved in customer contact need the same skills and the same tools, regardless of the number of people involved.

Thus, the information in this book has applicability regardless of the size of your operation, and regardless of whether your operation is internal or external.

6.1.1 Contact or Call Centre

Traditionally, contact centres have been called call centres. The newer name—contact centre—reflects the fact that more than just phone calls are being handled. Many call centres have evolved over the years to do much more than just answer phones.

Bottom line, it's up to the customer to decide how they want to communicate with your company, and it's up to your company to respond appropriately through its contact centre. Some companies choose to separate the handling of customer contacts by medium. For instance, a company may establish a department for inbound calls, one for outbound calls, and a group for e-mail. (There are as many organizational permutations as there are ways to communicate.) Some companies, especially smaller ones, opt to create "universal agents" who handle all contact types. Companies create universal contact agents for reasons of efficiency and service, and often because they find it easier to train agents in multiple communication methods than to train multiple agents in product or service information.

Did u know? Some contact centres are called blended operations—agents in the centre handle both inbound and outbound contact. Blending done well can make contact centre operations very cost-effective and can improve service to the customer as well.

What Makes a Good Contact Centre?

In general, the things that make a good contact centre are also the same things that make a good business. For instance, a good contact centre has a strong culture where people work from a common set of values and beliefs and are bound by a common purpose and a strong focus on the business objectives. Just as in any business, effective management continually aligns everything the contact centre does with its business objectives and desired culture. Generally, as Figure 6.1 illustrates, you should look for your contact centre to deliver in three areas:

1. ***Revenue generation*** includes everything that leads to revenue—sales, upgrades, customer retention, collections, and winning back previously lost customers.
2. ***Efficiency*** refers to cost-effective operations for the organization—whether this relates to the operation of the contact centre or to getting work done for the organization. Generally, the contact centre is a much more efficient means of contacting customers about a new promotion than John, Betty, and Fred in the marketing department.
3. ***Customer satisfaction*** is really long-term revenue generation— build customer loyalty and keep them doing business with you. Contact centres should make things easy for the customer. The contact centre is available when the customer needs it and has access to all the information necessary to answer customer questions or solve customer problems. Try calling a checkout clerk or even the president of your favourite sporting goods store—trust me, even if you do get through, you probably won't get the answers you need.

Figure 6.1 Mutually Dependent Business Objectives

Source: http://misbridge.mccombs.utexas.edu/knowledge/topics/crm/

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It's a mistake to think that revenue, efficiency, and customer satisfaction are distinct goals. In fact, they're very much mutually dependent (Figure 6.1 illustrates this). Good revenue generation cannot happen without some level of efficiency, and only satisfied customers will continue to buy a product. And for customers to remain satisfied, they want the same thing contact centres do when they do business—an efficient transaction. For most customers, talking to your contact centre is not the highlight of their day! When a contact centre fails to sell a customer on the first attempt, revenue isn't maximized because customers who really want your service/product must call back. This creates inefficiency by duplication of effort. It also represents poor service, as it makes customers do more work to get what they wanted when they initiated the first call.

Merits

Not all contact centres are created equal—some are run very well with clearly defined missions, while others are a hodgepodge of people tucked away in a corner trying to poke their fingers in the dike. (Think of the brave work of Hans Brinker in saving his city in Holland.)

When everything is working as it should, a good contact centre:

1. Focuses on its business goals
2. Answers customer contacts (phone calls, e-mails, and so on) quickly
3. Has high employee morale
4. Resolves a high percentage of customer inquiries on the first contact
5. Measures customer satisfaction as a service indicator and has high customer satisfaction scores
6. Provides a significant source of revenue for the organization
7. Has a good process for collecting and presenting performance data: everyone knows where they stand monthly, daily, hourly, or in real time
8. Is efficient—little rework is required: calls are consistent in length, requiring a minimum of customer time for resolution
9. Has everyone engaged and busy with a purpose, but with no one overly taxed
10. Improves processes continually to make constant gains in service, efficiency, and revenue generation
11. Is seen corporately as a strategic advantage—an ally to the rest of the organization

Many contact centres are exemplary in their dedication to customers and clients. The real pros in the industry have transformed perceptions so that well-run contact centres are no longer viewed as "money holes" or "necessary evils," but as profit centres or a real competitive advantage.

In fact, today entire companies are built around contact centre capabilities.

Example: You may buy a computer from a company that doesn't have a retail store, or do your banking with a bank that doesn't have branches—they offer the telephone or Internet as your only contact options.

Demerits

Not all of the changes in contact centres have been viewed as positive. Contact centres and their managers have faced significant challenges. Partially because of the impact that contact centres have had on everyone's daily lives, and partially because of some bad management and bad business practices, contact centres have raised the ire of consumers and caught the attention of legislators, particularly outbound centres. (See the related sidebar.)

- Frequent shuffling of customers from agent to agent
- Customers often left on hold for extended periods of time
- Customer issues that frequently require multiple contacts before they are resolved
- Low employee morale and high turnover
- No way to measure customer satisfaction—or, if there is, scores are low
- A poor understanding of metrics or performance
- Harried staff running from crisis to crisis, putting out fires but not getting ahead
- A lack of improvement in working conditions
- The wider corporation grumbles about the contact centre, complains about costs, and questions the results; some talk about outsourcing

Fortunately, as ugly as the symptoms of a bad contact centre are, they can be solved. It takes determination and perhaps a complete "rethinking" of your organization, but solutions do exist. This book provides a few strategies, tools, and skills to help you control what your contact centre produces.

As with any business, a competent and productive contact centre is the result of well-planned objectives and conscientious alignment—management needs to align practices so that they are consistent with objectives. When this is done effectively, the contact centre will have many characteristics of the good, few if any of the bad, and none of the ugly. A well-run contact centre is not an accident. It's a result of good planning and good execution by good people.

Caution Not all contact centres operate in ways beneficial to either themselves or the organization as a whole. These are some things you'd expect to see in a contact centre that isn't working properly. Long delays for customers to get through to "the next available agent"

6.1.2 Future Prospects

As technology and management practices improve, so will the sophistication, capability, and service of contact centres. If it has not happened already, your contact centre will likely continue to evolve, integrating all methods of communication into one quick and seamless channel, regardless of what language or device your customers are using.

One of the fascinating things about contact centres is their never-ending pursuit of improvement. Effective managers are constantly looking for better technology, better processes, better people, and better training for those people. It's all part of the original charter for contact centres: to find more effective ways of communicating with customers so the company can serve customers better and cheaper, while generating more revenue.

Accordingly, I look for contact centre services to become more customized to the needs of individual customers. There will be technological advancements, perhaps some "ohhs and ahhs" in what contact centres can do with automation. But the end result will be that more contact centres will provide better service. Great one-on-one service will become the minimum expectation for doing business, regardless of the medium.

Fortunately contact centres aren't alone in their quest to better service their customers. Leading vendors, such as Avaya, continue to provide groundbreaking technology specifically tailored to the needs of a modern contact centre. Such companies stand ready to partner with organizations interested in meeting the future head-on. As you read through this book you'll get a glimpse of the future and how you can plan for it.

Notes As contact centres improve in all aspects of their operation, they will look for ways to go beyond customer service—to make the experience of dealing with the company better.

Contact centres will do all of this because customers expect—and deserve—the best.

Task What is the future of call centre, according to you?

Self Assessment

Fill in the blanks:

1. If the outside world initiates contact, then the contact centre is said to be an …………………… contact centre.
2. If the contact centre itself is responsible for initiating contact, then the contact centre is said to be an …………………… contact centre.
3. Traditionally, contact centres have been called …………………….
4. …………………… includes everything that leads to revenue i.e. sales, upgrades; customer retention, collections, and winning back previously lost customers.
5. Frequent shuffling of customers from agent to agent is a …………………… of CCT.

6.2 CRM Technologies for Contact/Call Centre Infrastructure

A Call Centre is based on the following technologies:

- Customer Relationship Management (CRM)
- Interactive Voice Response/Voice Response Unit (IVR/VRU)
- Automatic Call Distributor (ACD)
- Computer Telephone Integration (CTI)
- Predictive Dialing (PD)
- Web Services
- Database Servers

Customer Relationship Management

- CRM is putting the customer at the centre and re-orienting and aligning all facets of the organization to deliver sustained customer satisfaction every time. It means not just a software solution as an outcome of convergence, but a means of realigning technology, process, policies and people.

- CRM provides ways of handling customers.
- CRM provides ways for optimising customer satisfaction.
- The goal of CRM is to maximize the interaction and gain maximum information and provide maximum satisfaction to customers.

Interactive Voice Response/Voice Response Unit

- Call handling time is decreased
- Allows callers to streamline their questions to get accurate information by providing access to database information
- Enhanced call routing based on questions
- Automation of FAQ enquiries
- Improved customer service satisfaction
- Faster response
- $24 \times 7 \times 365$
- Reduced queuing time

Automatic Call Distributor (ACD)

The ACD portion of the system ensures that incoming calls are distributed evenly, so agent productivity is maintained at a high level, and inbound callers are handled efficiently.

The routing of calls is achieved by the following criteria:

- Agent vacant to take the call
- ANI (Automatic Number Identification)
- Skills based routing
- Call routing to skilled agents
- Number of call accumulative in a queue

Computer Telephone Integration (CTI)

CTI is the technology that links telephone systems and computers within a call centre. Applications using CTI technology help automate inbound and outbound call handling, eliminate many of the repetitive tasks performed by agents and improve call centre management with better reporting capabilities.

Elements of CTI

- Telephone switches (ACDs and PBXs) route the calls.
- Computers contain the databases of relevant customer information, such as name, address, account number, telephone number, purchasing history, etc.
- CTI software (known as middleware) provides the instructions and interfaces for carrying out the CTI tasks.

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CTI Features in an Inbound Call Centre

- ***List:*** Management Addresses uncompleted calls, such as busy, no-answer, or answering machines, by redialing numbers according to specified time intervals.
- ***Screen Pop:*** Presents customer data, product, and service information simultaneously with the incoming telephone call.
- ***CLI:*** Matches the incoming caller's phone number to the customer profile.
- ***Inbound Call Routing:*** Routes calls, based on data and the customer's profile to the agent best equipped to help that particular customer.
- ***ACD Connectivity:*** Provides the ability to connect one or more ACDs to a CTI server, regardless of the manufacturer, in standalone or networked configurations.

CTI Features in an Outbound Call Centre

- ***"do-not-call":*** Some people have enrolled themselves for not calling them.
- ***Time zone restrictions:*** Difference in time for countries.
- ***Call Results Upload:*** Updates the host computer with campaign results for scheduled batch processing.
- ***Predictive Dialing:*** Maximizes agent occupancy as well as connects per agent while minimizing abandoned calls.
- ***Campaign Build:*** Allows segmentation of outbound campaigns based on customer profiles.
- ***Call List Download:*** Transfers call list records in real time or batch mode from any standard medium.
- ***Transaction Disposition Reporting:*** Logs call results, such as sale or no sale, along with transaction values to campaign histories by transaction, agent, or application.
- ***Speed Dialing:*** Features allow for speed dialing, preview dialing, and manual dialing from a host or workstation application.
- ***Preview Dialing:*** Allows the agent to become familiar with a customer profile before initiating a call.

CTI Features in a Blended Call Centre

- ***Call Blending:*** Blends of inbound and outbound calling to maximize productivity and increase the variety of tasks offered to agents.
- ***Scheduled Calling:*** Calls customers back at a previously specified date and time.
- ***ACD Connectivity***
- ***Preview Dialing***
- ***Enhance Dialing***
- ***IVI/VRU Connectivity:*** Provides the ability to connect to one or more VRUs regardless of the manufacturer, in standalone or networked configurations.
- ***Workstation connectivity:*** Allows call centres to drive character-based (dumb terminals) or graphical user interfaces in a client/server or cluster-controlled architecture.
- ***Predictive dialing:*** Dialogic Card is used for outbound calls. The automation of outbound dialing allows agents productivity by automating the services. Numbers are dialed automatically in advance by an agent available to take the call as per the skill and availability.

Notes

Caselet

Product Support Services Saved the Day

The Customer

A leading network security and information management company in the USA required a rigid support setup to aid its product sales team. It was much needed because the company's operations had expanded to other countries and it was becoming very difficult to manage the support function.

The Challenge

The company approached Flatworld Solutions with the following challenges:

- Due to the company's increasing client base at a fast pace, a lot of pressure was building up due to the absence of product support services.
- The company was unable to provide product support services after the normal working hours. Thus, outsourcing product support services to Flatworld Solutions facilitated product support round-the-clock.
- The turnaround time to resolve queries of the company's non-USA clients was huge. It had to be reduced, especially for its clients in Asian and European countries.
- The company was incurring heavy costs to provide the product support services.

Flatworld Solutions formed a committed team of product support engineers who were highly qualified and well versed with operations in domains such as Oracle, Networking, Operating systems and Network Security. Then, a dedicated support centre was put in place, which was equipped with voice, email and internet facilities. The secure support centre was ideal to host a test simulation environment.

Flatworld Solutions executed the support operations in a series of stages:

- Initially, product support was provided at night – after the normal working hours. Later, support was provided round the clock.
- At the beginning, only email support was being provided to the company's clients. Over a period of time, voice support and chat support services were also included.
- An escalation process, to pass on the critical defects pointed out by customers to the engineering team in the USA, was also setup. This ensured that only the most critical defects in the product were reported to the company's engineers, while less critical queries were resolved by Flatworld's support team.
- A call tracking system was put in place in order to record all call-related data.
- A formal training program was also devised to enhance support operations. The operations were also improved by the introduction of a dashboard and MIS.

The Results

Flatworld Solutions met the requirements of its customer within 6 months of implementing the project. During the 6 months, the special support team from Flatworld was able to enhance the quality of its customer's support operations, including the overall business process. Some of the areas that were considerably improved were:

- Workload of the company's support team in the USA dropped drastically as Flatworld's support team managed the bulk of the queries with ease.

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- The availability of 24×7 support operations helped the company manage its clients in a better manner, especially those located in Asian and European countries. This resulted in improved customer satisfaction.
- Considerable decline in the overall costs was recorded by the company by outsourcing its product support services to Flatworld Solutions.

Source: http://www.flatworldsolutions.com/call-center/success-stories/case-study-product-support-services.php

6.2.1 Call Centre to Contact Centre

Web Call Centre Present Scenario

Web-enabled call centres were ranked as the number one area for future development in the 1999 call centre study. Twice the number of study participants is web-enabling their call centre for customer contact.

Today potential customers are using the Internet to view goods and services, making the Internet a preferred, cost-effective method to interact with customers. The Web page is a virtual storefront where customers interact with your business.

- Merging of the Internet and call centres will provide Web pages with an interactive option.
- The Internet has added multimedia communications (e-mail, voice, text chat, or any combination that solves the customer's problem) to the role of call centres.
- A portfolio of solutions provided via the Internet and designed for unified customer care, can help businesses meet the challenge of bringing to customers the best of both worlds—The Internet and call centre-tie-up.

***Access methods*:** From the web, email is the most common method for customer access to call centres. The complete list of access methods (with the associated percentages of use for each) includes:

- Form email (52%)
- Free form email (46%)
- Text chart (27%)
- Click-to-talk (11.5%)
- Voice over IP (VoIP) (2%)

Need for Web—Contact Centre

When the customer has a question, it must be answered before they complete the purchase. If the customer is unable to get an immediate answer, the result is either lost business or an unhappy customer.

- Combining Web pages and call centres allows customers to see the information- rich Web page and get their questions answered immediately.
- The cost of handling is reduced, because the Internet Call Centre was able to respond directly to the customer questions, thereby completing the transaction in fewer steps.

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- The customer feels good about the Organisation because their questions were answered promptlyleading to customer loyalty.
- The Web allows customers to help themselves. The customers have control over the rate and direction of the inquiry and are left with a positive feeling. This is important because customers with a positive experience are likely to use the site again and tell others about it.
- In certain cases, human assistance is needed. This is particularly true for complex situations involving problem resolution and decisionmaking.
- The Internet Call Centre is based on a combination of the existing telephone switch, call management hardware and software, and award wining data networking capabilities that can be combined for the customer using Professional Services group.

Issues with Web-enabled Call Centres

The issues encountered with web capabilities to support customer contact include:

- Customer reluctance to use self-service capabilities on the web
- Unresolved inquiries that require a follow-up call
- Additional training to learn new skills for agents
- Web capabilities used improperly by agents (web surfing, etc.)

Contact Centre Building Blocks

e-Mail

- Customers who prefer email
- Future changes planned for email
- The working of email process
- Implication of email process
- Ways to reduce the cost of handling email

Customers who prefer email:

- Customers are using their telephone line for the Internet connection or the speed is too slow.
- Customers who are outside the country but they have bought the product.
- Customers who want to send documentation to some company as an email attachment.
- Customers who want a document trail that email provides, because they need to share the information with others.
- Customers who want some knowledge about the company before buying any product.
- Provides customers with an alternate contact method, allowing them to choose their access media and contact the call centre any time, from any location around the world (customer satisfaction).
- Improves communication clarity and content, including the ability to attach supporting documentation, brochures and troubleshooting guides. Enables customers to print

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information received and provides traceability for the call centre (customer satisfaction and reduced costs).

- Redistributes the total contact workload by handling email during off-peak calling periods. In some cases, participants reported a reduction in call volume with the introduction of email (reduced costs).

Future Changes Planned for email: The top future initiatives planned for call centres using email applications are to:

- Begin using automated response applications to provide customers with auto-reply confirmation and answers to commonly asked questions.
- Blend email with voice calls to create a seamless contact process independent of contact media.
- Upgrade email tools and systems, and integrate with contact management applications and call tracking cools.
- Improve routing and classification of email messages.
- Promote more email use by customers.

Working of email Process: The customer clicks on the email button

(a) The Web server sends down a Web form with required text fields or an email form.

(b) The customer fills out the Web form or types in their request and clicks on the Send button. The email is sent over the Internet to the Web server, and then delivered to Symposium.

(c) Symposium receives the email and routes it to the agent best able to answer it.

(d) The agent then inserts a pre-scripted response or creates a new response. The agent can also insert an attachment and save the new answer for use in the standard library of responses. By clicking on a button, the agent sends the response to the customer as a traditional email address supplied the customer.

(e) The customer receives the answer along with their other email messages.

Pitfalls of email Process: Hiring, training and managing the employees in a Contact Centre for email could be an unaffordable option. E-mail is cost-efficient as a traditional call centre. It takes twice as long to answer e-mail as a telephone call. So, customer-handling time mounts up.

- Agents in a contact centre need a higher skill set than traditional call centre agents.
- Email agents must be able to navigate the business website. They need to ascertain that the customer was viewing the website and refer the customer to additional Web pages when responding to their questions.

How to reduce the cost of handling e-mail:

- Implementing IVR's/VRU
- Making a data base for Frequently Asked Questions (FAQs) that can be used to immediately respond to a customer's question. (keyword searches).
- When customers click on the email button, they are asked a series of questions, analogous to Interactive Voice Response (IVR).
- Responding to the e-mail with a voice file.

Text Chat

Text chat can be an effective way to communicate with the customer. Text chat is like a telephone call, but instead of talking, the two people are typing their dialog.

Text Chat Process

1. The customer selects the Chat button.
2. The Web server then sends a form to the customer to ask questions.
3. The information along with the text chat request is sent to the server.
4. The Web server also sends down a small Java program, called an applet, to the customer's browser that sets up the text chat window.
5. It is critical for management control that the chat conversation flows through the Symposium server and not directly between the agent and the customer. The Symposium server can capture the "conversation" and allow the Internet Call Centre manager to
    - Audit the conversations
    - Improve the process
    - View areas where automation or Web page improvements can reduce the conversation time.
6. The agent can also talk to the customer through additional Web pages. This provides the opportunity to sell the customer additional items that complement their original interest.
7. Text chat simulates the "give and take" of a telephone conversation,

    The skill level of the agent handling the text chat needs to be greater than a telephone call centre agent. The agent needs to be able to type effectively and have good writing skills.

    - With email, the person answering has time to think. In a text chat, the agent must answer immediately, putting more pressure on the agent.
    - Drives up the cost of handling the customer inquiry, as a text chat conversation takes longer than a telephone call.

Telephone Call Back

- Customers who prefer Call Back
- The Call Back Process

Why Some Customers prefer Call Back:

Customers may want to talk to someone at the company but can't at a particular time. They may have only one telephone line (which they are using to access the Internet) Call Back simply has the Web server take information from the customer as to when it is best to call back. The Internet CA Centre then has an agent call the customer back at that time.

The Call Back Process:

1. The customer clicks on the Call Back button.
2. The web server sends down a form that asks the customer for a telephone number and the time to call back. This information is then sent to the Web server.

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3. The Web server sends the Call Back information to the symposium server along with other information – which page the customer was viewing, customer's area of interest, and relevant products and services.
4. The Symposium server schedules the Call Back. When the Call Back time arrives, Symposium selects a free agent with the right skills (in terms of the relevant products and services). The server notifies the agent.
5. The agent prepares for the Call Back and then tells the Symposium server he/she is ready.
6. The Symposium server then places the call by interfacing to the telephone switch.
7. The telephone switch connects the customer call and the agent together.
8. The customer answers and the Call Back proceeds.

Real Time Phone conversation Call Me

- Difference between Call Back and Call Me
- Call Me Process
- Issues Concerning Implementation of Call Me process

The difference is that the Symposium server starts the call as it hears from the Web server instead of waiting for the Call Back time. In situations where customers use their only telephone line to reach the Internet, the call has to be placed over the Internet. This is referred as Voice over IP (VoIP). The customer receives both the Web pages and the telephone call over the Internet.

Call Me Process:

1. The customer clicks on the Call Me button.
2. The Web server receives the request and can send a form back to the customer asking questions about the call, and also questioning the customer to make sure that tile call will work. The questioning could include questions about the speed of the customer's modem and the software being used. The web server then sends the request to the Symposium server.
3. The Symposium server selects the best agent available and sends the request to the agent.
4. The agent accepts the request. The Symposium server also sends the agent information on the customer, including the Web page being viewed.
5. The Symposium server signals the telephone switch to set up an Internet call with the agent and the customer. The telephone switch uses the IP address of the customer to set up the Voice over IP (VoIP) call.
6. The customer receives the call through the PC and starts the conversation with the agent.
7. The Symposium server monitors activity between the agent and the customer. Generally, no special software is needed on the customer's PC for an Internet call. However, a multimedia PC is required, because the process can use Microsoft's NetMeeting software that comes with the windows operating system or any H.323 compliant software.
8. Customers using an operating system other than Windows may need special software than can be downloaded over the Internet from the Web server.

Issues concerning successful implementation of CALL ME option: What happens during the time the customer clicks on the Call Me button and the call starts?

- In the meantime, the customer continues to surf the Web and more questions may arise from visiting different web pages. The agent has to be so skilled that he can handle a broader scope of questions and can professionally address unexpected inquiries.
- A Web Call may take longer than a traditional call centre call.
- The agent needs a higher skill set. The agent has to know all that a traditional call centre agent knows, plus how to direct people through the company's Website.
- Can the network support good quality voice communications?
- The quality of the call depends on both the businesses—Intranet and the Internet. The problem can have many cases including
    - The business' Intranet
    - The Internet
    - The customer's connection to the Internet
    - Customer PC problems

Technology-based Routing

- What is Technology based routing?
- Why do we need skill based routing?
- Challenges faced for implementing skill based routing and their cure.

What is Skill based Routing?: An important part of any call centre is routing the call, chat or e-mail to the person best able to answer the customer's question. This ability is called skillbased routing—sending the customer's call to the person with the best skills to answer questions.

Need for Skill-based Routing: The business can waste time by having the wrong person struggle with an answer, and leave the customer with a bad impression.

Challenges faced for Implementing Skill-based Routing:

- The skillbased router needs to be able to understand what web-page the person was looking at, and interpret textbased answers.
- The skillbased router must be able to "read" the e-mail and determine what the customer is asking. It is only then that it can send it to the 'right' person.

Cure for Challenges:

- The task is improved by having the customer answer questions on a form.
- When the customer clicks on the Internet Call Centerfor either email, text chat, Call Back or Call Me, the web-site sends down a set of questions.
- The answers may be "yes or no" answers, or free form.
- This information is then sent to the Symposium server, which uses the information to decide who should answer the call.
- The questions are analogous to what happens with Interactive Voice Response, where they are answered by pressing a number key on the telephone.

Notes

Self Assessment

Fill in the blanks:

6. One of the fascinating things about contact centres is their never-ending pursuit of …………………….
7. Full form of ACD is …………………….
8. Full form of CTI is …………………….
9. …………………… sends down a Web form with required text fields or an email form.
10. …………………… is like a telephone call, but instead of talking, the two people are typing their dialog.

6.3 Front Office Management Technology

Regardless of the class or type of the hotel, front office is the most visible and essential focal-point of a hotel. The focal point of activity within the front office is the reception desk, which is located in the front lobby of a hotel and dispenses all front-of-the-house activities of the hotel. It is the communication centre of the hotel with great amount of guest contact.

Guests interact with the hotel for the first time by interacting with the staff of the front office, and they form the first impression about the hotel based on the efficiency, competency and behaviour of the front office staff.

The reception desk performs the functions like the sale of rooms, guest registration, room assignments, handling of guest requests, maintenance of the guest accounts, cashiering along with handling mail and providing information. The financial tasks usually handled by the front desk personnel include receiving cash payments, handling guest folios, verifying cheques and handling foreign currency and credit cards. In this Section, you will be familiarized with all these aspects of the front office management.

The first contact of the guests with a hotel is mostly with its telephone switch-board, which is part of front office. The telephonist put the guest through to someone in the reservations department, who take care of his booking and deals with any subsequent steps such as confirmations, amendments or cancellations.

When the quest arrives he/she may be assisted by a uniformed concierge. What is certain is that he will have to go to the reception desk to register and obtain his room key.

During the time period of his stay, he may have occasion to go back to reception various times, sometimes for information or sometimes to pick up messages, and for help with tickets or further travel. He will possibly have to call there at end of his stay in order to return the room key and deal with his bill.

This does not end his connection with the hotel. His registration form must be kept for a specified period, and the information of contains can be used for a variety of follow-up communications designed to get him to come back after some time.

All these vitally important contacts are the job of front office. An American term used in place of the older world ‘reception’. Strictly speaking, it only covers those staff that come into direct, face-to-face contact with the guests, the other associated sections being known as ‘back office.’ However, the term’ front office’ is now generally used to describe the whole range of ‘front of house’ sections, namely:

- Uniformed staff
- Switchboard

Notes

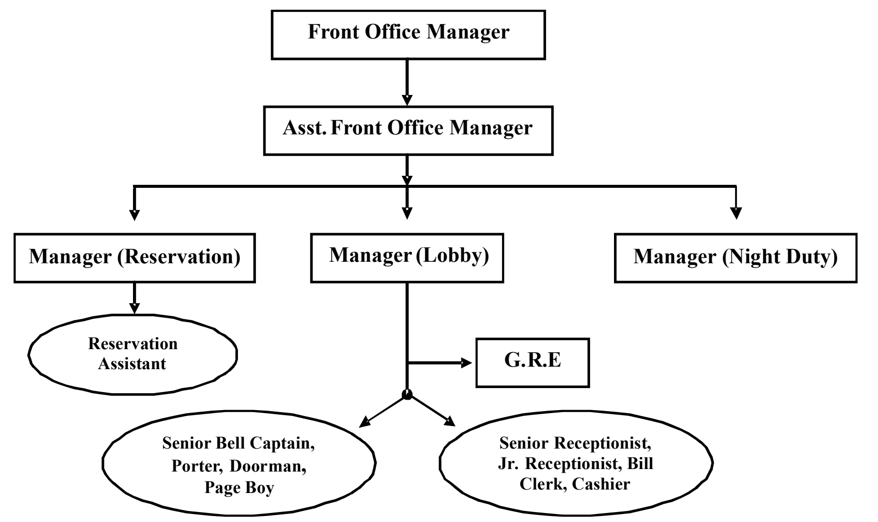
- Reservations
- Reception
- Enquiries
- Bill office
- Cashier
- Guest relations
- Meaning and Concept of Front Office

The front office is the nerve centre of a hotel. Communication and accounting are two of the most important functions of a front desk operation. Effective communications —with guests, employees, and other departments of the hotel—are paramount in projecting a hospitable image. Answering guest inquiries about hotel services and other guests, marketing and sales department requests for information on guest room availability, and housekeeping department inquiries concerning guest reservations are but a few of the routine tasks performed almost constantly by a hotel front desk in its role as communications hub. Accounting procedures, involving charges to registered and non-registered hotel guest accounts, are also very important in the hospitality. Itemized charges are necessary to show a breakdown of charges if a guest questions a bill.

Did u know? It is the most important department of the hotel. The main function of this department is to give warm welcome to the guest. It helps to create good image in front of the guest. This is the first department where guest comes in contact with. It generates the maximum revenue for the hotel as it sells room to the guests. This also includes sub departments like reservation, Bell desk, and Information desk. It also provides some facilities like concierge service to the guest.

The services for which fee is charged are available 24 hours a day in a hotel property. Moreover, because guests may want to settle their accounts at any time of the day, accounts must be current and accurate at all times. Keeping this data organized is a top priority of good front office management.

Figure 6.2: Front Office Department in a Hotel



Source: "Front Office Operations"(2011),(P-11), Excel Books Pvt. Ltd.

Notes

This department is the face of the hotel and remains in touch with guests all through their stay i.e. the first call made by a guest for a query to reserve a room to the settlement of the bill at the time of check out. The major functions of the front office include reservation, registration, answering to the guest query, maintaining relation with guest, settling guest account, handling foreign exchange of guest, taking guest calls, mails, faxes etc. and to ensure that the guest stay is comfortable.

The front office department is headed by the front office manager. He is accountable for the smooth running of the front office. He does the administrative job and whenever requires take helps from the assistant front office manager. Assistant front office manager acts like Front office manager in his absence and accountable for the execution of departmental operations. He delegates his work amongst difference section head like reservation manager, front desk manager, concierge manager, business centre manager, guest relation manager and receptionist etc.

Functions of the Front Office Manager

A successful front office manager conveys the spirit of a particular lodging property to the customer. By applying management principles, he or she works through the front office staff to communicate feelings of warmth, caring, safety, and efficiency to each guest. The front office manager must train personnel in the technical aspects of the property management system (PMS), a hotel computer system that networks the software and hardware used in reservation and registration databases, point-of-sale systems, accounting systems, and other office software. He or she also must maintain the delicate balance between delivery of hospitality and service and promotion of the profit centres, and maintain the details of the communication system.

The front office manager has at his or her disposal the basic elements of effective management practice: employees, equipment, inventory (rooms to be sold), a budget, and sales opportunities. This manager is responsible for coordinating these basic elements to achieve the profit goals of the lodging property.

Front office employees must be trained properly to function within the guidelines and policies of the lodging establishment. The front office manager cannot assume that an employee knows how to do certain tasks. Every employee needs instructions and guidance in how to provide hospitality; front office employees' attitudes are of utmost importance to the industry. To ensure that proper attitude prevails, the atmosphere in which employees work must motivate them to excel and nurture morale and teamwork.

The equipment available to the front office manager is varied. With the advent of computers, the property management system has provided the front office manager with an unlimited opportunity for managerial control. He or she can now easily track information such as zip codes of visitors, frequency of visits by corporate guests, and amount of revenue a particular conference generated and pass this information on to the marketing and sales department.

An unsold guest room is a sales opportunity lost forever. This is one of the major challenges of the front office manager. Cooperation between the marketing and sales department and the front office is necessary to develop profitable advertising and point-of-sale strategies. The subsequent training of front office personnel to seize every opportunity to sell vacant rooms helps to ensure that the financial goals of the lodging property are met.

Budgetary guidelines must be developed by the front office manager and the general manager, since the front office manager does have a large dollar volume under his or her control. The budgeting of money for payroll and supplies, the opportunity for daily sales, and accurate recording of guest charges require the front office manager to apply managerial skills.

The foremost concept that characterizes a front office manager is "team player." The front office manager does not labour alone to meet the profit goals of the lodging property. The general

Notes

manager sets the goals, objectives, and standards for all departments to follow. The assistant manager offers the various department heads additional insight into meeting the operational needs of the establishment. The controller supplies valuable accounting information to the front office manager as feedback on current performance and meeting budgetary goals. The food and beverage manager, housekeeper, and plant engineer provide essential services to the guest. Without cooperation and communication among these departments and the front office, hospitality cannot be delivered. The director of marketing and sales develops programs to attract guests to the lodging property. These programs help the front office manager sell rooms. The human resources manager completes the team by providing the front office with competent personnel to accomplish the goals, objectives, and standards set by the General Manager.

Job Analysis and Job Description

A job analysis, a detailed listing of the tasks performed in a front office manager's job, provides the basis for a sound job description. A job description is a listing of required duties to be performed by an employee in a particular position. Although almost nothing is "typical" in the lodging industry, certain daily tasks must be performed. A job analysis is useful in that it allows the person preparing the job description to determine certain daily procedures. These procedures, along with typical responsibilities and interdepartmental relationships involved in a job, form the basis for the job description. The future professional will find this management tool very helpful in preparing orientation and training programs for employees. It also helps the human resources department ensure that each new hire is given every opportunity to succeed, by laying a foundation for a job specification. The following is the job analysis of a typical front office manager:

7:00 Meets with the night auditor to discuss the activities of the previous night. Notes any discrepancies in balancing the night audit.

7:30 Meets with the reservation clerk to note the incoming reservations for the day.

8:00 Greets the first-shift desk clerks and passes along any information from the night auditor and reservation office. Assists desk clerks in guest check-out.

8:30 Meets with the housekeeper to identify any potential problem areas of which the front office staff should be aware. Meets with the plant engineer to identify any potential problem areas of which the front office staff should be aware.

9:00 Meets with the director of marketing and sales to discuss ideas for potential programs to increase sales. Discusses with the banquet manager details of groups that will be in-house for banquets and city ledger accounts that have left requests for billing disputes.

9:30 Checks with the chef to learn daily specials for the various restaurants. This information will be typed and distributed to the telephone operators.

9:45 Meets with the front office staff to discuss pertinent operational information for the day. Handles guest billing disputes.

11:00 Meets with the general manager to discuss the development of the next fiscal budget.

12:30 Works on forecasting sheet for the coming week.

1:00 Has a lunch appointment with a corporate business client.

2:15 Works on room blocking—reserving rooms for guests who are holding reservations—for group reservations with the reservations clerk.

2:30 Works with the controller on budgetary targets for the next month. Receives feedback on budget targets from last month. Checks with the housekeeper on progress of room inspection and release.

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2:45 Checks with the plant engineer on progress of plumbing repair for the eighteenth floor.

3:00 Greets the second-shift desk clerks and relays any operational information on reservations, room assignments, room inventory, and the like.

3:15 Assists the front desk clerks in checking in a tour group.

4:00 Interviews two people for front desk clerk positions.

4:45 Assists the front desk clerks in checking in guests.

5:15 Reviews trade journal article on empowerment of employees.

5:45 Telephones the night auditor and communicates current information pertinent to tonight's audit.

6:00 p.m. Checks with the director of security for information concerning security coverage for the art exhibit in the ballroom.

6:30 Completes work order request forms for preventive maintenance on the front office posting machine.

6:45 Prepares "things to do" schedule for tomorrow.

This job analysis reveals that the front office manager has a busy schedule involving hands-on participation with the front office staff and communication with the various department heads in the lodging establishment. The front office manager must be able to project incomes and related expenses, to interview, and to interact with potential business clients.

Based on this job analysis, a job description for a front office manager would be easily prepared. The job description is an effective management tool because it details the basic tasks and responsibilities required of the front office manager. These guidelines allow the individual to apply management principles in the development of an effective front office department. They also challenge the person in the job to use prior experience and theoretical knowledge to accomplish the tasks at hand.

The Art of Supervising

The art of supervising employees encompasses volumes of text and years of experiences. Management experts have analyzed some of the complexities of supervising employees. This unit covers a few concepts that will assist you in developing your own supervisory style.

The first step in developing a supervisory style is to examine a manager's position in the scheme of the management team. As the front office manager, you are assigned certain responsibilities along with certain authorities. These are areas for participation, growth, and limitation on the management team. Although this is a simplified overview of the management team, it does help to clarify managerial practice. At this time, a manager should review personal career goals with this organization. The ports of entry to the position of general manager will help an aspiring general manager clarify goals. This information will help you to understand which of the various areas of the hotel will provide good exposure and experience. Once you have clarified your arena of participation and plan for growth, you can decide how best to lead a team to financial success and personal growth.

The first concept a new supervisor (whether 20 or 60 years of age) should address is employee motivation. What helps each employee perform at his or her best? The emphasis is on each employee; different incentives motivate different people. The better shift scheduling that motivates the second-shift desk clerk may have no effect on the part-time night auditor who is a moonlighter, a person who has a full-time job at another organization and a part-time job at a

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hotel, two days a week on your property. The young person who prefers the second shift (3:00–11:00 P.M.) because the schedule better fits his or her life-style will not be inspired by the possibility of working the first shift. Tuition reimbursement may motivate the recent graduate of an associate degree program who wants to continue toward a four-year degree. This same incentive will mean little to someone uninterested in higher education. The possibility of promotion to reservations clerk may not have the same motivating effect on a telephone operator who is a recently displaced worker concerned about a schedule that meets the needs of a young family as it does on a front desk clerk who has no dependents. There are other cases in which a supervisor cannot figure out what motivates a person. It is a manager's ultimate challenge to discover how to motivate each member of his or her staff. By using this knowledge, a manager can promote not just the best interests of the employee but also the best interests of the hotel.

Another supervisory responsibility is to achieve a balance among varying personalities in a group work setting. This is a constant and evolving situation.

Very often, a new supervisor does not have time to assess each employee's relationship with others on the team, yet these dynamics are key to establishing a positive and effective "team" setting. The front office staff is jockeying for position with the new boss. This is common practice and a situation that needs to be addressed as part of the job. Once the new supervisor shows himself or herself capable and competent, the supervisor can move on to the day-to-day tasks. The staff needs this time to learn their new manager's reactions under stress. They also want to make sure that their supervisor will be their advocate with top management. All new supervisors will be tested in this way. You should not be discouraged by this challenge but embrace it as the first of many challenges to come.

After working out whatever personality clashes may exist among the employees, the manager must be objective about the strengths and weaknesses of the staff. Who is the unofficial leader of the group? Who is the agitator? Who is the complainer? Objective views of staff are probably shared by the rest of the team. Often, the staff members are quite aware of the shortcomings of their co-workers. They also know whom they can rely on to check out the full house and check in the convention three hours later. The unofficial leader of the group can assist the supervisor in conveying important ideas.

> *Caution* Some supervisors will respond negatively to such accommodation of the staff. Their response is based on the assumption that the supervisor has the first and last word in all that goes on in the front office. Of course, authority is important, but any supervisor who wants to maintain that authority and have objectives met by the staff must constantly rework his or her strategy.

Adequate personnel training makes the job of a supervisor much easier. When training is planned, executed, and followed up, the little annoyances of human error are minimized. As previously discussed, each job description lists the major duties of the employees, but the gray areas—handling complaints, delivering a positive image of the lodging property, selling other departments in the hotel, and covering for a new trainee—cannot be communicated in a job description. On-the-job training, employee training that takes place while producing a product or service, and videotape training are excellent methods for clarifying the gray areas of different tasks of a job. They serve not only to demonstrate skills but also to communicate the financial goals, the objectives of hospitality and service, and the idiosyncrasies of the lodging property and the people who work in it.

Employees will always have special scheduling needs as well as other job-related requests. Supervisors should try to accommodate their needs. The new hire who has made commitments four to six months prior to accepting a position at the front desk will appreciate and return a

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supervisor's consideration. The individual who wants to change shifts because of difficulties with another person on the job may just need advice on how to handle the other person. These individuals may make a good team, but they wear on each other's patience. A long-time employee might ask you how he or she can advance in the organization. You may not have an immediate response, but you can indicate that you will act on the request in the near future. Sometimes employees know that a good thing takes time to develop. Listen to their needs; their requests may an-swer your problems by fitting into the demands of the job.

Example: A desk clerk who is in need of additional income may have requested overtime hours. Later on, an opportunity may arise for this employee to fill a vacancy caused by another employee's illness or vacation.

The responsibility of communications within the hotel usually rests with the front office. From the guests' perspective, this department is the most visible part of the lodging establishment. The various departments in the hotel realize that the transfer of information to guests is best done through the front office. When such communications fail to reach guests, it is often the front office that bears the brunt of their unhappiness at checkout time.

The more systematic the communication process can become, the better for all concerned. For example, messages that will affect the next shift of desk clerks can be recorded in the message book, a loose-leaf binder in which the front desk staff on various shifts can record important messages. This communication tool is vital to keeping all front office personnel informed of additions, changes, and deletions of information and activities that affect the operation of a front office. Additionally, daily function sheets, listing the planned events in the hotel, and their updates must be delivered to the front office on a routine basis. The daily function board or electronic bulletin board in guest rooms available on in-room television or in public areas is usually maintained by the front office. The guest who complains about the maintenance of a room must have the complaint passed along to the right person. The complaint is then reviewed by a member of the staff, front office manager, member of the housekeeping staff, housekeeper, member of the maintenance staff, and/or maintenance director to ensure it is resolved.

Inquiries about hotel services, reservations, city ledger accounts—a collection of accounts receivable of non registered guests who use the services of the hotel—accounts payable, scheduled events, and messages for registered guests constitute only some of the many requests for information. Desk clerks and telephone operators are expected to know the answers to these questions or know to whom they should be referred.

Task Ask a front office manger about the difficulties faced by him on the floor.

Self Assessment

Fill in the blanks:

11. …………………… means sending the customer's call to the person with the best skills to answer questions.
12. Front office …………………… must be trained properly to function within the guidelines and policies of the lodging establishment.
13. A …………………… is a detailed listing of the tasks performed in a front office manager's job, provides the basis for a sound job description.

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14. The responsibility of communications within the hotel usually rests with the ……………………
15. The front office …………………… must be able to project incomes and related expenses, to interview, and to interact with potential business clients.

Case Study

Call Centre Offshore Outsourcing

Flatworld transformed the sales process for a global software and services company based in the US. They were looking at expanding their India operations and Flatworld bagged the contract and delivered lucrative call centre offshore outsourcing services.

The Customer

Our customer was a leading global software and services company based in Minneapolis and listed by NASDAQ.

Flatworld has done diverse call centre offshore outsourcing work and cater to customers from all over the world. From Fortune 500 companies to individual entrepreneurs, from those who wish to establish a presence and create more channels for their business to those who require complex applications and more interactivity, we have rendered to them all.

The Challenge

The customer, addressing mid market companies globally had successfully established a development centre in Bangalore and was looking at expanding the scope of activities in India. They were interested in understanding how the developing IT enabled services industry in India could be leveraged. IT enabled services include Customer Relationship Management (CRM), Back Office Operations like, Accounting, Data Entry, Data Conversion, Finance & Accounting, HR Services, Transcription Services, Content Development, Animation, Engineering, Other Services including Remote Education and Market Research Services.

Flatworld was singled out as the best fit to undertake their call centre offshore outsourcing.

The Solution

Flatworld was awarded the contract for the customer's call centre offshore outsourcing based on the solution it highlighted to drive the customers' sales process. Our solution included:

- A team based in India, that had the required sales skills, communication skills and poise to open doors for the company's highly skilled product specialists to take the sales process to the next phase.
- Design of a pilot program
- A team of Flatworld's B2B specialists
- Relevant training for two weeks to make the first level pitch

The Result

The initial pilot program we designed for the call centre offshore outsourcing service was an unqualified success. The customer then decided to extend our call centre offshore outsourcing services to other business divisions and product categories.

Contd...

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After Flatworld's pilot, the initial market scope extended from the USA to cover the UK, Canada and Anglophone Africa. Extensions were not only in business divisions, products and market scope but also in budgets. The marked increase in productivity of the in-market sales team resulted in the extension of budgets as well.

Customer Response

The customer remarked that the call centre offshore outsourcing deal they got from Flatworld was extremely successful, as the results from the pilot paid for Flatworld's subsequent quarterly service fees!

The customer thought it was important to build a team rapport across customer and service provider. They made it mandatory for the in-market sales team to visit the development centre in India and our sales support team and interact on a more personal level.

The customer also expressed that the company strategy to differentiate itself from competitors in terms of the quality of staff deployed in its initial customer facing interaction and solution development was a success.

Questions:

1. Analyse the case and present your observation.
2. Were the strategies opted by Flatworld's appropriate?

Source: http://www.flatworldsolutions.com/success-stories/call-center/callcenter-offshore-outsourcing.php

6.4 Summary

- The front office is the client-facing part of the firm and includes the roles which focus on working with and for clients, rather than in support, risk, compliance and operations roles. It is named because traditionally, the client-facing staff would be at the front of the business where they could be seen, and the support staff would be behind them at the back, unseen.
- Usually, front office roles are income generating and therefore some people argue that roles such as Equity Research are not front office, as they do not directly generate any revenue although this is clearly wrong, as they are perhaps the most client-facing role there is alongside Sales. On the other hand, traders almost never meet clients so they might not be considered front office, when they most definitely are.
- Often, people get too focused on whether a role is "front office" or not and there is confusion over what is front office and what inst, as the examples above demonstrate. Front office roles can be thought of as the intermediary roles, both between clients and between outside and inside roles. For example, two buy-side firms might interact through the Sales force at an investment bank, and front office bankers interact with both clients and support staff and therefore facilitate the flow of information.
- Typically, the front office is the hardest area of an investment bank to get into, but also has the best pay and exit opportunities.
- Historically, call centres have been built on PBX equipment that is owned and hosted by the call centre operator. The PBX might provide functions such as Automatic Call Distribution, Interactive Voice Response, and skills-based routing. The call centre operator would be responsible for the maintenance of the equipment and necessary software upgrades as released by the vendor.

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- With the advent of the Software as a service technology delivery model, the virtual call centre has emerged. In a virtual call centre model, the call centres operator does not own, operate or host the equipment that the call centre runs on. Instead, they subscribe to a service for a monthly or annual fee with a service provider that hosts the call centre telephony equipment in their own data centre. Such a vendor may host many call centres on their equipment. Agents connect to the vendor's equipment through traditional PSTN telephone lines, or over Voice over IP. Calls to and from prospects or contacts originate from or terminate at the vendor's data centre, rather than at the call centre operator's premise. The vendor's telephony equipment then connects the calls to the call centre operator's agents.
- Virtual Call Centre Technology allows people to work from home, instead of in a traditional, centralised, call centre location, which increasingly allows people with physical or other disabilities that prevent them from leaving the house, to work. A predictive dialling system running out of numbers to dial.
- Cloud computing for call centres extends cloud computing to Software as a service, or hosted, on-demand call centres by providing application programming interfaces (APIs) on the call centre cloud computing platform that allow call centre functionality to be integrated with cloud-based Customer relationship management, such as Salesforce.com or Oracle CRM and leads management and other applications.
- The APIs typically provide programmatic access to two key groups of features in the call centre platform: Computer Telephony Integration (CTI) APIs provide developers with access to basic telephony controls and sophisticated call handling on the call centre platform from a separate application. Configuration APIs provide programmatic control of administrative functions of the call centre platform which are typically accessed by a human administrator through a Graphical User Interface (GUI).

6.5 Keywords

Inbound Contact Centre: Contact centres communicate with customers in a number of ways, but who initiates the contact defines the type of contact centre. If the outside world initiates contact, then the contact centre is said to be an inbound contact centre.

Job Analysis: Job analysis is the formal process of identifying the content of a job in terms activities involved and attributes needed to perform the work and identifies major job requirements.

Job Description: A job description is a list that a person might use for general tasks, or functions, and responsibilities of a position.

Lodging: A room or rooms rented out to someone, usually in the same residence as the owner.

Outbound Contact Centre*:* If the contact centre itself is responsible for initiating contact; then the contact centre is said to be an outbound contact centre.

Reservation: An arrangement whereby something, esp. a seat or room, is booked or reserved for a particular person.

Text Chat: It can be an effective way to communicate with the customer. Text chat is like a telephone call, but instead of talking, the two people are typing their dialog.

Training: The action of teaching a person or animal a particular skill or type of behaviour.

Notes

6.6 Review Questions

1. What is the meaning and concept of front office management?
2. Discuss various functions of front office manager.
3. Explain the concepts that will assist employees in developing their own supervisory style.
4. What do you mean by job description and job analysis? Prepare a job analysis of a receptionist.
5. What is contact centre technology?
6. Differentiate between call and contact centre.
7. What is a text chat?
8. What are the CRM technologies working for enhanced system of CRM?
9. What is meant by outbound contact centre?
10. Discuss front office management in detail.

Answers: Self Assessment

1. Inbound
2. Outbound
3. Call centres
4. Revenue
5. Demerit
6. Improvement
7. Automatic Call Distributor
8. Computer Telephone Integration
9. Web server
10. Text chat
11. Skill based routing
12. Employees
13. Job analysis
14. Front office
15. Manager

6.7 Further Readings

Books

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Notes

Unit 7: Electronic-CRM

CONTENTS

Objectives

After studying this unit, you will be able to:

- Discuss the importance of e-CRM
- Know the interface between e-CRM and CRM
- Assess the process of e-CRM model
- Ascertain the dynamics of e-CRM and retailing
- Analyze the dimensions key factors in e-CRM
- Know all about internet adoption
- Analyse the barriers to internet adoption and E-CRM

Introduction

Electronic Commerce (e-Commerce or EC) is the exchange of business information using electronic formats, including Electronic Data Interchange (EDI) Electronic Mail (e-mail), Electronic Bulletin Boards (EBBs) and Electronic Funds Transfer (EFT).

E-Commerce Technologies are designed to replace traditional paper-based workflow with faster, more efficient and reliable communications between computers. To conduct business in the current environment using e-Commerce technologies requires that a business have access to a computer and a modem.

E-Commerce is what happens when one combine the broad reach of the Internet with the vast resources of traditional information technology systems. It uses the Web to bring together customers, vendors, and suppliers in ways never before possible; e-commerce is here and presents abundant opportunities. Companies around the world already buy and sell over the Internet. They connect with customers, suppliers and each other. They do business on the WEB, and consequently, they do more business.

There are challenges like security, scalability and reliability. They are real, but they are surmountable. E-Commerce is about web enabling the core business processes to improve

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customer service, reduce cycle time, get more results from limited resources, and actually sell things. In its simplest terms electronic commerce is the process of two or more parties making business transactions via computer and some type of network e.g. a direct connection or the Internet.

This includes business-to-business transactions, online retail, and the digitalization of the financial industry. Some experts and leading Net Entrepreneurs even argue that electronic commerce includes all the steps that occur in any business cycle, such as placing ads, completing invoices, and providing customer support. The term "e-Commerce", often used interchangeably with IBM's coined term "e-Business," covers a lot of ground and refers to all these areas.

7.1 e-CRM

E-Commerce actually began in the 1970s when larger corporations started creating private networks to share information with business partners and suppliers. This process, called Electronic Data Interchange (EDI), transmitted standardized data that streamlined the procurement process between businesses, so that paperwork and human intervention were nearly eliminated. EDI is still in place, and is so effective at reducing costs and improving efficiency that an estimated 95 per cent of Fortune 1,000 companies use it.

Today, electronic commerce increasingly refers to business conducted over the Internet. EDI, for example, is being brought to the Internet and allowing companies to save money by eliminating the old system's expensive private networks and by expanding reach to include more businesses on the supply chain. Other business-to-business transactions are simply moving to the web without using the standardized forms required by EDI.

More recently, brand names like Barnes and Noble, the Gap, and Wal-Mart and Indian companies like BPB publications and rediff on the net have set up shops on the Net, and many experts believe that these and other brand names will be able to establish long-lasting presence on the Web. Today, all a person needs is a computer, a browser, and Internet access, and he or she can buy flowers, airline tickets, and even a car.

Did u know? The past 3 years have seen a rise in the number of companies' embracing e-CRM technologies and the Internet in India. Most e-CRM sites have been targeted towards the NRIs with gift delivery services, books, audio and videocassettes etc. Major Indian portal sites have also shifted towards e-commerce instead of depending on advertising revenue.

The web communities built around these portal sites with content have been effectively targeted to sell everything from event and movie tickets the grocery and computers.

Indian businesses trying to get into e-Commerce maybe frustrated, since in India RBI does allow credit card information to be taken over the Internet without a legally binding signature. The Indian government now recognizes digital signature for customer verification over the Internet.

Definition of e-CRM

CRM is a fundamental facet of an organization, encompassing the philosophy and mission of organized business that is engaged with a well-knit customer-focused knowledge base and pervasive communications. It is more than software or process, and equal to a culture of gaining and keeping value customers, delivering the immitigable benefits. E-CRM can contribute incontrovertibly to an organizational transformation into a real time enterprise for customers, while harnessing the power of technology in a rapidly changing competitive landscape.

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The major benefits that accrue are new sales and account opportunities, quicker, smarter decision-making, and better efficiencies leading to significant improvement in customer service. Some of the core benefits of e-CRM are given below:

1. Extended customer relationships,
2. Competitive services delivering high value,
3. Improved product and service delivery processes,
4. Better customer knowledge and insight, and
5. Smooth, efficient customer service.

E-CRM is operational by integrating sales, marketing and customer service functions, allowing for internal collaboration on valuable customer knowledge and empowering to connect to customers and partners through any process, functional system and communication medium – telephone, fax, e-mail, internet and mobile.

To take the best decision possible, engage the entire top management, and evolve an informed and dynamic project group (relevant functional leaders) to deliver a reasonable business case with clearly identified roles, responsibilities and diligence perspectives, with lucid time lines.

Caution The team must peruse and analyze the current business situation in view of future goals, examine the existing systems, workflow and processes in customer management and develop a roadmap for the e-CRM solution to apply relevant strategies for achieving its goals.

Scope of e-CRM

The scope of e-CRM encompasses:

1. ***Sales:*** Supports key functions such as contact management, opportunity management, forecasting and 360-degrtee view of all customer accounts and interactions. Automate and organize sales force activities for focused selling and closing.
2. ***Marketing:*** Detailed schedules and tasks, maintaining contact lists and activity logs, automation association with leads, accounts or contacts, managing product and resource information, marketing alerts, etc.
3. ***Channel Management:*** Supporting key functions as campaign management and analysis, and customer demographic analysis.
4. ***Customer Service:*** Provides an efficient workflow and easy access to information while synchronizing customer data across all communication channels.
5. ***Partner Management:*** Tracks and analyses sales made by partners and track contacts associated with dealers, distributors And other channel partners.
6. ***E-Business:*** Creation and customization of customer centric web pages, enabling customers to generate and track support requests from the company's website.

CRM vs. e-CRM

The points stated below differentiate between CRM & e-CRM.

1. E-CRM is not just customer service, self-service web applications, sales force automation tools or the analysis of customers' purchasing behaviours on the internet.

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2. E-CRM is all of these initiatives working together to enable an organization to more effectively respond to its customers' needs and to market to them on a one-to-one basis.
3. E-CRM is integration between the traditional CRM and e-Business application. This small 'e' should be a gigantic 'E' because this technology, when properly used, can have a significant impact on industries and the structure of businesses. Essentially, the 'e' enables an organization to extend its infrastructure to customers and partners in ways that offer new opportunities to learn customer needs, add value, gain new economies, reach new customers, and do all of this in real time.
4. E-CRM is all about strategy and therefore requires the direction and engagement of senior management to be successful. Senior management must have a broad understanding of the capabilities of these technologies and then translate them into specific opportunities that leverage competitive advantage.
5. E-CRM is different from traditional concept of customer service. For example, the traditional customer service concept works as follows:
   (a) Customer has a problem with a product or service late in the evening.
   (b) Customer has to wait till company offices open the next day. He is upset because he cannot resolve the problem immediately.
   (c) Next day when he contacts the company, the Customer Service Representative assists the customer in resolving the complaint. Sometimes resolution of complaint can take days, as the Customer Service Representative may not have the desired information or necessary technical skills to resolve the problem. Customer is not happy.
6. On the other hand, e-CRM is proactive and provides easily accessible data for real time decision-making. e-CRM would tackle the above situation as follows:
   (a) Customer has a problem with a product or service late in the evening.
   (b) Customer does not have to wait till morning to have his problem resolved. He visits company's website for assistance and checks the Frequently Asked Questions (FAQs). He is able to resolve his problem. Customer is happy.
   (c) In case, he is not able to resolve his problem, the customer clicks the "Help Now" button and a Customer Support Representative.
   (d) The Customer Support Rep accesses the knowledge base and conveys the desired information to the customer to resolve his problem. Customer is happy.
   (e) The details of the interaction are recorded in the customer history, so it is available to any Customer Service Rep who has any interaction with the customer in future.
   (f) Knowledge base is updated with relevant information from this interaction.

An email is automatically sent on behalf of the President of the company to the customer asking him if he was satisfied with the resolution of the problem.

Determining what types of e-CRM tools to implement depends on how a company anticipates customers' needs. For example, a customer purchased something from the Web site and needs to know how to return merchandise, will it be necessary to offer a customer service representative to answer the question? Or with the use of the latest e-CRM technology to provide the customer with an instant answer and save on the cost of having a person answers a simple question?

Automatic response technology is an example of an e-CRM tool that helps effectively and efficiently communicates with customers and builds close relationships with them. By doing so, a company gains customer loyalty.

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Caution In the Internet a company should care customers online and provide a unified customer communication at various customer touch points; live service and email support.

To ensure that the website is customer's preferred place a business must provide effective customer service.

1. ***Knowledge of Warehousing:*** Capturing customer information is the key to managing customer relationship. Software that can consolidate customer information into a single database would provide your business with important analysis for customer tracking and analysis.
2. ***Data Resourcing:*** Using data from multiple resources, including customer information databases, e-CRM focuses on building a real time customer profile for each customer. Your customer agents can target market selective based on what it knows about a particular customer.
3. ***Categorizing or Segmenting Customers:*** Customer information collected in databases is presented in formats that can be easily analyzed. Reports track customer service issues and assist in e-marketing campaigns. Your company can use data gathered by these tools to segment your customer base into several groups or categories.
4. ***Delivery Options:***
   (a) *Self-hosted Applications:* The software is hosted by the e-business. The vendor will teach users how to put the software to use.

   Downside: it costs more, you have to maintain the applications yourself and implementation time is usually longer.

   Upside: you have absolute control and customization power.

   (b) *Application Service Provider (ASP):* The vendor will host the software and system.

   Upside: You don't have to do much implementation and don't have to know how to use the system and deployment is faster.

   Downside: changes and customization are more difficult to make, reporting capabilities are limited and there is the perception that there's less security.

   (c) *Outsourced Model:* Similar to the ASP option. A company with limited resources and capabilities will utilize outside businesses to fill in the gap.

   Upside: you don't have to hire additional employees and commit to complicated and expensive applications.

   Downside: less control.

Caselet

Toyota e-CRM Strategy

Mr. Bordin the Vice- President of Toyota Mahanakorn, Toyota Mahanakorn emphasizes on providing a lot of services for the highest satisfaction of the customers. Toyota Mahanakorn being a leader in high standards insists that every branch must provide the same standard to every customer. At present, Toyota Mahanakorn is using the ISO 9001 standard. It is the first Toyota dealer that provides this standard to customers.

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Mr. Bordin also mentioned that Toyota Mahanakorn had implemented the eCRM on its website. The website of the company provides the web service for customers. The customers can obtain information and contact the company through the company website.

Mr. Somkeit Pathnapirom, the senior IT manager of Toyota Mahanakorn mentioned some future plans of his company related to e-CRM. Toyota Mahanakorn has already started a project for customers as members of the Toyota club. The purpose of this project is to create a customer network and gain customer information from the customers who become members on the network. The company will attract customers by offering promotions and rewards for those who register as a member of the site. The advantage of doing an e-CRM that combine with network is that it will expand the means to reach customers and as well as the customer database. Also, Toyota is planning to use those information gained from e-CRM to plan their future strategies.

Ms. Jirawan Tangcharoen, Customer Relationship Manager, refers to her department that the main goal of her department is to retain the existing customers. She affirmed that they (Toyota Mahanakorn) give its best service to their customers in various ways such as miles checking (for every 1,000 km (kilometres); 10,000 km; 20,000 km; 100,000 km). In order to implement this Ms. Jirawan said that the dealer had to use some specific program to calculate the distance that the car had used up and set the next mile checking appointment for customers to come and recheck the car again or car repairing. The customers could make an appointment or ask questions through e-CRM that their company had put up on their website. The Customer Relationship Department confirmed bookings or appointment with customers through call centres and reminded customer appointment of their next appointment via short message on the customers' mobile phones.

Thus, after the customers used their services the call centres would call them for customers' assessment. The call centres according to her would solicit customers' assessment so that the company could improve their service to the customers in the future. "I would like to say that customers' satisfaction is very important for the business like us. We must meet the customer satisfactions; we have to know what our customers want and what they like." Our stance that a company must have an approach to get to customers in every possible way whether it's via website, emails, or phones which have the same significance for customers.

Source: http://www.google.co.in/url?sa=t&rct=j&q=e%20crm%20case%20study&source=web&cd=10&cad =rja&ved=0CGQQFjAJ&url=http%3A%2F%2Fmdh.divahtml

Challenges in e-CRM

The challenges in e-CRM are:

1. ***Security:*** A sense of security needs to be established and customers must be able to select a mode of payment and the software must verify their ability to pay. This can involve credit cards, electronic cash or purchase orders. Specialized software such as cyber cash and Microsoft-wallet can verify the purchaser and the purchase. E-CRM software usually works with the Secure Sockets Layer (SSL) developed by Netscape or the Secure Electronic Transaction (SET) technologies for encryption of data transmission. The more support by an e-commerce package, the better for the security.
2. ***Digital Certification:*** The method used to establish identity is based upon an object called digital certificate. A digital certificate simply ties together a public key with say the name and address of the customer or merchant. The trick is that these certificates are signed by a trusted third party, in much the same way that the passport is signed by the government that issues it. Verisign, a spin off from RSA data security is in the business of issuing these certificates which they called Digital IDs. Currently these are digital IDs are not recognized by the Indian government.

3. ***Future Trends in e-CRM:*** The forces that determine the web's winners and losers are just taking shape and technological advances could add even more uncertainty. On the downside, some experts predict that it will be increasingly difficult for smaller companies to establish their presence. Public companies and traditional brand name retailers have deep pockets and a name recognition that will make it difficult for smaller sites and mom-and-pop shops to attract customers, thereby forcing them to compete with the big firms. On the upside, nearly all experts believe that overall e-commerce will increase exponentially in coming years. Business to business transactions will represent the largest revenue. Online retailing will also enjoy a drastic growth. Areas expected to go include financial services, travel, entertainment and groceries. And for those considering opening a virtual storefront, forthcoming technology and standards agreements will make it easier to create a site, to protect it against payment fraud, and to share information with suppliers and business partners.

Web Experience

It is a complex set of relationships between the Web surfer and the person(s) at the other end of the Internet line, the Internet being the channel that the parties use to communicate with each other. The relationship between the parties and the interactions between them are very different from other forms of interaction.

Example: How often one decides to e-mail a friend rather than call him? The thought behind it is that, easier to send one e-mail than to give him a call upon him. The total time was about the inputs of typing and sending the e-mail. A phone call, would probably have taken two minutes, or about five minutes cluing the response.

Additionally there are no distractions in the discussion. The subject matter written is the subject matter referred to. No more, no less. The interaction is there without the interaction being actually there. No baggage, no emotion, and no complicated thought process. It is what it is meant to be-and it doesn't save a bit of time. It just seems that way because one has more individual control over the process. A customer is well informed about what he wants and also can get additional information of his/her interest and the salesman's job becomes easier if well prepared on the sales call; a practical example is presented as below:

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Happy Customer Interaction

This is a reflection on what is both good and peculiar about the web experience. Why peculiar? It is a social interaction done in isolation that crates as many problems as it solves. There is never actually a substitute for human interaction, but there is also no way an individual human can cover all bases. For example, if you are a salesperson making call to a customer site and meeting with the Executive Vice President (EVP) of a company, it will be helpful to know that the EVP had e-mailed to the site with a customer service question to a totally different division a week before. He has also spent time studying the web pages that were concerned with your expenses tracking software and your ERP package. Additionally, he had watched a demo and downloaded a white paper on the integration of CRM and the back office. All this information related to the EVP's web experience was captured by the various site tools and centralised in a customer repository. It was analysed through various analytical algorithms that were compiled into a report you were accessing using your laptop or palm, depending on what e-CRM software you are using. By the time you reach the EVP's office, you have been armed and are ready with

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the information. The website he had logged into promoted your products very well. He was able to identify your financial package as the one he wanted. He also enjoyed the look and feel of the website and the sophistication of the demonstrations. This gave him more subliminal faith in your product's sophistication, your company's professionalism, and thus your ability to deliver your application successfully.

The EVP's transactions as shown above are a small segment of the web experience. One has to recognize the significance or purpose of the Web experience in the CRM world. It is to identify a customer, derive the value of the customer, and interact with the customer. This is so, whether it is a single individual who buys more frequently than other individuals or a corporation that is doing more business (or less) with you than any other customer. Its odd nature makes innovation necessary to make sure that the identification, derivation, and interaction work towards the benefit of both the customer and the company.

E-CRM's value comes from giving a customer a "total experience" on the Web. Traditional CRM channels cannot do that because they are based on applications that may not be effective in giving the customer direct access to the interfaces functionally. Ordinarily, CRM provides sets of tools, which while possibly Web-enabled, are not designed from the ground up for the Web. It is more for the corporate department or the interfaces and functionality. Ordinarily, the individual employee does this customer ground-up creation or redevelopment so that all functions, external and internal, is entirely web based. For example, personalization tools are more appropriate to Web customer experiences. Personalization tools have little value if used in a purely client/server environment. However, this doesn't guarantee that even CRM is entirely wonderful.

Features of Effective e-CRM

Any e-CRM is the customer-facing Internet portion of CRM. It includes capabilities like self-service knowledge bases, automated e-mail response, personalization of Web content, online product bundling and pricing, and so on. The web-based e-CRM gives Internet users the ability to carry on with the business through their preferred communication channels. It also allows the business to offset expensive customer service agents to add value to its ability to improve customer satisfaction and reduce costs through improved efficiency.

However, an e-CRM strategy deployed alone can also backfire and this actually may result in decreased customer satisfaction. If the customer's interactions through electronic channels are not effortlessly integrated through traditional channels the customer is likely to become extremely frustrated. Also, if the basis for the content being served to the customer does not consider all the data gathered for the business, the customer is likely to be served in that way. Therefore, it is imperative that e-CRM be installed in conjunction with traditional CRM and that the two function together. Otherwise, the result of e-CRM might actually prove negative.

Designing e-CRM

Some CRM companies have Web-enabled their existing application and called it "Internet ready". Others have redesigned it from the bottom so that it is referred to as a Web application, rather than a client/server application that can be viewed on the Web. These are the fundamental architectural differences. Mere accessibility from a browser does not turn a CRM application into e-CRM. For technology to fulfill the promise of making the desired customer activity possible, the invisible technical details really matter.

Example: If one wants to have an application that is optimized for Internet security activity, it uses HTML that is, accessible from either desktop or palm, or even laptop. It can be accessed securely using Internet security protocols that are reachable via TCP/IP and so on.

Application Servers

Application servers drive the pure Internet CRM applications. The applications servers that are often found in three-tier architectures, which are not created just for the Internet client/server architecture, which is, in fact, why the three-tired approach was fashioned. But they are the best contemporary architecture for the Internet. The application servers provide pre-constructed Web pages to a Web server that delivers them to the users through their queries.

Web Browser

This model preserves the fundamental value of the Internet as a communication medium, and provides a common platform for independent access to data anytime and anywhere. There is no program or application code that needs to reside on the user's PC; therefore, users gain immediate access to the application with the right URL with security authorization. It's just like using Web browser to view any other Web page; click on the right link and one can see the information. Peoplesoft/Vntive CRM 8.0 is a good example of this. The people soft Internet Architecture consists of the following principles. Applications are based on standard Internet protocols and languages such as HTTP and HTML. Internet applications can easily be accessed from a Web browser. The Internet applications user's experience is maintained through the look, feel, and usages paradigm. It is not "Windows 98 on the Web".

Here is where the key difference lies. No client software is installed with pure Internet applications, the browser is the client. The architecture is as multi-tier, server-centric model, featuring separation of presentation, business logic, and data management functionality. If one is not familiar with Internet – centric application and interface and opens Microsoft Word 2000, it' s just a routine thing. There is nothing interesting or special about it.

But if one is loading Internet Explorer 5.5 and onto the Web, one thinks about the fact that one is loading up the Internet connection. It is not part of the desktop. With Internet-centric applications, the browser is no different than the Word 2000 interface. It is just part of the landscape, not like walking. This works particularly well when using a broadband Internet connection such as T1 or T3 line, cable modem, or DSL that allows to be up and run the Internet 24 hour a days, seven days a week with a ground-up e-CRM application, it is as universal as the desktop is from wherever one is connected.

Application Codes and Applets

By contrast, CRM Web-accessible application is not nearly at the same level of business utility because they are not purely data driven. These systems rely on application code applets or controls that must be downloaded and installed on users' systems to enable them to communicate with the CRM database. This can defeat platform independence and present logistical challenges to the anywhere-anytime promise afforded by the Internet. Requiring codes to be installed on each user's system is invasive. It increases the challenge and cost to manage and maintain, and it may not even be feasible to do so in all cases. If a sales executive forgets to bring a laptop along, the sales executive may not be able to convince the Internet café in the area to allow access to the latest pipeline. The partners, too, may not appreciate having to install "system" on their system to work with the organisation.

If it's important to connect the employees with customers, partners, and suppliers, it is more important to understand the limitations that Windows 98 or any package on the Web can impose on the business processes. The pure Internet application usually rests on any server with the browser as client. The Web-enabled client/server application needs downloaded applets and applications to the desktop to carry out a specific function. With the feel of the browser as the client, is easy to feel that access anywhere and anytime is true because all functions are

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transparent and accessible. When you load and unload applets each time you need a specific function, you feel less in control of your Internet CRM destiny.

Did u know? While e-CRM is considered a front office technology, meaning that the applications are both available to the customer (customer-facing) and impact the customer, there is a back-end to the from office. In other words, to put up the "event" in e-CRM, the development tools for the Web have to be used. Such tools as Java, Enterprise Java Beans (EJB), Perl, and CGI are the ground work for the "webfication" of CRM.

E-CRM and Portals

With the emergence of the Internet, enterprise portals took on a whole different meaning. They have now become the gateways to entire Web-based communities and customer activity.

As portal is a gateway to an array of services to an optimal community. It is a centralised entry point, usually centred on a Web server that links multiple information and interactivity sources, and allows a personalized view of any or all of the services according to the requirements of the user who is entering. The personalization is accessible through a password and user ID. Each user has a different view of the array of information, goods, and services available to them. This is any easy going concept that personalizes the view of each person using the portal. Yet the collection of goods, services, and information is universal and available on multiple servers sitting behind the portal doors. This way, thousands of users can get what they need, with all the universal links available to all people and with workflow and security built in. Probably the best example of a portals-building product is 'Plumtree', a corporate portal 4.0 tool, released at the end of 2000. Plumtree's tools allow the creation of interlinked portals combined with devices portal add-ins in multiple locations, through the use of their portals and massively, by letting a portal user access multiple portals, increasing the selections of good, services, information and portals. One has to decide the benefits to an organisation.

As a good CRM portal aggregates all relevant customer information within a single application or desktop in a format that is customized and personalized for the department or individual interacting with the data. An ideal portal doesn't just provide access to customer data, but becomes a knowledge base that is tailored to the needs of each different audience, with Web content, third-party applications, reference materials, and detailed customer information. Portals thus contain anything within or outside of the enterprise that customer-facing groups can utilise, to enhance their understanding of a customer's experience and needs.

Several things are important for a highly successful CRM portal strategy; the system should be the architect around the customer, instead of around specific job functions. By putting the customer at the applications core, no matter who is viewing, using or sharing the information, companies are assured a sample customer interaction process.

Deploying a CRM portal solution only in one department or one business unit will not yield the same results as an enterprises-wide solution, which gives every front-office employee access to the critical customer data and knowledge base.

A thin-client or Web-based portal system saves millions of dollars in time, employee turnover, and other costs by greatly reducing system implementation and management time. While there is still a need for client/server technology, and onyx still supports it, the future is on the Web where installations, upgrades, and expansions can be managed from one location, on one server, and all end users need to gain access is a browser. Different audiences require different views and different types of information, making it absolutely necessary to provide the right content and structure to each.

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Self Assessment

Choose the appropriate answer:

1. ERP stands for:
   (a) Enterprise Regional Planning
   (b) Enterprise Regional Placing
   (c) Enterprise Resource Planning
   (d) None
2. EFT stands for:
   (a) Electronic Fund Transfer
   (b) Electronic Foreign Transfer
   (c) Electrical Fund Transfer
   (d) None
3. EDI stands for:
   (a) Electronic Diagram Interchange
   (b) Election Document Interface
   (c) Electronic Data Interchange
   (d) All of the above

7.2 Modules in CRM

The CRM applications are a convergence of functional components, advanced technologies, and channels. Functional components include:

(i) sales application;

(ii) marketing automation; and

(iii) customer service and support applications.

Channels include the Web; call centres, phones, and mobile devices. The components and channels are described below:

1. ***Sales Applications:*** The cornerstone of CRM is SFA (Sales Force Automation). The thrust of SFA is automating the fundamental activities of sales professionals, both internally and in the field. Common applications include:
   (a) Calendar and scheduling
   (b) Contact and account management
   (c) Incentives calculates
   (d) Opportunity and pipeline management
   (e) Sales forecasting
   (f) Proposal generation and management
   (g) Pricing

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(h) Territory assignment and management

(i) Expense reporting.

Sales configuration applications go hand in hand with SFA applications, which allow application users, to assemble product components into finished goods. Rules are programmed into configuration applications and are abstracted from the user. Sales configurations are suitable for Web because users need not have a technical background to assemble products. Unassisted web sales capabilities enable customers to select and purchase products or services via the Web.

2. ***Marketing Applications:*** They form the newest breed of applications in the CRM space. These applications complement SFA applications and provide certain capabilities unique to marketing. Common applications include the following:

   (a) Web-based/traditional marketing campaign planning, execution and analysis

   (b) Collateral generation and marketing materials management

   (c) List generation and management

   (d) Budgeting and forecasting

   (e) A marketing encyclopaedia (a repository of product, pricing and competitive information)

   (f) Lead tracking, distribution and management

   Marketing applications primarily aim to empower marketing professionals by providing a comprehensive framework for the design, execution and evaluation of marketing campaigns and other related activities. For example, a successful marketing campaign typically generates a qualified sales lead that needs to be distributed to sales professionals who need to act upon them.

Caution Marketing automation and SFA automation are complementary. It is essential to realise that SFA and marketing applications play different role in the customer fulfilment life cycle.

3. ***Customer Service and Support Applications:*** These applications have gained a major importance for effective customer retention and in many cases profitability depends on providing superior service. These applications are typically deployed through a call center environment or over the Web for self-service, and allow organisations to support the unique requirements of their customers with greater speed, accuracy and efficiency. Common applications include:

   (a) Customer care

   (b) Incident, defect, and order tracking

   (c) Field service

   (d) Problem and solution database

   (e) Repair scheduling and dispatching

   (f) Service agreements and contracts

   (g) Service request management

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CSS applications are helping organisations make a transition from cost centres to profit centres. Moreover, when these applications get fully integrated with sales and marketing applications, they can provide unique opportunities for organisations to up-sell and cross-sell additional products into their customer base.

Basic Requirements of e-CRM

A company can approach e-CRM from different evolutionary paths, but they all need to proceed toward the same objective of optimising the value of customer relationships.

1. ***Electronic Channels:*** New electronic channels such as the Web and personalized e-Messaging have become the medium for fast, interactive and economic customer communications, challenging companies to keep pace with this increased velocity.
2. ***Enterprise:*** Through e-CRM, a company gains the means to touch and shape a customer's experience across the entire organisation, reaching beyond just the bounds of marketing to sales, services, and corner offices – whose occupants need to understand and assess customer behaviour. An e-CRM strategy relies heavily on the construction and maintenance of as data warehouse that provides a consolidated, detailed view of individual customer behaviour and communication history.
3. ***Empowerment:*** In this new age, e-CRM strategies must be structured to accommodate consumers who now have the power to decide when and how to communicate with the company and through which channel, which ability to opt for or out of. Consumers decide which firms earn the privilege to "talk" with them. In light of this new consumer empowerment, an e-CRM solution must be structured to deliver timely, pertinent, and valuable information that a consumer accepts in exchange for his or her attention.
4. ***Economics:*** Too many companies execute communication strategies with little-effort or ability to understand the economics of customer relationships and channel delivery choices. Yet customer economics drives smart asset allocation decisions, directing resources and efforts of individuals shall provide the greatest return on customer communication initiatives.
5. ***Assessment:*** Understanding customer economics relies on a company's ability to attribute customer behaviour to marketing programs. A company should evaluate customer interactions along with various customer touch-point-channels and compare anticipated ROI against actual returns, through customer analytical reporting. Evaluation of results allows companies to continuously refine and improve efforts to optimize relationships between companies and their customers.
6. ***Outside Information:*** The use of consumer-sectioned external information can be employed to further understand customer needs. This information can be gained from sources such as third-party information networks and Web-page profiler applications, under the condition that companies adhere to strict consumer opt-in rules and privacy concerns.

Conscious of each requirement that will shape its future business, a company builds an e-CRM solution in order to optimize relationships between itself and its customers. For each company, optimization might have different and multiple objectives such as:

(a) Increasing the number of customers;

(b) Increasing customer profitability;

(c) Growing revenue;

(d) Driving customers through cost effective channels; and

(e) Cross-selling for retaining customers.

Three Dimensions in e-CRM

E-CRM must address customer optimization in three dimensions *viz.*:

1. Acquisition getting (increasing number of new customers);
2. Expansion (increasing profitability by encouraging customers to purchase more products and services); and
3. Retention (increasing the amount of time customers stays).

While acquisition and retention are fairly well understood, customer profitability through expansion requires some scrutiny. Since expansion presents enormous untapped value; an e-CRM strategy must be able to identify the expansion potential for each customer.

For example, historically, grocery retailers have struggled to understand the value in communicating directly with a customer beyond basic promotions. The average margin in a food retail store is only two to three percent. On the surface, these small margins appear to leave little or no room to warrant sophisticated customer optimization techniques. As a result, supermarkets have spent most of their energy on acquiring more customers. What many food retailers fail to grasp is the marginal economics of customer behaviour? While profit margins may float around three percent, the incremental margin obtained from getting a shopper to add just to increase incremental margins hold potential. Uncovering that potential requires companies not only to understand how customers behave with them but what interactions they have with their competitors.

Customer Investment Allocation

While a significant amount of latest profit potential exists within your customer base, the question remains how do you leverage those opportunities? Most companies have no central mechanism to determine which customers should receive which investment allocations are generally based on a decision to sell more products to optimize the channel.

An e-CRM strategy requires businesses to reallocate their investment toward customers who deliver the most value and have the greatest potential value. To achieve this objective a business must develop and deploy an additional set of business processes designed to be customer-centric and not product-centric. This simple method can result in profound changes to the organizational structure and technical infrastructure of a business.

Key e-CRM Features

Regardless of the company's objectives, an e-CRM solution must possess certain key characteristics. It must be:

1. ***Focus on process:*** A CRM process brings you the appropriate technology and it will reduce the technology gap as well as refining your business process.
2. ***Data warehouse driven:*** In an e-CRM solution, the data warehouse or customer data mart contains a consolidated and comprehensive view of the customer. The warehouse provides the broadest possible profile of the customer. This is needed to determine an appropriate course of action the most effective offer to make, and the best channel to deliver pertinent message.
3. ***A multi-channel view:*** Organisations today have different methods of interacting with customers. For example, a bank might use one application to support its Website; another to support its call centre; another to support e-mail; another to support sales, another to support ATMs; and yet another to support direct mail and telemarketing. These applications

rarely connect to each other thus precluding the sharing of information between channels and preventing meaningful cross-channel connections for a customer. For example, a call centre agent may be careless to a complaint that a customer registered that day through e-mail. Nor would the agent be aware of customer behaviour on the Website.

To further complicate the problem each touch point application has its own terminology or ID numbers assigned to offers available to customers. While it is a desirable goal to synchronies customer communications across channels, disparate applications and the lack of standard identifiers for offers and messages make it difficult to track "who received what and when" and how they responded. In the end, companies have created an environment with conflicting business processes for customer communications.

> *Notes* An e-CRM solution must have applications that coordinate or synchronies customer communications across channels and do so in real-time. These applications must be able to capture customer transactions across disparate touch points and store that information in a temporary data store for immediate assessment and response. In addition, these applications must feed information captured from those touch points into the data warehouse, to broaden the customer profiles obtained from back-end transactional systems and external sources.

4. ***Measurement driven:*** Today, many companies spend millions of dollars communicating with customers, but spend little time and effort determining the effectiveness of those campaigns. E-CRM provides the means to measure communications efforts.

The disparities between customer touch point systems can make the establishment of consistent metrics difficult. Thus, cross-channel coordination becomes important for establishing a metrics baseline. Effective measurement enables companies to target their customer investments in an optimal fashion across all channels.

To identify potential value, e-CRM solution depends on certain process techniques, and extensive customer profile within a data warehouse, and evaluation tools that can identify clues relevant to a customer's expansion potential. Targeted cross-sell and up-sell campaigns can then be devised to optimize customer value.

ERP and CRM

ERP implementation is an expensive and long drawn affair that requires the best efforts of the most competent team drawn from the middle and senior management of the company. Typical team size is 60 to 70 from within the company and an equal number from the implementation partner. Substantial time of top management is also a pre-requisite to ensure that quick decisions are given for any bottleneck that may arise.

1. The typical time period for implementation is 24 to 30 months. This can be crashed to some extend but not beyond a point.
2. The cost of software and the implementation partners' fee together can be in the region of ₹ 50 to 70 crores. This is after excluding the cost of other resources such as new hardware, additional office space, etc.
3. Why are we talking of ERP on a seminar on CRM. Because we feel that CRM cannot be effective in a company that does not have a back office information setup.
4. Modern day ERP offerings have many features that closely resemble the best of CRM software.

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ERP (Enterprise Resource Planning) attempts to bridge the gap between the SCM and CRM packages by providing a "unified software program divided into software modules that roughly approximate the old standalone systems" (Koch, 2006). The main focus of ERP systems is data sharing, data distribution, and data quality in order to avoid duplicate and redundant. Kock states that the main goals for an organization to undertake ERP:

1. Integrate financial information,
2. Integrate customer order information,
3. Standardize and speed up manufacturing processes,
4. Reduce inventory, and
5. Standardize HR information (Koch, 2006).

When it comes to ERP systems, they can provide many benefits and paybacks for an organization that chooses to implement the system and does so effectively. An ERP system should be carefully planning, analyzed, and designed prior to implementation, followed by training and maintenance. This can be a huge task to undertake for any organization. I think that the differences in these systems are due to the lack of ability to truly fulfill an organization's complex needs and business processes across the various departments and functions.

These systems encompass the main enterprise-wide information systems. These systems feed into the decision support systems such as data mining and OLAP using data warehouses, marts, etc. There are additional systems that are more focused on specific business objectives. Some of these systems include, but is definitely not limited to:

1. Decision Support Systems,
2. Sales Force Management Systems,
3. Executive Information Systems,
4. Strategic Information Systems, and
5. Group Support Systems.

SCM and CRM

SCM (Supply Chain Management) allows organizations to efficiently manage their entire supply chain from purchasing to distribution and logistics. I think that the main focus of SCM is on purchasing or transactional data, or internal data. SCM and ERP are often different systems in many organizations, which make it difficult to "Connect Demand with Supply" as Michael Schrage's article discusses. The difficulty will play an important role for technology managers as the two systems can have contrasting objectives. Schrage offers an example of this:

"There's no question that you can optimize the efficiency of a supply chain at the cost of being less responsive to customers.

Example: You might save your firm 25 percent of hard dollar costs if I eliminate some distribution centres and carry fewer inventories. That decision would probably make your company less responsive to customers, since they might then experience more stock-outs. But that trade-off may be worth it. What I pay for that extra inventory may cost more than what I lose in sales from customers who don't find the stock they want. The question is: What's the better business investment?"

For any business to extract maximum benefit from its CRM deployment, it is important that it be linked to the back processes. Supply chain management, when connected via business

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intelligence tools with CRM, can throw light on many hitherto unknown aspects of a company's business processes.

The insight offered by CRM into customer behaviour and demand patterns can be made use of to streamline manufacturing and distribution of products as managed by the supply chain function. An important feature to understand when deploying CRM is that it can only provide information that has to be used both at the front end and back end to improve processes. Customer segmentation information can be used to structure the purchase of raw materials, scheduling manufacturing, managing inventory, and overall running the supply chain. A business can obtain major cost savings by acting upon information from CRM systems.

A streamlined supply chain is key to reaching out to the right consumer at the right time and CRM offers inputs on providing the customers with the right product mix and targeting them with appropriate marketing. A backward integration of processes taking into account the information obtained from CRM can help a business better allocate its resources be they in manufacturing, processing, marketing, or sales. Apportioning of raw materials to machines and machines to a given product can be done more accurately if market demands are known; it also leads to a reduction of inventory stocks, JIT production, and a lean supply chain that responds to demands quickly. All this not only helps cut costs but also acquire a competitive advantage for a business that can take the lead in offering a better buying experience and service level that competitors may not be able to offer.

An efficient and responsive supply chain can have a huge positive impact on store product segmentation and effective customer targeting. Integration between CRM and SCM improves communication between the store and the manufacturing. For retail businesses such integration can imply a lot of benefits such as better distribution to retail outlets over various geographic locations; feedback to suppliers, distributors, transporters, etc. The use of BI for predicting performance at individual stores that can be aggregated to obtain a holistic picture of the supply chain is relevant to the entire exercise. Businesses can ensure the availability of quick-moving items and reduce the likelihood of losing customers.

A wider view of the happenings at the retail level can also help to take *ad hoc* decisions when pressed for time. Marketing and sales can coordinate more fruitfully with the supply chain to move or divert goods to given locations during peak seasons or for promotional purposes. Viewing data pulled from marketing, sales, supply chain, finance etc on a single dashboard can enable management as well as store managers to take profitable decisions on cross-selling and up-selling across different channels.

Task Explain the purpose of effective e-CRM in any business.

Self Assessment

Fill in the blanks:

4. e-CRM is integration between the traditional CRM and …………………….
5. …………………… used to establish identity is based upon an object called digital certificate.
6. A company should evaluate …………………… along with various customer touch-point-channels and compare …………………… against actual returns, through customer analytical reporting.

State whether the following statements are true or false:

7. e-CRM is different from traditional concept of customer service.
8. Application servers do not drive the pure Internet CRM applications.
9. CSS applications are helping organisations make a transition from cost centres to profit centres.
10. ERP attempts to bridge the gap between the SCM and CRM.

7.3 Barriers to Effective Customer Internet Adoption

As with any information processing system, security and reliability are important considerations. When organizations choose to rely on OLTP, operations can be severely impacted if the transaction system or database is unavailable due to data corruption, systems failure, or network availability issues. Additionally, like many modern online information technology solutions, some systems require offline maintenance which further affects the cost-benefit analysis.

The lure of doing business on the Internet is strong for most companies. In 2008, Internet retails sales totalled almost US $142 billion, according to the U.S. Census Bureau. While online business is a segment that companies may want to explore, making an informed decision means understanding the disadvantages of doing business on the Internet.

Laws

When you do business on the Internet, you are subject to the laws of the countries where customers can access your website, according to the Entrepreneur website. Your Internet business is subject to privacy laws in the United States and overseas, copyright laws worldwide and tax laws that normally depend on where your company is located. If you have materials that should not be accessed by people under a certain age, you have to follow certain legal provisions before your site can go live. Consult an attorney knowledgeable in international commerce law as you create your website or you could be opening yourself up for lawsuits and legal action by domestic and foreign governments.

Lack of Trust

Consumers are sometimes wary of purchasing products online, Rod Kurtz writes for the Bloomberg Businessweek website. Become certified by one of the better-known online security organizations such as Verisign and the non-profit Internet watchdog organization TRUST. You cannot establish a rapport with customers in person when you run an Internet business, so you need to do what you can to establish trust in other ways. Even with all of the precautions you take, a segment of the buying public may not feel comfortable providing its payment information on the Internet.

Copycats

Since the Internet reaches millions of people every day all over the world, it is essential to stay ahead of the competition. One of the problems with doing business on the Internet is that it can be expensive to copyright or patent your website ideas globally, Internet business advisor Steve Ma. Renya writes on the Power Home Biz website. If you work hard and create a successful Internet business, there is a good chance that someone will try to copy it and draw business away from you. The inability to protect your ideas can be a disadvantage of doing business on the Internet.

Notes

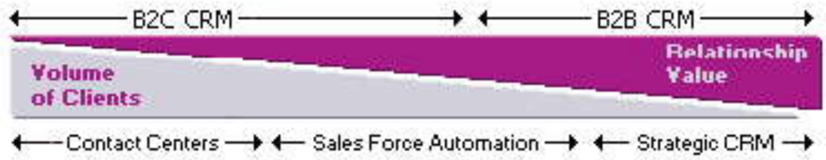
Disadvantages of Internet

1. ***Virus Threat:*** Most of the viruses came from the internet so be very careful when visiting or downloading from a site. If you are using Firefox, you can install Web of Trust add-on so you can get warnings about online scams, sites with adult content, and spam. With this, you can help keep your computer safe from online threats like spyware, adware, and viruses.
2. ***Theft of Personal Information:*** If you use the internet, there is a great risk of stealing your personal information such as name, address, credit card no., by those culprits.
2. ***Pornography:*** This is probably the worst disadvantage of the internet especially for the parents who have kids.

When we focus on the management of massive relations with multiple clients, we face the paradox of low unit values of the individual relation, but high aggregate value for the business as a whole.

1. The situation implies the need to optimize the management of relations of scarce value, but needed of service. Historically, servicing these clients has not been satisfactory, sometimes incurring in costly negligence.

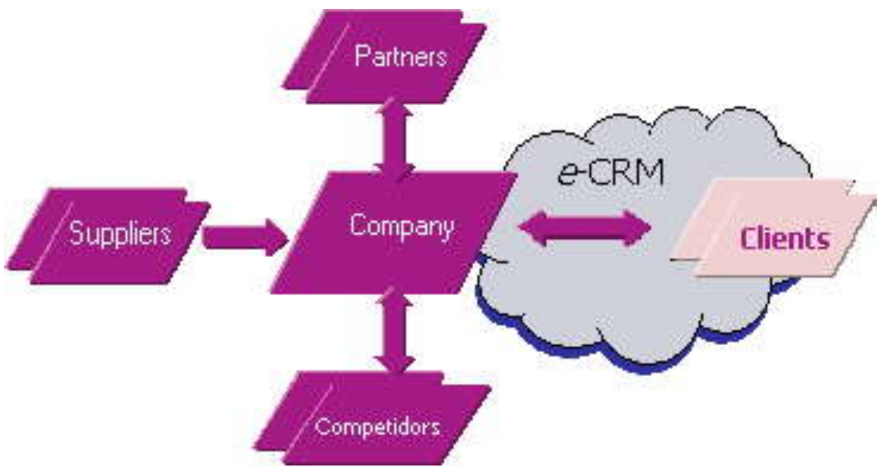
Figure 7.1: Multiple Client Relationship



Source: http://www.asistentesvirtuales.com/ENG/ecrmb2c.html

2. Correct CRM focus recommends taking into account these type of interactions too. CRM consists of identifying, capturing and retaining interesting clients and optimizing earnings through the knowledge of their interactions, using this information to develop long lasting relationships.

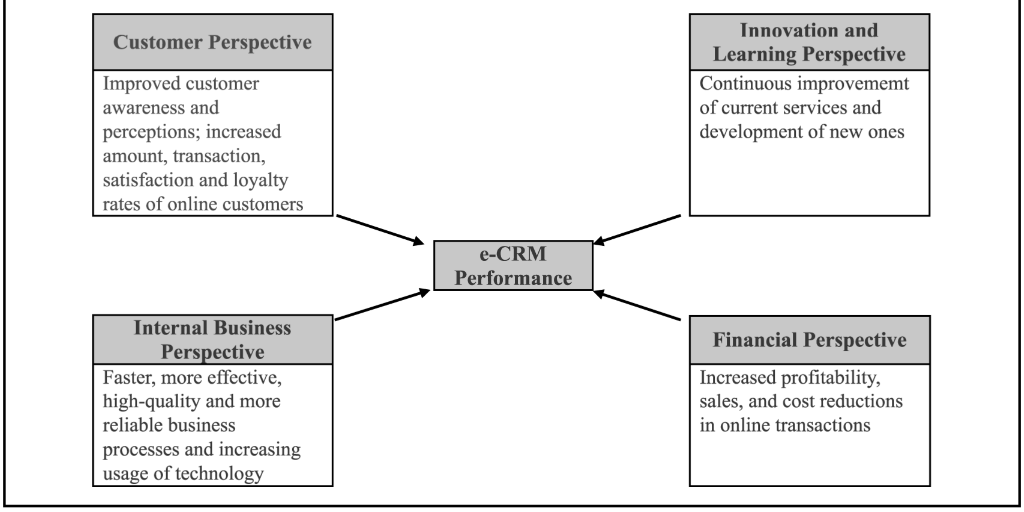
Figure 7.2: e-CRM



Source: http://www.asistentesvirtuales.com/ENG/ecrmb2c.html

3. Asistentes Virtuales extends eCRM as a philosophy of action, oriented to conceive business as a customer centric issue.

Figure 7.3: e-CRM Components



Source: http://www.asistentesvirtuales.com/ENG/ecrmb2c.html

4. Today, the use of new means of connectivity is generalized. It allows us to attend the atomized relations in a personalized manner, adjusting costs to their low value.
5. The world's «e» clients surpass the barriers of time and location. They break intra-departmental barriers. They select the ideal medium of interaction, and claim complete and coherent answers.

The approach confronts this situation with the adoption of strategies that follow this simplified cycle:

1. Segmentation that allows us **to know the client,**
2. Personalization to provide a **differentiated deal** that lets us obtain,
3. Loyalty to maintain **long lasting relationships,** and
4. Optimization of these actions and the other channels offered to improve our **competition**.

The system is equally valid for citizens (in the case of the Public Administration) or employees (for the case of an intranet).

Caution The validity of any online financial transaction is very less; one should take care as the money can lost in the process very easily.

Task What are the barriers other than the above mentioned barriers which are admissible in the internet adoption?

Notes

Self Assessment

Fill in the blanks:

11. …………………… is a global computer network providing a variety of information and communication facilities, consisting of interconnected networks using standardized communication protocols
12. Full form of OLTP is …………………….
13. The Internet business is subject to privacy laws of …………………… country.
14. …………………… is a segment that companies may want to explore.
15. Full form of SCM is …………………….

Case Study

IBM's ECRM Initiatives

In January 2000, IBM, the US $86 billion IT company, embarked on the largest Customer Relationship Management (CRM) project known at that time. Termed CRM 2000, the project aimed at ensuring that any point of interface between the customer and IBM, through any of its channels, in any country, was dealt with uniformly, providing the same service level, applying the same tools and information.

In other words, IBM wanted to present a unified interface to its customers across the world. In 2004, four years after the project, the company was well on its way towards fulfilling its objective, reporting significant improvement in customer satisfaction levels.

IBM had always been known for its emphasis on customer service. It had its sales personnel clad in blue suits attending clients' calls and explaining to them how they could transform their business through various IBM products and services. IBM recognized that proper CRM implementation was possible by the integration of three elements - people, process and technology. Until the late 1990s, it addressed the issue of integration of people and processes. The third part, technology, was dealt with in 1999, when the company started focusing on this aspect.

Commenting on this, Cher De Rossiter (Rossiter), IBM's Global Services and Program Director for its internal CRM project said, "In 1999, there was a shift in the technology side of the project. We started working on a new go-to-market strategy in which we would redefine the way we set up our internal customer service organization."

IBM went about implementing CRM in phases, addressing sub-divisions such as change management and training successfully. Commenting, Steve Wright, Vice-President, Worldwide Customer Relationship Management Deployment, IBM said, "By getting to know our customers better and enabling more effective collaboration around the customer and among multiple IBM organizations involving sales, marketing and support, we can significantly enhance the value we bring to our customers, while generating additional revenues and cost efficiencies for our company. The concept of 'One IBM' is a cornerstone for the way we serve customers."

Background Note

IBM was incorporated in 1911 as the Computing Tabulating Recording Corporation (CTR), which manufactured punch card data processing equipment. On February 14, 1924, CTR changed its name to International Business Machines Corporation...

Contd...

Notes

Implementing CRM 2000

To manage the worldwide installation of Siebel's e-CRM applications, IBM launched a global programme.

Implementation Issues

Installation of e-CRM systems was only a part of the implementation process of CRM solutions at IBM. A more important task was to manage internal business process changes following the installation.

The Benefits

The deployment of the CRM solution led to significant productivity improvement at various IBM units within a year of implementation. Without increasing the number of staff manning call centres, more number of calls could be dealt with and more leads generated.

Questions

1. Analyse the case and present your observations.
2. With referring the above case, how will suggest others to apply e-CRM in their business.

Source: http://www.icmrindia.org/casestudies/catalogue/IT%20and%20Systems/IBM%20ECRM%20 Initiatives-IT%20Systems%20Case%20Study.htm

7.4 Summary

- In conclusion, e-CRM takes conventional CRM to new heights. Combining the technologies of conventional and Web CRM opens Customer Relationship Management to all participants in the process, inside and outside the enterprise.
- Users can access the CRM system via PCs or Laptops using Windows or via the Web using a Browser.
- As we move towards WAP (Wireless Application Protocol) devices, cost-effective access will increase still further. E-CRM takes us one step further towards harnessing the true database marketing philosophy.
- The e-CRM, i.e., CRM online implies an additional means of communication and level of interaction with the customer where there is as real difference in the technology and its architecture, which allows for ease of self-service to the customer.
- As the Internet is becoming more and more important in business life, many companies consider it as an opportunity to reduce customer-service costs, tighten customer relationships and most important, further personalize marketing messages and enable mass customization.
- E CRM is being adopted by companies because it increases customer loyalty and customer retention by improving customer satisfaction, one of the objectives of e-CRM.
- E-loyalty results in long-term profits for online retailers because they incur less costs of recruiting new customers, plus they have an increase in customer retention.
- Together with the creation of sales force automation (SFA), where electronic methods were used to gather data and analyze customer information, the trend of the upcoming Internet can be seen as the foundation of what we know as e-CRM today.

Notes

7.5 Keywords

CRM: Contact with customer made through the retail store, phone, and fax.

Digital Signature: A digital certificate simply ties together a public key with say the name and address of the customer or merchant.

E-CRM: All of the traditional methods are used in addition to Internet, email, wireless, and PDA technologies.

Mobile CRM: This is defined as "services that aim at nurturing customer relationships, acquiring or maintaining customers, support marketing, sales or services processes, and use wireless networks as the medium of delivery to the customers."

Outsourced Model: It is similar to the ASP option. A company with limited resources and capabilities will utilize outside businesses to fill in the gap.

Self-hosted Applications: In this situation the software is hosted by the e-business. The vendor will teach users how to put the software to use.

Web Browser: This model preserves the fundamental value of the Internet as a communication medium, and provides a common platform for independent access to data anytime and anywhere.

7.6 Review Questions

1. Explain the concept of e-CRM and analyze the essentials of building an e-CRM.
2. What are the objectives of e-CRM? Examine the CRM process.
3. What are the essential features of an effective e-CRM?
4. "The CRM applications are a convergence of functional components, advanced technologies, and channels". Discuss the modules of e-CRM.
5. What are the strategic objectives of CRM marketing applications?
6. Discuss the designing of CRM marketing organization.
7. Explain the interdependence of CRM and e-CRM.
8. What is e-Commerce?
9. What are the basic requirements of e-CRM?
10. "Regardless of the company's objectives, an e-CRM solution must possess certain key characteristics". Discuss.

Answers: Self Assessment

1.	(c)	2.	(a)
3.	(c)	4.	e-Business application
5.	Digital certification	6.	Customer interactions, Anticipated ROI
7.	True	8.	False
9.	True	10.	True
11.	Internet	12.	Online Transaction Processing
13.	Respective	14.	Online business
15.	Supply Chain Management		

7.7 Further Readings

Notes

Books

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Mohammed H. Peeru and A Sagadevan, *Customer Relationship Management*, Vikas Publishing House, 2004, Delhi

Paul Greenberge, *CRM-Essential Customer Strategies for the 21st Century*, Tata McGraw-Hill, 2005

William, G. Zikmund, Raymund McLeod Jr., Faye W. Gilbert,*Customer Relationships Management*, Wiley, 2003.

Online links

http://blog.tmcnet.com/telecom-crm/2007/11/30/crm-adoption-biggest-problem-in-83-percent-of-cases-wigan-gets-crm-tre.asp

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http://www.destinationcrm.com/Articles/CRM-News/Daily-News/CRM-Market-Grows-for-Fifth-Straight-Year-55275.aspx

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Notes

Unit 8: Managing Customer Relations

CONTENTS

Objectives

After studying this unit, you will be able to:

- Study the concept of customer experience management
- Determine the stages of managing relations with customers
- Ascertain the techniques of managing customer relation
- Analyse the concept of creating customer profile
- Signify the need of customer profiling

Introduction

Since the marketing paradigm shift from mass marketing to customer relationship marketing in the late 1990s there have been many developments in technology, applications and customer behaviours.

Numerous suppliers of CRM systems have evolved, providing a vast array of applications from simple to complex enterprise wide applications. The choice can be daunting for a business. This is further complicated by the growth in data, increasing complexity in customer contact channels and ever changing technologies. How do you know what is right for your business?

This unit walks through some fundamental questions that your business needs to address before it embarks on a journey to invest in any form of customer management capabilities. By looking at each area, your business should be able to draw up a set of requirements tied back to business metrics; that way a robust business case and plan can be implemented.

But before we set out these steps, you need to begin with an understanding that any form of customer relationship investment requires a unification of data, analytics, people and processes. It is not just a technology decision. It is a change in customer management techniques that are in part enabled by technology. Too often businesses think that technology can replace and mend deficiencies in human processes; whilst it can address them, it can't do it in isolation. Buying in to these capabilities is also not just for executives, it requires all employees to be provided with the context, support and understanding needed to fulfil their roles properly.

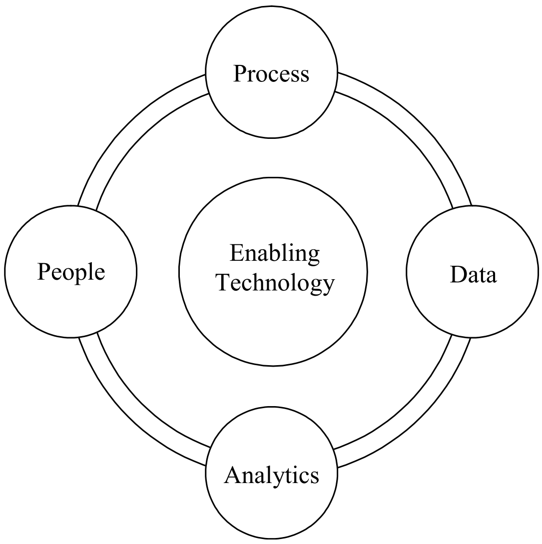
8.1 Steps/Stages of Managing Customer Relations

There are 10 techniques of managing customer relations. They are:

Step 1: Define your Customer Relationship Goals and Plans

The basis of a strong set of requirements is a well considered business plan and strategy. The customer and the relationship – or engagement – that you wish to build with them needs to sit at the heart of this plan.

Figure 8.1 Successful CRM requires clear, coordinated alignment



Source: http://barnraisersllc.com/tag/social-crm/

A good place to start is to explore the current situation and gather opinions from around the business; be sure to include marketing, customer services and IT in the process. Carry out a SWOT analysis and back this up with firm evidence of where and why processes either breakdown completely, are not efficient, or too costly.

Prioritising those issues which are of greatest threat to the business going forward will help focus you on where to start.

Then define a vision and set of customer experiences as your goal in response to the analysis of the current situation. Assuming you have been able to measure current business performance, use this to set some goals for corrective action (e.g. reducing cost per acquisition by x, increasing average product holdings by y etc). Next work through the remaining steps to see what is required to deliver this plan.

Step 2: Which channels are important?

Few, if any, brands today will be working in limited channels – though they may be working in an uncoordinated manner. The question is the degree to which you need integrated capabilities across multiple channels?

Today's empowered consumer typically embraces both digital and traditional channels.

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So how important is it for you to have customer information shared across channels? How important is it that all of this data is required at an individual level to deliver a consistent and relevant experience?

Use market research where possible to understand the types of channels customers use and whether the patterns of usage vary across different customer groups. This will help you understand the significance of connecting up channels operationally.

Define which data is critical for success and where you will source it from. Start with your more traditional, transactional and operational data and use this as a basis of the database requirements.

Step 3: Data

A data strategy is a critical success factor for a business, especially when considering investment in customer relationship management. Businesses often do not have a data strategy that identifies the key assets held in the business and where they believe there are gaps or inaccuracies, how and whether these issues can be addressed internally, and the role that external information can play.

Table 8.1: Key Steps and Proportion of Focus Required in Data Planning/Strategy

Step one	Prioritise current data asset importance and identify missing data
Step two	Deal with data quality issues
Step three	Investigate data capture option
Step four	Engineer value from your own data
Step five	Consider value of external data overlays

Source: http://barnraisersllc.com/tag/social-crm/

Data Strategy

Start by checking out what data is held in your data warehouse and identify the most important information you have access to and which key data are absent.

Since data warehouses often try to harmonise data assets from data silos across the business, it is likely that data may exist at source and has the potential to be accessed, so check out source systems.

Evaluate out data quality too. How well is your data populated? Is it cluttered with erroneous values? What about the less obvious places you could consider for capturing useful information about your customers? Whilst many of your customers' interactions with you are likely to be reasonably well structured within your own operational systems, the likelihood is that they are interacting in other ways through digital channels which can leave valuable traces of less structured information.

Recent innovations in 'listening' technology can capture and translate browsing behaviour into more structured data, directly in real time from your web site. This would provide you with valuable intelligence across all stages of the customer life cycle, in particular filling a gap in the information available to you at the very early stages of engagement with customers (i.e. pre-purchase).

Your data strategy needs to consider combining the efforts of your IT functions in assembling and managing internal data assets with the possibilities of new data gathering technologies focussed upon digital channels to provide valuable overlays.

So establish collaborative working relationships with IT to pull together your requirements and build a business case for projects to acquire key data and cleanse existing data where required.

Finally, most of the data that you will be focussed upon relates to the customer's relationship with you. This can be usefully summarised to understand how engaged the customer is at any point in time by establishing how often they visit your website, when they last bought from you, how frequently they buy, and what their average purchase value is.

Remember though that overlaying existing data with external market data can also help you to understand more about how well you are leveraging a customer relationship based upon a customer's circumstance (e.g. their income, age, geodemographic segment, etc). This is a key component of understanding the potential future value of a relationship and the headroom you have to improve the current position.

Email Marketing Data

Email metrics are often held within email service provider databases or in-house operational databases focused on delivering and managing email campaigns. Is that sufficient for your business or do you need to integrate that data back in with more traditional transactional data? Is it important for you to know who opened, clicked as well as bought to show different levels of engagement – or indeed what they do and don't engage with? If so, set out your data requirements and frequency of refreshes.

Web Behavioural Data

How critical is web behavioural data to your business and how do you need to manage this in the context of relationship management, as opposed to behavioural and content management on a website? If it is important, how will you match this data back to other customer data? How do you wish to aggregate the masses of web data into key metrics and variables that would drive a differentiated customer relationship strategy? Define these needs against defined customer contact plans; if you can't then leave this with the web analytics team for now but ensure that if future business needs change that this can still be accommodated.

Social Media

The majority of businesses today are using some form of social media (blogs, forums, Twitter and Facebook) although most are only dipping their toes in. How important is this media to your brand? How advanced are you today and where do you realistically see yourselves in the next 3-5 years?

Most developments are likely to be in listening and tracking. The challenge for a business is being able to understand the mindset of the consumer that is expressing opinions and making purchasing decisions on products. So what listening and data capture do you need and how, if at all, do you need to try and tie this back to your other customer data records (when often you won't know who is talking about your brand)? If the intelligence that this more unstructured data provides is critical to success it will require a new approach to data gathering and management.

Structured data originating from within the business, lends itself to being consolidated within a single customer view as much of this data is likely to have contact details such as name and address and telephone number. The challenge is how to combine this with unstructured data which cannot be keyed using conventional name and address processing. Do you have keys or data fields that could form links to your structured data; if so how will you define and create

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aggregated data from social media into a structured format? If this is not required, separate social media tracking projects can be specified and managed – just so long as the output to action is coordinated in a customer contact and management plan.

Step 4: Frequency and Recency of Data Updates

Many things now move at pace; for instance the time taken to research and compare prices is now measured in just a few minutes, many consumers can now routinely gather important information quickly that empowers them to make choices for a very broad range of products, even if they ultimately decide to purchase these items on the high street. Web metrics and behavioural data are in real time. How critical is that data to your customer relationship needs; how best do you manage that data? Is it through a centralised system or can smaller stand alone systems and processes work as effectively so long as the plans that drive them are consistent? Do you need data in real time or would more frequent batch processes drive almost as much value, and cost less? Consideration needs to be given to how technology can be used to blend new data capture technologies with traditional ETL (Extract, Transform, and Load) tools.

Step 5: What Analytics Resources?

The role of analytics is to turn data into intelligence; raw data on its own doesn't tell the full story. In the Experian paper 'Analytical Insight: Bringing Science to the Art of Marketing', Marie Myles talks about the risks of relying upon IT resources and the importance of taking the initiative by adopting a self-service approach:

"You could, of course, rely on experts from IT or dedicated analysts to slice and dice customer data for you but their resources are not boundless and IT bottlenecks may mean you miss valuable opportunities or key deadlines.

The answer lies in marketing analytics that support a self-service approach to extracting insight. Preconfigured functionality can now empower you as a marketer, rather than an IT specialist, to undertake a point-and-click exploration of your data for yourself.

You can perform highly sophisticated analysis without having to master complex algorithms or build numerical models. You can easily share your findings without having to write reports from scratch by using pre-defined reporting templates and dashboards built on best practice. These tools turn your dry, dusty numbers into a vivid narrative that points to a clear course of action– what's known as actionable insight."

Essentially many of the barriers you may have experienced resulting in historic analytics bottlenecks can be avoided if the right technology solution is adopted.

It is now no longer essential that you have an army of highly expert, statistically orientated analysts to support this function. Highly productive, easy to use technology solutions are available opening up analytics to non-specialists too.

The new breed of analytical platforms enables you to empower campaign planners and even branch managers to fill in simple pre-configured questionnaire style forms without resource to other teams. These produce almost instant analytics and once completed, can be submitted to centralised teams to drive campaigns on their behalf.

Technology improvement has also led to improvements in more sophisticated applications. Predictive modelling historically applied during a batch process (e.g. at data refresh), is now a process that can also be applied to your customers' real time interactions. Also more sophisticated

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optimisation applications are emerging to meet the demands of real time applications which could identify the best next action you need to take in managing a particular customer relationship.

Step 6: Managing Customer Contacts and Interactions

Businesses need to think carefully about how they plan to manage customer relationships in the future given the heightened expectations of consumers who wish to be recognised as individuals and treated consistently across all touch points.

So how does that affect your requirements? How complex and targeted are your customer contact plans; how much content, how many channels and how much test and learn do you expect to run? What role do trigger campaigns play and what data and analytics are required to support these? Are wave campaigns a key part of your plan? How do you expect decisions made within the system to be deployed back in social media activities and your website?

Again technology can come to your rescue. Some campaign management platforms are more 'conversational aware' than others, often described as dialogue management or engagement management tools as they now fully embrace multichannel and multi-wave. Importantly some will enable you to combine dialogues either initiated by your customers ('pull') or by your marketing team ('push').

Advanced engagement management tools now provide capabilities to integrate with your content management solutions too. This would enable you to render your content consistently across your channels and your customer's devices. Content management providers are also providing integration into the social media space too (e.g. Facebook and Twitter) ensuring that the consistency of content deployment really does extend to all channels.

Step 7: Reporting and Evaluation

In all likelihood many people in your business will be attaching a great deal of significance to future CRM initiatives and may even describe them as 'mission critical'. In many businesses this is reflected by the thirst for performance metrics well beyond the confines of your marketing department.

So define your feedback loops from campaign metrics to ensure the right data feeds on results and actions are also being fed into the process. What type of reports do you require; what are your KPIs and metrics? How detailed do they need to be, how can people drill down into the results and indeed who do you wish to access these results and why?

The trend is for businesses to place less reliance on spreadsheet based approaches and separate platforms underpinned by online analytical processing, as experience has proved this can be both time consuming and resource hungry to manage. So you should consider the benefit of a more integrated approach which could link directly to your CRM database allowing users to self-serve themselves.

Your IT department is likely to benefit too as less resource would be required to manage one single platform rather than several. Intelligent dashboards can access the single data repository to provide highly graphical interactive reporting accessed via a browser.

This approach now caters for the new but growing group of information consumers in organisations who wish to consume highly visual, easy to interpret reports. They may wish to be able to drill down further into data at the click of a button, but not necessarily wish to create reports from scratch.

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Step 8: Technology

On Premise vs. Hosted

One of the fundamental decisions that you will need to consider is whether to opt for a traditional on-premise packaged solution or consider outsourcing the management of the solution to a suitable vendor.

The decision is often not straightforward and can depend upon many issues ranging from views on data security to internal resourcing, and whether skill sets exist internally to manage such solutions.

As the complexity of solutions can grow as requirements become more sophisticated, some businesses may feel more comfortable initially in outsourcing such solutions. However others may feel the overriding consideration is protecting data assets behind their firewall. In such cases, companies need to be careful in selecting vendors who will provide 'safe handling' of their prized data assets.

However, one consideration which is often overlooked is whether businesses are likely to need the flexibility at some stage in the future to migrate the solution from a hosted to on-premise model or vice versa. As businesses acquire knowledge and new skills (e.g. in digital marketing) they may wish to take more control of these processes.

Ideally businesses should seek out vendors with experience of both hosting and on-premise deployments.

Marketing Suite or 'Niche' Tools

In the relatively recent past IT departments in most mid and upper tier businesses often felt they had the capability to take tools from a number of different suppliers and combine them together effectively.

Such an approach is becoming more challenging as businesses seek to blend in data from digital channels. Not surprisingly both the chance of successful implementation and time to implement can be impacted given the greater complexity of handling different types of data more quickly and moving data across platforms.

So how complex is your project, how skilled are your existing IT teams, and what priority does CRM have in the overall remit of IT? Single supplier relationships are often favoured where data management, data enrichment, and integrated CRM applications can all be sourced from a single vendor.

Technology Platforms

No one wants yesterday's technology so make sure you have evaluated the latest technology and look for this in your suppliers. Watch out for 'vapour ware' though and ensure that your requirements ask for case studies as well and thorough demonstrations. Ask for product development roadmaps.

Check that this technology fits with your IT strategy and can be integrated with back office systems. Define how the interface will work and that usability is suitable for your business users.

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Step 9: Solution Support

Effective support from solution providers should provide the lubrication to ensure smooth running and investment returns meeting expectations. What are your expectations and needs both pre- and post-implementation?

Set out your needs for fine tuning post-implementation, as the use of the solution evolves to accommodate new requirements such as additional data feeds, the development of models, or the creation of new campaign templates.

Think about the challenges ahead and the skill sets you will need from your chosen vendor. Do they have the necessary experience to join up, enrich, and manage the dialogue that you wish to have with your customers?

Look for companies that combine strengths in business consulting, technical implementation, professional services, and account management.

Step 10: People and Processes

Finally, consider the implications of introducing a customer management system to your business and the impact this will have on the people and the processes they are responsible for.

- Identify teams which will be impacted from introducing the new technology and start to engage with them at an early stage to get their buy in. One of the main reasons why CRM projects fail to realise their potential is lack of engagement in the early stages of the project.
- Asking for their involvement is less likely to be confrontational than announcing significant changes further down the line.
- Identify key players in your organisation who can help support the project and are influential with senior executives. Communicate regularly with key stakeholders providing regular reminders of the expected benefits of the project to keep the momentum up.
- As you refine your view of requirements for data, analytics, and platform technology, sit down with teams and work through the key processes which the solution will need to support, identifying significant changes to current practice.
- Identify individuals and any additional training that they will require to support or use the solution, e.g. data or platform specific.

Self Assessment

Fill in the blanks:

1. There are .... techniques of managing customer relations.
2. Importance of channels is defines in step .... of managing customer relations
3. .... are often held within email service provider databases or in-house operational databases focused on delivering and managing email campaigns.
4. Full form of CEM is ....
5. Defining your feedback loops from .... to ensure the right data feeds on results is significant.

8.2 Customer Experience Management

Nearly 25 years ago, Jan Carlzon engineered a turnaround at Scandinavian Airlines by improving "moments of truth" in passenger interactions with the airline. Since then, relationship marketing and Customer Relationship Management (CRM) have been mostly concerned with how to market to customers and get value from them, often with IT-based strategies. But largely forgotten was the insight that Carlzon understood intuitively. Customers perceive value based on the experiences they receive.

These days, it seems the phrase "customer experience" is on the lips of every marketer and business consultant. And really, it's not a moment too soon. All too often, we've seen executives pay lip service to the customer while gearing their business to short-term payoffs. But in this age of customers empowered with global shopping carts, that won't cut it. Colin Shaw, founding partner of Beyond Philosophy, and John Ivens argue that customer experiences are critically important. "We are witnessing the first ripples of a fast approaching new wave of change, breaking upon the shore of a new business differentiator," they write in their 2002 book Building Great Customer Experiences (Palgrave MacMillan).

Think about your own behaviour. While using Starbucks as your remote office, you sip on a tall latte and catch up on email. When you travel, you rent your car from Enterprise Rent-A-Car and stay at Marriott hotels—brands that fulfil their promise to you. When you get a free weekend, you head for the open road on your Harley. You listen to music on your iPod. You buy DVDs, kids' toys, clothes, electronics and, oh yes, books at Amazon.com.

These firms know the secret to building loyalty and growing your business. Why? Because they make a connection with customers that transcends the basic functional value they offer. Unfortunately, such stellar experiences are not the norm. In CRMGuru's research, only 22 percent of customers agreed that companies "currently provide an excellent customer experience" in major industries like banking, air travel and electronics. The silver lining, though, is that companies that excel can build a more sustainable competitive edge based on an emotional bond.

But what is the "customer experience" and how can you tap into it? What is Customer Experience Management and how does it relate to Customer Relationship Management? And why are so few businesses focusing on the customer experience, let alone managing it well?

In this unit, we'll discuss the customer experience from the point of view of the customer, based on CRMGuru research conducted in April 2006. In the unit, we'll analyze CEM from the enterprise perspective, and highlight performance gaps and methodologies to improve customer experiences while driving loyal and profitable relationships.

Consider what customers had to say in our recent research. Some key findings include the following:

- In earning their loyalty, customers rate their quality of interactions with an organization as equally important to the quality of the goods or services purchased.
- Off-shoring and IVR initiatives, popular methods to cut the cost of customer interactions, have not improved customer experiences for more than 90 percent of research respondents.
- In contrast, investing in employee training and Internet-based sales and support has generally had a more positive effect, improving customer experiences more than a third of the time.
- Post-sales service/support activities are the most likely to generate a "memorable" experience, either positive or negative, because of the strong emotions that often result in problem situations.

- Memorable experiences build loyalty—31 percent of customers in the research recommended the company to a friend or colleague, and 19 percent increased their purchases.
- "Well-trained and helpful employees" is the top attribute of companies that provide "consistently excellent" customer experiences.

To manage customer experiences, you must first understand what "customer experience" means. It's almost as difficult to pin down as "customer relationship."

"Customer Experience" and "Management" Defined Experts interviewed for the purpose of research of this topic, offered many different definitions, but virtually all agreed that customer experiences included interactions with an organization's people, processes or systems. Some said experiences also included interactions with a product. And others said that experiences included the feelings or emotional responses generated by the interactions.

Customer perception seems at the heart of what a customer experience is about: "the sum of all my interactions with a brand's products, services and people." But one respondent highlighted the importance of human perception in this write-in definition of customer experience: "The feelings and thoughts resulting from all impressions, tangible and intangible, from anyone or anything representing, directly or indirectly, an organization, brand or product." Well said.

Customer experiences include every point in which the customer interacts with your business, product or service. For the Starbucks customer, for example, it includes the anticipation of going to Starbucks, walking up to a shop, opening the door, ordering and paying for the coffee, getting the coffee, sitting down in the atmosphere of the shop to enjoy the coffee. Each interaction point is what SAS' Carlzon would call a "moment of truth." That's the point at which your customer is engaging with your brand and at which you can make or break the relationship.

Let's break that down to understand it more clearly:

- "Perception" is critical, because unless the customer thinks or feels that something happened, it hasn't. And perception can include the emotional aspect of the interaction.
- An "interaction" could mean literally anything from viewing a marketing message to the actual use of a product or service to a post-purchase service/support activity to solve a problem.
- Finally, "brand" means far more than a logo or marketing communication. In the customer's mind, the brand is a symbol for the organization and a promise to be fulfilled.

Customer Experience Management, therefore, is simply managing customer experiences. That was easy!

But this begs the question: To accomplish what? A more useful definition of CEM is: Managing customer interactions to build brand equity and improve long-term profitability

"Managing" anything requires measurement, but it's tricky to quantify how customers perceive and value experiences. "It is important to note that customers intuitively judge the experiences they receive. That is, they often are not able to consciously point out why an experience resonates with them, but they know when it works or, conversely, when it doesn't," says Qaalfa Dibeehi, director of thought leadership and vice president for Beyond Philosophy, the London-based customer experience advisory and consulting firm.

Those "soft" responses are what set Customer Experience Management (CEM) apart from most other business strategies. They can't easily be quantified by numbers and technology. It's also what some would say differentiates CEM from CRM, Customer Relationship Management. When it comes to defining CEM, you can view it as an extension of CRM as a strategy, paying particular attention to the customer's emotion and considering the product itself as an experience.

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How CEM Relates to CRM?

Customer Relationship Management (CRM) is a business strategy to acquire, grow and retain profitable customer relationships. 80 percent of business managers seem to understand that CRM is a customer-centric way of doing business, not just technology to automate front-office processes.

Managing customer experiences is an integral part of what CRM should be—a win-win value exchange between a company and its customers. Loyal customer relationships are built on what the customer perceives and feels about the product/service purchased and interactions with the organization. At a fair price, of course. Says CRM industry veteran and CSO Insights' partner Barry Trailer, "CRM and CEM are really synonymous, if you look at CRM as a business strategy, rather than just technology." Yet, the reality is that some people do equate CRM with technology used for tactical automation projects, and many of those consider it technology that hasn't always made a business successful. (CRMGuru's research has found that about two-thirds of IT-focused CRM projects are successful.) So in some minds, the term Customer Relationship Management has become tainted and must be avoided, while Customer Experience Management is another name for a customer-centric strategy without any stigma attached.

"At its highest level, CRM defines what the company wants from the customer relationship and gathers the information and insight that is analyzed against products and service to find optimum opportunities to sell," according to David Rance, managing director of Round (U.K.) Limited. "CEM is the mechanism by which the customer is engaged to optimize the potential customer loyalty and long-term value that is defined by CRM. The customer experience is the emotional part of any transaction." Lior Arussy, customer strategy expert and president of Strativity Group and author of Passionate & Profitable (Wiley, 2005), agrees that CEM is about "managing the value proposition as the customer perceives it," while CRM is concerned with "maximizing the revenue and value to the company."

Of course, loyalty research tells us that there is a linkage between the customer's perceived value and loyalty and the company's revenue and profits. But in practice, too many companies focus more attention on the ends (revenue and profit) and ignore the means (the customer's value proposition). "Organizations think CRM will create the customer experience for them, but it's just a tool," author Shaun Smith, director of the London-based shaunsmith co, told us.

Customer Process Improvement

Many find CEM to be an organizational strategy for managing customer interactions. HP, for instance has placed customer experience high on its organizational chart, with a department dedicated to Total Customer Experience. Its research director, Katherine Armstrong, calls CEM a "designed and structured approach to planning and managing the customer experience end to end." In such cases, the business takes an active role in managing customer interactions, including setting expectations to protect the brand value.

Emotions and Experiential Products

Is there any real difference between CRM and CEM? Yes, in two areas. CRM is usually more clearly focused on customers' value to the enterprise. There's nothing wrong with that—businesses exist to make money, and customers are valuable assets that require varying levels of attention and investment. But CEM brings in the new dimensions of customer emotions and "experiential" products (a type of product innovation), both of which are value that customers receive from the enterprise. Classic CRM projects rarely consider such things.

"At a broad level, [CRM and CEM] are similar," said Bernd H. Schmitt, professor of international business at Columbia University and author of five books, including Experiential Marketing (Free Press, 1999) and Customer Experience Management (Wiley, 2003). To Schmitt, CRM is supposed to focus on customer loyalty and making sure customers are treated well. To that end, businesses can turn to their CRM systems to find out whether the contact centre treated customers well, contacted them when they wanted to be contacted and fixed a problem.

But, Bernd says, CRM falls short of the emotional connection that is at the heart of Customer Experience Management. "I would say CEM is a bit broader. I don't think people will talk about the aesthetic aspects of the product or design [when talking about CRM], but that's part of the experience."

Beyond Philosophy's Dibeehi agrees. "Where CRM had to be in large part inside-out in perspective (i.e., viewing the company from the inside) to begin to set a foundation for customer-centric action within the business, CEM is outside-in (i.e., viewing the company from the point of view of the customer) to make certain that the actions of the business resonates with customers in a positive way."

Step Back and Stop Managing

Some people are so emphatic about the importance of looking at the business from the customer's point of view that they cringe at the reference to "management." Paul Greenberg, author of CRM at the Speed of Light: Essential Customer Strategies for the 21st Century, (3rd Edition McGraw-Hill, 2004), and a big proponent of focusing on the customer experience, warns against approaching that experience as something you can "manage." "What the customer needs is to manage their own experience; they don't need to have it managed for them," he says. Instead, you must examine the customer and his or her experience with your business carefully, mapping out every point at which the customer touches your organization and then tailor your business to accommodate what you've found out.

As Rance of customer-experience specialist Round says, "Customer Experience Management attempts to define how all the customer management capabilities within an organization, such as the brand, marketing, business rules, processes, decision-making authority, training, employee engagement customer data and metrics, etc. combine to influence the customer experience."

Yin and Yang

Previous CRMGuru-sponsored studies have found that customer-centric planning—taking an outside-in approach—is the No. 1 driver of CRM success. The emergence of CEM brings new focus to the often neglected task of examining the customer value proposition.

Customer strategy expert Jim Barnes believes that you shouldn't neglect some basic principles of CRM when you turn to Customer Experience Management. "Maybe we should approach CEM, as we should CRM, from the customer's viewpoint. What will customers consider a genuine positive experience? I believe it will have to appear genuine, not staged or synthetic." Put it all together, and it seems the CEM and CRM have more in common than differences. After all, relationships are developed through a series of experiences over time.

Perhaps we can sum up by saying that CEM and CRM are the Yin and Yang of customer-to-business relationships. The Yin-Yang concept originates in ancient Chinese philosophy and describes two primal opposing, but complementary, forces found in all things in the universe. There's no record about whether the Chinese found it necessary to turn every concept into a Three Letter Acronym (TLA).

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Caution Whether you're a fan of the latest TLA or not, what you should take away from CEM is the imperative to find out how experiences drive the customer to—or, heaven forbid, from—your business, service or product. Then use that knowledge to build an emotional attachment between the customer and your brand, a relationship, even.

How Important are Experiences to your Customer?

Customer Experience Management is a method of increasing customer loyalty, a daunting task as more products and services become commodities in today's global economy. Loyalty can increase your bottom line, because loyal customers buy more, stick around longer and refer others.

Not surprisingly, CEM proponents claim it will help turn customers into "raving fans" or advocates. Like members of the Harley-Davidson Owners Group (who call themselves, appropriately, HOGs), people who are so passionate about your product or service that they get tattooed with your logos.

In CRMGuru's April 2006 online research, more than 600 respondents gave 2,000 industry ratings based on their own experiences. We asked respondents to rate the importance of three factors in earning their loyalty, using a seven-point scale.

Across 12 industries, nearly 80 percent of respondents of a research give "high quality interactions" and "superior product or service" high importance ratings (Top 2 Box). "Lowest price or cost of ownership" received only 31 percent of high importance ratings.

As you might expect, there were differences between industries. Banking and fixed-line telecom customers rated interactions higher than product or price. In banking, of course, the main product is money—the perfect commodity. As many telephone customers are locked into service and pricing, company interactions rise in importance. It's not clear how one can be truly "loyal" to a monopoly, however.

Not surprisingly, customers of full-service restaurants rated both the product (food) and interactions highly, and price was tied for the lowest importance. Automobile customers provided quite similar ratings. Wireless customers rated price the most important of all industries, but product/service and interactions were also average or higher.

One surprise: electronics. All three dimensions were scored lower than average. Possibly, this simply means that it's harder to earn gizmo shoppers' loyalty, no matter what the manufacturer does. Barnes says that, since the customers' principal contact is with the product, they are "most likely to define experiences as involving some form of contact with people."

High-Quality Interactions Drive Loyalty

The companies should not lose focus on providing competitive products or services. But winning the hearts and wallets of customers requires equal attention to the quality of interactions between a company and its customers.

This may be obvious in service-intensive industries like airlines or financial services, but as noted earlier, even customers of product-focused industries like electronics place significant value on interactions.

Customer Experience Industry Trends Globalization and the Internet have created an abundance of goods and services, and it has become increasingly difficult to differentiate based on the core offering (functional capabilities) or price. An IBM study in 2005 revealed that, "to create a new and lasting source of competitive advantage, businesses must manage the customer experience."

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Customer Experience Management is valuable in any industry—and in both business-to-business and business-to-consumer relationships. Shaw and Ivens of Beyond Philosophy cite their own research, which found that "85 percent of senior business leaders agree that differentiating solely on the traditional physical elements such as price, delivery and lead times is no longer a sustainable business strategy." That's why, tuning in to the customer experience is so important. Unhappy customers can bolt to a competitor—or simply stop using a service. All it takes is a computer browser set to any of the complaints sites on the World Wide Web to see the true story of how easy it is to irritate and lose a customer.

"Because of one rude person you have put in charge, you no longer get that weekly cut out of my check, but you also have lost a very loyal customer who did ALL of their shopping, fuelling and video rentals" complained one person on www.complaints.com about a grocery store she used to patronize. Now angry, she was willing to pay more money to pump gas from the more expensive station across the street and travel farther from home for her groceries and videos.

How are companies doing today?

In CRM Guru's research, only 22 percent of respondents agreed that companies "currently provide an excellent customer experience." As you can see, more than half of respondents had no strong opinion one way or the other, and 18 percent had a negative response.

Full-service restaurants got the highest positive ratings and one of the lowest negative ratings. At the other end of the spectrum, fixed-line telephone companies earned the highest negative rating at 32 percent, perhaps an indication of the lack of competition in this industry. Electronics companies had the lowest positive rating, and the long-suffering airline industry fared only slightly better.

Experience and Cost Conundrum

Over the past decade, business executives have been cutting costs with automation, off-shoring and, of course, the Internet. In recent years, as the economy has improved, attention has turned back to revenue growth and building loyalty—hence, the current interest in customer experiences.

The problem is that some of these strategies may be in conflict—at least, in terms of how they are executed and perceived by customers. We asked CRMGuru research respondents to rate their agreement on whether, based on their own personal experiences, they believed that employee training, Internet sales/support, off-shoring and Interactive Voice Response (IVR) had improved customer experiences. Their reactions were dramatically different. As you can see in the chart below, customers believe that "well-trained people" and "Internet sales/support" have had a positive impact a bit more than one-third of the time. Only 15 percent had a negative outlook.

Did u know? A significant number of respondents in a research said off-shore call centres (38 percent) and IVR (35 percent) had adversely affected their experiences. Although some companies attempt to spin these initiatives as attempts "to serve you better," it's clear that most customers don't see it that way.

A backlash against "IVR hell" led to the launch of GetHuman.com, where consumers rate service quality, record their hold times and can find the shortcuts to bypass the phone menu and get directly to a human being at many of the top American companies. One major bank in the United States is running humorous TV ads touting its ability to enable customers to actually talk to a real person. Imagine that!

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The off-shoring issue is more complex. To be fair, it's not clear whether customers would be willing to pay more for experiences that did not include an off-shore call centre. In this respect, it's "damned if you do and damned if you don't" for companies that attempt to cut costs but can't do so without some change in quality of service, even if the "quality" is a perception based on a different accent. Customers want lower-cost goods and services, hence the rise in Wal-Mart and other discounters, but don't always like the trade-off when it affects local jobs or service quality.

Some companies are taking a more cautious approach to off-shoring, worried that cost savings may be offset by customer experience deterioration. Dell, for example, decided in 2004 to bring back to the United States some of its call-centre operations, after concerns surfaced about service quality.

Emotions Make Experiences Memorable

Some experts say that CEM is all about creating an exemplary experience, what many call "customer delight" or a "wow" experience. Carlzon, the former Scandinavian Airlines CEO, in an Inside Scoop interview for CRMGuru tells the story of the tour operating company in which he began his career. The company liked to surprise customers by putting baskets of fruit or a bottle of wine and a hand-written card in guests' rooms at their travel destinations. "Everybody got extremely happy, because nobody expected it and they all thought it was a kind of individual service to them," Carlzon said.

The value of booking for the tour company increased because of the guests' perception that they were getting something special. Unfortunately, an enterprising advertising manager burst the balloon by amending the company's brochures to tell people they would be getting a "surprise" of a bottle of wine in the room. Setting this expectation eliminated the surprise and, worse, turned the positive experience into a negative one when the gift was forgotten.

Emotional Glue

Without emotion, we wouldn't remember much of anything. Think about your strongest memories. They probably include either very pleasant or awful experiences. The same goes with customer experiences. In CRMGuru's online research, we asked respondent for input on a recent "memorable" experience. It might be surprising to learn that it doesn't take a lot to please or annoy customers. Sure, when your people go the extra mile for customers, they're very impressed. But often, customers just want to get what they ordered and to be treated decently. Amazon.com's most popular link is "Where's My Stuff?" One happy online shopper put it this way: "Amazon is easy. A child could use it. Online ordering is practically two clicks."

Earlier, we stated that the "quality of service/support processes" was ranked fourth out of five activities in earning a customer's loyalty. Yet, when we asked respondents for input on a recent "memorable" experience, 35 percent of the responses included service and support activities. Sales activities (15 percent), purchasing process (19 percent) and use of product/service (20 percent) ranked lower. Clearly, how a problem is resolved creates a strong emotion and lasting impression.

For highly loyal customers ("promoters"), approximately 80 percent to 90 percent of respondents said a memorable experience left them feeling positive emotions like "pleased," "comfortable" and "appreciated. Customers with little loyalty ("detractors") felt "frustrated," "let down" and "angry."

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Little Things Matter

Exceeding expectations may not be the right goal for companies that don't get the basics right. In some cases, the customer experience can improve, not because of a pleasant surprise but for the lack of negative one. Naras Eechambadi, CEO of marketing performance management company Quaero, says that paying attention to the experience the customer has with your firm is "not about customer delight all the time." It's about making promises and sticking to it: "There is a place for wow. But consistency is more important," he said. One research respondent raved that Commerce Bank had a toll-free phone contact that was "nearly instantaneous"; it was answered on the "FIRST ring by a real, live, knowledgeable human being." And the question was answered in less than two minutes. Not exactly a "wow" experience, you might say, but the fact that the business handled it well nearly floored this customer.

And that's not all. People who experienced trouble with a product or service were also thrilled by a business handling the problem well. For example, a grocery shopper discovered that a can of chili peppers was less than half full. "I returned it to the market, where they immediately replaced it, and when I left, an employee was shaking cans to see if they were less than full so that others would not have my problem."

You would think the customer would be upset about getting a partial can of chilis. Instead, the market impressed the customer in how its employee was thinking of other people.

Of course, they're also pleased when businesses exceed their expectations. One person wrote in about Alaska Airlines, which gave every passenger a $50 coupon to "a very nice restaurant in my local area." The customer was pleased not only by the coupon but also by the fact that there were no restrictions or early expiration. "To my delight, they were good for one year, and there were no catches!"

Another person was surprised to be met at the door by Hilton Hotel employees in Fort Wayne, Indiana, and then escorted to a get-acquainted reception at the restaurant, along with dinner on the house that night and breakfast on the house in the morning. It was Hilton's way of "just doing a little customer appreciation for my frequent stays." Ebay.com noticed a mistake in an order and notified the customer. "They were right. They sent me a very polite email asking if I meant to order two," reported the happy person, who had wanted only one item.

Lack of Common Courtesy

Alternatively, judging from the complaints people registered in the research, all it takes to earn a customer's disapproval is a lack of common courtesy or inattention to details you might expect businesses to take for granted. Some fast-food restaurants, for instance, were dinged for poor quality food and dirty seating areas. When the HBO signal went out the night of the season premiere for the TV series The Sopranos, a cable company operator wouldn't offer a credit. "The person just didn't care," the research taker wrote.

And customers know lip service when they experience it. One person wrote about a transaction that went terribly wrong at an investment firm. The people were friendly, but the customer wound up on the phone for an hour, transferred four times and put off for more than a month without resolution. "They think that pleasant service people that ask if there's anything else they can do to help you—even though they usually can't answer your question or solve your problem—means they have good service."

After a customer has a memorable interaction, what happens next? As you can see from the chart below, loyal customers ("promoters") said they recommended the business to a friend or colleague nearly one-third of the time. That's powerful evidence that the likelihood to recommend ("promoters" give loyalty scores of 9 or 10 on a scale of 0 to 10) does lead to actual recommendations. Other customer activities that increase customer value to the company include purchasing more products and services and continuing the relationship. Conversely, "detractors" (0 to 6 on the 10-point scale) complained to a friend or colleague 25 percent of the time, complained to the company nearly as often and switched suppliers 20 percent of the time. After one experience! Imagine how customers might defect or complain to others if a company has a pattern of bad experiences.

Note that the company gets direct customer feedback only 22 percent of the time after a positive experience and 24 percent of the time after a negative one. Given the severe repercussions of a bad experience, companies need other proactive ways to identify the 76 percent who may complain to others or reduce their business without any warning.

Getting It Right at "Moments of Truth"

Part of the value in your specific product or service comes in the experience you create. Coffee is coffee is coffee, except when it's Starbucks coffee. "Whether it was a planned or sort of a random discovery early on in their experience as a business, they figured out that it's really not about selling coffee to customers," said HP's Armstrong. "Starbucks is selling more than beverages; it's the total experience at a Starbucks outlet: buying, drinking, getting online, etc."

People who participated in CRM Guru's research on customer experience were passionate about companies that served them well or poorly. We received more than 1,400 write-in responses about specific companies that provided "consistently excellent" or "consistently poor" customer experiences.

In this section, we'll discuss the Big Five attributes that set apart the top performing companies. Attributes were determined by analyzing frequently-mentioned terms and their synonyms and grouping them into meaningful phrases.

1. ***Well-trained and Helpful Employees:*** If you're interested in delivering an excellent customer experience, start by ensuring your employees are well-trained and genuinely helpful. Training gives the means, but being helpful is in large part an attitude—as we learned from our research-takers.

   Example: A Best Buy (electronics retailer) customer said,

   "When we go in, someone is always there to greet us and direct us to the correct area. Their salespersons seem to be well trained in their particular field. We have had nothing but good experiences with them."

   Marriott received several positive comments from travellers who noted the hotel chain's "pleasant and helpful staff," "selection, training and management of employees" and "friendly and well-trained staff ready and willing to support travellers (whether for business or for leisure)."

   One car shopper was impressed that "Saturn employees are well-trained on the various models and are willing to talk with me at length about which model best fits my needs. They are willing to show me aspects of a particular sales model even when they know I am not currently looking for a new car."

2. ***Excellent Customer Service:*** A significant number of responses simply said that customer service was "excellent," or words to that effect, making it the No. 2 attribute of the top companies. A passenger of a U.S. regional airline Midwest Express illustrated how service can offset a "product" limitation. "They offer limited flights, but the service on them is always excellent. They go above the norm by giving out freshly baked cookies!" American Airlines, although "not always perfect" according to one 20-year frequent flyer, "consistently focuses on the core things necessary to provide an excellent service."

In financial services, you can feel the value of good communications when you note that ING Direct was praised for "great customer service by phone (don't feel you're sent offshore), excellent communications—keeps it simple, easy to understand." In restaurants, however, service is hard to separate from the quality of food, as this comment about Bonefish Grill illustrates: "Personable, attentive people (interact with their customers on a more personal level); consistently excellent product with seasonal variations."

3. ***High-Quality Goods and Services:*** Smiling and helpful employees will take you only so far. You'd better be able to deliver the goods…or, as the case may be, services, that customers want. And don't think you'll be able to sacrifice quality for price, because the leading companies don't.

   The meaning of "high-quality" varies by industry. As you might expect, the quality of food was a key factor in grocery supermarkets and restaurants. In the United States, specialty grocery retailer Trader Joe's earned kudos from one shopper for "high-quality products at low prices" and from another for "reliable quality produce and nice selection of products." One Subway (sandwich specialty restaurant) patron liked the "quality and range of products."

   Car drivers have a different view of quality, naturally. Toyota received comments regarding its "great quality products and associated warranties" and because it "delivers on its promise of quality product and service." Another research-taker said that Acura offered "superior quality product out of the gate."

4. ***Friendly and Caring Employees:*** It pays to be nice! "Friendly" was one of the most commonly mentioned words in research responses. Customers liked pleasant interactions with employees who genuinely cared about doing their job well.

   In our research, no other company was rated friendlier than Southwest, a popular low-cost airline in the U.S. "They match expectations with reality—their people are friendlier," gushed one happy passenger.

   Another lauded "friendly, personable employees who take time to connect with passengers," and another observed that the airline "hires friendly and helpful people." Starbucks, the company that redefined coffee from a product to a service, was recognized for "friendly and helpful service" by employees that "go out of their way to serve." A customer of Enterprise Rent-A Car, another service-obsessed company, appreciated "very friendly, accommodating staff."

5. ***Personal Attention, Reward for Loyalty:*** Our final "Big Five" attribute is about recognizing top customers personally. A First Citizens Bank customer said, for example, "This bank treats me with respect, as an individual. They got to know me personally as soon as I opened the accounts and are always pleasant and helpful when I transact business with them. I can pick up the phone and call the person who opened my accounts any time."

   Marriott was praised by several customers who noted the company's "personal touch." One said, "I am a person to this hotel chain. On repeat visits, I am recognized and treated personally." Others noted that they appreciated Marriott's rewards program, which recognized their loyalty in a tangible way.

Task Do you see Customer Experience Management as an extension of CRM to provide a true customer focus.

Notes

Caselet

Customer Service Case Study from Jeff the Cabbie

From on outset, George knew this was going to be a different sort of cab ride. George walked out of the hotel and just like it has happened hundreds of times before…magically, the taxi appeared.

But from that moment on, it wasn't a ride, it was an experience!

The bellman put my suitcase in the trunk as I got into the back seat. The driver immediately turned around in his seat and extended his hand. As we shook hands, he introduced himself and asked what kind of music I liked.

George told him to surprise me and he suggested some Carlos Santana because "you can't help but feel joyful if you're listening to Santana."

As we headed towards the airport — my marketing lesson continued. Jeff got a call (like cab drivers always do) but quickly told his wife he had to go because he was chatting with his new friend Drew.

He proudly pointed out to me that his taxi was a Lincoln Town Car and as George commented on how the leather glistened, he explained that he wipes down the interior a few times a day to keep it like new.

In the course of the conversation he gave George his business card with his cell phone number on it. He invited George to call and pre-schedule with him next time George was in St. Louis. He told him that most of his fares were by referral or repeat business.

When they got to the airport, he not only got George's bag out of the trunk, but he carried it to the airport's door. They said goodbye with another handshake.

It won't surprise you that the cabbie received more than a healthy tip from George.

What are the takeaways from Professor Jeff?

People do business the people: It's hard to imagine a less random choice than hailing a cab. Whoever is first in line is who you choose. But Jeff made sure he wasn't some random cabbie to me. He went out of his way to become a person — and a person George liked.

It's all about the customer: Jeff made George feel like he actually cared that George was in his cab. He called him by his name. He didn't talk on his cell phone but instead, stayed engaged with George. He invited George to partake in the music selection and they chatted for the entire 30 minute drive.

Appearances do matter: His cab was immaculate, inside and out. He was dressed neatly and he had a warm and genuine smile on his face. You honestly couldn't help but enjoy doing business with him.

Jeff never took a single marketing course. (He was a cop for 25 years before becoming a cab driver) He probably doesn't have a brand manual, a tagline or a company vision statement.

But he understood customer service better than many companies that have all three.

Source: http://www.drewsmarketingminute.com/2011/09/customer-service-case-study-from-jeff-the-cabbie.html

Self Assessment

Notes

Fill in the blanks:

6. Customer experiences include every point in which the customer .... with your business, product or service.
7. Consumer's perception is .... in nature for the business.
8. .... business strategy to acquire, grow and retain profitable customer relationships.
9. Customer Experience Management is a method of .... customer loyalty
10. Emotional glue can prove to be a .... to CRM.

8.3 Customer Profile

Customer profiling refers to the practice of working out who your customers are. This generally includes important demographic information, such as their gender, profession, age, and level of educational attainment. By building up a picture of your customers' demographics, you can identify the groups who are more likely to use your company.

As any business owner knows, understanding your customers will play a crucial role in your company's success. After all, if you don't know key information such as what they are looking for from your company, it will be much harder to give them what they want – and they'll be more likely to look elsewhere for their goods and services. Having a good understanding of your customers can also teach you things such as who your business is reaching, giving you vital information to analyse so you can determine the success of your business plan. This is one of the reasons customer profiling is so important.

Some characteristics correlate positively with companies performing well in customer relationship management: excellent products, excellent management, and the informed use of knowledge about customers. An insufficient knowledge base of customers limits the value which a company can offer to those customers. Knowing customers better, a corporation can precisely invest in valuable customers and reduce the cost spent on poorly performing customers. The basic component of customer knowledge comes from a customer profile that is obtained by the use of a database and data mining technologies used in organizations. Building customer profiles is one of the most popular strategies for knowing more about customers. In summary, using a customer profile is the technique which converts raw information about customers into the strategic-support knowledge that reinforces the value of goods which companies offer customers.

There are two main kinds of knowledge sources about customers: customer profiles and customer participation. In addition to getting a customer profile to identify customer needs, corporations also need to seek solution to gain more tacit information from customers to know them better. This situation indicates that corporations should build certain channels and launch activities to enable the transformation of tacit information with customers. Based on preceding discussion on customer participation, it is possible for corporations to interact with customers and get insights of customer needs through customer participation. Getting customers to participate in value delivery processes helps customers to know corporation ability better and raises the customers' perception on goods. The customer participation also has positive effects on customer satisfaction, customer loyalty, and customer retention.

Notes

Notes Customer profile variable indicated that the organization has acquired the customer's information by different kinds of channels or systems to transform this information into practical instruments to provide customized goods.

You can also profile information such as what they have bought from your business, the length of their relationship with your business, how regularly they buy from you and how much revenue they contribute. This can be important for businesses who are looking to find out who their most profitable and loyal customers are – this data can be particularly useful when it comes to creating targeted marketing campaigns.

CRM – the Benefits of Tailored Marketing

CRM software is something that can help businesses looking to profile their customers. Let us take targeted marketing as an example. First of all, why is targeted marketing important? Essentially, it is because if you are taking the time to create a campaign, you will naturally want to get the best ROI you possibly can. If you were to just send out a general campaign to your entire contact list, this might not be very productive as most of the people you sent it to would be unlikely to be interested.

By contrast, if you have a good customer profile for a particular type of product or service that you have generated using demographic and purchase information, you will be able to create a campaign aimed at that group of customers. There's no guarantee they'll take up your offer, but you at least will know that they are likely to be interested in what you're sending them.

Considering your Profiling Strategy

In order to get the most out of your CRM systems, though, you need a profiling strategy so that you can start to develop high quality marketing campaigns. There are several things you might like to think about here.

Example: Who are your most profitable customers? Who are your most frequent customers?

These two groups might not be the same but they can be equally important when you are deciding where to aim your marketing.

Also, what products or services are you trying to sell? It can sometimes be quite time consuming building accurate consumer profiles, particularly if you are utilising multiple variables, so it can help to have an idea of your aims before you get started.

Once you have started to build your profiles, you might also want to look at your marketing history with the customers in question. Have you sent them marketing material before? Do you know how they responded to it?

Some of these questions can be hard to answer, but most good CRM software comes with report and analysis functions that can help you come to useful conclusions.

Once you have built your customer profiles, it's time to start implementing your strategy. As well as targeted marketing, you might want to think about the other aspects of your business that will be affected by the process.

Example: This could include your sales team, finance staff and front line customer services.

All of these employees could have a role in dealing with your targeted customers, so it is important that you have an integrated strategy in place so that they can all access the information they need and be able to provide a comprehensive, useful service to your targeted profiles. Particularly if your company is large or has lots of departments, you might benefit from something like ERP software to help integrate your CRM systems with the rest of the business.

Entering Basic Customer Information

This section provides overviews of basic customer information and discusses how to:

1. Enter basic customer information.
2. Set processing options for the CRM Customer Detail program.

You use the Customer - Add Customer form to enter basic customer information. This form contains tabs that enable you to enter and modify customer information as described in this table:

Link Name	**Link Purpose**
Address and Phone	Enter the primary addresses, telephone and electronic addresses.
Financial	Enter credit, tax, payment terms, language, and price group information for the customer.
Classification	Enter user-defined information about customers. This tab includes 30 user-defined category code fields that you can customize to store information that is specific to the business needs.

After you enter basic customer information, you can use the CRM Customer Detail program to maintain and modify CRM customer information.

Notes After you enter basic customer information, you must activate the customer record before you can process the customer through many CRM functions.

Example: You cannot enter a sales order for a customer until the customer record has been activated. To activate a customer record, select Active from the Customer Status field on the Manage {Customer Name} field.

Forms Used to Enter Basic Customer Information

Form Name	Form ID	Navigation	Usage
Customer - Search for Customers	W90CA080D	CRM Foundation Daily Processing (G90C01), Customer. Daily Sales Force Automation Processing (G90CA01), Customer. Daily Support Processing (G90CE01), Customer.	Select customer records, access forms to add a new customer, or access a list of customers.
Customer - Add Customer	W90CA082C	Click Add on Customer - Search For Customers.	Enter basic customer information.
Customer - Manage {Customer Name}	W90CA080A	On Customer - Search For Customers, select a customer record.	View or modify customer information.

Notes

Entering Basic Customer Information

Access the Customer - Add Customer form.

Search Type

Enter the user-defined code (system 01, type ST) that indicates the kind of address book record to search for. For example,

E: Employees

X: Ex-employees

V: Suppliers

C: Customers

P: Prospects

M: Mail distribution lists

TAX: Tax authorities

Industry Classification

Enter the code that classifies goods and services. This code can follow the format of any of these classification systems:

1. ***Standard Industrial Classification (SIC) or North American Industry Classification System (NAICS):*** A numerical system that the United States uses to classify goods and services. This code is four digits for SIC or six digits for NAICS.
2. ***Harmonized System (HS):*** The international method of classifying goods. More than fifty countries use this code. An HS code can be up to 10 digits.
3. ***Standard Industrial Trade Classification (SITC):*** A numerical code system that was developed by the United Nations to classify goods that are used in international trade. International organizations use this code. An SITC code can be up to six digits.

Address and Phones

Select the Address and Phones tab.

1. ***Prefix:*** Enter the three-digit prefix, or area code, of the associated phone number.
2. ***Phone Number:*** Enter the six-digit phone number, not including the area code or prefix.

Financial

Select the Financial tab.

1. ***Parent Number:*** Enter the address book number of the parent company. The system uses this number to associate a particular address with a parent company or location. Any value that you enter in this field updates the F0150 table for the blank structure type. This address number must exist in the F0101 table for validation purposes.
2. ***Credit Limit:*** Enter the total amount that you allow the customer to spend on purchases before the system sends a workflow message. This value is used throughout the credit management programs. The system maintains the credit limit at the customer (child)

level, not the parent level. The system sends workflow messages for each customer who is over their credit limit. When you set up or change the credit limit, the system sends a workflow message to the credit manager that the change is pending approval. The change to the credit limit is not reflected in the customer record until it is approved by the credit manager.

3. ***Credit Manager:*** Enter the name of the credit manager who is responsible for approving changes to the credit limit. You must set up the credit manager in the address book and then create an entry in the user-defined code table (system 01, type CR). When you set up the user-defined code value, you must also enter the credit manager's address book number in the Description 02 field.

4. ***Currency Code:*** Enter the code for the currency that applies to the customer.

5. ***Payment Terms:*** Enter the code that indicates the default payment terms for the customer. Payment terms determine the due date, discount amount, and discount due date that the system assigns when you create an invoice. Use a blank code for the payment terms that you use most frequently. Examples of payment terms include:

   (a) Blank: Net 15

   (b) 1: 1/10 net 30

   (c) 2: 2/10 net 30

   (d) D: Due upon receipt

   (e) N: Net 30

   (f) P: Prox 25th

6. ***Language:*** Enter the user-defined code (system 01, type LP) that specifies the language to use on forms and printed reports. Before you specify a language, a code for that language must exist at either the system level or in the user preferences.

7. ***Tax Area:*** Enter the code that identifies a tax or geographic area that has common tax rates and tax authorities. The system validates the code that you enter against the F4008 table. The system uses the tax rate area in conjunction with the tax explanation code and tax rules to calculate tax and GL distribution amounts when you create an invoice or voucher.

8. ***Tax Expl Code (tax explanation code):*** Enter the hard-coded user-defined code (system 00, type EX) that controls the algorithm that the system uses to calculate tax and general ledger distribution amounts. The system uses the tax explanation code in conjunction with the tax rate area and tax rules to determine how the tax is calculated. You can define each transaction pay item with a different tax explanation code.

9. ***Tax Exempt Certificate:*** Enter the number that tax authorities issue to tax-exempt individuals and companies to identify their tax-exempt status.

10. ***Price Group:*** Enter the user-defined code (system 40, type PC) that identifies a customer group. You can group customers with similar characteristics, such as comparable pricing.

Classification

Select the Classification tab.

Category Code 01 - 30

Enter one of thirty reporting codes that you can assign to an address in the JD Edwards EnterpriseOne Address Book system. Use these codes to identify addresses for reports, mailings, and so on. Examples include:

Notes

01: Location or branch

02: Salesperson

03: New tenant

04: Credit officer

Entering Additional Customer Information

This section provides an overview of additional customer information, and discusses how to:

1. Activate a customer record for sales order processing.
2. Enter additional address and phone information.
3. Enter customer financial information.
4. Enter customer options.
5. Enter service information for a customer.
6. Use related links.
7. Enter customer contacts.
8. Attach partners to a customer.
9. Add activities to a customer.
10. Create customer profiles.

Self Assessment

Fill in the blanks:

11. There are two main kinds of knowledge sources about customers: customer profiles and customer ....
12. Full form of SIC is ....
13. Full form of HS is ....
14. Full form of SITC is ....
15. .... is responsible for approving changes to the credit limit.

Case Study

Lenovo Considers Social Media?

When Lenovo acquired the IBM PC computing division, they realized customers were talking about their products on 3rd party forums like notebookreview.com and thinkpads.com. They felt left out of these important customer conversations. To remedy that, they took ownership and lead the customer social media interactions.

They used a peer-to-peer customer service community to garner world-wide views of the customer experience. The result? They aligned marketing, sales, service and many other departments to accelerate changes and improvements to the customer experience. This alignment lead to a 20% decrease in laptop service call volumes, an increase in customer

Contd...

Notes

service agent productivity, a shortened product problem-resolution cycle and an increase their Net Promoter Scores. The net-net is a reduction in customer service support costs and an increase in sales!

Why did they decide on social media? The cost of providing customer service for digital lifestyle products is on the rise. As margins on these types of products decrease and their complexity requires more in-depth customer service, a couple of customer service calls eats away at the already thin profit. Lenovo knew that social media could help them learn, from the customer's point-of-view, the top issues with service, product features, functions, delays in shipments— and all from a global perspective.

Lenovo Created Powerful Partnerships and Shared the Responsibility of Social Media across Departments

In looking at best practices, Lenovo excelled at them. In particular, they determined all the stakeholders and invited them to participate in the customer service social media initiative. They invited the Legal Department to participate from the very beginning. The legal group helped determine the terms of service for the community, reviewed the rules of engagement, the moderation policies as well as the management principle of the community. And they provided the disclaimers for the liability of the information posted to the site. And community executives collaborated with public relations and corporate communications to align all the communication strategies.

Lenovo also created powerful partnerships with marketing, sales, product development and engineering. They made interdepartmental collaboration "the way we do business around here." This is unusual as in most companies these functional departments are silo'd entities that don't always get along well. However, Lenovo's executive management provided the leadership and guided the partnership between marketing and service. Marketing owned the sales part of the website and the corporate blogs. The World Wide Service Organization "owned" the technical support website and the customer service online community. And all departments were considered an integral part of the community and asked to provide insights into how their department's operations not only affected the customer experience, but how they could make it better.

What was great was that they looked at the top call drivers in customer service. A good percentage of them were, "My lap top is broken. How do I fix it?" By providing that feedback from customer service to product development and engineering, Lenovo was able to reduce the volume of "its broken/fix it" calls. This contributed not only to contact centre cost savings, but also to an enhanced customer perception of the product and higher customer satisfaction. Customers felt respected and listened to. Their feedback was used by the company to make better products, which reduces calls to the contact centre!

Questions

1. How Lenovo did utilized social media in their business development?
2. What are your observations about the situation in the case?

Source: http://blogs.forrester.com/business_process/2010/01/how-lenovo-implemented-customer-service-social-media-best-practices.html

8.4 Summary

- Marketing and PR are supposed to help you build connections, manage relationships and inspire loyalty in your customers. But many businesses seem to be limiting themselves to advertising their low prices, top quality and some vague "commitment to customer service".

Notes

- In this connection-deprived age, where everyone is time-poor and relationship-starved, authentic and emotive connections with people are increasingly necessary.
- The standard quality of most products or services is already high enough, we can generally afford most of the things we need and a "commitment to customer service" is about as essential as breathing if you are serious about staying in business.
- Business is about connecting and working with people. At the fundamental level, everyone wants to feel connected with others, to be heard and valued. We prefer to deal with people who act as one with their values. We naturally distrust those people who consistently shirk their promises, or those who change their tune rapidly depending on the situation.
- Customers are most likely to stay loyal when you demonstrate integrity and authenticity... the attitude of being wholly who you are. They need to see you living, working and engaging with others in a way that is truthful to your values and ethics.
- For soloists, to be authentic means designing your business to reflect your personal values. Authenticity means you are the same person at work and outside of work. In other words, you are wholly and consciously present in your business.
- Does your business treat people in the same way you do as a person? If you are a generous person, is your business generous to the community? If you are an honest person, does your business unambiguously reflect this honesty?
- If you are used to having a different persona at work and away from work, being authentic will be a challenge at first. This is especially true if you have set up your business based on conventionally accepted practices and have not yet considered the implications of these practices on the way you engage with people.
- Then there is always the pressure to conform and the fear of appearing less valid to the outside world because you may choose to do something differently.
- But the price of authenticity is worth it, because maintaining a façade is hard work! When you are operating in a way that is true to who you are, there is less of a need to learn and remember blind rules. Think dating…
- A person or business with integrity will behave consistently with those rules every time, regardless of the situation. In fact, those rules may be quite obvious to people who know that person or business well. Think of your closest friend (assuming this person is someone with integrity) – I reckon you can list at least three rules of theirs.
- Integrity means not conceding to someone else's points just to avoid conflict. It means not twisting your rules (or values) to suit your advantage or for your immediate comfort.
- Having integrity requires faith. Be clear about your values and stick by them, even in the face of great cost, loss or adversity. You need to have faith that when you stick to your truth, the right things for you will come about, eventually.
- In a crowded market, your actions count more than ever before. The best marketing and PR may well get you some immediate attention, but that won't translate to loyalty and commitment if your actions don't bear out your integrity. Remember: as the social creatures that we are, we are actually very good at sensing the lack of authenticity.
- If you want inspire loyalty, you need to start by making genuine connections with people. Be real. Be yourself. Make your actions count.

8.5 Keywords

Notes

CEM: Customer Experience Management

Credit Limit: Total amount that you allow the customer to spend on purchases before the system sends a workflow message.

CRM software: is something that can help businesses looking to profile their customers.

Customer perception: The sum of all interactions with a brand's products, services and people.

Data strategy: It is made to test the data efficiency and validity.

Email metrics: It comes within the scope email service provider databases, focused on delivering and managing email campaigns.

SFA: Sales Force Automation

Suppliers: The contacts or businesses who provide other businesses with their raw material for their finished product.

8.6 Review Questions

1. What is meant by data strategy?
2. Name the steps used in managing customer relation.
3. Discuss the techniques to manage customer relations in detail.
4. What is customer experience?
5. What is CEM?
6. What is a metrics?
7. How is CRM different from CEM?
8. What is customer profile?
9. How do you create customer profile?
10. How are customer's relations carried on in India or by Indian government?

Answers: Self Assessment

1. 10
2. 2
3. E mail metrics
4. Customer Experience Management
5. Campaign metrics
6. Interacts
7. Critical
8. CRM
9. Increasing
10. Strategy
11. Participation
12. Standard Industrial Classification
13. Harmonized system
14. Standard Industrial Trade Classification
15. Credit manager

Notes

8.7 Further Readings

Books

Front Office Operations & Management, Publisher: Delmar Cengage Learning

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Michael L. Kasavana, Ph.D., Michigan State University, Rooms Division Managing Front Office Operations

Robert J. Martin, Professional Management of Housekeeping Operations, 3rd edition (New York: John Wiley & Sons, 1998), 142

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http://www.gartner.com/newsroom/id/715308

Unit 9: Segmentation, Targeting and Positioning

Notes

CONTENTS

Objectives

After studying this unit, you will be able to:

- Study the marketing scenario involved in customers acquisition
- Study the STP formulae of marketing
- List the requisites for effective segmentation
- Discuss the bases for segmentation
- Analyse marketing tools
- Take a knowledge about segmentation
- Take a knowledge about targeting
- Determine the advantages of such a marketing mix

Introduction

Modern companies understand the fact that they cannot appeal to all buyers in the market or at least not to all buyers in the same way. There are numerous buyers in the market and they are too widely scattered. These buyers are varied in their needs and buying practices. Also, the companies themselves vary widely in their abilities to serve different segments of the market. In such a scenario, the companies must design customer-driven marketing strategies that build the right relationships with the right customers.

Notes

There are three steps in designing a customer driven marketing strategy, namely, market segmentation, targeting and positioning. Market segmentation is the process of dividing the total market into relatively distinct homogeneous sub-groups of consumers with similar needs or characteristics that lead them to respond in similar ways to a particular marketing programme.

A market segment is a portion of a larger market in which the individuals, groups, or organisations share one or more characteristics that cause them to have relatively similar product needs. In this unit, you will be introduced to the three-decision processes comprising market segmentation, target marketing, and positioning that are closely related and have strong interdependence and essentially need to be examined carefully and implemented to be successful in managing a given product-market relationship.

9.1 Segmentation

9.1.1 Requirements for Effective Segmentation

Five conditions must exist for segmentation to be meaningful:

1. A marketer must determine whether the market is heterogeneous. If the consumers' product needs are homogeneous, then it is senseless to segment the market.
2. There must be some logical basis to identify and divide the population in relatively distinct homogeneous groups, having common needs or characteristics and who will respond to a marketing programme.
3. The total market should be divided in such a manner that comparison of estimated sales potential, costs and profits of each segment can be estimated.
4. One or more segments must have enough profit potential that would justify developing and maintaining a marketing programme.
5. It must be possible to reach the target segment effectively. For instance, in some rural areas in India, there are no media that can be used to reach the targeted groups. It is also possible that paucity of funds prohibits the development required for a promotional campaign.

As more and more identifying characteristics are included in segmenting the market, the more precisely defined are the segments. However, the more divided a market becomes, the fewer the consumers are in each segment. So, at least in theory, each consumer can be considered as a separate segment. An important decision for the marketer is how far to go in the segmenting process. A market niche is composed of a more narrowly defined group of consumers who have a distinct and somewhat complex set of needs. A niche market is smaller in size but may prove to be quite profitable if served properly. Consumers in a niche are ready to pay a premium to the marketer who best satisfies their needs.

Example: G4 Power Mac computers serve the needs of a niche market, while PCs serve rather large market segments.

9.1.2 Bases for Segmentation

Selecting the right segmentation variable is critical. For example, small car producers might segment the market on the basis of income but they probably would not segment it on the basis of political beliefs or religion because they do not normally influence consumers' automobile needs. Segmentation variable must also be measurable to segment the market accurately.

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Example: Segmenting the market on the basis of intelligence would be difficult because this characteristic cannot be measured accurately.

Marketers can use one or more variables to segment the market. Different variables are used to segment consumer markets. They are discussed in following subsections.

Geographic Segmentation

Geographic location of consumers is usually the starting point of all market segmentation strategy. The location of consumers does help the company in planning its marketing offer. These geographic units may be nations, states, regions, areas of certain climatic conditions, urban and rural divide. The assumption is that consumers in a particular geographic area have identical preferences and consumption behaviour.

Example: People in West Bengal have different food habits and dress code than people in South India. Exporters often segment the market as Western countries, African countries and CIS countries etc.

Demographic Segmentation

Demographic characteristics are commonly used to segment the market. Factors such as age, sex, education, income, marital status, family size and social class etc. are used singly, or in a combination, to segment a market. Shaving products for women are based on the demographic variable of gender. Toy manufacturers such as Funskool and Mattel toys segment the market on the basis of age of children. Auto manufacturers segment the market by considering income as an important variable. Producers of refrigerators, washing machines, microwave ovens etc. take income and family size as important variables in segmenting the market. Ready-to-wear garment producers often segment the market on the basis of social class.

Example: Chirag Din, Arrow, Van Heusen, Louis Philippe, Levi and others.

In general, the social class can represent lower, middle and upper class depending on education, income and status etc.

Example: An engineer and a clerk are considered as members of different social classes.

Psychographic Segmentation

When the segmentation is based on personality or lifestyle characteristics, it is called psychographic segmentation. Consumers have a certain self-image and this describes their personality. There are people who are ambitious, confident, aggressive, impulsive, modern, conservative, gregarious, loners, extrovert, or introvert etc.

Lifestyle

It is an indicator of how people live and spend their time and money. What people do in their spare time is often a good indicator of their lifestyle.

Consumers in different countries and cultures may have characteristic lifestyles. For example, Indian women are more home-focused, less likely to visit restaurants, more price-sensitive, spend time preparing meals at home and are fond of movies.

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Did u know? Lifestyle segmentation is particularly useful in case of product categories where the users' self-image is considered as an important factor, such as perfumes, beer, jewellery and other ego-intensive products.

AIO inventories are a useful addition to demographic data but marketers have found the original AIO inventories as being too narrow. Now, psychographics or lifestyle studies generally include the following:

1. Attitudes, which include evaluative statements about, people, products, ideas and places etc.
2. Values, which refer to widely, held beliefs about what is right/acceptable/desirable etc.
3. Activities and interests that cover behaviours with respect to activities other than occupation to which consumers devote time and effort, such as hobbies, interests, social service etc.
4. Demographics that relates to gender, age, education, occupation, income, family size and geographic location etc.
5. Media preferences – which specific media the consumers prefer and use.
6. Usage rates that relate to measurements of consumption level within a particular product category and is generally recorded as heavy, medium, light or non-user.

VALS (Values and Lifestyles)

Stanford Research Institute (SRI) developed a popular approach to psychographics segmentation called VALS (Values and Lifestyles). This approach segmented consumers according to their values and lifestyles in USA.

According to the present classification schemer VALS has two dimensions. The first dimension, primary motivations, determines the type of goals that individuals will pursue and refers to pattern of attitudes and activities that help individuals reinforce, sustain or modify their social self-image. This is a fundamental human need. The second dimension, *resources*, reflects the ability of individuals to pursue their dominant motivations that includes the full range of physical, psychological, demographic and material means such as self-confidence, interpersonal skills, inventiveness, intelligence, eagerness to buy, money, position and education etc. The questions above are designed to classify respondents based on their primary motivations. Stanford Research Institute (SRI) has identified three basic motivations:

1. ***Ideals (principle):*** Individuals are guided in their choices by their beliefs and principles and not by feelings, desires and events.
2. ***Achievement:*** Individuals are heavily influenced by actions, approval and opinions of others.
3. ***Self-expression (action):*** Individuals desire physical and social activity, variety and risk taking.

Based on the concepts of basic motivations and resources, the typology breaks consumers into eight groups.

1. ***Innovators (formerly actualisers):*** This segment is small in size compared to other seven but may be the most attractive market because of their high incomes and they are the leading edge of change. They are among the established or getting established leaders in business or government, yet they seek challenges. Image is important to them as an expression of their taste, independence, and character. These people are successful,

sophisticated, active, and with high self-esteem. They are interested in growth and development; they explore, and express themselves in many different ways. They have social and intellectual interests, and are open to social change. They are guided sometimes by *ideals* and at other times by *desire* and are fond of reading. They prefer premium products to show their success to others.

2. ***Thinkers (formerly fulfilled):*** Thinkers are motivated by ideals and exhibit behaviour according to the views of how the world is or should be. They are mature in their outlook, satisfied, comfortable, are well-educated, reflective people who value order, knowledge and responsibility. They like their home and family, are satisfied with their careers, and enjoy their leisure activities at home. They are open-minded about new ideas and accept social change. As consumers, they are conservative and practical. They purchase products for their durability, functionality, and value.

3. ***Believers:*** Like thinkers, believers are also motivated by ideals; their basic approach to decision-making is rational. Believers are not well-educated and the moral code of conduct is deeply rooted in their psyche and is inflexible. They are conservative, conventional and have deep beliefs based on tradition, family, religion and community. Their routines are established and largely influenced by home, family, religion, and social organisation. Their behaviour as consumers is predictable and conservative. Their income is modest, but enough to meet their needs.

4. ***Achievers:*** They are motivated by the desire for achievement and make choices based on a desire to enhance their position, or to facilitate their move to another group's membership for which they aspire. They have goal-oriented life-styles and a deep commitment to career and family. They are more resourceful and active. Achievers are inclined to seek recognition and self-identity through achievement at work and in their personal lives. They have high economic and social status and patronise prestige products and services and time saving devices that exhibit success to their peers. They value consensus, predictability and stability over risk, and intimacy.

5. ***Strivers:*** They are trendy and fun-loving and are motivated by achievement. They are dependent on others to indicate what they should be and do. They believe money represents success and never seem to have enough of it. Their self-definition is based on approval and opinion of others around them. They are impulsive by nature, get easily bored, are unsure of themselves, and low on economic, social, and psychological resources.

Caution Strivers try to mask the lack of enough rewards from their work and family, and to conceal this, they attempt to appear stylish. They try to emulate those with higher incomes and possessions, generally beyond their reach.

Strivers are active consumers, shopping to them is both a social activity and an opportunity to show their peers their ability to buy. They read less but prefer to watch television.

6. ***Survivors (formerly strugglers):*** They have narrow interests; their aspirations and actions are constrained by low level of resources. Strivers are comfortable with the familiar and are basically concerned with safety and security. They are ill-educated, with strong social bonds, low-skilled, and are poor. They feel powerless and unable to have any impact or influence on events and feel the world is changing too quickly. As consumers they show the strongest brand loyalties, especially if they can purchase them at a discount. They are cautious consumers and represent only a modest market. They watch a lot of television, read women's magazines and tabloids.

7. ***Experiencers:*** They are young, full of vitality, enthusiastic, impulsive and rebellious and motivated by self-expression. They are avid consumers and spend high proportion of

their income on fashion, entertainment and socialising. Their desire is to feel good and having "cool" stuff. They are college-educated and much of their income is disposable. They have an abstract disregard for conformity and authority. Experiencers seek excitement and variety in their lives and like to take risks. Their patterns of values and behaviour are in the process of being formulated. They are fond of outdoor recreation, sports and social activities. They spend heavily on clothing, music and fast food.

8. ***Makers:*** Their motivation is self-expression. They like to be self-sufficient, have sufficient income and skills to accomplish their desired goals. Makers are energetic, like to experience the world, build a house, have families, raise children, and have sufficient skills backed with income to accomplish their projects. They are practical people and have constructive skills and energy to carry out their projects successfully. Their outlook is conservative, they are suspicious of new ideas, respect government and authority, but resent any intrusion on their rights. They are not impressed with others' wealth and possessions.

Notes For several reasons, psychographic segmentation variables are used on a limited scale.

To accurately measure psychographic variables is rather difficult compared to other types of segmentation bases. The relationships between psychographic variables and consumer needs are often difficult to document. Also, certain psychographic segments may not be reachable. For example, it may be difficult to reach introverted people at reasonable cost.

Behaviouristic Segmentation

Dividing the market on the basis of such variables as use occasion, benefits sought, user status, usage rate, loyalty status, buyer readiness stage and attitude is termed as behaviouristic segmentation.

Buyers can be identified according to the use occasion when they develop a need and purchase or use a product.

Example: Archies greeting cards are used on many different occasions.

User status, such as non-users, potential users, or first time users can be used to segment the market. Markets can also be segmented into light, medium or heavy users of a product. Brand loyalty of varying degrees can be present among different groups of consumers and may become the basis to segment the market. There are consumers who are very loyal to cigarette brands, beer and even toothpaste. Markets may also be divided by considering level of product awareness such as unaware of the product, aware, interested, desirous or contemplating to purchase the product. Based on attitude, consumers may be enthusiastic, indifferent or hostile towards the product and these differences can be used to segment the market.

Benefit Segmentation

By purchasing and using products, consumers are trying to satisfy specific needs and wants. In essence, they look for products that provide specific benefits to them. Identifying consumer groups looking for specific benefits from the use of a product or service is known as benefit segmentation and is widely used by marketers.

Example: There are distinct groups of auto buyers. One group might be more interested in economy, the other in safety and still another in status etc.

Segmentation bases, such as demographics are descriptive. These variables are useful but do not consider why consumers buy a product. Benefit segmentation has the potential to divide markets according to why consumers buy a product. Benefits sought by consumers are more likely to determine purchase behaviour than are descriptive characteristics.

Benefit segmentation can be seen in the toothpaste market; fresh breath, decay prevention and whiter teeth are some examples and the brands involved are Colgate Total, Close-Up and Promise etc.

Demographic-psychographics Segmentation (Hybrid Approach)

Demographic and psychographic profiles work best when combined together because combined characteristics reveal very important information about target markets.

Demographic-psychographics information is particularly useful in creating consumer profiles and audience profiles. Combined demographic-psychographic profiles reveal important information for segmenting mass markets, provide meaningful direction as to which type of promotional appeals are best suited and selecting the right kind of advertising media that is most likely to reach the target market.

Example: Cosmetics companies first divide the market on the basis of gender, then age and then according to their lifestyle, they target people with different brands.

Geo-demographic Segmentation (Hybrid Approach)

This approach is based on the premise that people who live close to one another are likely to have similar economic status, tastes, preferences, lifestyles and consumption behaviour. Geodemographic segmentation is particularly useful when a marketer is capable of isolating its prospects with similar personalities, goals, interests and in terms of where they live. For products and services used by a wide cross-section of society, this approach may not be suitable.

Task Collect three advertisements for:

1. consumer non-durable product
2. consumer durable product, and a service product
3. Determine what segments the ads are directed at

Self Assessment

Fill in the blanks:

1. For segmentation, the market should be …………………….
2. A narrowly defined group of consumers with complex set of needs is called ………………… market.

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Multiple Choice Questions:

3. Daily newspapers have to follow ………………….. segmentation.

   (a) Lifestyle (b) Geographic

   (c) Income (d) Benefit

4. Cosmetics companies segment the market on the basis of …………………….

   (a) Geography (b) Demography

   (c) Income (d) Social class

5. When individuals are guided in their choices by their beliefs and principles and not by feelings, desires and events, they are said to be motivated by …………………….

   (a) Ideals (b) Achievements

   (c) Self-expression (d) Action

6. ………………….. try to emulate those with higher incomes and possessions, generally beyond their reach.

   (a) Believers (b) Achievers

   (c) Strivers (d) Survivors

7. Segmentation on the basis of which of the following variables is not a part of behaviouristic segmentation?

   (a) Usage rate (b) User status

   (c) Loyalty status (d) User opinions

9.2 Targeting Marketing Segments

Instead of aiming a single product and marketing programme at the mass market, most companies identify relatively homogeneous segments and accordingly develop suitable products and marketing programmes matching the wants and preferences of each segment. It should, however, be realised that all segments do not represent equally attractive opportunities for a company. Companies need to categorise segments according to their present and future attractiveness and their company's strengths and capabilities relative to different segments' needs and competitive situation. The following sequential steps present a useful framework, managers can use for this purpose:

1. Establish criteria to measure market attractiveness and business strength position.
2. Evaluate market attractiveness and business strength factors to ascertain their relative importance.
3. Assess the current position of each potential segment on each factor.
4. Project the future position of each market segment based on expected environmental, customer, and competitive trends.
5. Evaluate Segment Profitability.
6. Evaluate implications of possible future changes with respect to strategies and requirement of resources.

Before making the final decision of choosing the market segment, it is necessary to examine that the segment is at least strongly positive on one of the two dimensions of market attractiveness and business strength and is at least moderately positive on the other.

A company may decide to enter a segment that otherwise does not currently appear to be a positive under certain conditions, such as when there is belief among the managers that the segment's attractiveness or the company's business strength is likely to improve in the coming few years, or they believe such segments would offer opportunity to enter more attractive markets in the coming years.

There are three basic targeting strategies:

1. Undifferentiated Mass Marketing.
2. Differentiated Multiple Segment Marketing.
3. Single Segment Specialisation or Niche Marketing.

1. ***Undifferentiated Mass Marketing:*** This strategy involves ignoring any differences among consumers and offer one product or service to the entire market. This strategy of mass marketing focuses on what is common in the needs of consumers rather than what is different.

Example: For more than 90 years, Coca-Cola offered only one product version to the whole market and hoped that it would appeal to everyone. Hamdard offers its Rooh Afza based on this strategy. Undifferentiated marketing provides cost economies.

2. ***Differentiated Multiple Segment Marketing:*** The marketer decides to enter several market segments and develops separate offers for each.

Example: Maruti is producing different models of cars for various segments, Nike offers athletic shoes for different sports and Coca-Cola and Pepsi are offering different versions of their soft drinks.

Companies producing toiletries are offering different versions of toilet soaps for dry skin, oily skin and normal skin. These companies expect higher sales volumes by offering product versions and a stronger position within each segment. Differentiated marketing strategy increases costs considerably.

3. ***Single Segment Specialisation or Niche Marketing:*** Many companies succeed by producing a specialised product aimed at a very focused market or a niche. This strategy also appeals to firms with limited resources. The company targets a segment and goes for a larger market share instead of a small share in a larger market segment.

Example: Recycled paper producers often focus on the market for greeting cards or wedding cards. Oshkosh Truck is the largest producer of airport rescue trucks.

Concentrated strategy may involve more than normal risks. If a large competitor decides to enter the same segment, the going may become quite tough for the smaller company.

Self Assessment

Fill in the blanks:

8. Markets which are not separated by the marketers for the purpose of promotion are called …………………… markets.
9. HUL produces and promotes different versions of All Clear Shampoos. This is a case of …………………… marketing.

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Caselet

Right Targeting

Ryka manufactures women's shoes for aerobics, step aerobics, walking, running, hiking, and cross training. Knowing full well that it would not be easy to compete with giants like Nike and Reebok for a new firm like Ryka in the athletic footwear industry to capture a sizeable share, the founder Sheri Poe, right from the beginning resorted to some unusual marketing strategies. For example, she had her footwear British distributor deliver several pairs of Rykas with a personal note to fitness enthusiast Princess Diana. The royal trainer told Ryka that the princess not only liked the fit, but was also moved by the company's donation of part of its profits toward stopping violence against women. Ryka is Poe's way of fulfilling her dream - running a business and also helping women who are victims of rape, assault, and abuse.

The Ryka phenomenon began when Poe and several of her aerobics classmates realised that they were experiencing back pain because their shoes didn't fit right. Poe surveyed department stores and athletic footwear shops, asking customers and sales people what kind of shoes they wanted. She discovered that no one was paying attention to the women's market. The majority of the women's shoes were designed simply as scaled-down versions of men's shoes. To get a proper and painless fit, women needed athletic shoes with higher arches and thinner heels, but couldn't find them. Poe decided that there was a future for a company that made athletic shoes just for women.

Rather than cater to the whims of fashion, Ryka concentrates on manufacturing only high-performance athletic shoes that fit a women's foot. Rykas are anatomically correct for women's feet, and the company's patented Nitrogen E/S system provides cushioning and shock absorption for the heel and ball of the foot. Ryka Ultra-Lite aerobics shoes weigh only 7.7 ounces, about one-third that of regular aerobics shoes. Ryka was the first athletic shoe producer to develop market lightweight shoes specifically designed for the ups and downs of step aerobics.

Source: http://businesscasestudies.co.uk/case-studies/by-topic/marketing.html

9.3 Positioning

Positioning is the perception of a brand or product it brings about in the mind of a target consumer and reflects the essence of that brand or product in terms of its functional and non-functional benefits as judged by the consumer.

Example: Nestle's Maggi noodles has been successfully positioned as the "two minute" noodle in the minds of target consumers and has created a distinctive brand image. HUL's soap Lux is the "beauty soap" of female film stars and Dettol is the antiseptic for minor nicks and cuts. BMW car is positioned as the "ultimate driving machine".

As markets become more crowded and competitive with similar types of products, consumers rely more on the product's image than on its actual characteristics in making their buying decisions.

Positioning Maps

Products or services are 'mapped' together on a 'positioning map'. This allows them to be compared and contrasted in relation to each other. This is the main strength of this tool. Marketers

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decide upon a competitive position which enables them to distinguish their own products from the offerings of their competition (hence the term positioning strategy).

The marketer would draw out the map and decide upon a label for each axis. They could be price (variable one) and quality (variable two), or Comfort (variable one) and price (variable two). The individual products are then mapped out next to each other. Any gaps could be regarded as possible areas for new products.

Positioning Strategy

Jack Trout and Al Ries suggest that managers should ask themselves six basic questions to create a position for a product or service:

1. What position, if any, do we already have in the prospect's mind? (This information must come from the market place, not the managers' perceptions.)
2. What position do we want to own?
3. What companies must be outgunned if we are to establish that position?
4. Do we have enough marketing money to occupy and hold the position?
5. Do we have the guts to stick with one consistent positioning strategy?
6. Does our creative approach match our positioning strategy?

The brand or product manager must determine which strategy is best suited in a given situation to position the brand or the firm, as the case may be. The exercise to determine the positioning strategy is not easy and could prove to be difficult and quite complex. Six steps need to be taken to reach a decision about positioning.

1. ***Identify competitors:*** It may appear simple but it is not. This requires broad thinking. The competing products may not be only those, which come from the same product category with which the brand competes directly.

Example: Maggi competes not only with Top Ramon and other noodles, but also with all other products, which are used as snacks. The marketer must consider all likely competitors, various use situations and usage effects on the consumer.

2. ***Assessment of consumers' perceptions of competition:*** After defining the competition, it is important to determine how consumers perceive the competing products. To do this, a set of product attributes, such as product characteristics, consumer benefits, product uses or product users are chosen for comparison. The task is to identify relevant attributes to avoid any which would be superfluous.
3. ***Determining competitor's position:*** This exercise is undertaken to reveal how all the competing brands, including the company's own are positioned and what is their relative position in the consumer's perceptual map. Which are the competing brands that consumers consider as similar and which are the ones considered dissimilar?
4. ***Analysing the consumers' preferences:*** The analysis so far discussed would determine where in the perceptual map the product should be positioned. The next step requires the identification of segments or clusters of customers who prefer this product location in the perceptual maps. Customers who value a certain set of attributes or benefits would form a segment. An ideal product would be the one that is preferred over all others.
5. ***Making the positioning decision:*** Up to this point, it may become reasonably clear to make some subjective decision as to which position can be appropriate. In many situations,

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however, it may become necessary to rethink. Positioning usually involves segmenting the market and choosing one or more segments.

6. ***Monitoring the position:*** How strongly and advantageously a position is maintained in the market should be monitored periodically by using the tracking studies to measure the image of the brand or the company. Marketers manage product positioning by focusing their marketing activities on a positioning strategy. Pricing, promotion, channels of distribution, and advertising all are geared to maximize the chosen positioning strategy.

According to C. Merle Crawford, common bases used for positioning include:

1. ***Features*** refer to objective physical or performance characteristics and are often used to differentiate products.

Example: Amazon.com has a unique "I-click" ordering facility. Some autos claim "Zero to 100 Kph in 6 seconds."

This sort of positioning is more common with industrial products.

2. ***Benefits*** are directly related to products, such as Volvo's emphasis on safety and durability.

Example: "Sticks in a snap," is positioned for Fevi Kwick. Fairglow soap is "fairness soap."

3. ***Usage*** includes end use, demographic, psychographic, or behavioural segments for which the product is meant. It also includes product popularity.

Example: Chayavanprash to build body resistance of children or elders, Farex for small kids, Bajaj Pulsar "definitely male" for customers of a certain psychographic profile.

4. ***Parentage*** means the lineage denoting who makes the product.

Example: "Buying a car is like getting married. It's a good idea to know the family first," advises The Mercedes S Class model. Companies proudly trumpet their names, such as "Sony Vaio", "Tata Indica", "Fiat Palio," etc.

5. ***Manufacturing process*** is often used to position the product. Some expensive watches claim to be "hand crafted," an appealing proposition in an age of mass produced artefacts.

6. ***Ingredients*** are sometimes highlighted to create a position.

Example: Some garment manufacturers claim "One hundred per cent cotton," or "Hundred per cent Merino wool."

7. ***Endorsements*** are made either by experts or a common person with whom the target customers are likely to identify.

Example: Michael Jordan using Nike shoes, and the unforgettable Lalitaji (a savvy middle class housewife concerned about family budget) and her enduring advice that "Surf Ki Kharidari Mein Hi Samajhdari Hai." (It's wise to buy Surf).

8. ***Comparison*** with a competitor's product is a fairly common positioning approach.

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Example: Avis compared itself with Hertz, stressing that it tries harder because it the *second*-biggest can rental *company*. Samsung Laser Printer compared itself with HP Laserjet and thereby jumped cleverly onto the same platform.

9. ***Pro-environment*** approach to positioning aims to show that the company is a good citizen.

Example: Canon mentions on its packages, "Made from recycled material."

10. ***Product class***, such as freeze-dried coffee shown as a product that is a different one from instant or regular coffee.

Example: Dove soap positioned as a moisturiser and not the toilet soap, and Pears as glycerine soap.

11. ***Price/quality*** is a powerful positioning technique.

Example: Zenith computers say "Multinational quality, Indian price."

12. ***Country or geographic area***, such as German engineering, Russian vodka, Benarasi silk sari, or Dehradun rice.

9.3.1 Repositioning

No matter how well a product appears to be positioned, the marketer may be forced to decide on its repositioning in response to new opportunities or threats. The product may be provided with some new features or it may be associated with some new uses and offered to the existing or new markets.

Example: Johnson and Johnson repositioned their baby shampoos and lotions for the adult market by changing the promotional and packaging strategy. This was in response to growing opportunities due to lifestyle changes.

It is often difficult to reposition a product or brand because of consumers' entrenched perceptions and attitudes.

Positioning Errors

Common errors in positioning are:

1. ***Under positioning:*** This refers to a state of buyers having only a vague idea of the brand and considering it just another "me too" brand in a crowded product category. The brand is not seen to have any distinctive association.

Example: Brands like Sanyo, Hyundai Electronics, etc. in India don't promote a strong reason to buy their televisions instead to LG or a Sony.

2. ***Over positioning:*** In this situation, buyers have too narrow an image of the brand. Thus, buyers might think that Apple makes only very expensive computers when, in fact, Apple offers several models at affordable prices.

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Example: (1) A web based grocery retailer - Peapod.com, which is based in the US, targeted the busy professional and ignored the mass market. (2) Routinely one can see a statement "Highest quality & lowest price". (A Google search on the phrase highest quality & lowest price" resulted in over a 100 million hits.)

3. ***Doubtful positioning:*** This situation may arise when customers find brand claims unbelievable keeping in view the product features, price, or the manufacturer.

4. ***Confused positioning:*** Sometimes, attempts to create too many associations or to frequently reposition the brand only serves to confuse buyers.

Example: A mutual fund offering a 100% returns on investment; Oxyrich brand that claims to clean better than all the leading brands.

Self Assessment

State whether the following statements are true or false:

10. For Hero Honda Karizma, Tata Nano is also a potential competitor.
11. The logos and mascots of the company, like Air India's Maharaja, can be used for positioning the offering.
12. When Hertz says, *we are Hertz, they are not*, they are positioning on the basis of quality.
13. Castrol's tagline- *'It's not just oil, its liquid engineering'*, indicates positioning by product class.
14. When Lufthansa says, *there is no better way to fly*, they are positioning on the basis of competition.
15. The brands like Ponds, Head and Shoulders, All Clear, Dove etc. are all victims of under-positioning.
16. Too much positioning by creating many associations with the brand can confuse the customers.

9.4 Application of Marketing Mix Strategic Perspective

Marketing mix strategy is about achieving your marketing objectives through proper analysis of the 4 Ps or elements of marketing, namely:

1. Product
2. Price
3. Place
4. Promotion

A successful marketing mix depends on the right combination of these marketing elements.

For example, if the pricing of a product or service is higher, instead of changing the price, you can add new features to the product or change the service. You can also make the product or service available more conveniently to the customers.

Each elements of marketing mix strategy affects the other and the proper combination of these four elements is the key to the success of any marketing process.

1. ***Product Mix Strategy:*** Product Mix Strategy is about determining features of your product or service. Product mix strategy deals with:
   (a) The product life cycle
   (b) Brand name
   (c) Packaging
   (d) Design
   (e) Quality
   (f) Safety
   (g) After sales service
2. ***Pricing Strategy:*** The price of a product can be fixed in many ways. Marketing mix pricing is a tool that helps in settling on a pricing strategy, considering the followings:
   (a) Retail price
   (b) Wholesale price
   (c) Special offers
   (d) Penetration pricing
   (e) Price skimming
   (f) Optional product pricing
   (g) Geographical pricing
3. ***Place (Distribution) Strategy:*** Place marketing mix is nothing but distributing product to the customer. Few instances for this:
   (a) Warehousing
   (b) Distribution centres
   (c) Reverse Logistics
   (d) Transportation
   (e) Inventory Management
4. ***Promotion Mix Strategy:*** Promotion mix strategy deals with the available tools for marketing communications. This element helps in deciding on the location, where the customers will get the product or service. Promotion mix strategy also deals with:
   (a) Sales promotion
   (b) Distribution channels
   (c) Advertising
   (d) Sponsorship
   (e) Trade Fairs and Events
   (f) Logistics
   (g) Storage

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Sales Strategy

Sales mix strategy is nothing but the point of influence of price and promotion on sales, and its revenue and profits. Sales mix strategy is depended on following factors:

1. Decision-making process
2. Market response to price
3. Market response to promotion
4. Profit contribution and strategy
5. Budget deviations
6. Cost of budget deviations
7. Team working
8. Behaviour observation
9. Observers

Marketing Strategy and Marketing Mix Strategy

Marketing mix is a tool that assists in defining a marketing strategy for the product or service. Marketing Strategy and Marketing Mix are closely related to each other. Proper marketing mix analysis is very important for implementation of your marketing plan to achieve the business goals. An organization's strategy impacts its marketing mix:

Long-term Marketing Mix Strategy

1. Brand building and increase company awareness
2. Revenue grows gradually with permanent effects
3. Healthy relationships with distributors and others
4. Scope for research and development

Short-term Marketing Mix Strategy

1. Creates immediate revenue
2. Results are direct and quantifiable
3. The effect is temporary

> *Task* Compare the marketing mix of any one public sector bank and private sector bank.

Self Assessment

Fill in the blanks:

17. …………………… mix strategies deal with design and quality.
18. Sponsorship and advertising are a part of …………………… mix.

Notes

Case Study

The Body Shop and Marketing

The Body Shop recorded rapid growth during the 1970s and 1980s. However, its founder, Anita Roddick had publicly dismissed the role of marketing. It is well-known that she publicly ridiculed marketing for putting the interests of shareholders before the needs of society. She also held in similar low esteem the financial community that she referred to as "merchant wankers." While things were going very favourably, nobody seemed to mind her sceptical approach. After all, it was possible that she had actually found a new way of doing business, and the results so far stood to prove it. But how even such a famous and admired person as Anita Roddick could manage indefinitely without consulting the fundamental principles of marketing, wondered marketing experts and others. By the end of the 1990s, The Body Shop was experiencing bad times and the sceptics among the marketing and financial field were quick to point out the folly of its founder's apparently idiosyncratic ways.

From a high in 1992, The Body Shop shares dropped to a low witnessed at the start of 2003, despite the market index rising over that period. Profit remained similarly depressed, with performance in almost all European, North American, and Far Eastern markets stagnant.

Yes, everybody recognised that Anita Roddick has been the dynamo behind The Body Shop's success. From a small single outlet, she inspired and managed the growth of the chain to some 1500 familiar green-fronted establishments in 46 countries around the world. Yet, until the late 1990s, she continued to boast that The Body Shop had never used, or needed, marketing. Much of the company's success has been tied to its promotional approach by campaigning for the pursuit of social and environmental issues. But while Roddick campaigned for everything from physical torture of wives and Siberian tigers to the poverty-stricken mining communities of Southern Appalachia, the company was facing major problems in all its key markets.

Part of the problem of The Body Shop was its failure to fully comprehend the dynamics of its market place. Positioning on the basis of good causes may have been enough to launch the company into the public mind in the 1970s, but what it now needed was a sustainable long-term positioning. Other companies soon launched similar initiatives. For example, the Boots Pure Drug Company matched one of The Body Shop's earliest claims that it did not test its products on animals. Competitors had copied even the very feel of The Body Shop store that included its décor, staff, and product displays. How could the company stay ahead in terms of maintaining its distinctive positioning when many others had similar differentiation? Its causes seemed to become increasingly remote from the real concerns of shoppers. While most shoppers in UK may have been swayed by a company's unique claim to protect animals, it is not clear how many would be moved by its support for Appalachian miners? If there was a Boots or Superdrug store next door, why should a buyer shell out a premium price to buy from The Body Shop? The Body Shop may have pioneered a very clever business launching formula over twenty-five years ago, but the concept had been successfully copied by others. And these other companies had made enormous strides in terms of their social and environmental concerns and awareness.

Part of the company's problem has been blamed on the inability of Roddick to delegate. She is reported to have spent almost half of her time globetrotting in propagating support of her good causes, but did have a problem in delegating marketing strategy and

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Notes

implementation. Numerous capable managers who were brought in to try to implement professional management practices apparently gave up in bewilderment at the lack of discretion that they were given, and then left dismayed.

The Body Shop's experience in America typified Roddick's pioneering style, which frequently ignored sound marketing analysis. She sought a new way of doing business in America, but in doing so she dismissed the experience of older and more sophisticated retailers – such as Marks & Spenser and Sock Shop, which came unscratched in what is a very difficult market. The Body Shop decided to enter the US markets in 1988 not through a safe option such as a joint venture or a franchising agreement, but instead by setting up its own operation from scratch, according to Roddick's principles of changing the business rulebook and cutting out the greedy American business community. But this was an exceedingly risky move. Her store format was based on the British town centre model. She did not bother to appreciate the fact that Americans spend most of their money in out-of-town malls. In 1996, the US operation lost 3.4 million pounds.

Roddick's critics claim that she has a naïve view of herself, her company, and business in general. She has consistently argued her philosophy that profits and principles don't mix, despite the fact that many of her financially successful competitors have been involved in major social initiatives.

The rift between Roddick's and others' view of the world was revealed in the results of an innovative independent social audit that The Body Shop commissioned in 1966. The company was prompted to commission the study after the report following media criticism that its social and environmental credentials might not actually be as good as the company claimed. The results highlighted eye-opening shortcomings in virtually every one of the company's stakeholder relationships. The company scored well in certain areas such as promoting human and civil rights, pollution control, product information, wages, and benefits, women's opportunities, and energy conservation; but it scored really badly on issues of corporate governance, relationships with shareholders, responsiveness to complaints of customer and franchises, accuracy of promotional claims, communication, and reaction to criticism.

Critics claim that had Roddick not dismissed and ridiculed the need for marketing for so long, The Body Shop could have certainly avoided future problems that it faced. But by 2000, it was paying the price for not having devoted sufficient resources to new product development, to innovation, to refreshing its product ranges, and to moving the business forward. It seems that heroes can change the rulebook when the tide is flowing with them, but adopting the disciplines of marketing allows companies to anticipate and react when the tide begins to turn against them.

N.B: The Body Shop was sold to L'Oreal, the world's largest cosmetics manufacturer, in March 2006, for £ 656 million. Dame Anita Roddick gained personally to the tune of £130 million. Since British and French companies have very divergent views on strategy and day-to-day management, it remains to be seen how successful the union will ultimately turn out to be. For The Body Shop, it's yet another chapter in its struggle to remain relevant in a changing world.

Questions

1. Analyse the significant issues in the case. Was Anita right in ridiculing the marketing?
2. How has Anita Roddick positioned The Body Shop and maintained its identity with social and environmental causes as a unique positioning approach?

Source: Marketing Management-Text and Cases, SHH Kazmi, Excel Books.

9.5 Summary

- Market segmentation seeks to carve out a homogenous market out of a large, heterogeneous market. There are a few common bases, which are used in segmentation e.g. demographic, economic, psychographics etc.
- Segmentation is advantageous to marketers in many ways. Instead of spending all marketing resources on a heterogeneous market where customers have varied characteristics and response patterns, segmentation guides marketing managers to identify who are the likely buyers and to spend the resources on these buyers to achieve a time based result.
- Marketers use three strategic options in target marketing. They are undifferentiated marketing, differentiated marketing and concentrated marketing. In undifferentiated marketing strategy, the same marketing program is offered to everyone regardless of their differences.
- Positioning is a very important concept in modern marketing. It is the decision by a marketer to try to achieve a well-defined and differentiated brand image relative to competition in a targeted market segment.
- Marketing mix is a tool that assists in defining a marketing strategy for the product or service. Marketing Strategy and Marketing Mix are closely related to each other. Proper marketing mix analysis is very important for implementation of your marketing plan to achieve the business goals.

9.6 Keywords

Behavioural Segmentation: Market segmentation based on consumer's product related behaviour; typically the benefits desired from a product.

Demography: The statistical study of human population and its distribution.

Market Targeting: The process of segmenting, targeting and positioning an offer in the market.

Positioning: process by which marketers try to create an image or identity in the minds of their target market for its company, product & services and brands.

Psychographics: It is the science of using psychology and demographics to study the lifestyle patterns of consumers.

Segmentation: The process of segregating a heterogeneous market into a set of homogeneous groups of customers.

Target Market: it is a group of customers that the business has decided to aim its marketing efforts and ultimately its merchandise.

9.7 Review Questions

1. What is meant by marketing segmentation? What will be the suitable base for the marketing of Televisions?
2. A company plans to launch a new brand of summer cool deodorant. How will you segment the market?
3. Discuss the VALS framework. Give examples.
4. "Target marketing follows market segmentation." Discuss.
5. Discuss major market segmentation variables for the toothpaste market, highlighting benefit segments.

Notes

6. Discuss the positioning process and approaches. Give suitable examples.
7. Discuss the various options that the marketers have while deciding on targeting a market segment.
8. Connect marketing strategy and marketing mix.
9. Suppose you are going to start a fast food retailing business. How would you segment the market and which markets will you target?
10. You are the marketing manager of a large discount store. How would you position your store in the market? Discuss your positioning strategies.
11. You have recently started a FMCG company and want a robust marketing mix for the company to tackle fierce competition from major players like HUL and P&G. Keeping this in mind, design a marketing mix for your company.
12. Examine the various tools for differentiation. Determine how these tools can deliver practical proportionality in a company.

Answers: Self Assessment

1.	Heterogeneous	2.	Niche
3.	(b)	4.	(b)
5.	(a)	6.	(c)
7.	(d)	8.	Non-segmented
9.	Differentiated	10.	True
11.	True	12.	False
13.	True	14.	True
15.	False	16.	True
17.	Product	18.	Promotion

9.8 Further Readings

Books

Lawrence Weinstein, *Marketing Management*, South Western Publications

Philip Kotler, *Marketing Management*, Pearson, 2007

V S Ramaswami, S Namakumari *Marketing Management*, Macmillan, 2003

Online links

www.advertising-objective.com/the-stp-process.html

www.businessplans.org/segment.html

www.prenhall.com/behindthebook/0132390027/.../Kotler_CH07.pdf

www.tutor2u.net/business/marketing/segmentation_why.asp

Unit 10: Delivering Customer Offer

Notes

CONTENTS

Objectives

After studying this unit, you will be able to:

- Discuss what are CRM strategies
- Determine how these strategies be implied for customers development
- Explore how to deploy these strategies
- Know what is meant by customer life cycle
- Analyse what are building blocks

Introduction

Customer Relationship Management (CRM) systems are a sort of information system technology which is part of the more general category of Enterprise Systems, that also includes ERP and SCM systems. CRM systems have gained prominence among academics and business sponsors in the recent years, with many dedicated studies and analyses with the purpose of understanding better this technical domain (Bose, 2002; Bull, 2003; Zablah et al., 2004.). Very briefly, a CRM system can be viewed as an information system aimed at enabling a particular organisation to realise a customer focus (Bull, 2003).

According to a CRM research, it appeared that a proper life cycle for CRM systems is not yet defined, although there are some example processes proposed by software companies to address CRM development as an information system. Thus, our purpose in this paper is to propose a tentative definition of a life cycle, comprehensive enough to cover both CRM system implementation and other previous and latter phases. With this definition, we pretend to contribute to a better understanding of CRM systems as an expanding information system technology.

Achieving the long-term value of customer relationship management (CRM) requires a strategy involving the whole business and should be approached at an enterprise level. Only a small, but growing, number of enterprises are tackling CRM at this level, with most CRM initiatives consisting of departmental projects or attempts to integrate the work of multiple projects. Executing enterprise-level CRM is not easy.

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It requires board-level vision and leadership to drive a "relentless focus on the customer." It involves learning new customer management skills, potentially difficult changes to processes, culture and organization, and grappling with the technology challenges of multichannel alignment, systems integration and data quality.

Even if the board accepts the need for enterprise-level CRM, the quarterly demands of revenue and profit targets, especially in delicate economic conditions, often mean that, although CRM is the most important challenge facing an enterprise, it is not seen as the most urgent.

This typically results in a focus on isolated tactical "quick wins" until conditions are better.

10.1 CRM Strategy

Customer relationship management (CRM) strategies and the technologies that enable them make it possible to figure out what customers want and the most profitable ways to give it to them – important in an age when acquiring new customers – is about five to 10 times the cost of retaining current ones. CRM strategies are based on the premise that quick, accurate knowledge about customers empowers organizations to increase the value of current customers, keep them longer and more effectively acquire new customers.

A CRM strategy takes direction and financial goals from the business strategy, and revisits the marketing strategy to customize it. It provides an overview of how the enterprise will build valuable customer relationships and customer loyalty.

1. ***The first stage*** in developing the CRM strategy is to segment customers into categories, and to set objectives and metrics for each segment.
2. ***The second stage*** is to assess the state of the customer base when viewed as an asset. That can be achieved by plotting the strength and value of customer relationships along two perspectives:
   (a) How much does the customer value the enterprise?
   (b) How much does the enterprise value the customer?

Notes The result is a customer asset matrix as seen in Figure 10.2, which combines the supplier's view of customer value segments with an estimate of the strength of the customer relationship.

3. ***The third stage*** is to define the objectives to be met and the tactics to be used. The customer strategy customizes the traditional marketing strategy for different target customer segments, and thus supersedes it.

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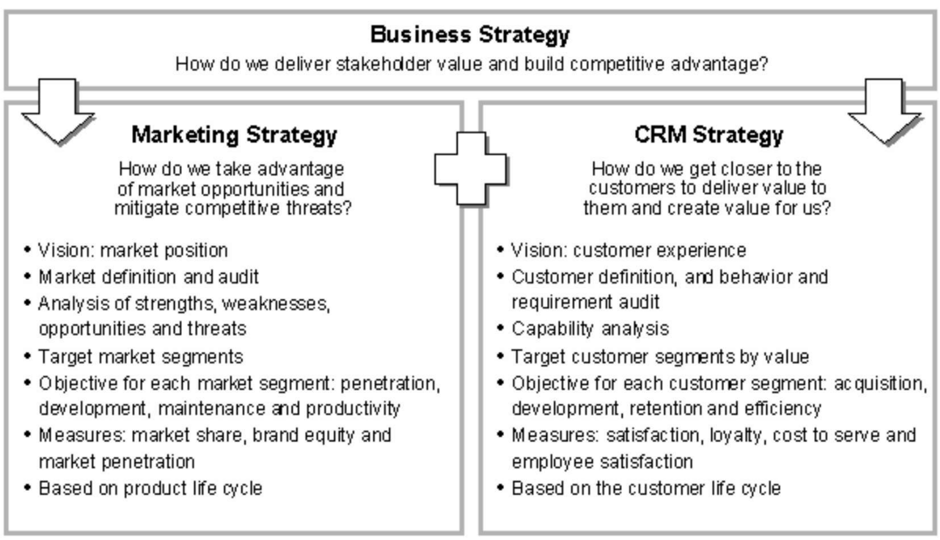
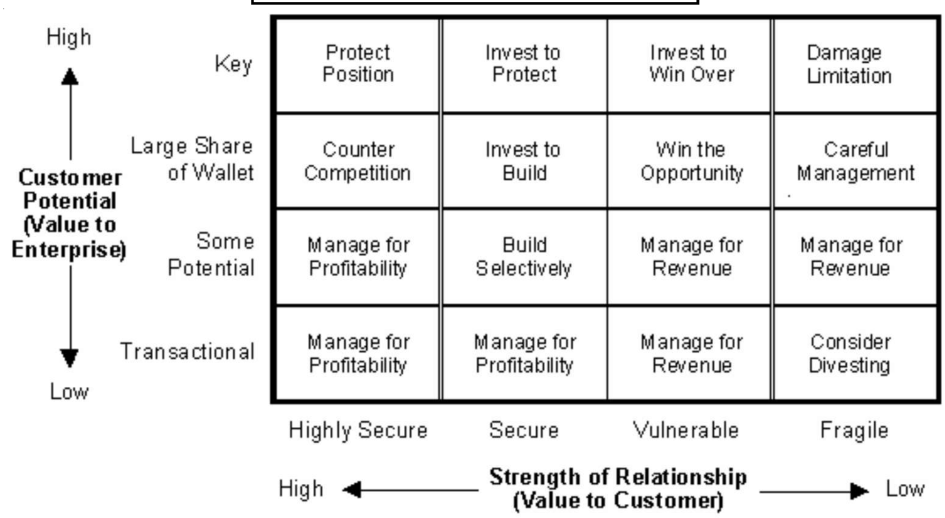
Figure 10.1: CRM Strategies as Derived from Business Strategy



Source: http://www.emeraldinsight.com/content_images/fig/2880270107003.png

Figure 10.2: Customer Asset Matrix



Source: http://www.emeraldinsight.com/fig/6314_10_1016_S0749-6826_05_09002-5.png

10.1.1 Creating a CRM Business Strategy

Know your Objectives: The idea is to keep and acquire customers with the greatest value potential. By establishing objectives, one can determine specific, quantifiable customer acquisition, development and retention targets that meet corporate financial goals.

How this is best accomplished depends on the kind of organization and its priorities. Of course, customer retention is important to just about all organizations. Business-to-business enterprises aiming to become a preferred supplier often give high priority to customer development. Business-to-consumer enterprises with an eye to boosting market share concentrate on customer

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acquisition. Government and non-profit organizations tend to care most about customer satisfaction.

Know Thyself: Start by answering these questions:

1. What are your enterprise's goals and imperatives?
2. What should be achieved with a CRM initiative?
3. What business units will be affected?
4. What's the condition of the IT infrastructure?
5. What needs to be upgraded, integrated?

Transform your Customer Base into an Asset: Be customer-centric. Focus objectives on your customer life-cycle, which then mirror your product/service life-cycle. This means:

1. ***Analyze your customers.*** Look for ways that customer value is lost or unexploited. When you've spotted where action is required, you can set metrics and monitor them.
2. ***Jibe CRM and corporate strategies.*** CRM strategy cannot stand alone; it must be derived from corporate goals and imperatives, and it must be linked to other operational strategies.
3. ***Keep it flexible.*** In a challenging, competitive environment unpredictably impacted by discontinuous change, CRM strategy needs to be dynamic and timely, adapting operational efforts and corporate direction to market conditions. Thus, successful CRM strategy evolves in an iterative process that takes advantage of customer and operational feedback to refine objectives, tactics and processes.

Build a Repeatable, Continuously Improving Process: The goal is to efficiently utilize all your organization's resources to present one friendly, consistent face to customers. Customers should get the same information about your company from any channel—from website to call centre to sales force to marketing brochure.

Did u know? Companies that want to lock in customer loyalty and maximize profitability need to employ four CRM tactics:

1. build a customer growth strategy upon a CRM foundation of strategic intent and cost management;
2. avoid the CRM whipsaw effect;
3. don't buy into the technology silver bullet; and
4. measure satisfaction with CRM.

These tactics will ensure that CRM programs can successfully adapt to the pending changes in the economy.

Build a Customer Growth Strategy

Businesses must build top-line growth strategies upon the foundation of their CRM programs by ensuring that strategic intent and cost management measures are institutionalized. Many companies have not determined strategic intent or have not focused on developing clear metrics to measure performance. Yet many have done some cost cutting within customer-facing functions and lowered their cost-to-serve just to reduce the overall cost of sales. These cost-structure changes should be modified to invest in these fields of CRM so that growth strategies gain some early wins, no matter what state the economy is in. As the economy turns into recovery, the winners are likely to be those who have not only stabilized their customer service and sales costs, but those who are improving the effectiveness of customer retention and loyalty programs. Improved customer segmentation, customer satisfaction, and service strategies should be tailored in downturns and expanded in upswings, but need to remain long-term goals of any successful CRM program.

Avoid the Whipsaw Effect

Senior management commitment is critical to the success of any major corporate initiative. CRM is certainly no exception. In fact according to CRM magazine/the A.T. Kearney survey results, IT decision-makers ranked executive sponsorship as the most important factor for maximizing the return on their CRM investments. If CRM initiatives are not in the CEO's agenda, then investments in these initiatives have a much lower probability of success. Additionally, because CRM is a fundamental shift in the way a company does business with its customers, rather than just a one-time e-business initiative, it requires continuous leadership support over multiple years. This type of long-term senior management support can only be achieved and maintained if a long-term strategic plan is developed. The time frame also requires the strategic plan to have built-in contingencies for the ups and downs of the business cycle. Without this type of flexible strategy, companies get caught in a CRM whipsaw: over investing in one year and then cutting to the bone in the next. The result is unrealized investments, squandered opportunities, and a loss of employment for the CRM champion. The whipsaw may affect users as well.

Caution Employees whose new customer-centric behaviours enable CRM success can get caught in the whipsaw if communications about customer strategy and CRM processes are not clear or consistent throughout changes in the business cycle.

Don't Buy into the Technology Magic Bullet

The CRM vendor landscape is changing rapidly. Placing all bets on a single vendor or technology can prove disastrous. The unstable economy has caused a vendor shakeout. It has reduced the number of CRM vendors, but also has enabled the strongest companies to survive with the best-integrated offerings. Strong vendors, after acquiring or merging with smaller niche vendors, still have to refine the resulting integrated offerings. Even so, research indicates software functionality is not the prime factor in selecting a CRM vendor. Financial viability and ROI remain the most important factors in selecting a vendor, and reflect the fact that the best-of-breed approach in recent years has left a number of companies holding the bag of unsupported applications. The focus on vertical expertise has also been increasing. Companies stung by the challenges and high costs of customizing standard applications are demanding that the major vendors of the CRM world ensure that vertical customizations are prebuilt into the application they install. Customers are focusing on implementing the best vertical application available. This shift has also been pressuring vendors that have not caught up with the verticalization wave or have poorly packaged and standardized their industry experience within applications.

Example: It includes the anticipation of going to Starbucks, walking up to a shop, opening the door, ordering and paying for the coffee, getting the coffee, sitting down in the atmosphere of the shop to enjoy the coffee.

Measure Satisfaction with CRM

Measuring CRM success has often been elusive, but it is possible to measure satisfaction with CRM. Companies have often measured success either by ROI or by changes in customer satisfaction to justify CRM benefits. Although capturing ROI and preventing CRM budget expansion is important, the CRM magazine/A.T. Kearney research indicates that 60 percent of companies claim their CRM initiatives met or exceeded expectations. Of the rest, 25 percent did not set expectations. So for the moment, there appears to be more satisfaction with CRM projects than not. However, ROI generally measures the internal return of a technology/process or organization improvement project.

Task How will you measure customer's satisfaction?

Self Assessment

Fill in the blanks:

1. There are …………………… stages in a CRM strategy.
2. The …………………… is to define the objectives to be met and the tactics to be used.
3. The first stage in developing the CRM strategy is to …………………… into categories.
4. By establishing objectives, one can determine retention targets that meet …………………… goals.
5. Being customer centric is a part of …………………….

10.2 Customer System Life Cycle

CRM has its roots in Relationship Marketing, which is "an over attempt of exchange partners to build a long-term association, characterized by purposeful cooperation and mutual dependence on the development of social as well as structural bonds" (Pulde, 1999). Light (2003) stated that CRM evolved from business processes such as relationship marketing and the increased emphasis on improved customer retention through the effective management of customer relationships.

A CRM system can be viewed as an enterprise information system that includes all business processes in sales, marketing, and after-sale service that involve the customer. Levine (2000) points out that CRM systems use customer-related information or knowledge to deliver relevant products or services to the company's customers.

One of the most significant definitions of a CRM system has been given by Davenport et al. (2001), stating that CRM systems are "all the tools, technologies and procedures to manage, improve or facilitate sales, support and related interactions with customers, prospects, and business partners throughout the enterprise". In the same way, Parvatiyar & Sheth (2002) speak of CRM systems as "a comprehensive strategy and process of acquiring, retaining, and partnering with selective customers to create superior value for the company and the customer.

It involves the integration of marketing, sales, customer service, and the supply-chain functions of the organization to achieve greater efficiencies and effectiveness in delivering customer value."

The research area of CRM systems is wide, and in the last years the academic interest has produced significant results in particular domains. In this way, some authors have explored and

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reviewed domains such as Electronic CRM (Pan and Lee, 2003); Romano Jr. and Fjermestad, 2002), CRM implementation risks (Corner & Hinton, 2002) and Relationship Marketing (Ryals and Knox, 2001). The results have contributed to a better understanding of the CRM systems field.

After reviewing the existing research literature in the area, we share with the above authors that CRM projects involve a complex combination of many business and technological factors. This situation calls for the formulation of adequate strategies for the adoption and implementation of CRM systems within a company (Bull, 2003). Developing a CRM system life-cycle can contribute to the better comprehension around this type of enterprise system.

CRM System Life-Cycle Definition

We have included not only the general phases of the life-cycle, but also detailed stages within each phase identifying the particularities that make the CRM systems different to other types of information systems. In the next paragraphs we describe our proposal.

1. ***Adoption Phase:*** The adoption phase is the beginning of the whole project, since it is the one in which executives and other management sponsors, as well as project team managers, question the need of a new CRM system for the company. They analyze the critical business challenges and goals; defining how this decision can improve the company's activities and its organizational strategy.

   In this phase of the project the people involved define the CRM system requirements, estimate benefits and costs, and try to foresee the impact at the organizational level of such an adoption and the subsequent phases.

   Within this phase, the following stages are included:

   (a) ***Analysis of the enterprise needs and requirements for adopting a CRM system:*** This implies to make a throughout analysis and justified statement of why the company needs a CRM system.

   (b) ***Analysis of the expected costs of, and benefits from, the CRM system implementation:*** The managers should make an analysis describing what they expect to obtain with the implementation of the system, such as customer profitability and retention, and at what costs.

   (c) ***Feasibility analysis of the CRM system implementation:*** The project team elaborates a report of how feasible it is to introduce a CRM system in the organization, including tentative impacts in work processes in marketing and sales departments, and human resources.

2. ***Acquisition Phase:*** In this phase the evaluation and selection of the CRM product that best fits the requirements of the organization is carried out; aiming at the minimization of the need of customization. The project team may require the advice of a consulting company in order to evaluate and select the most suitable software for the CRM needs of the enterprise, analyzing factors such as price, training and maintenance services. Once the selection is made, a contractual agreement is defined between the enterprise and the product vendor.

   While often the same consulting company takes charge of the implementation project, this does not need to be the general case. Some enterprises prefer to separate the evaluation and selection of the implementation consulting company from that of the acquisition consulting company.

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We include in this phase the following stages, where the execution order may be different from the presentation order, depending on the particular case:

(a) *Vendor and product evaluation:* This stage consists on the process of evaluating, comparing and deciding which software tool product and vendor are the best for the company's CRM requirements of customer caption, retention and data analysis.

(b) *Implementation consultant evaluation:* Here it is decided which consulting company is best suited for implementing the selected CRM software.

(c) *Analysis of the company's current technology:* This stage makes a report of the current underlying information systems and information technology infrastructure of the company in order to know if and how it can support the requirements of the system.

(d) *Detailed impact analysis of the introduction of a CRM system within the organization:* The project team makes a report of the possible organizational and technical changes of the affected areas the company will experiment with the implementation.

3. ***Implementation Phase:*** The implementation phase means the customization, parameterization and adaptation of the CRM software purchased according to the needs of the enterprise. This is usually done with the help of implementation consultants, and of documentation, technology support and user training from the vendor. Implementation must not be taken lightly since it is a very risky phase. Many companies have invested large sums in CRM projects, and many of them are not getting what they expected.

   Within this phase the project team has to carry out the project as planned, once the executives have agreed to execute the introduction of a CRM system. This is a good opportunity for identifying and improving the CRM processes that may lead to business benefits and drive the organization's business success.

Notes While being a risky effort, a successful implementation will help the enterprise encompass a coherent business strategy in which people, processes and technology are organized around delivering value to their customers.

   The implementation phase contains the next stages, their presentation order being different from possible execution order:

(a) *Implementation plan:* This plan defines the project goals, develops a strategy for achieving them and explains how the application supports the strategy; it also addresses the vision, business goals and technology considerations for the implementation.

(b) *Organizational alignment:* This stage carries out the activity of bringing together executives, IT professionals, managers and users to understand the business objectives of the CRM project and to support the implementation initiative.

(c) *Risk identification and management:* The project team points out and evaluates the main risks for the implementation, and delineates contingency plans for those risks.

(d) *Implementation process management:* Refers to the overall coordination and follow of the implementation project.

4. ***Use and Maintenance Phase:*** This stage corresponds to the use of the product in a way that returns expected benefits and minimizes disruption. It is recommended to be aware of the issues related to functionality, usability and adequacy, and how they interact with the organizational and business processes.

After system implementation, it must be maintained in order to fix and prevent malfunctions, to optimize special functions and to improve general system procedures. Also, another important activity that may be carried out is measuring the progress, to see how well the implementation of the CRM system is supporting the business goals. Usage strategy should not only focus on technology, it should also rely on business strategy, people, process and components of change management.

The next stages were detected in this phase:

(a) *User training:* The stage where the software vendor trains the employees of the enterprise in the profitable use their system. Users of the sales, marketing and customer service departments should be the first to be trained.

(b) *Implementation evaluation:* Managers analyse and determine the impact of the implementation once it has been completed.

(c) *User satisfaction and usage intention:* Determines the degree of acceptance or rejection from the user to the CRM system, and how well they are using it.

(d) *Return on investment:* The project team presents a report analyzing the expected ROI of the CRM system to the executives and CEO.

5. ***Evolution Phase:*** Once the CRM system is already in use, this phase corresponds to the integration of more capabilities into the CRM system, providing new benefits such as the interaction with other enterprise information systems like supply-chain management and business intelligence.

   Also the enterprise may decide to expand the system across its frontiers for external collaboration with other partners.

   We can find the following stages in this phase:

   (a) *System maintenance:* The software vendor is in charge of providing the corresponding maintenance to the system so that it may function properly.

   (b) Integration with other enterprise systems, such as ERP, SCM or BI.

   (c) *Migration:* This means changing the version of the system to a most recent release, in order to receive the most current and best possible support by the vendors.

6. ***Retirement Phase:*** The retirement phase corresponds to the stage when, with the appearance of new technologies or the inadequacy of the CRM system to reach business goals and needs, managers decide if they will substitute the CRM software with another information system technology approach eventually more adequate to the organizational needs. Within this phase we identified the following extreme situation, which unfortunately is not exceptional:

   - *Implementation failure:* If the CRM system cannot help the company to reach its CRM goals, the managers should decide to retire it and go back to the previous information system, or to start out another implementation project, eventually with other vendor or product or consultants. Obviously, no second trial should be addressed without a throughout shared analysis of the reasons behind the failure of the first CRM project.

Task Explain the different phases of CRM strategy.

Notes

Self Assessment

Fill in the blanks:

6. There are …………………… phases in customer life cycle.
7. The first phase of customer life cycle is …………………….
8. The last phase of customer life cycle is …………………….
9. In …………………… phase the evaluation and selection of the CRM product that best fits the requirements of the organization is carried out.
10. System maintenance is a part of …………………… phase.

Caselet

Employee Satisfaction Translates to Customer Service Results

Recognizing that its unique advantage in the market is based on superior customer service and that customer service is directly related to the satisfaction of its employees, a 500-employee fleet leasing company determined to redesign its Human Resources functions. The company felt it would improve employee retention by establishing itself as an organization employees believed a good place to work. The company believed that by establishing long-term careers; it could build a workforce which would ensure the company's success. Management retained a DHC consultant to assist in establishing goals for the effort, to facilitating a cross-functional team, and direct the implementation of solutions.

Seven initiatives were identified which would enhance employee skills and performance, align individual goals with corporate goals while giving employees ownership and control of their own success. Three of the seven initiatives were chosen for the first phase of implementation because of their impact on the workforce.

Job Descriptions: To clarify expectations, assist in recruiting the right employees, provide basic information for designing a compensation program, and provide a basis for performance management, job descriptions were created for all positions and made available to all employees on the LAN. A communication and training effort launched the program and employees learned how to access, create and maintain job descriptions company wide.

Performance Management Program: A performance management program was designed to give employees ownership of professional development and performance improvement. Emphasis was on collaborative goal setting, employee coaching, development, and empowerment. Managers were trained in leadership and coaching skills to ensure success. The program focused on developing employees and rewarding performance based on critical, company-wide performance dimensions developed using focus groups. The program was designed to open communication and collaboration, to standardize rating systems, rating criteria and formats while allowing flexibility for departmental requirements and changing business requirements.

Compensation Program: Senior management reviewed and redesigned the compensation strategy to assure objective, consistent, equitable rewards for performance. Market analysis

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and research assured internal and external compensation equity and competitive salary and compensation packages.

Results

Turnover and employee satisfaction improved significantly through:

- Clearly defined and communicated corporate, departmental, and individual goals to assure success.
- Improved morale resulting from fair, consistently applied standards in performance management and compensation.
- Culture change toward collaborative performance management and employee development. Management style emphasis on coaching, empowerment and communication.

Source: http://dechert-hampe.com/index.php/resource-center/case-studies/159-employee-satisfaction-translates-to-customer-service-results

10.3 Building Blocks of CRM

Achieving the long-term value of customer relationship management (CRM) requires a strategy involving the whole business and should be approached at an enterprise level. Only a small, but growing, number of enterprises are tackling CRM at this level, with most CRM initiatives consisting of departmental projects or attempts to integrate the work of multiple projects. Executing enterprise-level CRM is not easy. It requires board-level vision and leadership to drive a "relentless focus on the customer."

1. ***CRM Vision:*** Leadership, Market Position, Value Proposition
2. ***CRM Strategy:*** Objectives, Segments, Effective Interaction
3. ***Valued Customer Experience***
   (a) Understand Requirements
   (b) Monitor Expectations
   (c) Customer Communication
   (d) Satisfaction vs. Competition
   (e) Collaboration and Feedback
4. ***Organizational Collaboration***
   (a) Culture and Structure
   (b) Customer Understanding
   (c) *People:* Skills, Competencies
   (d) Incentives and Compensation
   (e) Employees Communications
   (f) Partners and Suppliers
5. ***CRM Processes:*** Customer Life Cycle, Knowledge Management
6. ***CRM Information:*** Data, Analysis, One view Across Channels
7. ***CRM Technology:*** Applications, Architecture, Infrastructure
8. ***CRM Metrics:*** Value, Retention, Satisfaction, Loyalty, Cost to Serve

Source: http://www.managementstudyguide.com/GartnerResearchcustomer-life-cycle.html

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It involves learning new customer management skills, potentially difficult changes to processes, culture and organization, and grappling with the technology challenges of multi channel alignment, systems integration and data quality. Even if the board accepts the need for enterprise-level CRM, the quarterly demands of revenue and profit targets, especially in delicate economic conditions, often mean that, although CRM is the most important challenge facing an enterprise, it is not seen as the most urgent. This typically results in a focus on isolated tactical "quick wins" until conditions are better. Through 2005, enterprises that use a strategic CRM framework to estimate, plan and promote their CRM initiatives while building up their capabilities in small piloted steps are twice as likely to achieve planned business benefits as enterprises that pursue projects without a framework.

The framework emphasizes the need to create a balance between the requirements of the enterprise and the customer. Through 2005, 90 percent of successful CRM initiatives will have balanced the needs of improved customer experience with improved organizational collaboration (0.8 probabilities). Too many CRM initiatives suffer from an inward focus on the enterprise, whereas the point of CRM is to achieve a balance between value to shareholders or stakeholders and value to customers for mutually beneficial relationships.

1. ***Vision:*** Successful CRM demands a clear vision so that a strategy and implementation can be developed to achieve it. The CRM vision is how the customer-centric enterprise wants to look and feel to its customers and prospects – the Customer Value Proposition (CVP) and the corporate brand values are key to the CRM vision. Without a CRM vision, the enterprise will not stand out from the competition, target customers will not know what to expect from it and employees will not know what to deliver in terms of external customer experience. A successful CRM vision is the cornerstone to motivating staff, generating customer loyalty and gaining a greater market share. "Creating a CRM Vision" defines a CRM vision, outlines the key steps and challenges in creating it and discusses its role in creating a successful CRM program.

2. ***Strategy:*** A CRM strategy is not an implementation plan or road map. A real CRM strategy takes the direction and financial goals of the business strategy and sets out how the enterprise is going to build customer loyalty – that "feel-good factor" of customer connection with an enterprise that means customers stay longer, buy more, recommend the enterprise to others and are more willing to pay a premium price. The objectives of a CRM strategy are to target, acquire, develop and retain valuable customers to achieve corporate goals.

3. ***Valued Customer Experience:*** Customers' experiences when interacting with the enterprise play a key role in shaping their perception of the enterprise – the value it provides and the importance it places on the customer relationship. Good customer experiences drive satisfaction, trust and long-term loyalty. Poor customer experiences have the opposite effect and, because bad news travels faster and further than good news, they harm the enterprise's ability to create new relationships with prospects. No amount of internal "second guessing" can simulate what it's really like to be a customer.

4. ***Organizational Collaboration:*** Many enterprises believe that implementing CRM technologies makes them a customer-centric organization. They forget, ignore or deliberately avoid the necessary changes to the enterprise itself. True CRM means that individuals, teams and the whole enterprise must become more focused on the needs and wants of the customer. The term "organizational collaboration," highlights the many facets of the customer-centric internal change needed to deliver the required and desired external customer experience. As a critical part of a CRM program, it will involve changing organizational structures, incentives and compensation, skills and even the enterprise culture. Ongoing change management will be key.

5. ***Processes:*** Past efforts to re-engineer processes were primarily driven by the desire to improve the efficiency of an enterprise and reduce costs. The beneficiary was the enterprise, not its customers. The rise in CRM has led to a focus on reworking key processes that touch the customer and asking customers which processes matter to them. We call this customer process re-engineering. Enterprises frequently do not realize that their functionally fragmented processes often mean that the customer has a poor experience and receives less than the expected value. Successful re-engineering should create processes that not only meet customers' expectations, but also support the customer value proposition, provide competitive differentiation and contribute to the desired customer experience.

6. ***Information:*** Successful CRM requires a flow of customer information around the organization and tight integration between operational and analytical systems. Having the right information at the right time is fundamental to successful CRM strategies, providing customer insight and allowing effective interaction across any channel. Unfortunately, most enterprises' CRM information capabilities are poor – the result of numerous and fragmented departments, initiatives, databases and systems. Enterprises that establish a business plan for sourcing, managing and leveraging their customer information assets are more likely to achieve their CRM goals and objectives and gain a competitive advantage.

7. ***Technology:*** For most technologists, CRM is all about technology. CRM technologies are an essential enabler for any modern CRM business strategy, but they are just one piece of the puzzle. Gartner has a wealth of ongoing research into CRM technology issues and "Technology Decisions Are Key to Enabling CRM Strategies" (DF-14-8082) looks at the key decisions that enterprises have to take in three areas: CRM applications, architectural issues and integration. In many CRM projects, integration issues start as a relatively low priority, and then rise in prominence (cost and time) as enterprises realize that true CRM requires seamless customer-centric processes, supported by integrated technology across the enterprise and its supply chain.

8. ***Metrics:*** The other seven building blocks depend on performance targets and metrics to gauge their success, and enterprises must set measurable CRM objectives and monitor CRM indicators to successfully turn customers into assets. Without performance management, a CRM strategy and associated program is destined to fail. A framework for measuring an enterprise's success with CRM by creating a hierarchy of performance metrics involves four levels, namely: corporate, customer strategic, operational and process, and infrastructure input metrics. These metrics have an internal and an external focus and link operations to strategy and corporate financial benefits. Each enterprise will have a unique set of metrics applicable to their situation.

   To achieve the long-term value of CRM, enterprises must understand that it is a strategy involving the whole business, and thus should be approached at an enterprise level. CRM initiatives need a framework to ensure that programs are approached on a strategic, balanced and integrated basis.

Thus, customer relationship management (CRM) is a business strategy that maximizes profitability, revenue and customer satisfaction by:

1. Organizing around customer segments
2. Fostering behaviour that satisfies customers
3. Implementing customer-centric processes

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Task Explain the first building block of CRM.

Self Assessment

Fill in the blanks:

11. Primarily there are .... building blocks of CRM.
12. CRM initiatives needs a .... to ensure that programs are approached on a strategic, balanced and integrated basis.
13. .... highlights the many facets of the customer-centric internal change needed to deliver the required and desired external customer experience.
14. A successful .... is the cornerstone to motivating staff, generating customer loyalty and gaining a greater market share.
15. A CRM strategy is .... an implementation plan or road map.

Case Study

Building a CRM Strategy

Situation

A major food manufacturer wanted to adopt Customer Relationship Management (CRM) system as a key plank in its "Customer Focused Organization" platform. Although software vendors were abundantly available, the client was uncomfortable purchasing a software solution before they had defined how this new activity would fit into their core competencies, account management process, major account planning process, customer segmentation, etc. In short, they needed a CRM strategy. The client retained DHC to help them develop a CRM perspective that would match their business model and values.

Solution

DHC consultants worked with a multi-functional client task force to accomplish the objective. DHC served as both subject matter experts and team facilitators. The team reported to a steering committee comprised of executive committee level members and chaired by the Vice President of Sales.

The task force started with industry reports on CRM as a basis, with the goal being to stay as close to "industry Standards" as possible while still meeting the organization's needs. After several sessions, the task force concluded that substantial modification would be required on two fronts.

First, the task force determined that more tangible customer definitions were required to build any sort of actionable strategy. In a DHC designed exercise, the various functions defined each relationship type in terms of activities that their function would do differently with a given customer based on that relationship type and the company's customer segmentation.

The second issue for the task force was that many industry models seemed to portray relationship types hierarchically. In other words, one relationship type was inherently

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"better" than another. The task force recognized that this did not fit their organization's values. Their goal was to meet customer needs, regardless of whether the relationship was "transactional" or "Strategic". Once again, a DHC structured approach yielded a workable solution by redesigning the relationship types from a "pyramid" to a "continuum".

Results

The executive level steering committee accepted the task force's recommendations. Today the organization is able to build actionable CRM strategies and to measure their return. Because the whole process is based on relationship types defined by concrete activities, the client is able to:

- Clearly define current relationship types in all functional areas.
- Gap those relationships versus customer requirements.
- Build actionable strategies based on the activities required to close gaps.
- Assess the potential ROI of implementing the resulting CRM strategy.
- Measure the results annually.

Questions

1. What is your understanding of the case?
2. Explain the case issue from your perspective.
3. Analyse the problem and offer suggestions in the favour of your answers.

Source: http://dechert-hampe.com/index.php/what-we-do/productivity-performance-improvement/153-building-a-crm-strategy

10.4 Summary

- CRM strategies offer companies a complete view of their customers across the entire organization.
- When implemented properly, a CRM strategy integrates all customer-facing and back office applications with the same data. Companies reap large gains from these efficiencies by offering better service and developing deeper relationships with customers.
- In order to achieve those gains, the implementation of the CRM strategy has to create a 360-degree view of the customer. This means merging the information silos maintained by each department into a single data repository accessible by all departments.
- Selection of technology is vital to a successful CRM implementation. Selecting a package approach, rather than tying together existing individual components, enables each department to tie into the same database with systems that speak the same "language."
- Implementation of a CRM strategy is by no means a project for the IT department alone.
- Marketers must be directly involved in the process because they will ultimately win or lose based on the quality of the outcome.
- If implemented properly, a CRM strategy enables marketers to interact with customers armed with useful information.
- Additionally, by analyzing existing customer data, marketers have better tools to build future marketing campaigns, increase sales and drive ROI.

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10.5 Keywords

Close Loop Marketing: Campaigns that send communications based on a prospect's previous actions and their place in the buying cycle.

CRM Life Cycle: Customer life cycle is a term used to describe the progression of steps a customer goes through when considering, purchasing, using, and maintaining loyalty to a product or service.

CRM Process: It is defined as any group of action that is instrumental in the achievement of the output of an operation system, in accordance with a specified measure of effectiveness.

CRM Strategy: It takes direction and financial goals from the business strategy, and revisits the marketing strategy to customize it.

CRM: It can be described as Web-enabled sales and marketing tool that synergistically combines the functionalities of database marketing, one-to-one marketing and Sales Force Automation (SFA).

Customer Service: Customer service is the provision of service to customers before, during and after a purchase.

Map the CRM Process: For ease of understanding and to map the CRM process, the marketing organisation may follow along the lines of know, relate and connect.

Marketing Strategy: A company's projected marketing campaign that identifies resources available as well as past and future marketing capabilities.

10.6 Review Questions

1. Discuss in detail the concept of CRM Strategy.
2. Discuss various phases of CRM system life cycle.
3. What is meant by customer life cycle?
4. What is a business strategy?
5. What are the building blocks of CRM?
6. Discuss the ways to map the CRM process.
7. What is closed loop marketing?

Answers: Self Assessment

1. Three
2. Third stage
3. Segment customers
4. Corporate financial
5. CRM strategy
6. Six
7. Adoption
8. Retirement
9. Acquisition
10. Evolution
11. Eight
12. Framework
13. Organizational collaboration
14. CRM Visison
15. Not

10.7 Further Readings

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Unit 11: CRM Measurements

CONTENTS

Objectives

After studying this unit, you will be able to:

- Describe the meaning and framework of CRM measurement
- Calculate customer lifetime value
- Discuss meaning and drivers of customer equity

Introduction

Hitesh Jhanji, Lovely Professional University

Comprising of several distinct disciplines and cutting across just about all business units within most companies, Customer Relationship Management (CRM) measurement is complex. Companies use CRM measurements for different purposes; digital channels provide for new measurement and product/service distribution options; businesses are fractured internally with inconsistent communication and often incompatible systems.

One big issue in convincing the top management about allocation of CRM budget is the lack of proper measurement tools to show the improvements convincingly. What makes CRM measurement difficult is that the measurement problem is not confined to just measuring customer behaviour and mindset. Instead, businesses need to measure activities that occur inside the company, too. CRM measurement also sometimes goes beyond measuring those activities that directly touch the customer (value delivering capabilities). Companies frequently need to measure specific attributes about how a product or service is produced (value production capabilities), especially if the product or service is customized for the customer. Value production capabilities extend through to suppliers and partners. Hence CRM measurement may also involve supply chain management activities. In fact, supply chain management, as a discipline, exists to better deliver value to customers and therefore is often a key component in CRM activities.

Many businesses have bought technology solutions at a rate faster than those solutions can deliver real value. While the reasons for this are varied, the ability to properly measure customer-facing activity is obviously crucial for successfully managing CRM programs. To complicate matters further, measuring customer-facing activity is one of the most complex and varied measurement endeavours businesses can undertake. The area of study is relatively new and undergoing significant change as new technologies are beginning to blur the lines of distinction between information channels. Customers are interacting with businesses across far more information channels than they did 25 years ago. More and more activity is being pushed to interactive, real-time digital information channels, providing businesses with unprecedented potential for observing and measuring customers in new ways.

The way businesses have been traditionally organized, along functional and product lines, may be insufficient to take full advantage of the apparent and latent opportunities in measuring customer activity. Many companies are seeking to shift the central focus of corporate activity away from products and on to customers or at the very least to learn new ways of managing customer-facing activities. To effect this change, businesses will need to build out new, more robust measurement systems, replacing or standing alongside existing product oriented measurement systems. Designing and managing these measurement systems and the CRM technologies around them requires new combinations of skills and roles, for which many companies have not planned.

Change begins with knowing. In order to successfully build out these new customer-oriented capabilities, companies will need to build out new ways of knowing customers.

11.1 Objectives for CRM Measurement

There are three main purposes for CRM measurement: to influence or validate decision making, to guide ongoing activities or tactics, and to predict future states.

11.1.1 Influencing Decision-making

Companies implement CRM measurement very differently based on their internal decision making styles. As companies make decisions about customer strategies, they look to customer measurement to help influence specific decision makers or the decision making process or validate initial ideas about how to manage customer relationships.

Many companies frequently adopt more than one style. The styles adopted, consciously or not, shape how the company will measure customer activity. The company's business model, approach to the market and history of measuring customers also influences which of the measurement styles seem more appropriate or expedient for the company.

11.1.2 Guiding Ongoing Activities

CRM measurement frameworks are not only used to help managers collectively formulate plans and make decisions, but they are also used to inform and guide ongoing daily activities related to customers. This is related to but somewhat different from influencing decision-making. Measuring customer activities not only helps companies decide which customer strategies to

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adopt, but also helps front-line employees and managers perform regular tasks. Often, this is the predominant focus for CRM measurement systems.

Example: For those businesses with call centres, managers frequently run reports from the call centre technology systems, such as Automatic Call Distribution (ACD) systems, on how well the call centre is performing and if customers are being serviced at the prescribed level.

If managers see problems with performance, those problems can be diagnosed and resolved.

Since a company interacts with customers through a variety of different business units in a variety of methods, each business unit measures customers very differently. The way a brand manager measures its customer-facing activities is very different from the way the field service staff may measure its customer-facing activities. It is this different way of "touching the elephant" that contributes to a company's inability to deliver on the promise of CRM systems. Given the diverse nature of these measurement frameworks, it is not surprising that CRM practitioners are often skilled in one measurement framework and unaware of the issues, complexities and importance of the other frameworks.

Specific measures in each of these measurement frameworks can be focused internally towards company employees and productive processes that generate and deliver products and services or externally towards customers and their behaviour.

Example: A call centre frequently measures the cost per call as a measure of economic productivity. This is an internally focused measure. Call centres frequently survey customers to determine the level of customer satisfaction.

What makes CRM measurement difficult is that the measurement problem is not confined to just measuring customer behaviour and mindset. Instead, businesses need to measure activities that occur inside the company, too. CRM measurement also sometimes goes beyond measuring those activities that directly touch the customer (value delivering capabilities). Companies frequently need to measure specific attributes about how a product or service is produced (value production capabilities), especially if the product or service is customized for the customer. Value production capabilities extend through to suppliers and partners. Hence CRM measurement may also involve supply chain management activities. In fact, supply chain management, as a discipline, exists to better deliver value to customers and therefore is often a key component in CRM activities.

When it comes to coordinating customer-facing activities, the level of interconnectedness within companies and within value chains can be surprisingly high. In the retail Consumer Packaged Goods (CPG) industry, when a grocery store chain changes its consumer promotion schedules, at least seven groups within a CPG firm are impacted: sales, marketing, trade promotions, warehouse, transportation, manufacturing and finance (Rubin, 2001). Rubin reports the lack of coordination costs manufacturers $100,000 in lost revenue per promotion. Collaborative supply chain tools, planning, forecasting and replenishment applications, address these issues and all are heavily dependent on customer insight capabilities within each company in the value chain to work.

When CRM measurement is looked at in this way, one can get the impression that CRM is too wide of a discipline and a technology set since it encompasses nearly every aspect of a company. While this is true, that is because companies exist to sell to and serve customers and it is natural that a wide set of measurements would need to be managed. Companies also have to manage all sorts of measures and measurement frameworks that customers are typically not interested in, such as stock price volatility, bank financing interest rates, overall accounts receivables, day's sales outstanding and so on. So where does CRM measurement begins and end? One way to answer that is to say that CRM should measure those company activities that pertain to or can benefit specific customers as well as specific customers' behaviour and mindset.

11.1.3 Predicting Future Market

Companies have a need to use CRM technology to help anticipate customer needs or otherwise predict a future customer or market state. Within marketing, there is a long history of using predictive modelling techniques to test out potential marketing approaches to determine how successful the program will be in advance of launching the entire program. CRM technologies and approaches are being used to help companies improve the design of existing products and build new innovative products through closer collaboration with customers. Digital technologies let companies engage customers in a less costly and highly measurable dialog.

As more companies and value chains adopt CRM technology and as the technology gets more robust, companies will be able to capture a fairly comprehensive set of data representing the behaviour of a market. This information gives these companies clearer insight into what direction their market and customers are headed. From there these companies can determine how to shape or adapt to their changing market conditions. While specialized companies like ACNielsen and IRI are information companies that capture consumer insight and resell it to companies at different points in an industry's value chain, more companies will be able to "go it alone" and develop comparable capabilities themselves. General Mills now conducts 60% of its market research themselves on the web, up from 20% in 1999 (Ashton, 2001). Doing so carries strategic significance. The type of dialog between the company and its customers can get increasingly tailored to the company's brand and value proposition for proprietary competitive advantage.

Companies use CRM technology to help predict future states in other ways. Gathering customer insight to drive product or service innovation can take many forms, from well-controlled research experiments and surveys to more collaborative and ethnographic approaches. All of these approaches collect data that can be structured and measured. For more traditional CRM system implementations, companies frequently pilot the solution within a single business unit or customer segment (or a small part of a customer segment) to determine if the program will be successful before being rolled out to the entire company or market.

11.2 Factors Making CRM Measurement Complex

Several factors have conspired to make CRM measurement increasingly complex:

1. The appearance of many different digital channels to exchange information with customers
2. The ability to distribute all or parts of the product/service bundle through digital technologies
3. Business unit silos causing differentiated and disconnected technologies and human processes
4. Product silos causing differentiated and disconnected technologies and human processes
5. Increased data and process integration between companies within a value chain
6. Differing styles of customer decision-making approaches
7. Differing CRM measurement purposes: influencing collaborative decision-making processes, guiding ongoing activities and predicting future states

The challenge for businesses is to weave together a CRM measurement approach that deftly handles these complexities and constraints.

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11.3 CRM Measurement Frameworks

As discussed earlier, how a company measures its CRM activities depends on who is doing the measuring and what activities are being measured. Below are the common CRM measurement frameworks:

1. Brand-building
2. Customer equity building
   (a) Customer behavioural modelling
   (b) Customer value management
3. Customer-facing operations
   (a) Marketing operations
   (b) Sales force operations
   (c) Service centre operations
   (d) Field service operations
   (e) Supply chain and logistic operations
   (f) Website operations
4. Leading indicator measurement
   (a) Balanced scorecards
   (b) Customer knowledge management

Brand-building

The goal in brand building is to carefully manage a company's name, brands, slogans and symbols, otherwise known as brand equity. Various models (and criticisms) of brand equity have been published over the years. The main challenge lies in how to quantify this important intangible asset. David Aaker (1991) breaks down brand equity into the following components:

Brand loyalty	This is a measure of the attachment a customer has to a brand. How likely is a customer to switch to another brand?
Brand awareness	This is the ability of a potential customer to recognize or recall a brand as a member of a product category.
Perceived quality	This is the customer's perception of the overall quality of a product or service with respect to its intended purpose and considering alternatives.
Brand associations	This is anything that is linked, in the mind of the customer, to a brand. The association also has a level of strength. An association can be a celebrity or person, a life style, a geographic area, various product attributes, some customer benefit, a particular application or use and any other intangible concept.

Brand loyalty can be measured quantitatively in a number of ways. So can brand awareness through surveys and interviews. Many qualitative techniques are used to generate measures for perceived quality and brand associations.

Companies can look at brand building as if they were managing an asset. Brand equity can be calculated by removing from operating earnings attributed to a brand the cost of capital, taxes and risk and then determining the value of the remaining number as a discounted cash flow extending out five or more years (Schultz, 2001).

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By treating brand value as an asset, investments in brand building can be measured and more easily compared with other corporate investments, the value of the brand and the performance of the investments can be tracked and the performance of specific brand activities can be monitored. Measuring brand value can get complex. Boston Consulting Group's Brand Value Creation (BVC) approach looks at dozens of variables concerning different aspects of a brand and various competing brands and determining how significant each variable is to the brand's value (Bixter, et al., 1999). This approach uses cross correlation analysis, cluster and factor analysis and linear regression to build the brand value model. The authors state that this approach helps companies understand what consumers value most and how well brands deliver it.

Complexity also lies within each brand equity component Aaker describes. Brand awareness has been discussed in depth over the past 40 years yielding plenty of measures such as brand awareness (unaided and aided), brand recall, purchase intention, brand preference and willingness to pay. In addition, brand equity components have relationships between each other. For example, high brand awareness can positively affect perceived quality (Hoyer & Brown, 1990). Brand equity as a measurement framework can also encompass traditional and easier to determine measures such as market share, sales volume, the number of customer inquiries, customer and customer retention, among others. Many managers eschew the more formal and rigorous brand equity measures in favour of measures that are more easily derived (Macdonald & Sharp, 1996).

Davenport and Beck (2001) suggest a different way to think about company or brand awareness. Their technique, called the Attention Scape, helps managers understand what kind of attention they are getting from customers (or employees, suppliers, etc). Data is collected through survey techniques and plotted along three scales:

1. Front of mind/back of mind attention
2. Voluntary/captive attention
3. Attractive/aversion attention

Competitors can be plotted along these axis and companies can develop strategies to reposition themselves relative to their competitors' attention profile.

11.3.1 CRM Metrics to Measure

Many of our customers have asked for a sample list of CRM metrics to track. Metrics are internal and external indications of accomplishment. They are used to justify, monitor, and track CRM success. They serve as the feedback mechanism for the continuous development of your CRM strategies and tactics. Some organizations tie compensation for employees to metrics tracked and monitored in salesforce.com using real-time performance dashboards and reporting.

Here is list of common CRM metrics to monitor and track your CRM success:

Sales Metrics

- Number of prospects
- Number of new customers
- Number of retained customers
- Number of open opportunities
- Close rate
- Renewal rate
- Number of sales calls
- Number of sales call per opportunity

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- Amount of new revenue
- Amount of recurring revenue
- Time to close by channel
- Margin
- Sales stage duration
- Sales cycle duration
- Number of sales calls made
- Number of proposals given
- Competitive knockouts

Service Metrics

- Cases closed same day
- Number of cases handled by agent
- Number of service calls
- Average number of service requests by type
- Average time to resolution
- Average number of service calls per day
- Percentage compliance with service-level agreement
- Percentage of service renewals
- Customer satisfaction level
- Complaint time-to-resolution
- Propensity for customer defection

Marketing Metrics

- Number of campaigns
- New customer retention rates
- Number of responses by campaign
- Number of purchases by campaign
- Revenue generated by campaign
- Cost per interaction by campaign
- Number of new customers acquired by campaign
- Customer retention rate
- Number of new leads by product
- Number of customer referrals

There are 100's of metrics you can track. Find a few key metrics that give you insight. Try to tie CRM metrics to other financial and business objectives in your firm. The key is to get good insight without becoming a slave to metrics.

Customer Equity Building

Recently much has been written about the benefits of looking at customers as the key asset, rather than the brand as the key asset. Companies have historically measured products and brands and focused on eliminating unprofitable products from their portfolio. This approach, while seemingly a correct one, fails to account for the multi-product effect on customers and can actually cause a "profitable product death spiral" in which weeding out unprofitable products causes initial customer defections, which causes additional products to become unprofitable, which causes further elimination of unprofitable products and so on (Rust et al., 2001). Rust et al. argue for changing the focus from unprofitable products to unprofitable customers.

With the customer as the primary unit of analysis, the CRM literature suggests two frameworks: understanding how customer equity links to business value and understanding how customer behaviour works and is linked to parts of the overall customer equity.

- The first framework is a management framework for linking various customer-facing activities in a reasoned way to overall customer equity and business success.
- The second framework is a marketing research framework that seeks to understand how customer behaviour is influenced by a company's customer-facing activities.

Customer Value Management

Different approaches exist for measuring customer value. Four approaches are considered here: customer equity management, customer value analysis, loyalty monitoring, and customer satisfaction. While customer equity management, as described by Rust et al. in 2001 is perhaps the most encompassing of the approaches, each of these approaches has a history of research and literature behind it.

Customer Equity Management: Rust et al. identify three main components to customer equity:

Value equity	The customer's objective assessment of the utility of the brand, with quality, convenience and price satisfaction as key components.
Brand equity	The customer's subjective and intangible assessment of the brand beyond its objectively perceived value. Key components include the customer's awareness of the brand, customer's attitude towards the brand and how the customer perceives the brand's social ethics.
Retention equity	The customer's tendency to stick with the brand above and beyond the customer's objective and subjective assessments of the brand. Key components include loyalty, special recognition, affinity, community and customer knowledge-building programs.

Each of these areas of customer equity requires measurement and the authors identify some preliminary drivers of each area of equity that can be measured.

Customer Value Analysis (CVA): Much has been written about Customer Value Analysis (CVA), which was devised by Bradley Gale and utilized by Ray Kordupleski at AT&T. CVA compares price and quality (or value) of a product against competitors. The purpose of this analysis is to determine how changes in price, value or quality can affect market share and as such, this framework provides a linkage between a company's customer facing activities with overall corporate performance. One form of this analysis compares two competitors in a grid with two axes: relative cost and relative product and service quality.

Since each product or competitor's scores for price (Relative Competitive Price or RCP) and quality (Relative Total Quality or RTQ) are expressed as relative percentages (for example, between 90% and 110%) of each other. If one company changes price or quality in its product, the position of both companies'products will change on the map. In essence, this map tries to show

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how customers perceive the product relative to a competitor and how price and quality perceptions will affect their choice in purchasing (Gallagher & Kordupleski, 2000). Most of the analysis work is in determining the components to quality, although depending on the product and category, price can have several components that require analysis as well. When performing this analysis, perceived price (or price satisfaction) and perceived quality are the key measures versus actual price and quality. Surveys are a primary means of capturing CVA data. Frequencies and sampling can vary depending on how dynamic the customer base and competitive environment are and how frequently internal processes within the company change.

CVA fits inside of a comprehensive framework call Customer Value Management (CVM). CVA is the information component of customer value management (APQC, 2001).

CVM has a strategic component that helps companies answer four basic questions:

1. Where are we now?
2. Where do we want to go?
3. How do we want to get there?
4. Are we there?

CVM also has a continuous improvement component or an operational component that helps companies understand the root cause of delivery failures, improve the value delivery systems, enhance team development across all improvement initiatives and establish customer recovery or intervention programs to keep and enhance profitable customers and shed unprofitable ones. The APQC identifies four basic steps for establishing and monitoring a CVM measurement system:

1. Identify strategic priorities in the context of customers and products.
2. Conduct qualitative research to get a comprehensive understanding of the ways customers think about value.
3. Conduct surveys that will provide data for analysis so that the company can determine what from the customer's perspective are the 3-4 key benefits of the 10 or 12 benefits for each product. These surveys need to be specific to customer segments.
4. Monitor the value proposition with a limited subset of questions.

CVM proponents feel the method addresses limitations within the customer satisfaction survey approach. According to the APQC, customer satisfaction scores lack linkage to key internal performance metrics and may be unrepresentative of how customers really evaluate product and service purchase decisions. The customer satisfaction framework is older and widely adopted in North America while the customer value framework is newer and being adopted by leading edge companies (Gale, 2002). Gale positions CVM as the latest evolutionary version of voice-of-the-customer initiatives with conformance quality as the first followed by the customer satisfaction and then the customer loyalty paradigm.

Loyalty Monitoring: Frederick F. Reichheld's writings on loyalty (not just customer loyalty, but employee and shareholder loyalty as well) are widely cited with the CRM world as a framework for measuring the effect of customer-facing activities. This measurement framework helps companies look at the customer base along a longitudinal axis. The central notion is that if a company can cause fewer customer defections, the long-term effects on company performance would be significant. Customer loyalty data, then, serves as a predictor of financial performance. For example a 5% increase in customer retention rate can have between a 30% and 95% impact on customer net present value and a similar impact on corporate profits (Reichheld, 1996).

To perform the analysis discussed in Reichheld (1996), companies need to collect defection data, sales data and gross profit, marketing and expense data in a way that can be attributed to customers.

Example: Data needs to be analyzed by customer cohort (grouping customers into periods of acquisition. All customers acquired in 2002 would be in the 2002 cohort and reported on). This type of analysis helps identify and manage loyalty problems pertaining to a specific acquisition period. Customer-facing activities can then be tailored to customers based on their loyalty.

Reichheld Offers Two Key Loyalty Measurement Documents: A customer balance sheet and a customer value flow statement. The balance sheet looks like this:

Customer Category	Number	% of Revenue	NPV
Beginning Balance			
+ New customers			
+ Gainers			
– Decliners			
– Defectors			
Ending Balance			

The term new customer refers to customers acquired. The term gainer refers to the customer who bought more in this period. Decliners refer to those who bought less and defectors refer to customers who left. The customer value flow statement captures the following information about a company's customer and some of its key competitors:

Price	Quality drivers	Retention
Share of wallet	Gain	Yield
New customer NPV	Current customer NPV	Defector NPV
Average profit per customer	Average revenue per customer	

The gain rate is the ratio of new customers to the current customer base. The yield rate is the percentage of customers who actually convert to buyers, or sign up. As do Rust et al. (2001), Reichheld discusses the use of an acquisition/defection matrix that shows how many customers defect from one company's brand to another.

To collect defection data, understand what are the components of quality and service from a customer's perspective, and enumerate which measures will represent the company's value proposition's success (in addition to the measures discussed here), requires ongoing customer surveying and other qualitative research techniques with their concomitant data collection approaches.

Customer Satisfaction: For the past several decades, businesses have been determining customer satisfaction to help improve their customer-facing activities and predict and improve financial performance. Customer satisfaction, then, is an antecedent to some form of loyalty behaviour. Customer satisfaction has been defined as a "satisfactory post-purchase experience with a product or service given an existing pre-purchase expectation" (Vavra, 1997).

Vavra (1997) offers a model for customer satisfaction in which satisfaction is an antecedent to repurchase behaviour and has several antecedents as well. The most important antecedent is prior experience that "serves as a 'memory bank' of all the previous experiences with a product or service." Several factors can influence prior experience, such as the customer's demographic

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characteristics, their level of personal expertise, the nature of the competition, advertising and PR influences, and the evolution of technology. Along with prior experience, customer desires and expectations, the perceived product or service performance and ease of evaluating that performance are all antecedents to a mental process customers go through to compare what was expected and what was delivered. This "disconfirmation/confirmation/affirmation" process, in which expectations are not met, met or exceeded can be visualized as a sigmoidal function (Vavra, 1997). As "perceived performance exceeds expectations, satisfaction increases but at a decreasing rate." As performance falls short of expectations, satisfaction decreases at a faster rate than it does for exceeding expectations (Vavra, 1997).

Following Vavra's model, satisfaction is an antecedent to repurchase behaviour, but the relationship between the two is mediated by several factors including the industry structure and life cycle, switching barriers, channel structure, complaint management and relationship management. Within this model are a host of measures companies need to collect. Before data collection can be done however, the company must design a survey instrument. The challenge is to formulate a customer satisfaction survey that balances internal company-process issues with external customer needs issues. When designing this survey, companies can use a variety of qualitative data collection techniques to determine the product or service characteristics and attributes to survey. Once designed, surveys are distributed through a variety of channels:

1. face-to-face
2. mail, fax
3. e-mail
4. web and phone

Standard data analysis and data mining techniques are then employed to understand the represent the survey data.

Others have also linked customer value analysis concepts to customer satisfaction to address some of the inherent limitations in the customer satisfaction paradigm (Woodruff & Gardial, 2001). Woodruff & Gardial list the following differences between the paradigms:

1. Customer satisfaction is a reaction to value received. Customer value determination tries to capture the relationship between the product, the user and their goals in a specific use situation. Satisfaction measures the gap between expected and actual product performance. Satisfaction measures and customer value determination complement each other.
2. Satisfaction measures are historical. They measure what has been delivered. Both the customer value paradigm and the customer satisfaction paradigm build out, through qualitative techniques, a model of how customers perceive value. The satisfaction paradigm applies to model to value that has been delivered. The customer value paradigm is not tied to post-delivery measures. Customer value can be measured before, during and after consumption whereas satisfaction is measured after consumption.

The problem with many implementations of satisfaction surveys is that what is being measured are attributes of a product from a company's perspective rather than how the customer arranges their hierarchy of values in the context of specific use situations. This can cause companies to be measuring correctly but measuring the wrong thing.

Researchers and practitioners within the CRM, marketing and customer satisfaction circles have argued among themselves as to which approach: loyalty, satisfaction, value, quality or some other attribute is what matter most. The CVA crowd looks at CVA and CVM as the successor to the customer satisfaction paradigm. Customer satisfaction practitioners have expanded their model to resemble the CVA/CVM model. In some respects, the debate is pointless, since nearly every paradigm tries to establish a sequence of causal relationships at three levels:

1. Company behaviour towards customers
2. Customer behaviour in total (including factors outside of the company's direct control)
3. Financial results derived from changed customer behaviour

The debate is about how to arrange the various nodes in the influence diagrams to model, more accurately, the causal linkages. The risk in all measurement paradigms is not so much inaccurately measuring, but in measuring irrelevant things.

Customer Behavioural Modelling: Embedded within brand-building and customer equity measurement frameworks is some form of a customer behavioural model. These models try to explain one or more customer behaviours by describing the antecedents on that behaviour and the level of influence each antecedent has. The reason customer behavioural modelling is discussed separately here is that the market research literature is rich with studies that do not necessarily try to tie customer behaviour to financial performance or company responses. Instead, the research simply wants to understand customer behaviour better more or less removed from specific company goals, objectives or performance. In addition, researchers are focusing on new concepts to link to customer behavioural loyalty.

Customer-facing Operations

Most, if not all or traditional CRM and customer transaction software, collect all kinds of basic data regarding customer facing activities. These operational CRM systems automate customer facing activities and in doing so, collect information on employee and customer behaviour. For most companies deploying CRM technology, these are the only kinds of CRM measurements they make.

Marketing Operations: Software that manages marketing operations lets companies plan, schedule, execute and track their marketing campaigns. Several key metrics from the marketing automation function include:

Reach	How many potential customers have been reached by the campaign?
Response rates	What percentage of the total campaign population responded to the campaign?
RFM	Stands for recency, frequency, monetary value. This is a calculation for scoring a customer based on past behaviour. The recency of past interactions (purchases), the frequency of that type of interaction and the monetary value of those interactions are added together, with specific weighting applied. This composite score is used to predict likely involvement with a campaign.
Conversion rates	What percentage of the total campaign population bought something or completed an activity (enrolled in a sweepstake, for example) as a result of the campaign?
Customer acquisitions costs	How much did the company spend to acquire a new customer?
Average customer interaction costs	The total cost for interacting with a customer as part of a campaign divided by the number of interactions. Useful for comparing costs of interacting with customers across multiple media.
Attrition, churn	How frequently do customers terminate the relationship by opting out, stop purchasing or choose a competitor?
Share of wallet, share of requirements	How much of the customer's total budget for purchases within a product category do they make with a company?
Average order size	The average amount spent by a customer per order. Many companies have goals of increasing average order size through marketing.
Category involvement	The amount of money a customer spends or interest a customer shows within a product category. Customers with high involvement in a product category frequently buy more than those with low involvement.

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Sales Force Operations: This CRM area is perhaps the most mature. Companies have been deploying sales force automation solutions long before CRM became a popular buzzword. The rise of Sales Force Automation (SFA) software parallels that of the portable and laptop computers and the handheld devices. Measurements in sales force operations focus on tracking leads as they develop into sales, measuring performance of individual sales staff members and teams, monitoring the sales performance of products, reviewing the impact training has on performance, and the cost of sales. Some measures include:

Sales quota	The amount of sales each sales representative, team, product or product category has committed or is assigned to solicit.
Close percentage	This metric goes by many names. The purpose of the metric is to score a lead with a percentage that it is likely to turn into a sale. As sales personnel work with the customer to answer questions, exchange information, prepare legal contracts and so on, the percentage is changed up or down.
Customer score	Not only are leads scored, but customers are too. By scoring a customer, companies can develop a model that helps them predict which customers are likely to purchase their product or service. Many attributes (size of the company, geographic location, level of access into the company, level of cultural, industries the customer serves, size of budget for the solution being sold) can go into scoring a customer. In this regard, customer scoring is similar to a segmentation exercise. However, many sales teams score customers within a segment and the scoring is often subjective.
Sales expenses	This metric includes all expenses related to the sale, such as travel, entertainment, printing, shipping, use of other internal resources, 3rd party expenses, etc.
Close rate	The percentage of sales leads that convert to sales. This is often tracked at the sales representative, team, customer segment and product/product category level.
Sales totals	The total number of sales represented by all leads. This metric is often multiplied by the close percentage for a weighted sales leads number. This metric is used to predict future sales.
Sales lost	The number (or percentage) of sales lost, broken down by reasons, which can include loss to a competitor, loss of customer funding, and many other reasons.
Training impact	Companies use different techniques to detect the impact of sales training on the sales force, including sales staff surveys on training effectiveness and comparisons in other sales metrics pre- and post-training.
Cross-sell rate	The percentage of sales totals that include items that were not specifically requested but recommended by the sale force or through marketing.
Number of calls	The number of calls made by a sales representative or sales team. This can be broken down by new account calls and existing account calls.
Number of new customers	How many new customers have been added during a period of time?

Service Centre Operations: With the increased use of phone technology to handle incoming phone calls and manage outbound sales calls, companies have long housed those resources into a single functional group called the call centre, service centre or interaction centre. Much has been written about call centre and service centre operations, revealing a host of measures (Anton, 1997), some of which are listed here.

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Call counts and duration	The number and duration of calls either received or sent, often broken down by call type, which is input by the call centre representative after completing the call.
Average hold time	The amount of time a customer has to wait before being served by an agent.
Abandonment rate	The number of calls abandoned expressed as a percentage of the total calls. These are customers who hang up while waiting for an agent or get disconnected.
Average abandonment time	The average time a caller waited before abandoning the call.
Adherence	The amount of time the agent is "in their seat" ready to take calls, expressed as a percentage of the total time the agent is scheduled.
Wrap-up time	The amount of time, after the call is completed, the agent needs to complete administrative tasks related to the call.
Average cost per call	The sum of all costs for running the centre divided by the number of calls received.
Average talk time	The amount of time the agent spends on the call talking to a customer.
Average handle time	The sum of the talk time and the wrap-up time.
Agent utilization	The amount of time agents spend on calls versus other internal tasks, expressed as a percentage of available time.
Blocked calls	The number and percentage of calls that receive a busy signal and could not even get to the Automatic Call Distribution system (ACD).
Service level	A goal for call centre performance. A widely used format for the goal and values is for a call centre to answer 80% of the calls within 20 seconds.
Call quality	Companies have devised ways to monitor the quality of a call and the agent's abilities. Scores can include vocal intonation, friendliness, promptness, knowledgeableness, and adherence to procedures.

With the heavy emphasis on internal metrics associated with call efficiency, companies have instituted balanced call centre reporting that combines efficiency scores with effectiveness scores (like call quality).

Field Service Operations: Field service operations include a host of post-sales activities, including: warranty and service contract management, scheduling and dispatching field service agents, service call routing for inside service, problem tracking and resolution management, service inventory management, managing the logistics of part fulfilment and replenishment. Measures are less standard than call centre measures but can cover a wider variety of areas.

Response time	Amount of time it takes a service agent to respond
Completion time	Amount of time it takes a service agent to resolve a customer's problem.
Repair fulfilment time	The amount of time it takes to deliver a requested part or service needed for a repair.
Service level	This metric is similar identical to the call centre metric when applied to inbound phone calls. It includes additional measures when applied to all support calls.
Customer satisfaction score	Many companies routinely survey their customers after a service call to verify satisfaction.
Service call priority	Service calls are frequently prioritized to comply with service contracts or warranty terms or to indicate the importance of the request.

Supply Chain and Logistic Operations: Frequently discussed as separate and distinct from CRM, supply chain management and logistic functions are significant areas of interest for CRM practitioners. Customers consume physical and digital products. How quickly and efficiently these products flow through the value chain is of importance, especially when the time it takes

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a product to be delivered is a key component of improving customer satisfaction and driving customer value. As more products allow for mass customization, more of these measures will be tied to specific customers. While most of the measures within supply chain operations and systems refer to suppliers, some of these measures may have applicability for understanding customer behaviour. Some of these measures include:

Fill rate	The number of items ordered compared with items shipped. Fill rate can be calculated on a line item, SKU, case or value basis.
On time ship rate	What percent of orders where shipped on or before the requested ship date? On time ship rate can be calculated on a line item, SKU, case or value basis.
Performance to promise	What percentage of orders where shipped on or before the promised ship date? In some cases, some items may be on back order or delayed for whatever reason. This metric captures the overall conformance with promised ship dates.
Backorders	The number (or percentage) of unfulfilled orders.
Customer order cycle time	The average time it takes to fill a customer order.
Cash to cycle time	The number of days between paying for raw materials and getting paid for the product by the customer.
Supply chain cycle time	The total time it would take to satisfy a customer order if all inventory levels were 0.
Perfect Order Measure	The error-free rate of each stage of an order. Error rates are captured at each stage (order entry, picking, delivery, shipped without damage, invoiced correctly) and multiplied together.
Upside flexibility	The ability of a supplier to meet additional demand requirements

Website Operations: With the advent of the Internet, companies have launched web sites for a variety of purposes including, marketing, sales and support. Because of the heavy use of marketing on the Internet, web site operational measures include many marketing operations measures. Some are:

Visitor count	How many people have visited a web site?
Unique visitor count	How many unique people have visited a web site? This measure does not double-count users who visit a site multiple times in a period. Web sites can have difficulty in accurately determining unique visit counts, especially for those visitors who have chosen not to identify themselves by not registering with a site (anonymous users), visitors who use multiple machines to visit a web site, and visitors who disable cookies in their browser preventing the system from anonymously identifying them.
Page hits	How many pages have been downloaded from a site, or how many times a single page has been visited in the site?
Duration	Total time a visitor spent on a page or a site.
CTR	Click-through rate. What percentage of visitors clicked on a banner ad or other form of internet marketing to visit the advertised web site?
Impressions	How many visitors viewed a page that contained an advertisement of some kind?
Registered users	How many visitors registered with the site?
Breakage	What percentage of visitors started interacting with a site (for example, by starting a survey or purchasing a product), but chose not to complete the interaction.
Click stream	Not a measurement *per se*, but a source of many measurements. The click stream is the sequential history of all interactions with a visitor on a web site usually stored within log files in the web server. This behavioural data is used to derive page hits, visitor counts, counts of images and advertisements viewed, etc.

Most of the measures within a web site are designed to review the health of the web site. However with the wealth of customer information embedded within the click stream data, many CRM software products include the ability to tie these measures to other off-line customer measures, such as loyalty measures, survey responses, etc.

Despite the highly measurable nature of web site traffic, many companies have significant problems with this framework. Based on interviews with 51 business-to-business and business-to-consumer web site managers at Global 3,500 firms, Forrester Research, Inc. reports three key areas of concern. The structure of the web site reporting doesn't lend itself well to understanding customers. Secondly, the measurement tool providers lag behind users needs. Third, cross-channel tracking and measurement is practically non-existent (Souza, 2001).

Leading Indicator Measurements

A leading indicating measurement is a predictor of future financial performance. Many companies look to CRM systems to provide the right leading indicator outputs so that the business can adapt to changing conditions sooner. While most of the measurement frameworks discussed can be leading indicator measurement frameworks, the two main paradigms here are either deliberately designed to be such (balanced score cards) or have no other real historical analysis use (knowledge management).

Balanced Scorecards

A powerful tool for performing the first step in creating an enterprise CRM Scorecard is the CRM Strategy Map. The CRM Strategy Map allows an organization to clearly and visually communicate its CRM strategy to all stakeholders and guides a CRM strategy team in identifying what should be measured to manage and maximize enterprise CRM performance and ROI. With the successful completion of a CRM Strategy Map, the enterprise is ready to perform the second step in creating a CRM Scorecard – Select Strategic CRM Measures. Selecting the metrics that will comprise an organization's strategic CRM Scorecard, like developing an effective CRM Strategy Map follows a systematic approach. CRM scorecard is an integrative organisational artefact to diagnose and assess a firm's CRM practice.

The Balanced Scorecard (BSC) began as a concept for measuring whether the smaller-scale operational activities of a company are aligned with its larger-scale objectives in terms of vision and strategy. It was developed and first used at Analog Devices in 1987. By focusing not only on financial outcomes but also on the operational, marketing and developmental inputs to these, the Balanced Scorecard helps provide a more comprehensive view of a business, which in turn helps organizations act in their best long-term interests. The balanced scorecard is a strategic planning and management system that is used extensively in business and industry, government, and non-profit organizations worldwide to align business activities to the vision and strategy of the organization, improve internal and external communications, and monitor organization performance against strategic goals. It was originated by Drs. Robert Kaplan (Harvard Business School) and David Norton as a performance measurement framework that added strategic non-financial performance measures to traditional financial metrics to give managers and executives a more 'balanced' view of organizational performance. While the phrase balanced scorecard was coined in the early 1990s, the roots of the this type of approach are deep, and include the pioneering work of General Electric on performance measurement reporting in the 1950's and the work of French process engineers (who created the *Tableau de Bord* – literally, a "dashboard" of performance measures) in the early part of the 20th century.

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Notes The balanced scorecard has evolved from its early use as a simple performance measurement framework to a full strategic planning and management system. The "new" balanced scorecard transforms an organization's strategic plan from an attractive but passive document into the "marching orders" for the organization on a daily basis. It provides a framework that not only provides performance measurements, but helps planners identify what should be done and measured. It enables executives to truly execute their strategies.

This new approach to strategic management was first detailed in a series of articles and books by Drs. Kaplan and Norton. Recognizing some of the weaknesses and vagueness of previous management approaches, the balanced scorecard approach provides a clear prescription as to what companies should measure in order to 'balance' the financial perspective. The balanced scorecard is a management system (not only a measurement system) that enables organizations to clarify their vision and strategy and translate them into action. It provides feedback around both the internal business processes and external outcomes in order to continuously improve strategic performance and results. When fully deployed, the balanced scorecard transforms strategic planning from an academic exercise into the nerve centre of an enterprise.

Organisations were encouraged to measure – in addition to financial outputs – that which influenced these financial outputs. For example, measures of process performance, market share/ penetration, long term learning and skills development and so on. The idea being that organisations could not directly influence financial outcomes, that these were "lag" measures, and that the use of financial measures alone to inform the strategic control of the firm was unwise. Instead, organisations should also measure in those areas where direct management intervention was possible. In so doing the early versions of the Balanced Scorecard helped organisations achieve a degree of "balance" in selection of performance measures. In practice early Scorecards achieved this balance by encouraging managers to select measures from three additional categories or perspectives: "Customer", "Internal Business Processes" and "Learning and Growth."

The goal of making measurements is to permit managers to see their company more clearly – from many perspectives – and hence to make wiser long-term decisions. Modern businesses depend upon measurement and analysis of performance. Measurements must derive from the company's strategy and provide critical data and information about key processes, outputs and results. Data and information needed for performance measurement and improvement are of many types, including: customer, product and service performance, operations, market, competitive comparisons, supplier, employee-related, and cost and financial. Analysis entails using data to determine trends, projections, and cause and effect – that might not be evident without analysis. Data and analysis support a variety of company purposes, such as planning, reviewing company performance, improving operations, and comparing company performance with competitors' or with 'best practices' benchmarks.

A major consideration in performance improvement involves the creation and use of performance measures or indicators. Performance measures or indicators are measurable characteristics of products, services, processes, and operations the company uses to track and improve performance. The measures or indicators should be selected to best represent the factors that lead to improved customer, operational, and financial performance. A comprehensive set of measures or indicators tied to customer and/or company performance requirements represents a clear basis for aligning all activities with the company's goals. Through the analysis of data from the tracking processes, the measures or indicators themselves may be evaluated and changed to better support such goals.

The balanced scorecard is broken down into four sections, called perspectives: the financial perspective, the customer perspective, the customer perspective, and the learning and growth perspective.

Within each section, companies identify key measures and discover and map the causal linkages between measures and overall company performance. Typically, learning and growth objectives have a causal relationship with the internal perspective, the internal processes and programs. In turn, the internal perspective has a cause-effect relationship with the financial perspective (for example, if an internal manufacturing process, when changed, produces cost savings) and can have a cause-effect relationship on the customer perspective. Overall value flows upwards from the learning and growth perspective to the financial perspective.

CRM systems can serve as the source for data within each of the perspectives. External customer-focused measures can be used to populate the customer perspective. Internal CRM efficiency measures could be used to populate the internal perspective. CRM knowledge management measures could be used to populate the learning and growth perspective.

Despite the wide adoption of the balanced scorecard, problems exist. Firstly, it is not always possible or it may take too long to prove through statistical means the causal linkages between perspectives and measures. Secondly, the scorecard is reliant on performance measures from a variety of sources that must be reliable and timely. Poor data quality or misuse of the data is diminishing the usefulness of the balanced scorecard (Maisel, 2001). This problem is not unknown to CRM either. Gartner reports the number one reason CRM fails is that data is ignored or is of poor quality (Nelson & Kirkby, 2001).

Customer Knowledge Management

Customer knowledge refers to understanding your customers, their needs, wants and aims is essential if a business is to align its processes, products and services to build real customer relationships. Many companies do have knowledge of their customers, but frequently this is in a fragmented form and difficult to share or analyse and often it is incomplete. One problem with customer knowledge is that it can be confused with CRM (Customer Relationship Management) which is often used to describe contact management and analysis. Although there is some overlap, customer knowledge includes a wider variety of less structured information that will help build insight into customer relationships.

Customer Knowledge Management (CKM) encompasses the management of processes and techniques used to collect information regarding customers' needs, wants, and expectations for the development of new and innovative products/services, and/or product/service improvements.

CRM systems can collect an enormous amount of data about customers. As pointed out earlier, the inability to use that data is proving to be a big stumbling block for CRM. Interestingly, very few companies actually measure their ability to create, manage and communicate customer knowledge. One of the reasons for lack of measurement is the fact that CRM data is widely dispersed across business functions.

Notes Each function has its own interests regarding customer information and its own ways of formatting and structuring the data (Davenport, 1998).

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This makes it difficult to pull the data together. Davenport distinguished between several types of customer knowledge:

1. Quantitative, data-driven knowledge found in transactional systems
2. Knowledge derived from interactions with people including: experiential observations, comments, lessons learned, qualitative facts, etc.
3. Tacit knowledge which is unstructured and difficult to express and must be converted to explicit knowledge

When it comes to customer knowledge, companies can (and a few do) measure three aspects of customer knowledge:

1. The value customer knowledge has (intangible asset measurement)
2. The process by which it is produced and consumed (knowledge management operations)
3. The quality of the knowledge or data (data quality)

An approach to measuring knowledge involves measuring the flow of communications between people (Krebs, 1998). "An organization's data is found in its computer systems, but a company's intelligence is found in its biological and social systems," he argues. Kreb's approach involves using surveys and observation to uncover the formal and informal communication links between people and groups within a company to uncover the social links within and across the boundaries of the organization. Link frequency is scored and visually depicted in a network diagram that clearly shows the nature of the linkages.

Knowledge is externally derived in this scheme in the perceive and adjust phase and is internally generated within the plan and adjust phases. Knowledge within this flow is communicated and retained. One "knowledge turnover" is the completion of one perceive->plan->act->adjust cycle. This measurement schemes quantifies the collection and use of knowledge without regard to its inherent value. However, as measurements of actions based on knowledge collect data, the indirect or direct value of the knowledge can be derived.

Self Assessment

Fill in the blanks:

1. A leading indicating measurement is a predictor of ………………… financial performance.
2. …………………… are internal and external indications of accomplishment.
3. CRM measurement is …………………… in nature.
4. Influencing decision making is one of the …………………… of CRM measurement.
5. CRM measurement calculates …………………… activities/behaviour.

11.4 Implementing CRM Measurement

When customer behaviour is fluid due to a dynamic and changing market, existing tools designed to find significant patterns of customer behaviour cannot be calibrated on old data or assumptions. The tools must evolve as the market evolves.

A company's ability to perceive the market must be as fluid as its ability to adapt to or shape the market. In complex, dynamic markets, it is quite conceivable that known causal linkages between layers within a company's working theories of customer or market behaviour can be invalid or worse still, be correct but irrelevant. When it comes to measuring something as dynamic as customers, most measurement frameworks need continual reassessment and recalibration.

At the other extreme are non-causal measurement schemes in which successful solutions proceed without establishing the causal linkages between related or rolled-up solutions. In some (most?) companies, this is the default approach to measuring successful initiatives. Lack of enterprise-wide coordination between various initiatives can lead to conflicting, redundant and sub optimal solutions. In this Darwinian model, however, successful CRM solutions are advanced, unsuccessful programs are weeded out and the company does receive some benefit. In fact, one could, in theory, design a measurement system that measures competing CRM programs on operational measures to help the company weed out what shouldn't be done.

Key concepts from successful programs can be shared and cross-pollinated across multiple teams. Proving causal linkages between human (customer or employee) behaviour and business success can be dispensed with or downplayed. Instead, surviving programs and the key concepts behind them, however cross-pollinated they have become, represent the "causal" linkages "explaining" behaviour or "predicting" performance. The key concepts, which inform new CRM programs, are more like memes, units of cultural information that successfully spread throughout the company. No one engineers a comprehensive behavioural model around customers nor does anyone engineer how customer knowledge is created. Is this a valid measurement approach?

Perhaps, if speed of adaptation is important, companies may not have the time to identify the right measures and the right causal relationships, which may take months or years to develop, as it sometimes does for balanced scorecard methods (Smith, 2001). Are causal measurement models better than correlated or non-causal ones at finding useful patterns? Perhaps, but the real issue is whether the measurement system is finding the right knowledge in timely way. While a non-causal CRM measurement system can detect conditions that provide opportunities quickly, determining the right business response will require some root cause analysis for diagnosing and fixing customer problems. Time becomes the pivotal variable.

All the things that can and should be measured across the enterprise regarding customers, be they value-creation, value delivery or customer insight activities, can be compared to that opaque sea. While the business can cast its net (its measurement system) to find fish (useful knowledge) where the fish usually swim, all sorts of things can cause the fish to swim in other hidden waters. Overly developed and non-adapting measurement systems are like the persistent fisherman casting his or her old nets in the same place, waiting for the fish that may never return. In this regard, the sea of activity between a company and its customers and within itself as it serves customers is that sea of complexity.

Notes The theory of measurement advanced here is neutral on this question of causal versus non-causal customer knowledge. Investing in identifying causality is a decision that folds within the framework offered here and will be influenced by many factors. The CRM practitioner that complained that CRM stands for "can't really measure" was most likely responding to the cost of identifying causality that made proving CRM investments more difficult.

How does a business go about consistently measuring that field of complexity in a way that will detect new and unseen patterns? Most companies assume that this can be engineered in a predictable way. Some argue that it can't. At best, a business can create an adaptive internal environment that seems best suited for detecting and acting upon this field of dynamic complexity. Stacey (2000) argues that the mainstream thinking about knowledge management that says knowledge is stored within the minds of individuals in tacit form and has value only when extracted as explicit knowledge, is wrong. For Stacey, knowledge assets lie in the "pattern of relationships between its members." Knowledge is "the act of conversing and new knowledge

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is created when ways of talking, and therefore patterns of relationship change." Customer knowledge comes about through interactions between people within the company.

Thomas et al. (2001) also agree that mainstream thinking about knowledge management is too simplistic. "Knowledge management is not just a matter of managing information. It is … deeply social in nature and must be approached by taking human and social factors into account," (Thomas et al., 2001). The authors argue the most important aspects of a knowledge management system is that it becomes a knowledge community; a place where people can encounter and interact with others who discover, use and manipulate knowledge.

Maxfield & Lane (1997) provide a deeper discussion about the non-deterministic way that strategy can unfold into business success through people. In this model, agents in the market pursue and form "generative relationships" with each other. These relationships are perceived as creating value for the agents involved. How agents perceive themselves, products and services in the market and generative relationships is re-examined and reinterpreted as the agents themselves understand and describe the market space.

Another way of thinking about this knowledge management debate is to pose a question. For companies that deploy CRM systems, which contributed most to the benefits derived from the CRM system:

1. Establishing strong causal linkages within the measurement model deployed or in use?
2. The use of CRM technology for some efficiency or effectiveness gain?
3. The socialization of the measurement framework within the culture of the company?

In extremely fluid market conditions, it seems unlikely that businesses can identify, in time, key causal linkages in customer and employee behaviour when all the agents involved are reinterpreting and redefining how they conceive of products, services, customers and relationships. When the nouns are fluid, do the verbs make sense?

Self Assessment

Fill in the blanks:

6. CRM activities depend on who is doing the …………………… and what activities are being …………………….
7. Brand value is considered to be …………………….
8. Sales metrics is a way of …………………… CRM metrics.
9. Linking various customer-facing activities in a reasoned way to overall customer equity and business success is the …………………… of CRM measurement.
10. According to …………………… , customer satisfactions that in which satisfaction is an antecedent to repurchase behaviour and has several antecedents as well.

11.5 Attributes of a CRM Measurement Framework

What we need now are some attributes that help us understand what constitutes the key dimensions of a measurement approach. Measurement frameworks can have three attributes or vectors that describe them.

1. Field breadth
2. Field depth
3. Field tractability

The term field here is defined as those customer-facing and customer-impacting activities to be measured that can include processes within the company, among its suppliers and certainly with its customers. Each of these vectors competes with each other for management funding and attention. Field breadth refers to how much of the total set of activities needed to be measured are actually measured.

Are all customer segments, product categories, business processes measured? Field depth refers to how granular is the measurement approach. Systemic? At the customer segment level? At the customer level? How far are sub-attributes broken down? How frequently is data measured? Field tractability refers to how explainable and provable is the CRM measurement framework employed.

With these attributes in mind, here are the principles companies should consider for establishing the proper measurement framework:

1. The measurement framework designed must cover the field width, depth and tractability in a cost effective manner that meets the company's strategic goals. Tradeoffs between these vectors will ensue to address the cost of measurement and applicability to meeting strategic goals.
2. The measurement framework designed must consider the level of stability or complexity within the market or within the enterprise. The more complex and volatile the market, the more adaptive and timely the measurement framework needs to be.
3. The measurement framework needs to be able to function with partial and incomplete measures. It is impossible for companies to measure everything at once. A starting point must be had. One can be determined by restricting any combination of field breadth, depth and tractability.
4. For highly complex markets, the measurement framework itself will evolve, perhaps rapidly. The measurement framework needs to be either self adapting or measured in some way (meta-measurement) so that it can be reconstituted as needed. This requires a different knowledge management approach and organizational model than most companies possess. Analogies from the complexity sciences provide some future directions for thinking about adaptable measurement systems.

11.5.1 Building a Composite Measurement Framework

If they haven't done so already, most companies will need to build composite CRM measurement frameworks to get the optimal combination of measurement breadth, depth and tractability. Measurement frameworks are not a one-size-fits-all proposition. They need to be tailored for the company and its conditions. With the abundance of measurement approaches and lack of a comprehensive theory of customer behaviour to guide them, companies will be designing frameworks themselves. Based on the issues discussed so far, here is an approach to consider.

Consider the planning time horizon, competitive market stability or volatility and other market of company factors.

1. Are current market conditions stable or chaotic with rapid unpredictable change?
2. What is the company's current competitive posture? Is the company attempting to shape the market significantly, adapt as a fast follower to the market, or sitting it out for a while and doing nothing?
3. What is the balance of focus needed between measuring internal capabilities and measuring customer behaviour?

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4. How much of the measurement framework needs to measure past activity or predict future events?

Consider the technology implications:

1. What technical infrastructure changes are needed to support the measurement framework?
2. Can the data needed be collected and combined within this infrastructure?
3. What is the ongoing cost of measurement and data collection?
4. What are the sampling and refresh rates that will be needed to support the measurement framework?
5. What are the core analytic techniques and technologies to support the data analysis needed?
6. What are the technical needs to continually collect strategic and qualitative data as opposed to conventional CRM operational data?

Consider the organizational implications:

1. What skills sets are needed to support the measurement framework?
2. How do motivation and incentive approaches in the company need to be altered to encourage successful measurement?
3. Can the company's decision-making abilities absorb and use the measurement framework?
4. Does the company have flexible communication and collaboration tools and policies that let people within the company interact with each other concerning measurement data?
5. Can the customer decision-making capabilities of the company be measured and monitored so that the health of decision-making capabilities can be assessed?
6. Can feedback from the decision-making process inform and alter the measurement framework?

With these considerations in mind, a CRM measurement framework deployment plan can be formulated. In most cases, deployment of new measurement approaches is evolutionary. With the inherent risks in disrupting a customer base and employees that serve the customers within a company, companies frequently choose to limit deployment along some axis. Typically companies try to control the field breadth in the following ways:

Product deployment	A measurement approach is rolled out for all customers for one specific product or service.
Segment deployment	A measurement approach is rolled out for one customer segment (or sub-segment) for all products or services.
Narrow deployment	A measurement approach is rolled out for one customer segment (or sub-segment) for one product or service.

Within each deployment model, companies can control scope further by restricting the remaining two vectors (depth and tractability):

1. Controlling the field depth by limiting the how detailed the measurement approach is.
2. Controlling the field tractability by limiting causal research, data collection and analysis.

In practice, probably any sequence of deployment is possible. Since it is most unlikely that companies, especially large ones, can transform themselves completely, iterative implementations of new CRM strategies and measurement frameworks will be needed. In fact, for many companies, "adapt or perish" is the directive. Changing market conditions and customer behaviour and the proprietary, non-reproducible relationship companies and brands can have with their customers practically insists on iteratively implemented, adaptable CRM measurement frameworks.

Self Assessment

Fill in the blanks:

11. Some practitioners call CRM as …………………… because of its complexity.
12. …………………… said, "Knowledge management is not just a matter of managing information."

11.6 Customer Lifetime Value

Lifetime Customer Value or Long term Customer Value is a reflection of the possible future business a company can expect from a loyal customer. This will include not only the repeat purchases by the customer, but also his family purchases, referral purchases, cross sells, etc. over a long period of time. It should also consider the future product introductions of he company for which this loyal customer is a ready prospect.

This adds more dimensions to the exact assessment of the LCV. Use of customer lifetime value as a marketing metric tends to place greater emphasis on customer service and long-term customer satisfaction, rather than on maximizing short-term sales.

In marketing, Customer Lifetime Value (CLV), Lifetime Customer Value (LCV), or Lifetime Value (LTV) and a new concept of "customer life cycle management" is the present value of the future cash flows attributed to the customer relationship.

Calculating Lifetime Customer Value (LCV)

There are two kinds of LifeTime Value measurement - absolute and relative. The first is very difficult to calculate; the second, very easy to calculate and in many ways more powerful than the first.

The most difficult part of calculating LTV is deciding what a "lifetime" is. LifeTime Value is the value of the customer over the LifeCycle (if you don't know what a LifeCycle is, you really should read the article on LifeCycles before reading this one). Lifetime Value doesn't exist without a LifeCycle. We will get into some details on calculating LifeTime Value in a moment, but first, a clarification.

The LifeTime Value concept has been horribly abused and misunderstood over the last several years. It is not necessary to figure out an absolute LifeTime Value for a customer or wait "a lifetime" to find out the value to use the concept in managing customer value. If you are new to this LifeTime Value stuff and have not tracked the appropriate parameters, or your company is new and lacks meaningful operating history, you can look for "relative Lifetime Value," link it to customer behaviour, and still get leverage from using LTV/LCV in your business model to manage customer value.

Example: Say, A runs the same ad in two different newsletters and gets response from both. When I look at these responders, maybe a week later for a content visit or 30 days later for a purchase, I find a high percentage of repeat visitors or buyers from one newsletter, and a low percentage from the other.

Repeat behaviour indicates higher LifeTime Value, and predicts future repeat behaviour, regardless of what the actual monetary LifeTime Value is. I can switch money out of the low repeat newsletter into the high repeat newsletter and get higher ROI without having to measure anything but repeat behaviour.

Notes

By the way, using customer behaviour to predict the relative Lifetime Value and loyalty of customers is a 40 year old technique still used by mail order and TV shopping companies today. Large sites with CRM analytics are using this technique, known as RFM, to predict customer value and response to promotions.

Caselet

Calculating the Customer Lifetime Value: SECOR

SECOR assisted a large European mobile telephony operator with the definition and project management of a Customer Lifetime Value (CLV) strategic solution. The objective was to establish a company-wide system for CLV calculation and analysis utilizing all relevant revenues and costs from across the organization. The system was intended to underpin the company's CRM strategy providing the foundation for activities such as:

- Ad-hoc segmentation and data analysis for data driven marketing
- Automation of decisions against customer requests such as handset upgrades
- Targeted retention activities and decisions to ensure retention effort is aligned to CLV
- Identification of customers for cross-selling and up-selling
- Development of product portfolios aligned to high CLV customers
- Alignment of customers to appropriate channels by CLV

The benefits of the project were identified as being in excess of £3m!

Source: http://searchcrm.techtarget.com/feature/CRM-case-studies

Let's say you're not satisfied with using relative Lifetime value as a proxy for absolute Lifetime Value. You're a glutton for punishment, or your boss wants a hard number. No problem. Here are a few issues we need to put on the table when discussing the calculation of LTV:

1. If you haven't been in business long enough to know the Lifetime of a customer, just put a stake in the ground by looking for defected best customers. Look at customers who have spent or visited the most with you and then of these, look at the ones who haven't made a purchase or visit in some time (6–9 months, for example). In all likelihood, the last purchase or visit was the end of the Lifecycle when considering best customers who have stopped buying or visiting. When best customers stop, they're usually all done. Then look at first purchase or visit date for these customers, calculate your Lifetime, and use this length of time as the "standard" customer LifeTime, realizing the average lifetime is probably much shorter.

2. Frequently, a customer will defect for a few years and then come back. This is cool, and normal. Their life changed somehow and they left, and now they need you again. Most offline marketers would call a customer who has had zero activity for over 2 years a defected customer. Online, it's more like 6 months for the average customer, unless you are in a classic seasonal business. If the customer starts up again, they would be a "new customer", for marketing and modelling purposes. They will more likely behave like a new customer than a current customer. The behaviour will ramp and fall off all over again, just like it did in their previous Lifecycle with your business.

That doesn't mean you can't use the same customer number, or combine the old behaviour record with the new behaviour record in the customer service shop. In fact, knowing how long on average a customer defects before they come back can be a useful promotional tool.

But there has been a significant break in behaviour, and this customer is more likely to behave as a new customer than a customer who has been with you the whole time. That's just the way it works. They're likely to be interested in different products, for example.

You decide if it's a new lifetime or not based on your business. In most cases, from a marketing perspective, and for the purposes of Lifetime Value, they should be treated as a new customer. Otherwise, all your customers will have "infinite" lifetimes, and you lose the relevance of the metric.

3. ***Another challenge to calculating Lifetime Value:*** Usually much of the data you need to complete the simple calculation are not available, or can't be agreed upon by all the players, especially if you are in a big company. If you don't know what the average unit returned costs you in terms of overhead, you can't do the calculation. If you don't know what the average number of customer service calls per unit shipped is and what the calls cost, you can't do the calculation. This is a particularly difficult problem for offline retailers, who don't have a database that captures nearly enough relevant data.

Here's one way approach it if the operational data you need is unclear. Try to focus on the average unit sold, and break up all the revenue and cost components that comprise the unit. Once you get to a profit/unit, just multiply by units sold to a customer over the "lifetime," minus overhead and promotional costs, and you get LTV.

Average price, cost of goods sold, gross margin... should be easy to find. To get customer service costs, look at how many units you move annually, and divide by annual customer service cost. Do the same thing for returns, and so on, until you know the costs/unit sold of all the elements going into a sale. Don't forget credit processing, after sale support, etc.

Example: Net Profit per Unit Analysis:

Average Sale Price	$40.00	100%
Cost of Goods Sold	(36.00)	(90%)
Gross Margin	4.00	10%
Credit Clearing	(.80)	(2%)
Revenue Ship & Handle	6.00	15%
Cost of Ship & Handle	(4.00)	(10%)
Call Centre (1 call every 5 sales)	(.80)	(2%)
Returns and Processing (5% of Sales)	(2.00)	(5%)
Fraud/Merchandise Loss (1% of Sales)	(.40)	(1%)
Promotional Costs/Discounts/Ads	(.80)	(2%)
Net Profit per Unit	$1.20	3%

LTV Calculation and Customer Acquisition Cost Calculations

Say the average customer buys for 2 years, and then stops for at least 1 year. Therefore, we define the LifeTime of a customer as 2 years.

Over 2 years, the average customer makes 16 purchases.

16 x $1.20 Profit per Unit = $19.20 LTV of the average customer

Notes

The average customer recruits 3 other customers. The maximum acquisition cost of a new customer should be 4 x $19.20 = $76.80 to breakeven.

The sum of your entire customer Lifetime Values should equal your future profits; if you include the value of pass-a-long customers in Lifetime Value, you will over estimate profits.

Don't be surprised if you find some customer groups have negative LTV's – it's very common. This is the part of LTV analysis usually forgotten, because it literally means you would be more profitable if you had fewer customers. And explaining that to your boss (if you have one) is often a challenge, even on a positive day.

Most models to calculate CLV apply to the contractual or customer retention situation. These models make several simplifying assumptions and often involve the following inputs:

1. ***Churn Rate:*** The percentage of customers who end their relationship with a company in a given period. One minus the churn rate is the retention rate. Most models can be written using either churn rate or retention rate. If the model uses only one churn rate, the assumption is that the churn rate is constant across the life of the customer relationship.
2. ***Discount Rate:*** The cost of capital used to discount future revenue from a customer. Discounting is an advanced topic that is frequently ignored in customer lifetime value calculations. The current interest rate is sometimes used as a simple (but incorrect) proxy for discount rate.
3. ***Retention Cost:*** The amount of money a company has to spend in a given period to retain an existing customer. Retention costs include customer support, billing, promotional incentives, etc.
4. ***Period:*** The unit of time into which a customer relationship is divided for analysis. A year is the most commonly used period. Customer lifetime value is a multi-period calculation, usually stretching 3-7 years into the future. In practice, analysis beyond this point is viewed as too speculative to be reliable. The number of periods used in the calculation is sometimes referred to as the model horizon.
5. ***Periodic Revenue:*** The amount of revenue collected from a customer in the period.
6. ***Profit Margin:*** Profit as a percentage of revenue. Depending on circumstances this may be reflected as a percentage of gross or net profit. For incremental marketing that does not incur any incremental overhead that would be allocated against profit, gross profit margins are acceptable.

Did u know? After measuring customer value, the next step is to manage customer value– to make money by creating very high ROI customer marketing campaigns and site designs. The Drilling Down book describes how to easily create future value and likelihood to respond scores for each customer, and provides detailed instructions on how to use these scores to continuously improve the profitability of your customers.

Uses of Lifetime Value

Lifetime Value is typically used to judge the appropriateness of the costs of acquisition of a customer. For example, if a new customer costs $50 to acquire (CPNC, or Cost per New Customer), and their lifetime value is $60, then the customer is judged to be profitable, and acquisition of additional similar customers is acceptable. For this reason, the costs involved in the first purchase are typically not included in LTV, but rather, in the Cost per New Customer calculation.

Customer Equity

Customer Equity is the Net Present Value of a customer from the perspective of a supplier. It can – and should – also include customer goodwill that is normally not expressed in financial terms, e.g. a customer's level of loyalty and advocacy. The concept of customer equity, which unifies customer value management, brand management, and relationship/retention management, has recently emerged from the work of Professors Roland Rust (Univ. of Maryland), Valarie Zeithaml (Univ. of North Carolina) and Kay Lemon (Boston College). They view customer equity as the basis for a new strategic framework from which to build more powerful, customer-centred marketing programs that are financially accountable and measurable.

Quantitatively speaking, a firm's customer equity is the total of the discounted lifetime value of all of its customers. In their new book Driving Customer Equity: How Customer Lifetime Value is Reshaping Corporate Strategy, Rust, Zeithaml and Lemon state that customer equity has three drivers:

1. Value equity, "the customer's objective assessment of the utility of a brand, based on the perceptions of what is given up for what is received"
2. Brand equity, "the customer's subjective and intangible assessment of the brand, above and beyond its objectively-perceived value"
3. Retention equity, "the tendency of the customer to stick with the brand, above and beyond the customer's objective and subjective assessments of the brand."

The customer equity model enables marketers to determine which of the three drivers – value, brand or retention equity – are most critical to driving customer equity in their industry and firm. Using this approach allows marketers to quantify the financial benefit from improving one or more of the drivers.

Example: If a regional grocery chain wants to evaluate whether or not they should spend $2 million on an advertising campaign that will improve ad awareness by 1 percent, the customer equity model translates the percentage improvement in ad awareness into the percentage improvement in brand equity (a component of customer equity). The percentage improvement in customer equity then translates into dollar improvement. Comparing the advertising expenditure to the dollar improvement allows the company to calculate its return on the advertising investment.

The customer equity model provides a basis for projecting the ROI of any strategic investment that improves customer equity whether as a function of value, brand or retention equity. It provides a catalyst for companies to become truly customer-centric and to make marketing programs more successful and accountable. It's a mystery to us why managers seem to spend millions of dollars on marketing programs without knowing if their investment produces a fair return.

Caution Managers simply do not know how to project the return on investment for their marketing programs. They have lacked a basic model that links marketing actions with customer spending actions, and instead use intuition to make decisions. The customer equity model has the potential to forge that missing link.

Notes

Task Ask a businessman, how does he calculate his customer's satisfaction?

Self Assessment

Fill in the blanks:

13. Measurement frameworks can have three ……………………. that describe them.
14. Full form of CLV is …………………….
15. Customer's equity has three drivers and they are …………………… , …………………… , …………………… equity.

Case Study

Customer Lifetime Value: An Example

Company A came to B co. Pvt. Ltd. losing US $3 million a year and looking to make changes that would increase revenue, while streamlining operations. By taking a closer look at some basic numbers, the company was able to suggest some relatively small, yet significant, changes – resulting in a US $4 million shift in just a year's time.

We started by dividing out Company A's revenue based on new customers and returning customers (by looking at how many customers were invoiced in the prior year). Then we took an educated guess on the Cost of Goods Sold (COGS), marketing and sales. On those numbers, the key is not over thinking your calculations, but to come up with a reasonable estimate. Finally, we noted that Company A had about an 80% renewal rate, meaning the average customer lasted about 4 or 5 years.

Looking at these numbers, B Co. Pvt. Ltd. could see that Company A was netting about $8,000 per customer in lifetime value. When the company looked at the expenses for all the other departments, it was evident how Company A was losing $3 million annually.

But with these numbers in front of us, the company could also layout a plan for Company A to increase its net margin per customer:

- Acquire fewer (5% decrease), more targeted customers, by focusing on regional sales
- Develop deeper customer knowledge and more products, with the goal of increasing sales by 8%
- Decrease cost of goods sold by 5% through more efficient travel and scheduling support
- Shift from a sales model in which everyone sells to all customers, to an account management model focused on matching sales talent with buyers and products (i.e. rural accounts v. urban accounts, instead of all accounts in a particular region), decreasing sales costs by 14%
- Decrease overhead costs by 8% through realigning internal cost structures (for instance, each presentation put together by marketing now had to be paid for by the particular account, instead of having unlimited access to marketing services)

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With these small changes in place, Company A was able to realize significant gains in the following year, even exceeding some of the growth and efficiency targets the company set:

Initial year-one sales increased dramatically, from approximately US $58,000 to US $73,000, while sales in subsequent years increased only slightly (less than US $1,000). Other adjustments meant that COGS decreased by about 15%, while sales and marketing costs were reduced by about one-third. All this added up to an astounding increase of 400% to its customers' lifetime value, from about US $8,000 to more than US $41,000, an overall increase of $4 million total, taking Company A into the black. The small steps that Arc recommended using an analysis of basic metrics yielded incredible results in just one year's time.

Questions:

1. Analyse and present your observations and comments.
2. How would you relate this case with the learning you had from this unit?

Source: http://searchcrm.techtarget.com/feature/CRM-case-studies

11.7 Summary

- Comprising of several distinct disciplines and cutting across just about all business units within most companies, Customer Relationship Management (CRM) measurement is complex.
- Companies use CRM measurements for different purposes; digital channels provide for new measurement and product/service distribution options; businesses are fractured internally with inconsistent communication and often incompatible systems.
- Despite this complexity, companies are adopting measurement systems, or frameworks, that have acceptance in the marketplace. These frameworks range from the strategic to the operational.
- How companies build and deploy a CRM measurement framework depends on the planning horizon under consideration, the market volatility, the company's overall strategic posture and goals, and how much of the organization and customer base is impacted by the CRM solutions considered.
- In addition, how customer knowledge is created and utilized for benefit is under continual debate with different points of view.
- This unit reviews the key issues in CRM measurement, offers some attributes for describing and evaluating CRM measurement frameworks, and suggests several implementation approaches.
- Change begins with knowing. Companies today need to implement more sophisticated ways of measuring this complex and diverse field.

11.8 Keywords

Balanced Scorecard: It is a strategic planning and management system that is used extensively in business and industry, government, and non-profit organizations worldwide to align business activities to the vision and strategy of the organization, improve internal and external communications, and monitor organization performance against strategic goals.

Brand-building: The goal in brand building is to carefully manage a company's name, brands, slogans and symbols, otherwise known as brand equity.

Notes

Customer Equity: It is the Net Present Value of a customer from the perspective of a supplier.

Customer Knowledge: It refers to understanding your customers, their needs, wants and aims is essential if a business is to align its processes, products and services to build real customer relationships.

Customer Value Analysis (CVA): CVA compares price and quality (or value) of a product against competitors.

Lifetime Customer Value: It is a reflection of the possible future business a company can expect from a loyal customer.

Periodic Revenue: The amount of revenue collected from a customer in the period.

Profit Margin: Profit as a percentage of revenue. Depending on circumstances this may be reflected as a percentage of gross or net profit. For incremental marketing that does not incur any incremental overhead that would be allocated against profit, gross profit margins are acceptable.

11.9 Review Questions

1. What do you understand by CRM measurement?
2. Discuss the various criteria of CRM measurement framework.
3. What are the attributes of CRM measurement framework? Discuss.
4. What is customer life time value? How will you calculate customer life time value?
5. Define customer equity. Describe the drivers of customer equity.
6. What do mean by customer satisfaction?
7. How will you calculate customer defection?
8. What is meant by scoreboard?
9. What are the uses of LTV?
10. Discuss customer knowledge management.

Answers: Self Assessment

1. Future
2. CRM metrics
3. Complex
4. Objective
5. Customer
6. Measuring; measured
7. An asset
8. Monitoring
9. First framework
10. Vavra Model
11. Cant Really Measure
12. Thomas et al.
13. Attributes or vectors
14. Customer Lifetime Value
15. Value; brand; retention

Notes

11.10 Further Readings

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Unit 12: Customer Privacy

CONTENTS

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Objectives

After studying this unit, you will be able to:

- Describe the concept of customer privacy
- Analyse the need for customer privacy
- Ascertain the importance of customer privacy
- Identify the Analysis of CRM strategies
- Discuss the global perspective of CRM

Introduction

For a long time, the conventional wisdom was that electronic communications constituted a major threat to individual privacy. Wiretapping, eavesdropping, and data banks were part of the Big Brother and Nosy Sister scenario. This fear for personal privacy is justified in the short term. But in the long term, the opposite is more likely to happen, because the electronic tools that permit privacy invasion are even more powerful in controlling an individual's informational autonomy. In the process, still another revolution is upon us, the *revolution of access control*. By gaining such control individuals achieve bargaining strength over those who seek information about them. They can establish a perimeter over the inflow and outflow of information. They can create property rights in personal information. Transactions become possible, and markets in private information can emerge.

Jeopardise to privacy have been associated with electronic media from the beginning. Gossipy manual operators, party lines with participatory neighbours, and the absence of a warrant requirement for wire tapping all created privacy problems. The first American patent for a voice scrambling device was issued only five years after the invention of the telephone.

The New York Police Department, always on the technology frontier, listened in on telephones since at least 1895. In 1916 this led to a public controversy about eavesdropping on a Catholic priest as well as on a law firm involved with competitors to J.P. Morgan & Co. For World War I munitions contracts.

Notes

Today, a new generation of electronic privacy problems has emerged, for several reasons:

- An increasing number of transactions are conducted electronically.
- It has become easier and cheaper to collect, store, access, match, and redistribute information about transactions and individuals.
- Wireless transmission conduits include unsecured portions.
- The number of communications carriers and service providers has grown enormously, leading to an increasingly open network system in which information about use and user is exchanged as part of network interoperability.
- The Internet computer network system is wide open.

In consequence, new electronic privacy problems keep emerging. Recent controversies include:

- Intrusive telemarketing.
- Data collection about transactions.
- The ability of governments to control encryption.
- The ability to determine an incoming caller's phone number and use of such information.
- The monitoring of wireless mobile communications.
- Employers' monitoring of their employees.
- The ability of using e-cash for illegal transactions.
- The difficulties of law enforcement agencies to keep up with transmission technology.
- The unsecured nature of the Internet, and the ability to track the sites which an individual visits.

And more is coming our way. For example, tiny mobile communication transceivers, together with number portability, will enable telephone subscribers to be continuously connected. Their location whereabouts, their comings and goings, and the identity of other persons in the same location could, therefore, be continuously ascertained.

Given that privacy is important to so many people, and given that information technology keeps raising new questions, what approach should be adopted to deal with privacy problems?

In the past, if remedies were considered, the primary strategy was to resort to regulation. The call for the state to control and protect privacy is a natural response especially in the field of electronic communications, given their history around the world as either a state-controlled telephone or broadcast monopoly or tightly regulated sector. This has led to a view of electronic privacy problems largely as an issue of rights versus the state or its regulated monopoly firms- and to the question how to create such rights in the political, regulatory and legal sphere. But such a view is static: having a right is often believed to be the end of the story. Yet in most parts of society, the allocation of rights is only the beginning of a much more complex interaction.

Privacy is an interaction, in which the rights of different parties collide. *A* has a certain preference about the information he receives and lets out. *B,* on the other hand, may want to learn more about *A*, perhaps in order to protect herself. The controversies about caller-identification, or of AIDS disclosure by medical personnel, illustrate that privacy is an issue of control over information flows, with a much greater inherent complexity than a conventional "consumers versus business," or "citizens versus the state" analyses suggests. In this case, different parties have different preferences on "information permeability" and need a way to synchronize these preferences or be at tension with each other. This would suggest that interactive negotiation over privacy would have a place in establishing and protecting privacy.

While this article will not suggest that markets can provide a solution to every privacy issue, it will argue that they can be utilized much more than in the past.

12.1 Privacy – An Indian Perspective

Privacy could particularly be defined as the expectation that confidential personal information disclosed by any individual to Government or non Government entity should not be disclosed to third parties without consent of the person and sufficient safeguards need to be adopted while processing and storing such information. In essence, disclosure of data which can be used to identify a physical person without following the due procedure could be construed as breach of privacy.

12.1.1 What is Privacy?

In the information sector, privacy consists of two distinguishable but related aspects:

1. The protection against intrusion by unwanted information.
2. This is sometimes termed "the right to be left alone," and it is an analogue to the constitutional protection to be secure in one's home against intrusion.

The ability to control information about oneself and one's activities; this is related in some ways to proprietary protection accorded to other forms of information through copyright laws,[10] and security of information about oneself from tampering by others.

The common aspect of both these elements is that they establish a barrier to information flows between the individual and society at large. In the first case, it is a barrier against information inflows; in the second instance, against information outflows. The concept of privacy is not without its detractors.

12.1.2 Need for Privacy Protection

India does not currently have a general data protection statute. Nevertheless, the judiciary has derived a "right of privacy" from the rights available under Articles 19(1) (a) (the fundamental right to freedom of speech and expression) and 21 (the right to life and personal liberty) of the Constitution of India. However, all cases that deal with the right to privacy have been decided in the context of Government actions that resulted in private citizens being denied their right to personal privacy. No privacy judgment has granted private citizens a right of action against the breach of privacy by another private citizen. To that extent, the data protection and personal privacy jurisprudence in the country is not yet fully developed.

India is not a particularly private nation. Personal information is often shared freely and without thinking twice. Public life is organized without much thought to safeguarding personal data. In fact, the public dissemination of personal information has over time, become a way of demonstrating the transparent functioning of the government.

A group of officers was constituted to develop a conceptual framework that could serve the country's balance of interests and concern on privacy, data protection and security and which also responds domain legislation on the subject. The group held several meetings and also held discussions with stakeholders groups (civil society organizations, local practitioners, business and banking representatives). Subsequent to these discussions, Shri Rahul Matthan of Tri Legal Services who has been an active participant in these discussions has prepared the unit for the legal framework for proposed legislation on privacy. The unit, with some modifications including some suggestions made by Shri Kamlesh Bajaj, CEO, and Data Security Council of India is now being circulated for seeking opinions of the group of officers and is also being

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placed on the website of the Department of Personnel and Training for seeking public views on the subject. Government collect personal data, this information is stored in silos with each agency of the government maintaining information using different fields and formats. Government databases do not talk to each other and given how differently they are organized, the information collected by different departments cannot be aggregated or unified.

Data privacy and the need to protect personal information is almost never a concern when data is stored in a decentralized manner. Data that is maintained in silos is largely useless outside that silo and consequently has a low likelihood of causing any damage. However, all this is likely to change with the implementation of the UID Project. One of the inevitable consequences of the UID Project will be that the UID Number will unify multiple databases. As more and more agencies of the government sign on to the UID Project, the UID Number will become the common thread that links all those databases together. Over time, private enterprise could also adopt the UID Number as an identifier for the purposes of the delivery of their services or even for enrolment as a customer. Once this happens, the separation of data that currently exists between multiple databases will vanish.

Did u know? Such a vast interlinked public information database is unprecedented in India. It is imperative that appropriate steps be taken to protect personal data before the vast government storehouses of private data are linked up and the threat of data security breach becomes real.

Similarly, the private sector entities such as banks, telecom companies, hospitals etc are collecting vast amount of private or personal information about individuals. There is tremendous scope for both commercial exploitation of this information without the consent/knowledge of the individual consent and also for embarrassing an individual whose personal particulars can be made public by any of these private entities. The IT Act does provide some safeguards against disclosure of data/information stored electronically, but there is no legislation for protecting the privacy of individuals for all information that may be available with private entities.

In view of the above, privacy of individual is to be protected both with reference to the actions of Government as well as private sector entities.

For a long time now privacy was kept but reasons were never so clear and understood but significant. Among the major criticisms are:

"Privacy Protects Anti-social Behaviour." In this view, privacy is a smoke-screen used to hide activities that should be discouraged. This may be true at times; yet it is also the price of personal freedom. Authoritarian or backward societies do not value a private sphere since they do not tend to respect individuality and subordinate it to the demands of rulers or societal groups. The recognition of a private sphere is hence one of the touch-stones of a civilized and free society.

"Privacy is Costly to the Economy." Privacy protection raises the cost of an information search. For example, potential employers and buyers have to spend more effort (and money) to find out who they are dealing with if access to personal information is restricted. Deception becomes easier and transaction costs rise.

But there are economic arguments on the other side. Privacy affects the ability of companies and organizations to hold on to their trade secrets and details of their operations, and to protect themselves from leaks of insider information and against governmental intrusion. Information has value, and where it has no protection through property rights it must be protected through confidentiality or secrecy. To permit its easy breach would lead to a lesser production of such information.

The loss of privacy leads to inefficiency in information flows, just as excessive privacy protection may. One of the predictable results of third party monitoring of telephone calls is to force speakers to disguise or modify their communications in order to keep them secret.

Partly in response to economic and social needs, many transactions have been specifically accorded special common-law informational protection known as "privileges," *e.g.*, between attorney-client, patient-doctor, citizen-census taker, penitent-clergy, etc. The idea in each case is that the protection of information leads to an economically and socially superior result even if it is inconvenient to others in an individual instance.

"There is no Demand for Privacy." This objection views privacy as an issue of concern only to a small elite group. But to the contrary, attention to privacy is widely shared. For example, according to information from the New York Telephone Co., of a few years ago, 34% of all residential households in Manhattan and 24% of all its residential households in the State had unpublished telephone numbers at subscriber's request. Most policemen, doctors, or judges, to name but a few professions, have unlisted numbers. On the West Coast, the spread of unlisting is still further advanced, reaching 55% in California! It should be noted that it costs extra to be unlisted. In other words, a large number of customers are willing to pay in order to increase its privacy. With more than half of the population willing to do so, it becomes impossible to keep denying that privacy is an important issue.

12.1.3 Empowering Customers in India - Indian Privacy Law Set to Change Landscape

India is gearing up for enhanced privacy laws that protect customers. This can be a landmark legislation that can have lasting impact on consumers, data protection, data sharing and use of personal data & information.

India has a not been privacy friendly state. Data sharing and exchange is done freely and hence it is not surprising to find personal information being freely available for a few cents. The proposed act or legislation seems to be all encompassing and can have a lasting impact. Take a look at some of the recommendations:

1. Currently, in India there is no legislation for protecting the privacy of individuals for all information that may be available with private entities. The legislation proposes to bring this to force.
2. Choice and consent of the individual before his/her personal information is collected
3. Information should be used only for the purpose it was collected
4. The individual should have access to his/her information at any time. He/she must be enabled to update or correct the information
5. Data controller would be transparent in his working as regards to the collection of personal data
6. Data controller is primarily responsible for its safety and use

The framework proposes:

1. All forms of identifiable data should be protected against under the right to privacy.
2. It goes on to define what is personal data..."to be able to identify a person, information need not necessarily be objective identification such as a person's name, but can be subjective information such as the opinion that a person is a "reliable" borrower or that a person is "expected to die of a terminal disease". It is also important to bring all personal information within this definition regardless of the format in which the information is stored."

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3. It also extensively takes into consideration Indian context – “Aadhar” program that uses biometric information
4. Explicit consent or even approval from a regulatory authority may be required to be obtained to collect sensitive personal data.
5. Processing of data in an automated manner must be avoided when it affects the vital interests of the data subject.
6. The data once collected must be deleted after achieving the purpose for which it was collected.
7. Privacy impact assessments to be conducted by independent authorities in the form of transparent audits, for the protection of personal data.
8. Appropriate measures to protect the data of Indian citizens that are processed outside the country.

12.1.4 Need for such Legislation

Notwithstanding the concerns around the risks posed by this vast interconnected public information database, there are issues being raised about the need to even have legislation in the first place. The argument being made is that given the technical and highly dynamic nature of personal data, a heavy legislative approach is probably unwarranted. Instead, industry self certification could achieve the same results without the downsides of putting in place a legislative and regulatory framework.

In order to implement this, various industry verticals would need to appoint independent certifying agencies to prescribe data standards and to overlook compliance with data protection principles. The system is voluntary but relies on peer pressure to ensure that conscientious corporations remain compliant with their obligations in order to continue to be accepted by their customers and business ecosystem.

While this suggestion does offer a lighter touch, it does not give the individuals, whose data is at risk, any form of legal remedy in case of a breach of their personal privacy by the self certifying organizations. In the event any such organization commits a data breach, the individual whose data has been lost will have no legal recourse. Data protection can only be ensured under a formal legal system that prescribes the rights of the individuals and the remedies available against the organization that breaches these rights. It is imperative, if the aim is to create a regime where data is protected in this country, that a clear legislation is drafted that spells out the nature of the rights available to individuals and the consequences that an organization will suffer if it breaches these rights.

It is possible to develop a hybrid approach where a statute is enacted to provide the contours within which all organizations, private and public, are to conduct them with regard to personal information that they collect. Industry associations could then define more detailed guidelines and practices that member organizations would need to follow with specific reference to the specific issues of that industry.

12.1.5 Legislative Competence

Before embarking on the exercise to prepare data protection legislation, it is important to ascertain whether the Centre has the legislative competence to enact such a law. Article 246(1) of the Constitution of India grants the Parliament the power to legislate on matters set out in List I of the Seventh Schedule of the Constitution. This list does not specifically contain an entry under which data protection laws may be classified. However, entry 97 provides the Parliament with the authority to legislate on any matter not enumerated in List II of the Seventh Schedule (the State List) and List III of the Seventh Schedule (the Concurrent List). In the absence of specific data protection entries in the other lists, it would appear that entry 97 grants the Parliament the residuary powers needed in order to make laws on any matters it deems fit in national interest, including the power to enact the data protection legislation.

12.1.6 Is there is Constitutional Right to Privacy?

In certain countries, such as South Africa and Argentina, the right to privacy is incorporated into the constitution. In India, the right of privacy has been derived through judicial decisions, from the rights available under Articles 19(1) (a) (the fundamental right to freedom of speech and expression) and 21 (the right to life and personal liberty) of the Constitution. There was no specific discussion on the concept of privacy in the Constituent Assembly Debates. However, over time, the Supreme Court has held that even though the right to privacy is not expressly enumerated as a fundamental right, it could certainly be inferred from the fundamental rights guaranteed under the Constitution.

Article 19(1) (a) states that - *All citizens shall have the right to freedom of speech and expression.*

The Supreme Court has, through a series of decisions held that, even though the right to privacy was not enumerated as a fundamental right, it could certainly be inferred from the fundamental rights of the Constitution. However, these fundamental rights are not without restrictions. Just as Article 19(1) (a) bestows on each citizen the fundamental right of freedom of speech and expression, Article 19(2) imposes restrictions on this right. It states that:

Nothing in sub-clause (a) of clause (1) shall affect the operation of any existing law, or prevent the State from making any law, in so far as such law imposes reasonable restrictions on the exercise of the right conferred by the said sub-clause in the interests of the sovereignty and integrity of India, the security of the State, friendly relations with foreign States, public order, decency or morality, or in relation to contempt of court, defamation or incitement to an offence.

The necessary implication of this is that the Government can deprive a citizen of his constitutional right of freedom of speech and expression for any of the reasons set out in Article 19(2). By natural extension of this principle, the Supreme Court, in *Gobind v. State of Madhya Pradesh*, held that a violation of personal privacy is possible with the sanction of law.

However this position was clarified and extended in *People's Union of Civil Liberties v. the Union of India* where the right of government authorities to intercept, in the interests of national sovereignty, messages transmitted or received by any telegraph was challenged in the context of wire tapping. The Supreme Court held that tapping a person's telephone line violated his right to privacy, unless it was required in the gravest of grave circumstances such as in the case of a public emergency. This case was significant in that while the court upheld the restrictions on the fundamental freedoms that have been guaranteed under the constitution, it insisted that the government must use restraint in exercising these powers.

All available cases on this point have been decided in the context of government actions that resulted in the deprivation of personal privacy of individuals. There has been no case decided in the context of the infringement of personal privacy by private citizens. It is therefore unclear as to how these precedents will apply in such cases.

12.1.7 Existing Legislations

There is not data protection statute in the country. However, the Information Technology Act, 2000 (the "IT Act") contains provisions under which certain Government agencies can gain access to data. The IT Act was recently amended and two new sections, 43-A and 72-A, were inserted dealing with data protection.

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Section 43-A prescribes compensation in the event a body corporate that possesses, deals or handles any sensitive personal data or information in a computer resource which it owns, controls or operates, is negligent in implementing and maintaining reasonable security practices and procedures and consequently causes wrongful loss or wrongful gain to any person. This section makes no mention of non-digital data. Data protection legislation should cover within its ambit data stored in any electronic medium or a relevant filing system (such as a salesperson's diary).

This section does not provide any protection to data stored in the non-electronic medium. In addition, though the section does make mention of sensitive personal information it does not do so in comparison with personal information which is at a very different level. In essence, under this provision there appears to be no difference between what is traditionally considered to be personal information and sensitive personal information.

Section 72-A prescribes punishment for disclosure of information in breach of a lawful contract.

Any person who, in the course of providing services under a lawful contract, gains access to any material containing personal information discloses, without consent, or in breach of the contract, this material to anyone else will be punished. The problem with this provision is that there is no definition of personal information and in the context of the provisions of Section 43-A which speaks of personal sensitive information, creates a bit of inherent confusion between different sections of the IT Act. While the section does criminalise the act of breach of confidentiality, it does not offer any form of compensation to the victims of such breach. In the context of invasion of privacy, that is probably the most important remedy. The section is narrowly drafted and only deals with personal information obtained under the provisions of a contract for providing services. As a matter of fact, personal information can be obtained through a number of different methods and all such personal information must be protected.

While these amendments do provide some amount of protection against breaches of privacy they are in no way a complete solution. It is important that terms such as "personal information" and "sensitive personal information" are defined clearly. A higher degree of care must prescribed for, sensitive personal information, in terms of its collection, utilization and disclosure. It is also important to ensure that data stored in the non-electronic medium should also be covered and protected. More importantly, while the provisions newly introduced into the IT Act 2008 provide a framework for data protection into the country, where none existed before, a full-fledged data protection legislation needs to include regulations on collection, control, utilization and proper disposal of data. These important principles must be addressed to have an effective data protection regime in India.

Potential Conflicts between Data Protection Legislation and other Laws

There have been various concerns voiced about the fact that the enactment of a data protection regime will conflict with some already existing and necessary legislations. In this regard questions have been raised about data protection in the context of the right to information as well as in the context of credit verification processes. Can a data protection law co-exist with these statutes?

12.1.8 Data Protection and the Right to Information

There are some concerns about whether the rights granted by privacy legislation would run contrary to the rights available under the Right to Information Act which provides citizens the right to access public information.

In the first place, data protection legislations exist around the world even in countries that have enacted detailed public information access legislations. These two types of laws have been proven to be capable of existing side by side. It could even be said that the right to protect

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private data sits at the other end of the spectrum from the right to access public data. Rather than being contradictory, they operate antipodally from each other and give each other meaning.

The right to information under the RTI Act relates to such information as is available with a public officials including work, documents, records, sample of information etc. which a citizen has a right to access. This, in itself, is the inbuilt protection available for personal information.

Thus, just as an individual has the right to access public information, he has the right to prevent unauthorized access to his personal information. In fact, there are several provisions in the RTI Act which directly or indirectly reinforce that private information relating to an individual is to be prevented from unauthorized disclosure. For example, Section 11 prescribes that information relating to or supplied by a third party which has been treated as confidential by the third party cannot be disclosed without his/her consent. Similarly Sub sections 8(1) (d), 8(1) (e) and 8 (1) (j) exempts disclosure of personal information in various circumstances. As such, a well defined data protection regime will be synergistic to the provisions of the RTI Act.

However, despite the existence of a specific exemption under Section 8 of the RTI Act, there is still no clarity as to whether the personal data of public officials falls within the exemption. Under the RTI Act, it might be possible for citizens to claim a public interest in accessing personal information of such public servants and given that the law does not make this clear, could use this provision to invade the personal privacy of a government servant. It may be advisable to consider special provisions to address this lacuna in the proposed data protection legislation.

12.1.9 Data Protection and Credit Verification

Credit verification is the bedrock upon which modern banking systems are based. In that context, banks and financial institutions rely upon the ability to access personal information about prospective borrowers in order to be able to assess whether or not they should be granted a loan.

Once data protection legislation is passed would this result in a curtailment of this right and consequently would this have a detrimental effect on the banking system?

Data protection statutes do not bar the collection of data. They merely regulate the manner in which data is collected and processed. Most data protection legislations limit the processing of the personal information for the purpose for which it was collected. Accordingly, so long as personal information provided for verifying the credit-worthiness of a person is used for that purpose alone, there would be no problem using such information under the proposed data protection legislation.

Additional requirements could be imposed on the processing of such data. For instance the UK Data Protection Act has specific provisions dealing with situations where the data controller is a credit reference agency. The data protection law in Denmark lays down specific instances when data about debts to public authorities can be disclosed to credit information agencies. The act states explicitly that such confidential information will not be disclosed to the general public. In Austria, applications to check information relating to the creditworthiness of an individual can only be initiated after examination by the Data Protection Commission.

12.1.10 Data Protection and Private Investigative Agencies

There is a further potential conflict between the business of private surveillance and investigation and personal data protection. Would the enactment of a data protection law result in the curtailment of the freedom to trade of detective agencies?

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A number of European countries have specific enactments dealing with the use of surveillance for security and private investigation purpose and the review of information obtained. Private investigators have to be licensed in many countries. In Ireland, it is necessary that physical and electronic surveillance measures must comply with data protection laws.

Given that private detective agencies, if allowed to operate without regulation, could potentially wreak considerable havoc on the personal information of a citizen, it is important to ensure that these agencies are regulated particularly when it comes to the use of personal information. The introduction of data protection legislation could have significant consequences on this industry.

Data Protection and National Security

There is likely conflict between privacy needs of an individual and interests of national security.

On many occasions, Government may need to resort to gaining access to personal information and its sharing with other government agencies in order to safeguard national interests. Privacy legislation will need to provide for such exceptions.

12.1.11 Data Protection vs. Transparency in Government

In recent times, the government has, in order to demonstrate greater transparency in its functioning and reduce corruption, initiated the practice of publishing complete details of all the government activities with full information about the recipients of government service. While these initiatives do go a long way to validate the fact that government servants have honestly and without fraud or corruption, delivered the services they are obliged to provide, they have the unintended consequence of exposing vast quantities of personal data in a very public way. With the introduction of the UID number this practice could result in even greater harm as the UID number that will be present in each and every publication of this nature will make it easy to link various public databases and help create an identifiable profile of everyone on that public database.

The government needs to balance the need for transparency with the social obligation to provide its citizens with personal privacy and data protection. There are other ways in which transparency could be demonstrated – ways that do not impinge upon personal privacy. In enacting data protection legislation, the government should be making a policy decision that it supports personal privacy and if this means re-thinking its approach to transparency, must be willing to take appropriate measures to change its own thinking.

12.1.12 Privacy Legislations in other Countries

Many countries in Europe, Asia and America have enacted privacy legislations. A summary of the key provisions of legislations of major countries is annexed. A perusal of the summary would suggest that approach to protection of privacy and individual liberty adopted by the various countries have many common features. It is possible to identify certain basic values which are commonly considered to be elementary components of the area of protection. Some of these principles are setting limits of the collection of personal data in accordance with the objectives of the data collector and similar criteria; restructuring the usage of data to conform with specific purposes, granting facilities for individuals to know all the exceptions and constraints of data and have their data collected; and the identification of parties who are responsible for compliance with the relevant privacy protection of rules and decisions.

Differences between approaches of various countries referred to aspects such as the scope of legislation, the emphasis placed different elements of protection, exceptions provided in the law, and the machinery of enforcement. While most of the European legislations have opted for

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heavy handed enforcement, many of the countries in South East Asia have preferred the light handed self-regulator. However, as noted above, the core principles are by and large common amongst the countries and as described in legislature, some of the common principles for privacy legislations may be enumerated below:

(i) Notice

(ii) ***Choice and Consent:*** Consent of the individual before his personal information is collected and maintained.

(iii) ***Collection Limitation:*** Only that information is to be collected that is essential for the purpose.

(iv) ***Use Limitation:*** Information is to be strictly used for the purpose for which it was collected.

(v) ***Access and Correction:*** An individual should be allowed access to his information and he should be enabled to correct/update his information.

(vi) ***Security:*** Data is to be secured against accidental loss or theft.

(vii) ***Disclosure to third party:*** Individual's consent is required for disclosure of his personal information to third parties.

(viii) ***Openness:*** The data controller would be transparent in his working as regards the collection and use of personal data.

(ix) Accountability

(x) ***Preventing Harm:*** to the individual whose personal information is being stored by the private or government entity. It is recommended that these principles be adopted for the proposed framework also.

12.1.13 Proposed Framework for Privacy Legislation

Based on the above a framework is being outlined in subsequent paragraphs. The key recommendation is that the legislation should really be in the form of framework rather than detailed prescriptions.

It should highlight the basic principles that any data controlling authority will need to subscribe to and how the privacy rights of an individual would be protected. Thereafter the sector-specific or industry specific detailed guidelines will be prepared and approved by the regulator which would also be responsible for enforcing the legislation. The specified features of the framework are discussed below in detail:

Applicability

Almost all data protection legislations have a well defined applicability clause, determining the persons who have to comply with the obligations set out therein. Of the statutes examined, 5% are applicable only to public bodies and 3% are applicable only to private persons. An overwhelming majority (92%) of the countries reviewed have made their enactments applicable to both public and private entities. Most legislations exclude from the ambit of the legislation, information that is solely in the domestic or household sphere and for strictly personal reasons.

Recommendation

It is strongly recommended that the proposed data protection legislation apply equally to private as well as public entities.

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At present, India has a privacy jurisprudence that has been judicially derived from the fundamental rights set out in the Constitution. Through a series of cases the courts have upheld an implicit right against police action that impinges upon the personal privacy of citizens. However, most of these cases have been argued in the context of invasion of physical privacy and relate to the right of individuals against harassment by governmental authorities.

With the increasing digitization of data, many entities both public as well as private, have collected and currently hold vast amounts of personal data. It is possible that public entities and governmental agencies currently hold much more personal information about a larger section of society than any private entity. There is currently no legislation that protects against the misuse of this data. Should legislation be passed that addresses the privacy concerns around such data, it is imperative that such legislation apply equally to public as well as private entities in order to equally protect citizens and individuals against the misuse of their personal data.

Data

All the legislations that were examined, with the exception of 13 countries, made a distinction between personal data and personal sensitive data, applying a greater standard of care when dealing with personal sensitive data as opposed to personal data.

Recommendation

In the Indian context, it is advisable that such a distinction be brought about in order to ensure that all forms of identifiable data are protected under the general right to privacy but that a greater responsibility is imposed on entities processing or collecting certain categories of information which if disclosed could result in significant financial, reputational or other associated loss to the person concerned. At present the Information Technology Act, 2000 includes data protection provisions that apply to personal sensitive data alone without making the distinction between that and personal data. It will be important to reexamine the definition as it currently stands in that Act, and suggest an appropriate definition that realistically distinguishes between personal data that deserves some amount of protection and personal sensitive data that requires a greater degree of protection.

12.1.14 Personal Data

Almost all the legislations define personal data to mean any information that relates to an *identifiable* person. Unless the sum total of the information in question has the ability to identify a real person it will not be elevated to the status of personal data.

In most cases, personal data refers to identity information about *natural* persons. However, some jurisdictions include within the ambit of personal data, identity information about legal persons, bodies or associations.

Recommendation

In the Indian context it is advisable to limit the legislation to personal information relating to real persons as there are other legislations that deal with information in the context of legal persons such as corporations. Besides, there is a greater risk of personal injury in the context of real persons as opposed to legal persons.

It is also important to draw from the best practices of countries around the world in coming up with an appropriate definition for personal data that results in information that is capable of identifying a person, either directly or indirectly (and thereby causing risk to his identity), being included within the ambit of the definition. It is possible that a person could be identified directly by name or indirectly by his car registration number or passport number. It is important to include both types of data within the definition. Equally, it is important to recognize that in all cases a person's name may not be enough to identify him. For instance, "Singh" is a very common family name and may not of itself constitute information that is capable of identifying a person.

It is important to note that to be able to identify a person, information need not necessarily be objective identification such as a person's name, but can be subjective information such as the opinion that a person is a "reliable" borrower or that a person is "expected to die of a terminal disease". It is also important to bring all personal information within this definition regardless of the format in which the information is stored. For instance, video surveillance footage that identifies a person should be classified as personal data in order to protect the privacy of the person involved. Drawings made by patients as part of psychiatric evaluations should similarly be treated as personal information as they could identify the medical condition of the person.

12.1.15 Personal Sensitive Data

Definition of personal data is very wide while compared to personal sensitive data, which is more specific and includes various types of information, which, if disclosed inappropriately, could result in financial and reputational loss to the person concerned.

Almost all the legislations examined listed the following as personal sensitive information:

1. racial or ethnic origin
2. political affiliations or opinions
3. religious affiliations and beliefs or other beliefs of a similar nature
4. membership of a trade union
5. physical or mental health or condition
6. sexual life and criminal record

In addition, the following categories of information have also been treated as personal sensitive information in some jurisdictions:

1. Genetic information about an individual that is not otherwise health information
2. Information or an opinion about an individual
3. Financial or proprietary confidential corporate data
4. Data on a person's personality
5. Private family relations
6. Biometric data
7. Social welfare needs of a person or the benefits, support or other social welfare assistance received by the person
8. Data collected on a person during the process of taxation (except data concerning tax arrears)

Recommendations

It is important that an appropriate list of items that would constitute sensitive information in the Indian context be developed. While the first list set out above must form the basis for any list of sensitive information that is to form part of the Indian legislation, it is important that additional

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elements as appropriate for India be added. For instance, in addition to the reference to racial or ethnic origin in the Indian context special reference must be made to caste as well. Also, in the context of the Aadhar program, it will be relevant to include biometric data in the definition of personal sensitive data. The Group of officers would need to deliberate on this and finalise the definition of personal data and personal sensitive data as this would be one of the key elements of the proposed privacy legislation.

12.1.16 Data Collection

All data protection legislations include provisions that deal with and regulate the collection of data. These provisions usually include the following elements:

It is necessary to inform the data subject of the purpose of the collection of data.

1. The explicit or written consent of the data subject must be obtained for the collection of data. However, the balance of interests must always be considered and in certain cases, the requirement to obtain consent may be dispensed with for reasons such as national security, benefit of the data subject or investigation of a crime or other circumstances that may be prescribed in the statute
2. The data subject is free to withdraw consent in certain cases.
3. The data that is collected must only be for specific, explicitly defined and legitimate purposes. For instance, the collection must be authorised under a law. The data subject must consent (such consent being subject to the test of "balance of interests") to his personal data being used for the specified purposes.
4. Collection of data which is of a sensitive nature is generally subject to more control or may be prohibited. Explicit consent or even approval from a regulatory authority may be required to be obtained to collect sensitive personal data.
5. Data collected must be proportional to the purpose for which it was collected.
6. The information that is collected must be accurate and up to date.
7. Where the information is not received directly from the data subject, the source of the information must be informed to data controller.

12.1.17 Data Processing

All the legislations we reviewed include regulations with regard to data processing. Since most data leakage takes place during remote processing, is important to ensure that adequate measures are in place to ensure that data transferred to a processor receives the same level of protection.

Most data protections legislations include the following provisions with regard to data processing:

1. The data controller has to ensure that the data processor processes the information/personal data for the purpose for which it was collected.
2. Data processing must be done carefully and in a diligent manner.
3. Data processing must for reasonable and legitimate purposes and must be in good faith and in consideration of the interests of the individual.
4. Data subject must have the knowledge of the purpose for which the data is being processed.
5. Some countries require that the data in the database is used only for the purposes for which the data base was setup. Also requires the database to be registered subject to certain conditions.

6. Processing of data in an automated manner must be avoided when it affects the vital interests of the data subject. In some countries the subjects have the right to have knowledge of the logic of the automated processing and in others they may request the same to be supervised by a person.
7. Processing in a manner that provides unauthorised access of the data to persons other than the data subject is strictly prohibited.

12.1.18 Data Storage

Data once collected needs to be stored and as larger volumes of data enter into public and private databases, the need to legislate on appropriate storage regulations becomes important. No matter how carefully regulated collection and processing might be, if data retention and storage regulations do not match up, there is a grave risk that this will prove to be the source of data violations. Most legislations around the world have regulations relating to the retention and storage of data. These include provisions such as:

1. The data once collected must be deleted after achieving the purpose for which it was collected.
2. Data must not be stored in a form that allows data subject to be identified after achieving the purpose of collection.
3. Uniform personal identification numbers must not be used for identification of data subjects. Some countries have prohibited linking of data and use of matching programs.
4. Laws of some countries mandate that data must be retained for a period after the use so that it can be accessed by the data subjects or by the state.
5. Some of the exceptions for deletion of data include keeping data for historical, scientific and statistical or research purposes.
6. The details of data collected to be published in register or in a website.
7. Access to the data must be blocked if the data cannot be deleted.
8. The data controller must limit the time period of the retention of information to the minimum necessary.
9. The details of the time and date when the information is collected for storage must be noted.
10. Data subjects must be provided with a mechanism to withdraw the consent at any time, without undue delay, cost or gain to the data controller

12.1.19 Data Security

The data once collected, will need to be stored (even if only for a little while), by the data controller. It is important that the proposed data protection legislation should impose adequate data security obligations on the data controller for the duration of such storage. Most data protection legislations have provisions such as:

1. The data controller must ensure that the data is protected, by such security safeguards as it is reasonable in the circumstances to take, against loss, against unauthorised access, use, modification or disclosure, and against other misuse.
2. The integrity of personal information to be secured by taking appropriate technical and organisational measures.

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3. Steps should be taken to prevent unauthorised access to personal data, including the right of physical access to the premises, data, and programs and to operate equipment of the data controller or processor.
4. The identity of persons who have access to information network should be logged.
5. The organisation must appoint specific staff (such as a security officer) to maintain security of data and prevent the data from burglary, alteration, destruction, extinction, or disclosure.
6. Some laws also mandate technical procedures and measures to protect data while in transmission. This includes an obligation to transfer data only in cryptographic form with a digital signature.
7. In some countries, the data regulator is responsible for ensuring credibility and integrity of the data controllers handling the information and for ensuring that equipment used is of a high standard.
8. Some countries also vest an obligation on organisations to inform data subjects of security incidents that may lead to a threat of unauthorised disclosure of personal data.
9. Privacy impact assessments to be conducted by independent authorities in the form of transparent audits, for the protection of personal data.
10. Adoption of a code of practice to measure the efficiency and level of protection of personal data.
11. A response plan to be formulated by organisations which will set out the appropriate action to be taken for breach of data protection laws.
12. The technical and organisational measures to be undertaken by data controllers must be proportionate to the existing risk, sensitive nature of information and its consequence for the data subject.

When processing is carried out by service providers, the controlling authority must enter into a contract that provides the scope, content, obligations and guarantee of compliance of data protection principles by these service providers.

1. At the time of encountering a security breach during processing, the data subjects must be informed about the potential pecuniary and non pecuniary effects of such a breach. This information must be provided well in advance.
2. Mechanisms that prevent and detect breaches depending upon the standardised model of information security governance/management must be implemented.
3. Periodic internal training, education and awareness programmes aimed at better understanding of data protection principles and security issues must be implemented.
4. Data privacy officers with adequate qualification, resources and power for supervisory functions must be appointed to overlook functioning of data controllers.
5. Response plan that establishes guidelines for verifying a breach of applicable law, cause and extent of breach, harmful effects and appropriate measures to avoid future breaches must be implemented.
6. Data supervising authorities must ensure the following security standards are maintained:
   (a) Supervisors must be impartial, independent and have technical competence and adequate resources to carry out their functions;
   (b) Supervisors must ensure coordination to achieve uniform standards of data protection is maintained at national level, by sharing reports, investigative techniques and other necessary information; and

(c) Supervisors must maintain high level of confidentiality of information exchanged during course of co-ordination.

12.1.20 Data Access

Once data has been collected it remains under the control of the data controller. If the data changes (such as in the event the data subject moves to a different address) it is important that this data be rectified and made current. Similarly, if the data subject finds, after his data has been collected, that the database entries are incorrect, it should be open to the data subject to rectify the database in order to rectify his own data. Many data protection legislations include provisions such as:

1. Data subject must have access to the data, subject to applicable laws. The subjects are also granted the right to rectify.
2. In some countries, the correction of personal information can be made following an investigation.
3. Some countries have an exception that records maintained in anticipation of a civil action or proceeding cannot be accessed.
4. Some countries require that the data holder must produce relevant identity proof while requesting access to personal data.
5. It is mandatory for the data controller to provide an individual with information with respect to data controller, the purpose of data collected and who are the recipients of the data, information on processing of the data etc.
6. Information must be provided to the data subject in an intelligent form using clear and plain language. Special care must be taken with respect to information of minors.
7. National law may restrict the repetitive exercise of access of information within a short period of time, unless data subject provides sufficient reasons.

Cross Border Applicability and Transfer

European countries extend the applicability of their data protection legislations to persons who may not be located within the country but may be using equipment located in the country, to process information. Most European legislations also prohibit the transfer of data to countries with less rigorous data protection laws. Our review indicates that 66% of countries analyzed, have provisions that permit the regulator to prosecute non-residents in respect to data offences as long as the data in question is stored within the country and the storage was not merely for the purpose of transit.

Tasks Throw some light on the concept of "anti-social behaviour".

Self Assessment

Fill in the blanks:

1. …………………… is defined as the expectation that confidential personal information disclosed by any individual to anyone.
2. Data privacy and the need to protect personal information is almost never a concern when data is stored in a …………………… manner.

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3. When Privacy protects anti-social behaviour, such a situation proves to be a …………………… in privacy system or policies of the respective countries.
4. Currently, in India there is …………………… legislation for protecting the privacy of individuals for all information that may be available with private entities.
5. Sub-sections …………………… exempts disclosure of personal information in various circumstances.

12.2 Privacy – A Global Approach

In Europe, advances in data processing led in the 1970s to fears about the abuse of information storage and the potential for a "1984"-like surveillance state. Many of these fears were based on the technological notion of computers as vast centralized mainframes, a notion which corresponded to the state of computer technology of the 1960s. But since then, this technology has moved steadily toward a decentralized system, with millions of small computers in people's offices and homes.

Though the origin of concern over privacy was the potential violent abuse of data by government agencies, the focus of remedial action shifted quickly to data collection activities by private business. Rules against the government's collection of data were also set, but with less severity. At the same time that Germany promulgated the first data protection laws against private data abuse, its federal and state governments took a quantum leap in the use of data-processing technology for the surveillance of its citizenry. During the 1970s, a handful of terrorists prompted the German police to institute a chillingly efficient system of border checks, citizen registration, data access, and domestic road blocks, all of which were interconnected by data banks and communication links. Although the terrorism was quickly stopped, many control mechanisms were not.

Additionally, the rules had a tendency to spread. A loophole was soon recognized in privacy laws: international data transfers permitted the evasion of data protection laws. In Sweden, for example, a data file on any employee is subject to protection from disclosure to third persons. However, if a Swede works for a foreign firm, it would be possible that the data would be transmitted to the headquarters of the firm, where it would be less protected. Conceivably, therefore, some countries could set themselves up as "data havens" in order to attract businesses determined to circumvent privacy laws. Although these threats were more theoretical than real, they led to a movement to "harmonize" data protection practices or to restrict the flow of sensitive data in the absence of such harmonization.

The Organization for Economic Cooperation and Development (OECD) was instrumental. In 1979, the OECD drafted a first set of guidelines for its member states: Data collection should be limited to necessary information obtained lawfully, and, where appropriate, with consent; data should be accurate, complete, up-to-date, and relevant to the needs of the collector; use of the data ought to be specified at the time of collection, and its disclosure should be in conformity with the purpose of collection; assurances must be made against unauthorized access, use, and disclosure; and data should be open to inspection and correction by the individual to whom it refers.

The Council of Europe incorporated the OECD guidelines in the 1980 Convention on the Protection of Individuals with Regard to Automatic Processing of Personal Data. The convention affected all transborder data flows among European countries and with other countries, such as the United States. This made American firms with international business activities nervous, since the convention provided that any country could restrict the transmission of data to another country that did not have data protection legislation comparable to its own. Since firms conducting international transactions generally prefer to have uniform procedures for transactions in various countries, procedures were likely to conform to the strictest of national rules.

In 1992, the European Commission adopted a directive establishing basic telecommunications privacy rights for its member states. The draft included restrictions on unsolicited calls, calling number identification, and use and storage of data collected by telephone carriers for electronic profiles. It mandates that holders of data pay for security measures in order to bar unauthorized access. It also prohibits the creation of electronic profiles of individuals utilizing data concerning their purchases or other actions, and it bars transfers of data to non-EC member countries unless those countries have adequate data protection rules.

Among Third World countries, Brazil has been particularly active in data and telematics issues. Instituted during the years of military dictatorship, the thrust of Brazil's policy was evident in the statement of its top information officer, who combined both the civilian and military functions of that term.

The administration [i.e., the restriction] of TDF [transborder data flows] appears to be an effective government instrument for the creation of an environment that makes the emergence of an internationally viable national data-service industry possible. By itself, such an industry would have had great difficulties in overcoming the obstacles of a completely "laissez-faire" environment. The country's TDF policy altered that situation.

A license had to be obtained before establishing international data links. Applications for foreign processing, software import, and database access were rejected if domestic capability existed. The policy was strongly embraced by the Brazilian military dictatorship and its business and industry allies, and it was admired around the world as an assertion of national sovereignty by many observers who would otherwise feel no kindness toward right-wing juntas.

In the United States a generally more pragmatic approach to legislation, and a case oriented decision process administered through the judiciary and the regulatory agencies, have led to the tackling of specific data abuses when they became apparent rather than to comprehensive laws. This has led to a less systematic approach that in Europe, and to a variety of ad hoc federal and state legislation. Typically, they addressed a narrow and specific issue of concern. Most such statutes were either aimed at particular industries (for example, credit rating bureaus), or at the conduct of governmental agencies, or they dealt with flagrant abuse such as computer break-ins.

Thus, contrary to often-held views in other countries, numerous laws protecting data and privacy exist in the United States, and some of them are quite far-reaching, especially in terms of access to state files, and limits on such files.

Nevertheless, U.S. privacy legislation remains considerably less strict than European law in the regulation of *private* databases, and coverage of U.S. governmental organizations by privacy law is not comprehensive. Although the Privacy Act of 1974 restricts collection and disclosure by the federal government, and vests some responsibility in the Office of Management and Budget, only a few states and local governments have passed similar fair information practices laws for their agencies. The U.S. has no government agency specifically charged with data protection similar to the centralized data protection commissions or authorities established in European countries, though proposals have been advanced in Congress.

A synthesis of the comprehensive European and the ad-hoc American approaches is to formulate a set of broad rules or principles applicable to a sector of the economy, or to a set of issues. This was the direction taken by the New York Public Service Commission on the issue of telecommunications privacy.

The New York Public Service Commission's approach in 1991 went well beyond the problem-specific approach. It issued, after a proceeding initiated by the author, a set of broad privacy principles applicable to the whole range of telecommunications services under its jurisdiction.

A similar approach, that of privacy principles, was recently taken by the Federal Government's high visibility Information Infrastructure Task Force, in the report by its Privacy Working

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Group, which issued a set of Principles for Providing and Using Personal Information. But that report is virtually devoid of a discussion of a market mechanism in protecting privacy, or in integrating such mechanisms in its privacy principles.

12.2.1 Markets in Privacy

The reflexive approaches to privacy problems have been regulation, or denial. Are there other options?

First, there is the possibility of self-regulation, where an industry agrees to restrict some of its practices. Realistically, though, self-regulation is rarely voluntary (unless serving an anti-competitive purpose): it usually occurs only under the threat of state regulation, and it can therefore be considered a variant of direct regulation.

The practice for the state to control and protect privacy is a natural response in the telecommunications field, given its history as state-controlled monopoly. It has led to a view of privacy problems largely as an issue of rights, and the question is how to create such rights in the political, regulatory and legal sphere. Such a view is appropriate in the context of privacy rights of the individual against the state. But the same cannot be said for the privacy claims of individuals against other individuals. The allocation of rights is only the beginning of a much more complex interaction. Some people may want and need more privacy than others. Privacy, by definition, is an interaction in which the informational rights of different parties collide. Different parties have different preferences on "information permeability" and need a way to synchronize these preferences or be at tension with each other. This would suggest that interactive negotiation over privacy would have a place in establishing and protecting privacy.

How should one analyze the role of bargaining over privacy? It is useful to consider as a framework for discussion the economic theorem of Nobel laureate Ronald Coase, a Chicago economist. Coase argues that in a conflict between the preferences of two people, the final outcome will be determined by economic calculus and (assuming reasonably low transaction costs) result in the same outcome *regardless* of the allocation of rights. If the final result is the same, who then should have the rights? According to Coase, it should be the "least cost avoider," *i.e.* the party who can resolve the conflict at the lowest possible cost.

Let us apply this discussion to privacy, using the example of telemarketing. Both of the parties to a telephone solicitation call attribute a certain utility to their preference. For example, it may be worth US $3 to the telemarketer to have an opportunity to talk to the consumer. If necessary, she would be willing to pay a potential customer up to that amount.

Conversely, assume that the consumer would be willing to pay – grudgingly for sure – up to US $4 to the telemarketer to keep her off the phone. The US $4 is the value he places on his privacy in this instance. Thus, if the telemarketer has a legal tight to call the consumer at home, the latter would "bribe" her not to call in order to keep his peace and quiet.

The basic decision on regulatory rights is either to prohibit unsolicited telemarketing calls, or to permit them. But regardless of which rule is adopted, the call will not take place, because under our numerical example the value of privacy to the consumer is greater than its interruption is to the telemarketer. But if for some reason the value to the telemarketer should rise, say to US $6, the consumer could not pay her enough not to call; and conversely, if the telemarketer would have no initial right to make unsolicited calls, she would pay for the consumer's cooperation by a payment of US $4 or more, so that the call is accepted.

In other words, the distribution of the legal rights involved may largely determine who has to pay whom, not whether something will happen. Thus the law does not necessarily determine whether telemarketing calls actually take place, it only affects the final wealth distribution. This interactive concept is often difficult to grasp if one is used to think in absolutes of black-letter law. Common law, in contrast, has recognized transactions from the beginning. Indeed, the original legal cases which established the tort of privacy were not based on a finding that the plaintiff had a right to privacy, but instead that the plaintiff had a right to be adequately compensated.

For privacy transactions to occur, however, there are several prerequisites. They include:

1. Sufficiently low transaction costs.
2. A legal environment that permits transactions to be carried out.
3. An industry structure which permits transactions to occur.
4. Symmetry of information among the transacting parties.
5. No "market failure," *i.e.,* no growing instability in the market.
6. The ability to create property rights, or to exclude.

Courts have been reluctant to grant property rights to personal information outside of the case of luminaries. In one case, *Avrahami vs. U.S. News & World Report*, a gutless court managed to hold for two organizations that exchanged subscriber name lists without permission, even though Virginia Code 8.01-40 (Michie 1999) clearly provided that "Any person whose name, portrait, or picture is used without having first obtained written consent of such person for advertising purposes or for the purposes of trade, such person may maintain a suit to prevent and restrain the use thereof." The statute also permitted the aggrieved party to recover actual and punitive damages. The court held that the inclusion of a name was "too fleeting and incidental," and that a person's name was not personal property. An appeal may be brought before the Virginia Supreme Court.

This reluctance of courts (and probably of legislatures) to recognize property rights in residual information s not surprising in light of the role of direct marketing in the economy. However, property is only not established from above by formal statutes or court decisions, but also from below, by the simple mechanism of an individual's ability to exclude others. Good fences create good neighbours and good transactions as well. Electronics makes this increasingly possible. Such access control creates the possibility of bargaining, by transforming information from a "public good" (like a light house's flashing) to a private good (like a flashlight).

12.2.2 Examples of the Market Approach

Telemarketing

As we discussed, because privacy and access are of value to parties in a telemarketing transaction, exchange transactions will emerge once they become technically feasible. How could this happen on a practical level? Signalling technology and telecommunications equipment provide now the capability to select among incoming calls electronically. This creates the precondition for access control by individuals, namely information about the calling party, which until now enjoyed the stealth of anonymity. Information is power; or rather it is worth money. Once this choice of avoiding calls is available to the called party without loss of important incoming calls, callers must offer incentive to be admitted. Friendship, family ties, reciprocity, useful information business – or a financial payment. What will therefore inevitably emerge is a system of individualized access charges.

Such a system might be described as Personal-900 Service, analogous to 900-service in which the caller pays a fee to the called. The caller would be automatically informed that the customer charges telemarketers for his time and attention.

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Individual customers could set different price schedules for themselves based on their privacy value, time constraints, and even the time of day. They would establish a "personal access charge" account with their phone or an enhanced services provider, or a credit card company. By proceeding, the telemarketer enters into a contractual agreement. The billing service provider would then automatically credit and debit the accounts in question.

Such a system will probably have a negative impact on the business of telemarketers. Currently, they "externalize" some of their costs by accessing customers at home at no charge to themselves other than their operating cost. Right now, consumers do not yet have the means to make the telemarketer compensate them for their attention. (In television, the audience gets at least to view an entertainment, sports, or news program.) Under personal-900, telemarketers will be forced to pay more for consumer access.

Consumers will benefit from the payment they receive for accepting calls. Some might even become "professional call-receivers." though telemarketers will no doubt refine ways to select the most likely buyers. Telemarketers will become more selective in who they try to reach, and spend more money on "fine tuning" their customer list. Technological tools to refine their search are intelligent agents sent out to find interested and affordable targets for solicitation.

Markets in access will develop. Consumers will adjust the payment they demand in response to the number of telemarketer calls competing for their limited attention span. If a consumer charges more than telemarketers are willing to pay, he can either lower access or will not be called anymore. Prices could vary by time of day.

Consumers will bear some portion of these costs. First, by way of higher prices for telemarketed products. The extent to which these costs can be shifted by telemarketers are in strong competition with other forms of marketing, and where consumers are price-inelastic, telemarketers will bear most of the added cost.

Caselet

Maximising the Data Diamond

CRM (UK) Ltd. was recently employed by a global technology company to advice on the development of its customer information management strategy in the European market. The client's primary aim was to increase the effectiveness of its marketing function through better understanding of its customers' needs. The client had a traditional mass marketing approach in which large volumes of direct mail were distributed to its customer base each month. Marketing was based on the "static profile"—a one-off questionnaire response which was often incomplete and outdated quickly. It was important that a new cost-efficient method was produced in which literature received by customers was relevant to their individual needs and promoted, rather than hindered the sales effort. CRM (UK) Ltd. recommended an approach based on the analysis of customer interaction histories, where database records are used to determine customers' apparent needs. This allows the marketers to pinpoint groups of customers that have demonstrated interest in the products promoted by a campaign and subsequently to identify groups of prospects who appear similar to the first group and might therefore be expected to respond positively to the campaign. This new approach is highly effective, producing significantly higher campaign response rates, from considerably fewer targets at a fraction of the cost of the previous method.

Source: http://ieeexplore.ieee.org/xpl/login.jsp?tp=&arnumber=5358767&url=http%3A%2F%2Fieeexplore.ieee.org%2Fxpls%2Fabs_all.jsp%3Farnumber%3D5358767

12.2.3 Wireless Transmission

Market forces may also be able to resolve the unauthorized eavesdropping of wireless communication systems such as cellular and cordless telephones. True, such monitoring is illegal for cellular calls (though not for cordless phones), but it is widely practiced by scanning hobbyists as well as investigators. Just ask Prince Charles.

Eavesdropping is inefficient because it forces the participants in a communication to disguise the content of their transmissions, or to seek other ways of communicating. Thus, there are incentives for cellular service providers or equipment firms to offer scrambling devices.

Encryption systems require extra equipment and may increase the amount of spectrum required for a given quality and information content of a signal. Customers who value privacy sufficiently will be willing to pay for the increased resource cost.

12.2.4 Data Banks

Companies often sell or pass along information about their customers to others, for a variety of purposes. Insurance companies want to know the accident and medical history of new applicants; stores, whether new customers are credit-worthy; employers, whether job applicants have criminal histories; doctors, whether a patient has brought a malpractice suit in the past; and so on.

In America individuals, firms, and governments have a substantial right to collect and redistribute personal and financial data about individuals. One could conceive of a market transaction system by which consumers offer companies payments to delete such information or refrain from distributing it. But could such a system work? In any transaction, both parties remain with information about it. The problem is not usually that a party saves that information, but rather that it disseminates it to others. The regulatory approach restricts some of these transfers. Could a market work instead?

The answer is usually "no" today and only "maybe," in the future.

The reason for this can be found in the logic of reselling information. In many cases the holder of information about a second party could share that information with a third party at a higher price that the resulting reduction in value to him. Take, for example, a piece of credit history information on individual *A* that is worth \$5 to *B* so long as *B* retains the information exclusively. If *B* distributes the data to another party, *C*, the direct value of the data to *B* may not be diminished at all, or may drop a bit to, say, \$4. (It is one of the peculiar economic properties of information that it can usually be shared without any or only little loss of usefulness to its holder. The exceptions are business and trade secrets.) Suppose *C*, too, is willing to pay up to \$4 for the same information because it is of similar usefulness to him. Then the total value to *B* of not destroying the information is \$8. And why stop at two beneficiaries? *B* could resell the information also to *D*, *E*, etc. So could *C*. In each case, the reduction in value of the information to one of its holders may be less than what another party will gain by obtaining it.

Hence the information will spread. Accordingly, the subject of the information, individual *A*, might have to expend a significant amount of money to prevent *B* from spreading the information. If it is of use to a hundred firms, each valuing it at say \$4, it would take a \$396 "bribe" for *A* to keep *B* from reselling it. If a resale of information is possible, *B* and *C* would market the same information about *A*, and they will drive down its price to the marginal costs of distribution. In that case, the information would spread greatly, but it would also be cheaper for *A* to bribe *B* at the outset. Yet all *B* would have to do is to contractually assure, in the transaction with *C*, against resale.

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A could attempt to stop personal data from getting released to a third party by preferring to do business only with firms that agree to destroy such data. But companies would charge customers higher prices to compensate for the lost information resale. Furthermore, once many companies start refusing to sell information, each will have less information that before and hence a greater business risk, which would be reflected in the price. In effect, firms would charge for withholding the information through their product or service prices.

At the same time, any effort by *A* to pay a high price to *B* for non-revelation will likely raise the value of the information to *B, C, etc*. – What is *A* trying to hide, anyway? And, wouldn't *A* have to pay a similar bribe to *C,* too, if the information reaches it? Thus, the more important the information is to more parties, the less affordable is a market transaction to purchase privacy. Only where information is of little use to others, or only to a very few, are privacy transactions likely.

An example is a video store. Such a business could advertise that its policy is to guarantee privacy. It would gain customers, and since the information is not usually very important to many other parties, it would lose little (the interest in political figures and celebrities is an exception). In contrast, it is hard to imagine a credit card company willing to be compensated for non-disclosure to other credit-extending firms. The value of preventing credit-fraud is so great to so many firms that any payment to undermine the reporting system would have to be quite high. Yet video-store disclosure is prohibited by law, while credit-reporting is legal. The reason is probably that the loss of information-value was low for video-viewing and nobody therefore mounted a fight against such legislation, while politicians running for election were particularly sensitive about the issue.

Even if *A* could pay *B* to withhold the information, it may not be possible in practical terms. One of the characteristics of information is that its exclusivity is almost impossible to acquire once multiple parties have access to it.

Any negotiating approach will only work for transactions between individuals and businesses. If the information is obtained by government, less market-based incentive exists to prevent transfer of the data. This is one reason why government agencies are becoming so active in selling information to others. They have little to lose. Where else could one go to get a driver's license?

Currently, there is a right to collect, distribute and utilize personal data. What then if the rights were reversed and one would have to get a person's permission before retaining, transferring or utilizing personal data about him? If the information is of value to a bank and other credit institutions, they would acquire it by compensating the customer. Given the collective value of the information, such transaction would be likely. Hence, the information would be circulating. Consumer would be richer that before, but the information would be, in effect, still in the public domain.

In conclusion, for personal data banks containing information about individuals, market transactions are either unlikely where the information is of use to many others or it will be acquired by them. In either case the personal information, if valuable, becomes public information. For the future, one possibility that may help alleviate this problem is the emergence of encryptions.

12.2.5 Encryption

For markets in personal information to exist, it is necessary to protect that information from appropriation by others.

With digital technology, methods of protecting information with encryption have become powerful and convenient. Encryption goes back for thousands of years. It emerged primarily for the first electronic computers being the impetus as part of national security work, and spread to civilian computer applications. Encryption became popular with the release of the Data Encryption Standard (DES) to the public in 1977. DES is a 56 bit single key algorithm. To send a message to B using DES, *A* needs to encrypt it. This leaves open the risk that the key is intercepted, and anyone knowing the key can decrypt the transaction.

Dual key systems solved this problem. In this system, anyone who wants to receive a message has a "public" key. If *A* wants to send information to *B* in a secure way, he can encrypt it using *B's* public key. But the encrypted message can be decrypted only by using *B's* "private" key. Thus, there is never a need for the risk-laden transmission of private keys.

Dual-key encryption software has appeared with the spread of the Internet: Pretty Good Privacy (PGP) employs dual key cryptography and is distributed free of charge for private use. Business users pay. Privacy Enhanced Mail (PEM) uses DES encryption along with a dual key algorithm to secure mail transmission.

According to International Resource Development, the U.S. data encryption market has grown from $384 million in 1991 to an estimated $946 million in 1996.

Where information is protected by encryption it is more marketable. Ironically, the U.S. government, for reasons of law enforcement and national security, has opposed easy and fully secure encryption, thus reducing the ability of individuals to control access to their information, to establish property rights, and to create the foundation for markets.

Present encryption, however, does not solve the problem of information *resale* to a third party *C*, once decrypted by the second party *B*. Solving that problem in the future would be a god-send to every owner of information and copyright, but it is hard to conceive how it might be done securely. A buyer of information cannot be stopped from memorizing and or photographing the decrypted information on his screen and then reselling it.

Even so, giving *A* protection vis-a-vis *B* already goes a long way. It permits, for example for property rights in information about transactions between *A* and *B* to be held *jointly*. Both *A* and *B* hold keys to it, and therefore need each other's permission for their release. This would enable, for example *A* (a consumer) to require compensation from *B* (a credit card company) for releasing transaction information. It is true that *B* could copy information once it accessed it for one purpose, in other says that were not authorized. But to do this in a systematic way to thousands of customers would be a foolish business practice.

The dual-key systems would permit also individuals to sell information about them directly, instead of letting various market researchers and credit checkers snoop in their demographics, personal history, and garbage cans. Individuals would define a set of access rights: their doctor only would be allowed to view medical records. Other categories of information would have free access, while others would be costly. Presumably, the more valuable information is to the buyer, and the more negative it is to the seller, the higher the price. Some information would be priced too high for voluntary exchange. This system would also allow an individual to keep track of who asked for the information. And, the reselling of the information would be authorized only by agreement of both key holders.

12.2.6 Selling the Right of Privacy

So far we have analyzed the role of markets in the provision of privacy in a largely pragmatic way – will it work? Yes, in some cases. No, in other cases. But at least as important is the normative question – *should* privacy be part of a market? While the market approach could be in many instances efficient on economic grounds and would differentiate according to needs, efficiency is not the only value to be concerned about. Just as there are economic trade-offs, so are there non-economic ones.

Notes

A distribution of privacy rights on a free-market basis would provide no protection for citizens against encroachment by the *state*. The only effective limits on government are those established through constitutional and statutory means. Therefore there would have to be two types of privacy rules, one for transactions among private parties, the other for transactions between private parties and the state. The former would be left, in part, to the market to allocate; the latter would involve a constitutionally protected right. Yet the question may be asked whether such a bifurcation in the treatment of the most mobile of resources – information – is sustainable and practical.

Perhaps the most prevalent argument against markets in privacy is that affiance is not the only societal goal. Thus, some resources, such as privacy allocations, might be in the category of inalienable rights that are protected from encroachment and "commodification" by the market system.

This position leads to several responses to the notion of transaction-generated privacy:

- Privacy is a basic human right, and not subject to exchange transactions.
- Consumers cannot correctly assess the market value of giving up personal information.
- A transaction system in privacy will disproportionably burden the poor.

Caution Privacy is a basic human right is a noble sentiment, but it does not follow that privacy therefore is outside the mechanism of transactions.

As mentioned, a right is merely an initial allocation. It may be acquired without a charge and be universally distributed regardless of wealth, but is in the nature of humans to have varying preferences and needs, and to exchange what they have for what they want. Thus, whether we like it or not, people continuously trade in rights. In doing so, they exercise a fundamental right, the right of free choice.

In most cases, a person does not so much transfer his right to another but chooses not to exercise it, in return for some other benefit. An accused has the right to a jury trial, but he can waive it for the promise of a lenient sentence. A person has the freedom of his religion, but may reconsider in order to make his spouse's parents happy. One can be paid to assemble or not to assemble, to forgo bearing arms, travel, petition, or speak. Voluntary temporary servitude in exchange for oceanic passage has peopled early America. Students have the right to read faculty letters of recommendation written in their behalf, but they usually waive that right in return for letters they hope will have greater credibility.

These departures from textbook civics are socially undesirable if the rights in question were given up under some form of duress, for example if in a single-employer town workers must agree not to assemble as a condition of employment. But when an informed, lucid, sober, and solvent citizen makes a choice freely, the objections are much harder to make. They then boil down to a transaction being against public policy, often because it affects others outside the transactions (*i.e.* "negative externalities"). To make these transactions illegal, however, does not stop many of them, if there are willing buyers and sellers, but it makes them more difficult and hence costly. The extent of the success of such a ban depends, among other factors, on the ability of the state to insert itself into the transaction. In the case of privacy, which by its nature is an interactive use of information, such insertion is difficult. All it usually takes is to make the information transaction consensual. And if it becomes illegal to offer compensation to obtain consent, one can expect imaginative schemes to circumvent such a prohibition. After all, we now have over 3.0 lawyers per thousand population, up from 1.3 in 1970. Indeed, the success of government enforcement would then depend on intrusive actions by the state into private transactions. As important as privacy is, it will not necessarily override other values, such as free choice, the right to know, and the right to be left alone.

A second objection is that consumers have asymmetric knowledge relative to business about the value of their personal information, and that they consequently would be exploited (Gandy, 1996). The holders of this view discount the information-revealing process of competition. They must assume chronic oligopolistic behaviour by business firms. Because such asymmetry in information would extend to all other dimensions of transactions as well, this view, to be consistent must be deeply skeptical of informed consent in consumer transactions generally.

The third objection to transactions in privacy is that they disproportionately harm the poor. Here, it is believed that it is especially those suffering from financial pressures and ignorance will sell their privacy rights to rich individuals and institutions. It is, of course, true that a poor person's priorities may often not include privacy protection. (In other cases, however, the opposite may hold and poor people need privacy more than those who can afford to create protective physical and organizational walls for themselves.) On the other hand, the same poverty condition may also make a poor person an unattractive target for a commercial intrusion. Telemarketers will prefer to make a pitch to individuals who can afford their products. The poor are best helped by money; to micromanage their condition through restricting their right to transact may well end up a patronizing social policy and inefficient economic policy. This leads to a conclusion that privacy, being a broad umbrella for a variety of issues, cannot be dealt with in a single fashion. Where transactions are not forthcoming, indicating a structural market failure, (perhaps due to monopoly or high transaction costs), or where negative externalities are large, regulations can be appropriate that reflect the policy preferences of the community for privacy and as well as for other values. But it must be recognized that, given the initial logic of the exchange transactions, they will find a way to assert themselves in other ways, thus undercutting the actual effect of the restriction and leaving them more in the nature of a societal statement of intent.

But where the level of privacy protection can be readily set by free exchanges among individuals there is no reason for state intervention, and one should instead strive to eliminate constraints against such transactions.

Those who believe that the market approach to privacy protection is overly generous to business violators of personal privacy might find themselves pleasantly surprised because the tools of access control will have shifted the balance of power to individuals and to the protection of privacy. Indeed, it will be the business users of personal information who will end up objecting to transactions. They are, of course, worried that while they (together with politicians and parties) have today relatively free access to individuals or to data about them, a system where they might have to pay compensation in return for consent might become expensive. They are correct, but what can they do about it? Access to an individual, even if sanctioned by law, will require the latter's cooperation. Right now, individuals do not yet have effective means to make those desiring personal information compensate them. But the tools to change this, such as encryption or caller identification, are here or near. Soon, equipment makers and communications service providers will enable consumers to conveniently sell access. And when this happens, those marketers who claim to live by the free market will also have to play (and pay) by its rules. The advent of low-cost technology for manipulating and communicating information has raised significant concerns about personal privacy. Privacy is a complex issue and can be treated from many perspectives; this unit provides an overview of some of the *economic* issues surrounding privacy.

In particular, we first describe the role of privacy in economic transactions and argue that consumers will rationally *want* certain kinds of information about themselves to be available to producers and want other kinds of information to be secret. We will then consider how one might define property rights in private information in ways that allow consumers to retain control over how information about them is used.

Notes

Example: The most fundamental economic transaction is that of *exchange*: two individuals engage in a trade. For example, one person, "the seller" gives another person, "the buyer," an apple; in exchange, the buyer gives the seller some money.

Let us think about how privacy concerns enter this very basic transaction. Suppose the seller has many different kinds of apples (Jonathan, Macintosh, Red Delicious, etc.) The buyer is willing to pay at most r to purchase a Jonathan, and 0 to purchase any other kind of apple.

In this transaction the buyer would want the seller to know certain things about him, but not others. In particular, the buyer would like the seller to know *what it is he wants* – namely a Jonathan apple. This helps the buyer reduce his search costs since the seller can immediately offer him the appropriate product. The transaction is made more efficient if detailed information about the consumer's tastes is available to the seller.

On the other hand, the buyer will in general *not* want the seller to know r, the maximum price that he is willing to pay for the item being sold. If this information were available to the seller, the seller would price the product at the buyer's maximum willingness to pay, and the buyer would receive no surplus from the transaction.

Roughly speaking the buyer wants the seller to know his tastes about which products he may be interested in buying; but he doesn't want the seller to know how much he is willing to pay for those products.

12.2.7 Search Costs

When many people talk about "privacy rights" they are really talking about the "right not to be annoyed."

In the "information age" attention is becoming a more and more valuable commodity, and ways to economize on attention may be quite valuable. Junk mail, junk phone calls, and junk email are annoying and costly to consumers.

In the context of the apple example described above, it is as though the seller of apples has to tell me about each of the different kinds of apples that he has to sell before I am able to purchase.

It is important to recognize that this form of annoyance – essentially excess search costs – arise because the seller has *too little* information about the buyer. If the seller knew precisely whether or not I was interested in buying insurance or refinancing my mortgage, he could make a much better decision about whether or not to provide me with information about his product.

In the context of the apple example: it is in *both* parties' interest to know that the buyer will only purchase a certain kind of apple. The buyer has every incentive to present this information to the seller, and the seller has every incentive to solicit this information from the buyer.

12.2.8 Secondary Users of Information

When a mailing list is sold to a third party, the relationship between the buyer's original interests and the seller's interest may become more tenuous. For example, suppose the list of computer magazine subscribers is sold to an office furniture supplier. Some of the people on this mailing list may or may not have any interest in office furniture.

Even though the first two parties in the transaction – the individual who may want to buy something, and the seller who may want to sell him something – have incentives that are more or less aligned, the transaction between the original owner of the mailing list and those to whom it is sold do not have such well-aligned incentives.

Notes

Economists would say that an *externality* is present. The actions of the party who buys the mailing list will potentially impose costs on the individuals on that list, but the seller of the mailing list ignores those costs when selling it.

These costs could be mitigated, to some degree, if the individual who is on the mailing list has a voice in the transaction. For example, the individual could forbid all secondary transactions in his personal information. Or, more generally, the individual could allow his information to be distributed to companies who would send him information about laser printers, but not about office furniture.

These considerations suggest that the difficulty in the "annoyance" component of privacy could be significantly improved if the communications channels between the buyers and the sellers were clearer, the information conveyed was more accurate, and third-party transactions were restricted only to those transactions that the original consumers authorized.

12.2.9 Incentives Involving Payment

Let us now consider a more difficult case, the case where the buyer's revealing information about himself is detrimental. Suppose that the buyer wishes to purchase life insurance but knows information about his health that would adversely influence the terms under which seller would offer insurance. In this case, the buyer does not want information released that would influence the price at which the insurance would be offered.

Suppose for example that the potential buyer of insurance is a smoker, and knowledge of this information would result in higher life insurance premium. Should the buyer be required to truthfully release the information? Since the information here concerns the price at which the service (insurance) is offered, the incentives are perfectly opposed: the buyer would not want to reveal that he is a smoker, while the seller would want to know this information.

Note, however, that a *nonsmoker* would want this particular information about himself revealed. Hence the insurance company has an easy solution to this problem: they offer insurance at a particular rate appropriate for smokers, and then offer a discount for non-smokers. This would succeed in aligning information incentives for the buyer and seller.

More generally, suppose that the price that the seller would like to charge is higher for people with some characteristic *C*. Then people who have that characteristic have bad incentives to reveal it, but people who *don't* have that characteristic have good incentives to reveal it. It is in the interests of the seller to construct the transaction in a way that the information is revealed.

12.2.10 Contracts and Markets for Information

We have seen that several of the problems with personal privacy arise because of the *lack* of information available between concerned parties. Perhaps some of these problems could be mitigated by allowing for more explicit ways to convey information between buyers and sellers.

For example, it is common to see boxes on subscription cards that say "check here if you do not want your name and address redistributed to other parties." This is a very primitive form of contract. A more interesting contract might be something like: "Check here if you would like your name distributed to other parties who will provide you with information about computer peripherals until 12/31/98. After that, name and address will be destroyed. In exchange you will be paid $ 5.00 for each list to whom your name and address is distributed."

Although it would be hard to fit this sort of contract on a subscription response card, it would be easy to fit it on a Web page. The contract that is being offered implicitly assigns property rights in an individual's name and address to him or herself, unless the individual chooses to sell, or more properly, rent, that information.

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This particular legal policy seems quite attractive: assign a property right in information about an individual to that individual, but then allow contracts to be written that would allow that information to be used for limited times and specified purposes. In particular, information about an individual could not be *resold*, or provided to third parties, without that individual's explicit agreement.

This idea appears to have been most thoroughly explored by [Laudon, 1996]. He goes further than simple contracting and suggests that one might sell property rights in personal information on markets. As Laudon points out, there is already a large market in personal information. But the property rights are held by those who collect and compile information about individuals – not by the individuals themselves. These third parties buy and sell information that can impose costs on those individuals, without the individuals being directly involved in the transactions. In economic terminology, there is an *externality.*

The personal information industry in the US is primarily self-regulated, based on the so-called Fair Information Practices.

- There shall be no personal record systems whose existence is secret;
- Individuals have rights of access, inspection, review, and amendment to systems containing information about them;
- There must be a way for individuals to prevent the use of information about themselves gathered for one purpose for another purpose without their consent;
- Organizations and managers of systems are responsible for the damage done by systems for their reliability and security;
- Governments have the right to intervene in the information relationships among private parties.

The European Community has more explicit privacy regulation; for more on international regulations, see the Electronic Privacy Information Center's web page on International Privacy Standards.

It is worth observing that the Fair Information Practices Principles would automatically be implemented if the property rights in individual information resided solely with those individuals: secret information archives would be illegal; individuals could demand the right of review before allowing information about themselves to be used; and those who wanted to utilize individual information would have to explicitly request that right from the individual in question or an agent acting on his behalf.

Laudon goes on to propose that pieces of individual information could be aggregated into bundles that would be leased on a public market he refers to as the National Information Market.

Example: An individual might provide information about himself to a company that aggregates it with 999 other individuals with similar demographic and marketing characteristics. Such groups could be described by titles such as "20-30 year old males in California who are interested computers," or "20-30 year old married couples interested in home purchase."

Those who wanted to sell to such groups could purchase rights to use these mailing lists for limited periods of time. The payments they made would flow back to the individual users as "dividends." Individuals who found the annoyance cost of being on such lists greater than the financial compensation could remove their names. Individuals who felt appropriately compensated could remain on the lists.

Although there are many practical details of implementation that would need to be solved to implement Lauder's market, it is important to recognize that information about individuals is

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commonly bought and sold today by third parties in market-like environments. The National Information Market simply gives individuals an economic stake in those transactions that they currently do not have.

12.2.11 Personal Information

There may be information about us that we don't want revealed just because we don't want people to know it. For example, many people are very touchy about personal financial information being revealed. They don't want other people to know how much income they make, or how much they paid for their house or car.

In some cases there is a social interest to making such information public. Consider the following two examples.

A computer consultant in Oregon paid the state $ 222 for its complete motor vehicles data base, which he then posted to a Web site, prompting charges of privacy violations from people who complained that he had invaded their privacy. The database allows anyone with an Oregon license plate number to look up the vehicle owner's name, address, birth date, driver's license number, and title information. The consultant's motive in posting the information, which anyone can obtain for a fee by going to a state office, was to improve public safety by allowing identification of reckless drivers. Oregon Governor John Kitzhaver says that instant access to motor vehicle records over the Internet is different from information access obtained by physically going to state offices and making a formal request for information: "I am concerned that this ease of access to people's addresses could be abused and present a threat to an individual's safety." (Associated Press 8 Aug 96)

Victoria, the first city in Canada to put its tax-assessment rolls on the Internet, has pulled the plug after British Columbia's Information Commissioner announced an investigation into the practice, believing it violates privacy laws. (Toronto Globe and Mail 27 Sep 96 A3)

In each of these cases there is a public interest in having this information publicly available. Making information available about owners of motor vehicles may help insure safer operations. Making sales prices of houses available may help ensure the accuracy of tax assessments. My neighbours may care about the assessment of my house, not because they particularly care about *my* tax assessment, but because they care about *their* tax assessment.

Whether or not such information should be publicly available would ideally depend on an individual benefit-cost analysis. If I am willing to pay more to keep my assessment private than my neighbours would be willing to pay to see it, we have a potential way to make everyone better off: I pay my neighbours for the right to keep my assessment private. If they value seeing my information more than I value keeping it private, then they pay me for the right to see it.

This sort of transaction is not really practical for a variety of reasons, but the same principle should apply in aggregate: one has to weigh the "average" potential benefits from making this sort of information public to the potential costs of keeping it private. The presence of a market where individuals can sell information about themselves helps provide a benchmark for such benefit-cost calculations.

Notes Certain kinds of information can be collected and distributed without revealing the identity of individuals. [Froomkin, 1996] explores some of the legal issues involving anonymity and pseudonymity; see [Camp, Harkavey, Yee, & Tygar, 1996] for a computer science view. [Karnow, 1994] proposes the interesting idea of "e-persons", or "epers," which serve to provide privacy while conveying a relevant description of the individual.

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12.2.12 Costs of Acquiring Public Information

Many sorts of public information have been available at some transactions cost: in order to find housing assessments, it has typically been necessary to travel to a city or county office and look up the information. Now that increasing numbers of consumers are computerized it is possible to acquire this information much more inexpensively. Information that was previously deemed useful to be publicly available under the old transactions technology, may now be deemed to be *too* available.

This, it seems to me, has a reasonably simple solution. The information could be made available in digital form, but at a price that reflected the transactions costs implicit in acquiring the information using the old technology. The price paid for the information could then be used to defray the cost of making it publicly available.

For example, suppose that, on average, it took a citizen one hour to go to the country records department, look up a tax assessment and photocopy the relevant material. Then a reasonable charge for accessing this information online might be on the order of $ 25 plus 20 cents or so per assessment requested.

This sort of charging schedule essentially restores the status quo, provides some funds for local government, and offers an additional choice to individuals. People who didn't want to pay the $ 25 could make the trip to the county records office and access the same information there "for free" (i.e., paying no monetary cost.)

Assignment of Rights

We have argued that an appropriate way to deal with privacy issues is to determine a baseline assignment of rights, but allow individuals to trade those rights if they desire to do so. If there are no transactions costs in trading or negotiation, the initial assignment of privacy rights is arbitrary from the viewpoint of economic efficiency.

If there *are* significant transactions costs to making contracts such as these, the standard Coasian arguments suggest that an efficient allocation of rights would be the one in which the transactions and negotiation costs are minimized. In this case, the appropriate comparison involves the transactions cost to the individual to having his or her name removed from the list to the cost to the mailing list owner of soliciting permission from individuals to add them to the list.

When phrased in this way, it appears that the current practice of adding someone's name to a list unless they specifically request removal probably minimizes transactions costs. However, the rapid advances in information and communications technology may change this conclusion. The development of social institutions such as Laudon's market would also have a significant impact on transactions costs.

Self Assessment

State whether the following statements are true or false:

6. Data protection statutes do not bar the collection of data.
7. Primarily Europe, Asia and America countries have not enacted privacy legislations.
8. In 1989, the OECD drafted a first set of guidelines regarding privacy
9. Full form of TDF is transborder data flows.
10. Eavesdropping is efficient because it forces the participants in a communication to disguise the content of their transmission

Notes

12.3 Analysis of CRM Strategies

CRM is about creating a competitive advantage by being the best at understanding, communicating, delivering and developing existing customer relationships in addition to creating and keeping new customers. The concept of product lifecycle is giving way to the customer life cycle, focusing on developing products that anticipate the future needs of existing customers and creating services that extend existing customer relationships beyond the mere transaction. The customer life cycle will focus on lengthening the life span of the customer with the organization rather than the endurance of a particular product. Customers have changing needs as their lifestyles alter—the development and provision of products or services that continuously seek to satisfy those needs is good CRM. Mission statements will focus greater attention on how to deliver customer satisfaction, and organisations will begin to structure themselves around customer segments and not product lines.

A good CRM strategy will take the business vision and apply it to the customer base by asking the following questions:

- What products and services are we offering now and in the future?
- In what markets?
- What customer groups will these products and services appeal to?
- Which of these are of most value to the organization? In terms of spend? In terms of reliability? In terms of profitability? In terms of growth potential?
- What additional needs do the most valuable customer groups have? Additional products? Additional services?
- What different ways can we be doing business to deliver to our customers better?

12.3.1 Designing a CRM Strategy

A successful customer relationship management strategy will address four key areas of the business: Strategy, People, Technology and Processes. CRM (UK) Ltd calls the combination of these elements the COG Wheel Process.

The handle of the process is the "driver" of the corporate strategy that gives the "direction" to the company. In turn, the strategic direction moves the two "enables": people and technology. The "interaction" of those elements is the business processes that sit behind successful customer relationship management.

The D4 Company Analysis TM

In order to ensure that the four aspects of strategy, people, technology and processes are taken into consideration in the design of a CRM strategy, CRM (UK) Ltd. has developed the D4 Company Analysis TH. The D4 Company Analysis TH is an audit tool that takes an interactive approach to strategy design and has four main steps:

Step 1: Define the existing customer relationship management processes within the company.

Step 2: Determine the perceptions of how the company manages their customer relationships, both internally and externally.

Step 3: Design the ideal customer relationship management solutions relative to the company or industry.

Step 4: Deliver a strategy for the implementation of the recommendations based on the findings.

Notes

The principal outcome of the D4 Company Analysis™ is the development of a tailored and specific strategy that builds on the organisation's existing CRM practices and position in the marketplace. It allows the organization to prioritise the actions to be taken for placing customer relationship management activities at the heart of the business.

One of the significant outcomes of the D4 Company Analysis™ is to reveal who or what is driving the organisation's current strategy or, in this case, holding the handle. In a company that is placing CRM at the heart of their business, the handle of strategy should be in the hands of the customer.

The objective of the audit is to direct the organization towards successfully managing integrated processes that lead to the establishment of an 'ongoing dialogue' with their customers that delivers 'mutual value' to both the customers and the company. Caselet (below) outlines an example of the breadth of information that would come out of the application of the D4 Company Analysis™.

Caselet

Developing a CRM Strategy

The Board of Directors at a large fund management consultancy recognized that customer retention could only be achieved as a consequence of a business-wide customer relationship strategy that incorporated people, technology, data, and processes. In 1999, they approached CRM (UK) Ltd to help assess their current methods of managing customers and assist in designing a CRM strategy to integrate current business initiatives and identify key points for the development of a customer retention strategy. Following the audit process, CRM (UK) Ltd identified that despite a commitment to achieving 95% customer retention, the organization lacked a consistent company-wide CRM strategy. Three areas were highlighted for action: Customer Relationship Strategy and Leadership were vague and inconsistent throughout the company. The executive had set itself CRM targets; however, the means by which these targets are to be achieved, and the dedication of appropriate resources to the CRM strategy, were not clear. The current culture was that of a sales organization, e.g., information systems, staff remuneration packages, etc. Recommendations enabling a move towards a more companywide customer-centric culture were formulated incorporating the areas of HRM, IMS and Marketing. Information contained in client databases was not being used to its full potential and the client was recommended to develop a system to control and regularly maintain their customer orientated data warehouse. Following the audit, the Marketing & Sales Director iterated that the audit had given them "a clear idea of the areas where we need to focus our implementation plan in order to develop a holistic approach to the good management of our relationships with our clients".

Source: http://ieeexplore.ieee.org/xpl/login.jsp?tp=&arnumber=5358767&url=http%3A%2F%2Fieeexplore.ieee.org%2Fxpls%2Fabs_all.jsp%3Farnumber%3D5358767

12.3.2 What Value will CRM Deliver to the Business?

For many years, organizations have endeavoured to understand the customers that buy their products. Despite this, many organizations fail to understand their customers at even the most rudimentary level. Typically, an organization should be able to answer question such as:

- What product did they last buy?
- When did they last phone?
- How did they undertake their last transaction – Website? E-mail? Phone call? WAP?

In reality, far too many organizations don't even know who their customers are or, at the very least, how many they have.

Finding out who your customers are, what they want and providing it seems to be a task fraught with difficulties. Ask any experienced marketing manager and they will confirm that not only providing the product or service but understanding and managing consumer expectations are key to creating satisfied customers. Despite their efforts, many will find that their customers still act indecisively, unpredictably, unproductively and often find they dissatisfied and disappointed with the result of their transaction. What's the solution?

Data – The Unknown Diamond

Knowledge focused businesses collect data on their customers to provide them with a framework to build an understanding of their market. Improvements and innovations in technology, a key enabler of customer data collection, have provided organizations with the ability to store, share, analyse and transfer vast amounts of data at low costs. Growth in the use of sophisticated databases, data warehouses and data mining software applications make it possible for companies to analyse customers' behavioural patterns, individual levels of profitability and the lifetime value of their customers.

However, most businesses underestimate the wealth of customer knowledge within their own organizations. It is not untypical to find website interactions in one database, lease agreements in an administration system, call centre history in another, and payment history in an accounts system.

Integrating such a mass of information can prove difficult but can also provide valuable insight into your customers' behavioural patterns likes and dislikes. Like a diamond, there are many perspectives that are in existence in even the most basic of data sets, and approaching your data analysis from a different angle can produce startling results. Advanced data analysis techniques can produce statistically grounded behavioural models that more accurately project customer behaviour in a variety of situations:

- The likelihood of purchase of specific product or service,
- The best next offer, or
- The probability of defection.

These models are specific to that organisation's existing customer base and are not based on assumptions about lifestyle characteristics or demographic profiles that account for the segmentation principles applied to the majority of direct marketing activities in organization. As your CRM strategy progresses, considerable ongoing performance measurement is required. Although this can be built, at least in part, upon the consolidated customer data used in the original strategy development, in reality, numerous new collection processes will be required to ensure appropriate metrics are captured on an ongoing basis. For more comprehensive analysis, these internal information sources will be needed to be coupled with external feeds such as customer surveys.

Measurements and Analysis Support may include:

- Customer Segmentation – Cost-to-serve
- Customer/Product/Channel Profitability – Revenue Optimisation
- Demand Forecasting – Customer Lifetime Value (LTV)
- Campaign Analysis – Customer Churn/Propensity to Churn
- Channel effectiveness – Customer Satisfaction
- Sales Analysis – Customer Complaints

Notes

Data, when analysed and used effectively, can provide the organization with:

- Refined and sophisticated methods of customer acquisition;
- Reduced direct marketing costs with higher return on investment; and
- Increased insight into developing marketing communications that are targeted and relevant.

12.3.3 Creating Customer Value

Intelligent data analysis provides the mechanisms for managing meaningful relationships with your customers. Data analysis can direct the design of marketing communications, the management of quality service delivery, establish a basis for ongoing dialogue, the development of quality products and the outcome that translate into long-term profitable relationships with the only sources of sustainable revenues: customer revenues. Four ways of creating a customer's value are specified as under:

Stage 1: Define your Customers' Actions

The first stage in creating customer value is to understand your customer base. Analysis of existing data can provide information about segmentation, behavioural characteristics, and profitability and churn rates that create an understanding of your customers.

Stage 2: Determine your Customers' Expectations

Expectations, while difficult to manage, are often the cause of dissonance that results in loss of customers. Understanding the needs and wants of customers with regard to your service delivery levels and product quality is essential if ongoing, mutual value and enduring relationships are to be established.

Stage 3: Design the Customer Value Model

The combined understanding of customers' behaviour, needs and wants, the customer value model will seek to deliver the value in most cost-effective manner. Defining the customer' journey, performance measurements and product offerings will be critical at this stage.

State 4: Deliver Customer Value Model

Implementing the integration of systems, processes, service providers, business technology and infrastructure in addition to the creation of measurement systems to monitor progress

12.3.4 Delivering the Benefits of CRM

The old adage about the customer always being right is often treated with contempt in modern businesses. We all know of companies where the customer appears to be very much in the way of getting on with the "real" work.

A clear understanding of the business and its operations is critical to the success of a CRM strategy. Even after accepting that CRM is wider than sales, many organizations are still unaware of its full impact across the organization or to know where improvements can be made.

The following processes are an integral part of any CRM strategy:

- Product development Inventory management
- Channel management, Customer service
- Marketing planning, Customer billing and invoicing

- Sales Payment management
- Customer acquisition Credit management and fraud
- Customer fulfilment and Customer retention

The organizational processes create the building blocks from successfully extending the customer's lifetime with an organization, inherently and directly increasing their value and profitability. The following case studies illustrate the potency of understanding the impact of managing customer relationships on the processes, approach and, ultimately, the bottom line of the organization.

Self Assessment

Fill in the blanks:

11. Key areas of the business like Strategy, People, Technology and Processes are included while formulating a …………………… .
12. Designing the ideal customer relationship management solutions relative to the company or industry is the …………………… of CRM strategy formulation.
13. …………………… , when analysed and used effectively, can provide the organization with Refined and sophisticated methods of customer acquisition.
14. Marketing planning, Customer billing and invoicing are an integral part of ………………….
15. …………………… can produce statistically grounded behavioural models that more accurately project customer behaviour in a variety of situations.

Task Explain the stages of creating customer value.

Case Study

BlackBerry encryption 'too secure': National Security vs. Consumer Privacy: by Zack Whittaker

India's intelligence services cannot intercept Blackberry encrypted data, citing this as a risk to national security. What's more important: national security, or consumer privacy – and why?

The creator of the widely used enterprise-come-consumer BlackBerry device has an uncertain position in India.

The Indian government's internal security and intelligence services cannot break the encryption of the device, which makes countering terror threats and national security matters difficult – especially for a region which faces constant threats and attacks from domestic Maoist insurgents and extremist Islamic groups.

Nearly two years ago, around 170 people were killed in the 2008 Mumbai attacks which lasted two days, and were reported primarily by citizens on the ground through citizen journalism; posting updates to Twitter and Facebook through their mobile devices.

The BBC confirmed via the UAE's state media that come October, all half a million BlackBerry users in the region will have some services suspended unless a "solution compatible with local laws is reached", amid national security concerns.

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The encryption key developed by BlackBerry's manufacturers was partly designed to ensure secrecy during corporate business deals as so they were not compromised.

Now consumers have jumped on the BlackBerry bandwagon, this poses a wider issue for less-developed or funded intelligence services.

As a criminology student focusing and specialising in areas of terrorism, specifically the use of technology within terror organisations and the use of social media, I can see this in two minds in regards to this:

1. RIM wants to ensure user privacy, but of course wouldn't want a terror attack to take place at any given place or time.
2. India also wants to prevent such terror attacks, but it's losing the battle by not being able to read highly encrypted data.

India faces a multitude of terror threats, just as many fast-developing economies and countries around the world. The increased use in technology to better communications in order to orchestrate acts of terror is clearly being used as the rest of ordinary society does.

India's intelligence services need to be able to access encrypted data to prevent attacks in a 'constant setting': where attacks are likely and have occurred regularly. The ability for governments to intercept or read data sent to and from their citizens is common place in Western societies.

The NSA for the US and GCHQ for the UK are two common examples of these. But better resources and technologies allow encryption to be broken - regardless of RIM's intervention or preventative measures.

The US and the UK have had very few terrorist attacks since September 11th, as a benchmark, though not proving a connection between intercepted data and preventing attacks, but makes the case more likely.

Text messages are not secure. Phone calls are not secure. Emails sent via Exchange and POP/IMAP are generally not secure, though BlackBerry emails are considered so.

BlackBerry Messenger, however, is secure. It's so secure, that though China has state controlled press and broadcasting media, along with issues of censorship and Internet filtering, even data sent across BlackBerry Messenger cannot be read by the Chinese government. This, of course, makes it highly popular with their booming younger generation of users (so a RIM spokesperson told me).

With consumer privacy being a constant hot topic, especially in the rise of publicly available data and the need to share your own information to gain others - social networking being a prime example, the individual right to privacy of communications takes personal precedence.

So interestingly, it boils down to diplomatic tit-for-tat. I am fully aware that my own government of which I helped in democratically electing monitors my communications in a secure, fair and justified way. Though my government expects a terrorist attack, we haven't had a successful one since the 2007 Glasgow Airport bombing of which no civilians died.

One civilian beat the living crap out of a flaming terrorist though.

But those in an area of uncertainty around terrorism and national security, the need to accept certain 'breaches' in civil liberties are almost necessary to prevent societal damage. Of course, there is a line to be crossed, and only local culture can determine that as so.

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Questions

1. What is more important, national security, or consumer privacy - and why?
2. How, do you think, consumer privacy is hampered and was it reasonable?

Source: http://www.zdnet.com/blog/igeneration/blackberry-encryption-too-secure-national-security-vs-consumer-privacy/5732

12.4 Summary

- Privacy is becoming a very contentious public policy issue. The danger, in my opinion, is that Congress will rush into legislation without due considerations of the options.
- In particular, a poorly-thought-out legislative solution would likely result in a very rigid framework that assigned individuals additional rights with respect to information about themselves, but did not allow for ways to sell such property rights in exchange for other considerations.
- In my view, legislation about rights individuals have in information about themselves should explicitly recognize that those rights can be "leased" to others for specific uses, but cannot be *resold* without explicit permission. This simple reform would lay the foundation for a more flexible and more useful policy about individual privacy.
- In addition it would enable business models that would potentially allow for reduced transactions costs and better matches between buyers and sellers.
- In early Oct. 96 two messages appeared that linked metrics and checklists. They came from two authors (Barnes and Wilson) and were dated 10/8 and 10/10 respectively.
- Bob Barnes spoke from a Certification Flight Test perspective. He has noticed that there is a marked difference in the CRM used by three-pilot versus two-pilot crews. If those seeking certification do not account for these differences through effective training program design and appropriate checklists, there can be a perception of an increased workload and in some cases an unacceptable rating of the design by the line evaluation pilots.
- Good procedures are no guarantee for good performance. But that incidents and accidents are not necessarily caused by poor performance in the technical areas; and, when they are B co. Pvt. Ltd. train (human skill) or fix (mechanical) the problem away (B co. Pvt. Ltd. hope!!)
- In either case our objective is finite so we develop finite measures to help us assess the success of our fix. In the realm of human interaction B co. Pvt. LTD. have only recently (10 years or so) begun to train pilots, then crews, now teams in resource management. That perception alone reinforces the assertion that the "operating envelope" is substantially broader than the imagination of the procedure writer.

12.5 Keywords

CLV: Customer Lifetime Value In marketing, customer lifetime value (CLV), lifetime customer value (LCV), or user lifetime value (LTV) is a prediction of the net profit attributed to the entire future relationship with a customer. The prediction model can have varying levels of sophistication and accuracy, ranging from a crude heuristic to the use of complex predictive analytics techniques.

CRM: Customer Relationship Management

Customer Expectation: What customers expect out of the product consumption.

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Customer Experience: The behaviour the customers show on consuming a product or service.

Encryption: The activity of converting data or information into code.

Internet Access: Internet access refers to the means by which users connect to the Internet.

LTV: Life Time Value is calculated by multiplying Average Revenue Per User (ARPU) by the average length of the company's relationship with a customer. You figure out the length by dividing 1 by the churn rate for the period.

Strategy: A plan of action or policy designed to achieve a major or overall aim.

12.6 Review Questions

1. What do you understand by internet?
2. What is meant to intranet and LAN?
3. What is your idea of online privacy?
4. IS India crucial on the significance of privacy?
5. What is importance of privacy worldwide?
6. What are meant by CRM strategy?
7. What are components of CRM strategy?
8. How will you formulate a strategy for your business in terms of CRM?
9. What is CLV?
10. Explain the need of a CRM strategy for a business?

Answers: Self Assessment

1.	Privacy	2.	Decentralized
3.	defect	4.	No
5.	81 (d)(e)(j)	6.	True
7.	False	8.	False
9.	True	10.	False
11.	CRM strategy	12.	3rd step
13.	Data	14.	CRM strategy
15.	Advanced data analysis techniques		

12.7 Further Readings

Books

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Online links

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http://scn.sap.com/docs/DOC-5036

http://www.contactyourclient.com/index.php?

http://www.crmgroup.be/

http://www.destinationcrm.com/Articles/Columns-Departments/Reality-Check/Demystifying-CRM-Adoption-Rates-42496.aspx

http://www.salesforce.com/crm/

http://www.webopedia.com/TERM/C/CRM.html

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Unit 13: Emerging Trends in CRM

CONTENTS

Objectives

After studying this unit, you will be able to:

- Study the trends followed in CRM
- Know the emerging trends in CRM
- Determine the concept of Sales Force Automation

Introduction

CRM is, probably, one of the least clearly defined business acronyms, as there is no single definition for it. It is probably easier to say what CRM is not. Unfortunately, CRM has also become a misnomer for a range of solutions from vendors, each providing its own spin on the idea. CRM is variously misunderstood as a fancy sales strategy. It is none of these. CRM is a simple philosophy that places the customer at the heart of a business organizations processes, activities and culture to improve his satisfaction of service and, in turn, maximize the profits for the organization.

A successful CRM strategy aims at understanding the needs of the customer and integrating them with the organizations strategy, people, and technology and business process. Therefore, one of the best ways of launching a CRM initiative is to start with what the organization is doing now and working out what should be done to improve its interface with its customers. Then while this may sound quite straightforward, for large organisations it can be a mammoth task unless a gradual step-by-step process is adopted. It does not happen simply by buying the software and installing it. For CRM to be truly effective, it requires a well-thought-out initiative involving strategy, people, technology, and processes. Above all, it requires the realisation that the CRM philosophy of doing business should be adopted incrementally with an iterative approach to learn at every stage of development.

Customer relationship management is an integral part of the overall business strategy. Customer relationship management is a complex process because it raises the host of challenging business issues that lie at the interface of all over the business. Thus, in this era of increased competition, in order to proper, it has now become imperative for the industry to focus on developing long-term relationships with their customers. CRM impacts that business path is a continuing source of debate in the world of corporate management.

13.1 Emerging Trends in CRM

It is not suddenly that the business managers have realized that the customer is supreme or the need to render personalized service. However, it was not possible to address the preferences of a massive group of widely dispersed individuals. Neither the tools nor the technology were available. The smart business managers did the next best thing, which was to conduct a market research and classify the market into broad segments with different preferences. The product managers would (and still do) then position their products catering broadly to these segments.

The information systems have evolved tremendously over the last three decades and so have the communication systems. While ERP, the management mantra of the nineties, offered the means to optimize resource planning at the enterprise level encompassing every area of the enterprise on a real time basis, there was still no means of connecting to the customer. The customer had just too many locations.

The commercial penetration of Internet into the homes changed everything. It provided the means to take the integrated enterprise information system to the customer's living room. He could buy, sell or bank sitting there, while uniquely identifying himself.

This has led to the evolution of CRM, which uses the Net to integrate the customer contact points directly with the enterprise. It provides the means to interact with every customer individually (thereby interacting with million or even billions of customers). The interactions over a period of time create a history that is available to the field sales/support personnel at the touch of a button.

13.1.1 Doing Business in the CRM Era

CRM has revolutionized the way the business is transacted. Customization and personalization have been radically redefined. There was a time when companies could do business by making a range of products, and the customers could choose from the available product range. Now the customer demands 'Merawala ………'. And the companies have to gear themselves to deliver the 'Merawala' products to the customers.

CRM is the great enabler that makes it possible to achieve this level of customization in a cost effective manner. Right from highly focused marketing to the transaction and after sales support, CRM provides a cost effective, easily accessible and cost effective interface.

By enabling direct customer interaction, CRM has changed every sphere of activity. Products must have modular designs that can be easily customized. Even warehouses are changing from being just storehouses to those having the facility for 'Assemble to Order'. Customization increases the product variety multifold since it may not be either economical or feasible to store a huge variety. Intelligent warehouses, as they are popularly known stock the knocked down modules and assemble them on the receipt of order.

Example: If fuel efficiency was the selling proposition for automobiles in the seventies, sportiness in the eighties and safety in the nineties, customization is the selling proposition of the new millennium. The e-sales concept is increasingly becoming significant in volumes for

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most American and European manufacturers. The interactive e-Store front of the manufacturer permits the customer to configure his own automobile in respect of the kind of upholstery, music system, accessories, etc. that he prefers.

The customer preferences which were captured through the earlier interaction automatically create work orders and the customized product is delivered. Even though the product is highly customized, there is hardly any additional cost involved. More companies are focusing their growth strategies around direct sales through the Net.

13.1.2 Most Affected Industries

Travel and transportation industry has been almost revolutionized by CRM. For them, CRM makes the difference between being in business or out of it. Financial services, insurance, investment banking, education and utilities are the other large scale adopters of CRM in the services sector.

The concept of retailing has been redefined with CRM. Product industries are using it for marketing as well as after sales support. Increasing number of product manufacturers are able to retail directly, thanks to CRM.

Why should you adopt CRM?

CEOs are realizing those who are not able to come up with effective CRM strategies risk being edged out of business. Customer is the king and the business strategies must be built for ensuring customer loyalty. It costs six times more to create a new customer than to retain an old one.

1. ***Increased Sales Revenues***
   (a) Sales reps spend more time on productive calls and less on chasing information and dry calls.
   (b) Ability to penetrate and support wider geographical area.
   (c) Sales transactions 24 hours, 7 days a week.
2. ***Increased Responsiveness***
   (a) Ability to respond to changing customer preferences in real time.
   (b) Reduced leftover stocks, reduced business risk and zero budget planning.
3. ***Increased Win Rates***
   (a) Ability to concentrate resources on likely customers.
   (b) Availability of customer preference data.
4. ***Increased Margins***
   (a) Improved value-sell and reduced price-sell.
   (b) Opportunity for cross-sell and up sell.
5. ***Reduced Cost***
   (a) Improved customer satisfaction ratings
   (b) Personalized customer service.
   (c) 24X7 service and support.
   (d) Customized products.
   (e) Improved information availability.

6. ***Decreased Costs***
   (a) Decreased low value work for sales reps.
   (b) No duplication of effort due to shared schema.
   (c) Focused campaigns reduce wastage of resources.
   (d) Reduced communication costs.

Current Trends in CRM

As CRM matures, distinct trends are emerging.

Hosted Solution: Enterprises are increasingly showing an interest in buying a hosted solution from the ASPs.

This trend is likely to increase as the enterprises would prefer to concentrate on their core businesses and let the ASPs provide updated solutions.

Integrated Solution: There is an increasing trend to integrate the CRM activities with the supply chain, manufacturing and B2B market-places. This trend is likely to increase.

Evolution of marketing and branding services: Internet marketing and branding is a different paradigm with a different set of rules. With the convergence of marketing and CRM, professionals providing specialised services are fast emerging.

Data Warehouses: Even as enterprises rush to warehouse their own data captured at interaction points, data has become a commodity. It can be bought, sold, shared and leased. There are companies whose only business is trading in data transactions.

13.1.3 CRM in India

Software is to India what oil was to the Gulf. It is therefore no surprise that Indian companies, too, are jumping into the CRM bandwagon to seize a chunk of the global market, both products as well as services.

With its vast talent pool, India is fast becoming an important development base of major CRM companies. This trend is likely to increase in the future. Call centres, catering primarily to the American and European markets are coming up in and around the metros. With the easing of infrastructure constraints, India is likely to emerge as a significant player in this segment.

Adoption of CRM by Indian companies is at an infancy stage. The CRM enabled companies include Modi Xerox, Tata Telecom, TVS Electronics, HP India, Tata Infotech, Carrier Refrigeration, Tata Teleservices, Satyam Infoway, Planet M, and Epicentre Technologies, among many others.

India even has a CRM Foundation in New Delhi, founded with the purpose of assessing and improving CRM practices. Founding members include Tata Telecom, Escotel, Modi Xerox, Global Groupware, AC Nielsen, Carrier Aircon, and Motorola India, among others.

13.1.4 Critical Success Factors

A CRM solution is not a stand-alone solution that could be implemented in isolation to the enterprise information system. It marks a shift of focus from product centric planning to customer centric planning. A prudent CRM strategy is essential for a successful adoption of CRM. Some of the critical success factors that must be evaluated are:

1. ***Identify the mission, objectives and goals:*** Technology has radically changed the business environment. A detailed business strategy analysis lays the foundation for engineering an information system for the enterprise that will fulfil the current and the future needs of the organization.

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2. ***Identify and prioritize what functions need to be automated:*** A CRM automation audit shall help create a roadmap to complete automation. There may be processes that are inefficient and automating them without re-engineering is not a desirable solution.
3. ***Gain top management support and unequivocal commitment:*** No CRM strategy can ever succeed unless the top management is totally committed to its success.
4. ***Employ technology smartly:*** Technological obsolescence is a real threat. A long term vision and prudent planning is a must. As a thumb rule, look for open architectures, scalability, and integration into existing systems, reliability, and support, etc. Evaluate options and take an informed decision. Keep in mind that it may be too expensive to reverse this decision.
5. ***Involve users early:*** Involve the likely users early in the process. They know their needs best and can best help define the new system, for they are best aware of the old one. It is important to make then participate in the process and 'own' the solution.
6. ***Prototype the solution:*** Deploy the solution on a smaller scale and test all the functions, instead of jumping to the 'big leap'.
7. ***Training:*** The paramount importance of training cannot be over emphasized. This is one of the single most prevalent reasons for failures/incomplete success. A smart manager would realize that training costs more than the combined hardware/software cost over the solution lifecycle.
8. ***Allocate responsibility:*** It is important to ensure maximum uptime and reliability of the system so that the users may not lose faith. Make one department/person responsible for the CRM system.
9. ***Cross department management team:*** Form a committee with people from sales, marketing and service departments apart from the information systems department to monitor the CRM project.
10. ***Keep the employees motivated:*** Technology usually breeds fear and insecurity. It is desirable to 'sell' to system internally before implementing it to avoid non-co-operation/resistance.

Enterprise managers are more obsessed with the product. However, experience shows that even the best product fails to meet the desired end goals if the implementation is improper or the training inadequate. Rushing to implement a CRM system without a prudent evaluation and audit usually results in failure. The choice of an experienced and able consultancy organization is usually very critical.

Caselet

The Power of E-mail

It's not uncommon to hear the argument, "B2B sales are done in person." That same sentiment is often paired with "social is for B2C," or "email is B2C." But, at this week's Connections 2012 Conference in Indiana, another story is being told by an unlikely source: Volvo Construction Equipment.

I'm talking excavators, pipelayers, and demolition equipment. The type of equipment some of us played with as kids, in not-to-scale Tonka Toy versions. But these guys are moving big equipment, and big money, and they're doing it with integrated customer data and email as essential parts to their internet marketing strategy.

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Volvo Construction's products and services are offered in more than 125 countries, and channelled through proprietary or independent dealerships. The company's machines are used for road construction, oil and gas exploration, building demolition, industrial material handling, and forestry.

So what's all this have to do with email and data? First, let's start with a look at the power of email.

A study by MarketingSherpa found that 75 percent of social media users prefer email as the method for companies to communicate with them. Whereas social is more easily a turn-off, turn-on channel that users can selectively engage with, email is far more intimate and direct. Dave Scott, CEO of MarketFish, put it this way in my interview with him earlier this year, "In order to make digital marketing effective, you have to drive the right traffic."

Email is certainly a good way to do that. After all, people rarely switch email addresses, but they do migrate from one social media channel to another. And a recent study on word-of-mouth influence by Zuberance shows 57% of brand influencers use email as their main online recommendation tool.

Volvo uses ExactTarget as its targeted email marketing provider. ExactTarget's email solution allows Volvo to power data-driven messages—everything from transactional email sends and abandoned cart campaigns to dynamic content and live offers. Volvo has mastered the product, and uses it to deliver monthly newsletters and targeted offers.

The Power of Data + Email

The buzzword of the past two years, big data, is more than idle talk. Big data is now mainstream, moving from the supercomputing environment managed by data engineers, to enterprise IT applications used by much broader audiences. For digital marketers and advertisers in particular, the benefits of bringing big data mainstream are unmistakable; it provides access to a goldmine of untapped, previously unusable information.

Source: http://technorati.com/business/article/an-exacttarget-case-study-volvos-integrated/

The Road Ahead

Technology has been a major driving factor for CRM and is bringing about radical changes. The developments in several technological areas are likely to have a major impact on CRM. Some of the areas are listed below:

Biometric Sensing: passwords continue to be the least user friendly and the most unsecure link in the CRM chain.

Did u know? Advancement in biometrics will soon make it possible to make a foolproof recognition through voice, live fingerprint or image. The system would automatically identify (and not just verify) the user. PeopleSoft has already announced that it is working on voice recognition.

M-commerce: There has been an enormous advancement in this area. Rapid developments in the mobile computing and data access devices are likely to be a major growth area for CRM. The global marketplace is all set to shrink to a palmtop, digital signatures and secured identification technologies.

Integration with B2B Marketplaces: Many argue that online market-places will drive sales in the coming decades and branding will no longer be important. Even if such a postulation is far-fetched, there can be little doubt that enterprises will integrate the CRM solutions with B2B market places.

The biggest management challenge in the new millennium of liberalisation and globalization for a business is to serve and maintain good relations with the king-the customer. In the past, producers took their customers for granted because at that time customers were not demanding nor had many alternative sources of supply or suppliers. Since he was a passive customer, the producer dictated terms and had little customer commitment. But today there is a radical transformation. The changing business environment is characterised by economic liberalisation, increasing competition, high consumer choice, enlightened and demanding customer, more emphasis on quality and value of purchase.

Notes All these changes have made today's producer shift from traditional marketing to modern marketing. Modern marketing calls for more than developing a product, pricing it, promoting it and making it accessible to target customers. It demands building trust, a binding force and value added relationship with the customers to win their hearts. The new age marketing aims at winning customers for ever, where companies greet the customers, create products to suit their needs, work hard to develop life time customers through the principles of customer delight, approval and enthusiasm.

There are four strategies available to customer relations' managers:

- To win back or save customers
- To attract new and potential customers
- To create loyalty among existing customers and
- To up sell or offer cross services.

The future of banking business very much depends upon the ability of the banks to develop close relationship with the customers. In order to develop close relationship with the customers the banking industry has to focus on the technology oriented innovations that offer convenience to the customers. Today customers are offered ATM services, access to internet banking and phone banking facilities and credit cards. These have elevated banking beyond the barriers of time and space.

13.1.5 Marketing of Banking Services

Marketing of banking services means organizing right activities and programmes in rendering right services to the right people at the right place, at the right time at the right price and with right communication and promotion. Marketing of banking services embrace the following unique features

- ***Intangibility:*** They cannot be seen or possessed physically but can only be experienced.
- ***Inseparability:*** Their production and consumption occur simultaneously.
- ***Variability:*** They are highly variable depending on the merit of customers.
- ***Perishability:*** They cannot be stored.

13.1.6 Globalised Scenario

"Change" is a continuous process and banking industry is no exception to this natural law. Change in the Indian banking industry is inevitable due to the implementation of the financial sector reforms and policies in the country. The main objective of financial sector reforms is to promote an efficient, competitive and diversified financial system in the country. Indian banking industry has undergone tremendous transformation after liberalization and globalisation process initiated from 1991. These changes have forced the Indian banking industry to adjust the product mix to effect the rapid changes in their process to remain competitive in the globalised environment.

Competition from Foreign Banks and New Private Sector Banks

The entry of more and more foreign banks and new private sector banks, with lean and nimble footed structure, better technology, market orientation and cost effective measures, have intensified the competition in the Indian banking industry. Financial Institutions have also started entering into the domain of banks. In recent years, the share of business of public sector banks has declined considerably. So there is a compelling need for the Indian banking industry to modify its marketing strategy to attract the customers and to withstand the stiff competition from foreign banks and new private sector banks.

Technological Advancement

The advent of technology both in terms of computers and communications has drastically altered the methodology of banking business. In the banking sector, the technology has opened new vistas and in turn has brought new possibilities for doing the same work differently and in a most cost-effective manner. Technology helps to have 24 hours a day banking, all seven days in a week. Telebanking, Internet banking and E-banking have opened new business potentials and opportunities which hither to remained unexplored. All these technological advancement may pave the way for home banking rather than branch banking.

Innovation

Another important force of change in the Indian banking sector is innovation. Banks are innovative, pro-active now-a-days and offer top class service to customers. They play a dynamic role not only as a provider of finance but also as a departmental store of finance. As a result of this, new products like merchant banking, mutual funds, leasing, factoring, forfeiting, corporate advisory services and venture capital are emerging. These innovative services may augment revenue with cost effective measures.

Development of the Skills of Bank Personnel

To meet the new challenges, banks have to devise novel ways of meeting the customer's demands. To help the banking staff to get sufficient exposure to technology, suitable packages relating to hardware and software applications in relation to their works are to be provided. Further, a separate marketing wing may be created in every bank to market their banking services. They must be trained suitably to keep pace with the changing environment. In order to meet the challenges, the Human Resource Department in banks have to prepare appropriate manpower plans and strategies.

Task Explain the function of CRM in any firm.

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Self Assessment

Choose the appropriate answer:

1. ACD stands for:
   (a) Automatic Customer Detection
   (b) Automatic Call Distribution
   (c) Automatic Call Decision
   (d) None
2. CPG stands for:
   (a) Customer Packaged Goods
   (b) Consumer Packing Goods
   (c) Consumer Packaged Goods
   (d) None

Fill in the blanks:

3. The goal in .... is to carefully manage a company's name, brands, slogans and symbols, otherwise known as brand equity.
4. .... compares price and quality (or value) of a product against competitors.
5. The .... has evolved from its early use as a simple performance measurement framework to a full strategic planning and management system.
6. .... is typically used to judge the appropriateness of the costs of acquisition of a customer.

State whether the following statements are true or false:

7. Customer Equity is the Net Present Value of a customer from the perspective of a supplier.
8. Relationship marketing some times is referred to as Customer Relationship Management (CRM).
9. Customer satisfaction is not a reaction to value received.
10. Customers consume physical and digital products.
11. By enabling direct customer interaction, CRM has changed every sphere of activity.
12. A CRM solution is a stand-alone solution.
13. ERP offered the means to optimize resource planning at the enterprise level but there was still no means of connecting to the customer.
14. CRM proved to be revolutionary for the business success.
15. CRM is as important for an organization as is the blood to human beings.

Caution CRM is not the blood line for any business but an integral part of its business strategy.

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Case Study

Local Search Engines: Useful or Not?

Name: Dandan Meng

Occupation: Masters Student

Dandan Meng is studying at Lulea University of Technology Sweden.

Pre-purchase eCRM Features

Dandan subscribes herself on different airline websites for getting emails. She said these emails contain information about different cheap offers and are sometimes helpful. She gets some junk e-mails as well which she believes that she never subscribed them and hence dislikes it. She could not found 'Site customization' feature on travel websites and believes that she can use websites easily without this feature. She prefers to send an email for contacting the company where as in case of emergency she likes to call the company for immediate reply.

She found the presence of 'local search engine' very useful and said that she could search flight schedules and fares easily by mentioning her desired travel locations and time preferences.

Dandan has to 'Log in/Sign in' only when websites force to do that otherwise she prefers to use the website without use of 'Log in/Sign in' it. For 'Log in/Sign in' she has to fill up the form first time which she does not like because she believes that it is a wastage of time. Presence of 'site information' in the form of 'introduction page', 'site tour' or 'site map' is immaterial for her because she said she can browse every travel website easily.

She could not found 'online forums' on travel websites. She tells her experiences to her friends in real life. If she will found any 'online forums' on travel websites, she will not communicate with other customers as far as the travel service is good. She said that she will tell other customers only in case website cheats her or she experienced any bad experience with the website.

At-purchase eCRM Features

Dandan said that she is getting opportunity from one of the travel website to get some points on the basis of using 'loyalty program' because she is a regular customer of that airline. She said she will get benefit of free travel on this basis. Dandan mentioned that the process of buying tickets is quite easy on the internet and that she could buy tickets any time of the day, but there are some websites where she has to buy tickets three days before travel. As a whole she preferred buying tickets online rather than from a travel agent. Dandan said that she could found all the information about services whatever she wants on the website easily moreover she explained that does not want to download such information. Dandan said that she could choose whether to sit in economy class or other class, she could choose insurance as well. She could also choose sometimes how many bags to book. It is important for her to read 'purchase terms and conditions' because some times she gets useful information from this. Dandan said that she always choose credit card option while purchasing e-tickets. When websites shows her different other alternatives while in the process of purchasing tickets according to her selection, she usually chooses the cheapest one as against her desired selection.

Contd...

Notes

Post-purchase eCRM Features

Dandan found the presence of FAQs very useful in case she is searching for some information. She said if she needs an answer to a question, she will first search FAQs and if she could not found her desired information then she will write an email. Neither did she ever make any complaint on the travel website nor did she find any kind of such feature over the websites for lodging any kind of complain against the company. She said she can writer an email to company in case she has to complain. But when asked what if you found this feature on travel websites then she replied that she can use this feature as well. She acknowledges that she did not face any kind of problem ever from the travel website and she does not know whether there is any 'problem solving' features on travel websites or not. In case she has to resolve any problem for example 'change of tickets' or cancellation of tickets, she will try to find such feature over the website or will send them an e-mail to the company. But Dandan believes that it is better if websites provide such kind of feature so that she could immediately change or cancel her ticket in future. She said that she never used 'order tracking' because she got an e-ticket immediately in her e-mail. She further answered a question and said that if she loses her email or e-ticket in any case she can contact the company for getting another ticket and it should not be difficult. But when asked what if you found this feature on website she replied that she can use this facility as well. Dandan never gave 'feedback' to the travel company. She said that she will give feedback only in case of her bad experience in future and therefore she said it is better if websites provide this feature.

Questions

1. Analyse the case and present your observations.
2. How do you think, has the advancement in CRM helped Dandan in gaining satisfaction?

Source: http://epubl.ltu.se/1653-0187/2008/042/LTU-PB-EX-08042-SE.pdf

13.2 Summary

- The recent trend of globalisation and liberalization has posed serious problems to domestic banks.
- The entry of new foreign banks and private sector banks with their advanced knowledge base of automation in the banking operations and aggressive marketing strategies has pushed public sector banks to a tight corner.
- Potential customers have started moving towards foreign banks and private sector banks. To survive and succeed, banks must identify their marketing areas, develop adequate resources, convert these resources into healthy and efficient services and distribute them effectively satisfying the manifold tastes of customers.
- The domain of customer relationship management extends into many areas of marketing and strategic decisions. Its recent prominence is facilitated by the convergence of several other paradigms of marketing and by corporate initiatives that have developed around the theme of cooperation and the collaboration of organizational units and their stakeholders, including customers.
- CRM refers to a conceptually broad phenomenon of business activity, and if the phenomenon of cooperation and collaboration with customers becomes the dominant paradigm of marketing practice and research, CRM has the potential to emerge as the predominant perspective of marketing.

- From the corporate implementation point of view, CRM should not be misunderstood to simply mean a software solution implementation project. Building relationships with customers is a fundamental business of every enterprise, and it requires a holistic strategy and process to make it successful.
- From an academic standpoint an important question is whether CRM or relationship marketing will become a well-respected, free standing, and distinct discipline in marketing. Our belief is that it certainly has the potential, and we wish that it would happen because marketing will benefit enormously from it.
- The lessons learned from previous efforts, both successful and unsuccessful, of various marketing domains that have tried to become disciplines provide a good road map of how to develop CRM and relationship marketing into a distinct discipline.
- As an intervention strategy, it would be highly desirable for relationship marketing and CRM scholars to organize their own association and their own scholarly journal.

13.3 Keywords

Brand Building: The goal in brand building is to carefully manage a company's name, brands, slogans and symbols, otherwise known as brand equity.

Call Centres (CCs), or Customer Contact Centres (CCCs): These have long played a critical role on the customer interaction front.

CTI: It can be defined as the application of computer-based intelligence to telecommunications devices.

Customer Equity: It is the Net Present Value of a customer from the perspective of a supplier.

Customer Knowledge: It refers to understanding your customers, their needs, wants and aims is essential if a business is to align its processes, products and services to build real customer relationships.

Customer Value Analysis (CVA): CVA compares price and quality (or value) of a product against competitors.

Enterprise Data: Enterprise Data is information that is entered and used by each staff member in performing their job, but which is also relevant to others in an organisation or group, such as the feedback from a customer during a sales call.

Lifetime Customer Value: It is a reflection of the possible future business a company can expect from a loyal customer.

13.4 Review Questions

1. Examine the importance of customization and the role of training in implementation of e-CRM.
2. What do you mean by Client-Server CRM Model?
3. What is Computer Telephony Integration (CTI)?
4. What do you understand by Roll-out and System Hand-off?
5. What are advancements happening in the field of CRM?
6. How will you help a firm going from a crisis of customer's dissatisfaction?
7. Has the invention of e-CRM given wings to the framework of CRM?

Notes

8. What is meant by emerging trends in CRM and what are they?
9. What is meant by LTV and how does it helps in improving companion's CRM function?
10. How far is CRM successful in giving businesses future and customer loyalty?

Answers: Self Assessment

1. (b)
2. (c)
3. Brand building
4. CVA
5. Balanced scorecard
6. Lifetime Value
7. True
8. True
9. False
10. True
11. True
12. False
13. True
14. True
15. True

13.5 Further Readings

Books

Alex Berson, Stephen Smith, Kurt Thearling, *Building Data Mining Applications*, 2004.

CGI Group Inc. White Paper, *Building Competitive Advantages through Customer Relationship Management*, January, 2001.

G Shainesh, Jagdish N Sheth, *Customer Relationship Management: A Strategic Perspective*.

Mohammed H. Peeru and A Sagadevan, *Customer Relationship Management*, Vikas Publishing House, 2004, Delhi.

Paul Greenberge, *CRM-Essential Customer Strategies for the 21st Century*, Tata McGraw Hill, 2005.

William, G. Zikmund, Raymund McLeod Jr., Faye W. Gilbert,*Customer Relationships Management*, Wiley, 2003.

Online links

http://barnraisersllc.com/tag/social-crm/

http://scn.sap.com/docs/DOC-5036

http://www.contactyourclient.com/index.php?

http://www.crmgroup.be/

http://www.destinationcrm.com/Articles/Columns-Departments/Reality-Check/Demystifying-CRM-Adoption-Rates-42496.aspx

http://www.salesforce.com/crm/

http://www.webopedia.com/TERM/C/CRM.html

Unit 14: Sales Force Automation

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Objectives

After studying this unit, you will be able to:

- Describe the meaning and features of sales force automation
- Know that what the advantages and disadvantages of SFA
- Explain the overview of SFA

Introduction

Any sales team in a company today, has to deal with various constraints. They need to continuously be in touch with their office, for updates on availability, prices and schemes for the products they sell. While this external reliance is a bottleneck, even the information obtained is not always accurate. Sales Force Automation enables a highly mobile sales force to increase productivity on the field, react faster to customer requirements and access and update sales related information anytime, anywhere.

SFA is often used interchangeably with CRM; however, CRM does not necessarily imply automation of sales tasks.

Sales Force Automation (SFA) contains multiple aspects of sales functionality, including sales activities, opportunity & pipeline management and forecast capabilities. Sales Force Automation is frequently combined with marketing tools to help facilitate the lead to opportunity (sales) flow. SFA enables you to analyze the entire sales cycle and successfully manage your sales pipeline—from first contact to final sale.

Notes

SFA functionality can also help forecast your sales pipeline. Forecasting sales opportunities enables companies to forecast products or services that will be sold within a specified timeline, the monetary/unit amount of products or services sold, and the likelihood of selling those products or services. Forecast management may also be based by employees or territories, they may compare the adjustments over time so sales managers can see the changes, and the forecast could be compared to a sales users' quota.

14.1 Overview of Sales Force Automation

Sales force automation refers to automating all the actions related to sales of an organization or business. This is a coordination of applications that chiefly center on scheduling and contact management. Sales force automation actions are usually incorporated with other systems that supply the status of orders, inventory and products and other related information and can be a part of a bigger program of customer relationship management. Abbreviated SFA, a technique of using software to automate the business tasks of sales, including order processing, contact management, information sharing, inventory monitoring and control, order tracking, customer management, sales forecast analysis and employee performance evaluation.

Sales force automation helps by making all business actions pertaining to sales, automatic. These actions include:

- Keeping a track of orders.
- Meting out of orders.
- Contact management.
- Sharing sales information and statistics.
- Screening and control of inventory.
- Analyzing future sales patterns and behavior.
- Evaluating performance of employees in sales.

In short, sales force automation can help you to control your entire sales process from head to toe.

Sales Force Automation (SFA) software is a type of program that automates business tasks such as inventory control, sales processing, and tracking of customer interactions, as well as analyzing sales forecasts and performance. Businesses may have a custom version developed specifically for their needs, or choose from among the increasing number of sales automation software products, such as Interact Commerce's ACT! and GoldMine Software's GoldMine. Sales automation software is sometimes called sales automation software, and sometimes called Customer Relations Management (CRM) software.

14.1.1 Sales Force Automation Solution

Nowadays there is a variety of software and solutions available for sales force automation that can help small, mid size, and large enterprises to meet and surpass their sales targets and initiatives. All the information provided by such solutions can help businesses to analyze their sales and pinpoint future trends and courses.

SFA packages typically include a Web-ready database, an e-mail package, and customizable template s. A three-tiered architecture is typically used to separate the database, server, and application to reduce programming demands on clients.

A module-based design is generally used, to allow users to customize the package to suit their needs.

Caution In August 2000, Oracle released a free CRM software package, OracleSalesOnline.com which makes information – such as contacts, schedules, and performance tracking – available online through the included database program. The package is designed for medium-to-large enterprises with mobile work forces. All data and storage are based at an Oracle facility, similar to the Application Service Provider (ASP) model, which means that data can be accessed from any Internet connection and that the client doesn't need special hardware or software. The Oracle package also includes online staff training.

14.1.2 Benefits of Sales Force Automation Software

1. ***Personalized Software:*** You can get sales force automation solutions that are customized according to your specific business. These solutions are completely configurable to meet your individual business and sales automation needs.
2. ***Complete Sales Solutions for Executives and Employees:*** Sales force automation software can help executives to define and set individual sales goals, share sales and advertising information, analyze results and reports, and predict future courses.
3. Sales employees can benefit as the solutions make it easy for them to obtain leads, supervise their databases, set reminders for schedules and appointments, and save numerous notes, orders, and applications.
4. ***Swift Launch and Incorporation:*** Most sales force automation software can easily be incorporated into your unique sales programs and can be configured according to your special needs. As a direct consequence of this, your sales team can be fully functional in weeks rather than months or even years.
5. ***Provides Control:*** By using sales force automation software, managers can find out how their sales team is doing at any given time and also take care of any possible problems before they get out of hand. Sales representatives can quickly be brought up to date by providing all the necessary sales information in one common place.
6. ***Safeguards Data:*** All sales force automation systems have built-in security tools that help to safeguard all your data, statistics, and solutions. Advanced technology in security enables complete protection of client and company data. Along with this, these systems have data encryption and user authentication facilities that help to back up the saved data and also prevent unauthorized use of your sales solutions.

Thus the advantages of sales force automation can be summarized as:

For the Organization

Speedy and hassle free launching of sales teams in the most organized and efficient manner.

Advantages to Sales People

Proponents claim that sales force automation systems can improve the productivity of sales personnel.

Notes

Examples:

1. Rather than write-out sales orders, reports, activity reports, and/or call sheets, sales people can fill-in prepared e-forms. This saves time.
2. Rather than printing out reports and taking them to the sales manager, sales people can use the company intranet to transmit the information. This saves time.
3. Rather than waiting for paper-based product-inventory data, sales-prospect lists, and sales-support information, they will have access to the information when they need it. This could be useful in the field when answering prospects' questions and objections.

The additional tools could help improve sales staff morale if they reduce the amount of record keeping and/or increase the rate of closing. This could contribute to a virtuous spiral of beneficial and cumulative effects.

These sales force systems can be used as an effective and efficient training device. They provide sales staff with product information and sales technique training without them having to waste time at seminars.

- Better communication and co-operation between sales personnel facilitates successful team selling.
- More and better qualified sales leads could be automatically generated by the software.
- This technology increases the sales person's ratio of selling time to non-selling time. Non-selling time includes activities like report writing, travel time, internal meetings, training, and seminars.

Advantages to the Sales Manager

Sales force automation systems can also affect sales management. Here are some examples:

- The sales manager, rather than gathering all the call sheets from various sales people and tabulating the results, will have the results automatically presented in easy to understand tables, charts, or graphs. This saves time for the manager.
- Activity reports, information requests, orders booked, and other sales information will be sent to the sales manager more frequently, allowing him/her to respond more directly with advice, product in-stock verifications, and price discount authorizations. This gives management more hands-on control of the sales process if they wish to use it.
- The sales manager can configure the system so as to automatically analyze the information using sophisticated statistical techniques, and present the results in a user-friendly way. This gives the sales manager information that is more useful in:

  (a) Providing current and useful sales support materials to their sales staff.

  (b) ***Providing marketing research data:*** Demographic, psychographic, behavioural, product acceptance, product problems, detecting trends.

  (c) ***Providing market research data:*** Industry dynamics, new competitors, new products from competitors, new promotional campaigns from competitors, macro-environmental scanning, detecting trends.

  (d) Co-ordinate with other parts of the firm, particularly marketing, production, and finance.

  (e) Identifying your most profitable customers, and your problem customers.

Notes

Did u know? Tracking the productivity of their sales force by combining a number of performance measures such as: revenue per sales person, revenue per territory, margin by customer segment, margin by customer, number of calls per day, time spent per contact, revenue per call, cost per call, entertainment cost per call, ratio of orders to calls, revenue as a percentage of sales quota, number of new customers per period, number of lost customers per period, cost of customer acquisition as a percentage of expected lifetime value of customer, percentage of goods returned, number of customer complaints, and number of overdue accounts. More complex models like the PAIRS model (by Parasuraman and Day) and the Call Plan model (by Lodish) can also be used.

Advantages to the Marketing Manager

It is also claimed to be useful for the marketing manager. It gives the marketing manager information that is useful in:

- Understanding the economic structure of your industry
- Identifying segments within your market
- Identifying your target market
- Identifying your best customers in place
- Doing marketing research to develop profiles (demographic, psychographic, and behavioral) of your core customers
- Understanding your competitors and their products
- Developing new products
- Establishing environmental scanning mechanisms to detect opportunities and threats
- Understanding your company's strengths and weaknesses
- Auditing your customers' experience of your brand in full
- Developing marketing strategies for each of your products using the marketing mix variables of price, product, distribution, and promotion
- Coordinating the sales function with other parts of the promotional mix (such as advertising, sales promotion, public relations, and publicity)
- Creating a sustainable competitive advantage
- Understanding where you want your brands to be in the future, and providing an empirical basis for writing marketing plans on a regular basis to help you get there
- Providing input into feedback systems to help you monitor and adjust the process

Strategic Advantages

Sales force automation systems can also create competitive advantage. Here are some examples:

As mentioned above, productivity will increase. Sales staff will use their time more efficiently and more effectively. The sales manager will also become more efficient and more effective. This increased productivity can create a competitive advantage in three ways: it can reduce costs, it can increase sales revenue, and it can increase market share.

Field sales staff will send their information more frequently. Typically information will be sent to management after every sales call (rather than once a week). This provides management with

Notes

current information, information that they will be able to use while it is still valuable. Management response time will be greatly reduced. The company will become more alert and more agile.

These systems could increase customer satisfaction if they are used with wisdom. If the information obtained and analyzed with the system is used to create a product that matches or exceeds customer expectations, and the sales staff uses the system to service customers more expertly and diligently, then customers should be satisfied with the company. This will provide a competitive advantage because customer satisfaction leads to increased customer loyalty, reduced customer acquisition costs, reduced price elasticity of demand, and increased profit margins.

14.1.3 Disadvantages

Detractors claim that sales force management systems are:

- difficult to work with
- require additional work inputting data
- dehumanize a process that should be personal
- require continuous maintenance, information updating, and system upgrading
- costly
- difficult to integrate with other management information systems

> *Notes* Sales Force Automation (SFA) application gives businesses the upper hand with their sales data. Comprehensive and easy to customize, the solution empowers companies to manage people and processes more effectively, so reps can close more deals. With SFA, reps spend more time selling and less time on administration.

- ***Loved by the Sales Force:*** Reps need solutions that make their jobs easier, not more complicated. SFA gives them fast access to data – on-line, off-line and via mobile devices – and links easily to popular tools like Microsoft Office and Outlook. The user interface is simple and intuitive. This is the one SFA solution every sales rep will love and use.
- ***Critical for Sales Managers:*** Managers need visibility into the activities of their reps and insight into where they stand with their pipelines. The solution provides powerful opportunity management, forecasting, reporting, and customization capabilities, so sales managers can be confident their teams are producing at their full capacity.
- ***Trusted by Executives:*** Executives need accurate information so they can evaluate their company's past performance while looking ahead to the future. They want to answer critical business questions quickly without sifting through reams of data. With the powerful analytics and customizable dashboards that SFA provides, executives have the real-time information they need to be effective.

14.1.4 Features of SFA

The underlying features of Sales Force Automation are as follows:

1. Sales Management
2. Lead Management
3. Opportunity Management

4. Account and Contact Management
5. Activity Management
6. Approvals and Workflow
7. Territory Management
8. Partner Management
9. Analytics and Forecasting
10. Reports and Dashboards
11. Customizable Forecasting
12. Data Quality Management
13. Sales Information
14. Product Catalog
15. Document Management
16. Contract Management
17. Email Templates
18. Asset Management
19. Desktop and Mobile
20. Mobile CRM Solutions
21. Microsoft Outlook Edition
22. Word and Excel Integration
23. Customization and Integration
24. AppExchange Applications

14.1.5 Other Features

Alerts: Messaging facility allows sales representative to receive from as well as send alerts to central server.

Personal Information Management: These sets of applications allow sales representatives to manage information on leaves, travel, expenses and salary from the personal devices.

Self Assessment

Fill in the blanks:

1. …………………… refers to automating all the actions related to sales of an organization or business.
2. A three-tiered architecture is typically used to separate the database, server, and …………………… to reduce programming demands on clients.
3. The …………………… is the key sub system of the entire solution.
4. Call Plan model given by …………………….

Notes

State whether the following statements are true or false:

5. Sales force automation systems can't create competitive advantage.
6. The SFA gives the sales team the ability to access and manage critical sales information using a PDA device.
7. Real time information can be viewed on the handheld device.
8. SFA packages typically include a Web-ready database, an e-mail package, and customizable template.

Caselet

Infosys Global Sales Force Automation Solution

The Infosys Global Sales Force Automation solution increases sales force efficiency in 116 countries for a large logistics company

The client

A transportation services giant and market leader of the international air express industry.

Challenges

The client operated at a country-level without global processes or an IT road map. Rapid growth and restructuring led to disconnected customer-facing processes and information residing in disparate systems. The sales and marketing management team required visibility into opportunities and potential customers in the global, regional and country segments to facilitate effective selling. The sales force needed a best-in-class sales force automation (SFA) and marketing system that would enable implementation of a new global sales and marketing process and also provide regional language flavors. The client required the system to be rapidly available to users in all the countries to reap time-to-market benefits.

Our Solution

Infosys helped the client consolidate its global sales and marketing processes, and developed an IT road map to deliver the best-in-class SFA for the global sales application. Infosys managed, architected, built, and deployed a single-instance multi-lingual sales and marketing solution that supported the global processes and had the flexibility to support local requirements. The global deployment process, in tandem with the simultaneous release of new versions of the application and Siebel upgrades, was formulated to facilitate rapid deployment of the application and to deliver maximum value and product maturity.

The client upgraded the Global SFA solution from Siebel 7.5.3 to Siebel 7.7 to leverage the enhanced marketing and analytics modules, and also deployed a single-instance sales and marketing solution globally. The upgrade was considered a stepping stone to other strategic initiatives within the client's CRM program.

The solution, currently available to over 8,500 users in 116 countries across all global, regional and country sales channels (usage maturity), has increased sales force efficiency through improvements in pipeline management, global cross-selling and up-selling, and insightful analytics.

Benefits

The CRM initiative helped the client create customer segmentation. Together with insightful analytics reporting delivered by the initiative, it helped the client gain approximately 1% increase on a revenue base of Euro 45 billion

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- The CRM initiative provided the top management with KPI reporting through analytics (dashboard reporting, 'delivers', etc.) that delivered real-time reports for immediate visibility and action
- The global application, based on harmonized sales processes, allows cross-regional and cross-channel visibility, relationship sales, global sales, and gives visibility to critical information across various geographies

Source: http://www.infosys.com/Oracle/case-studies/Pages/global-sales-force-automation.aspx

14.2 Sales Force Automation Solution – An Overview

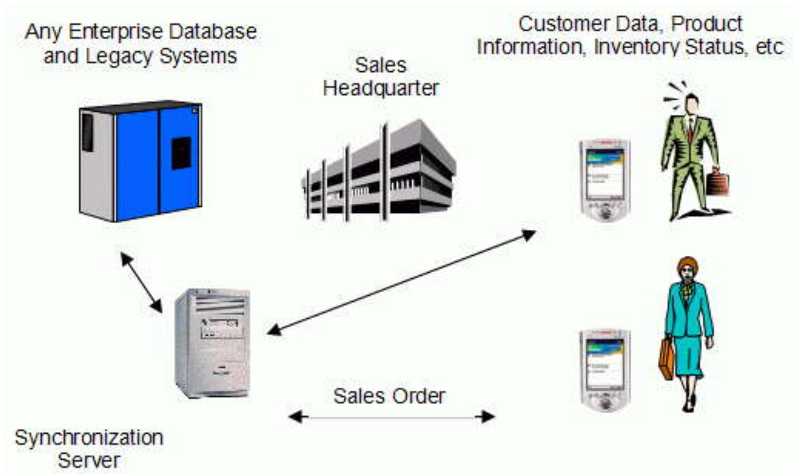
The SFA gives the sales team the ability to access and manage critical sales information using a PDA device. Synchronisation provides a simple method of sharing data and merging new and updated information between offline users and the Mobile Server.

The architecture is segmented into two main sub-systems. They are:

- ***Mobile Server:*** The Mobile Server is the key sub system of the entire solution. This server interfaces with Central Server and (Oracle, or any) database at the Mobile Server. It manages the Sales Representatives PDA and the requests from the PDA. An administrative module helps in user authentication, transaction monitoring and synchronisation. The server, based on settings, hosts all the synchronisation logic.
- ***Client Application:*** The client application is hosted in the Sales Representative's PDA device and has the ability to view appointments, create orders, search for customer details and item details and synchronise with the Mobile Server using GPRS.

14.2.1 Functional Features

Figure 14.1: Functional Features of SFA Architecture



Source: http://www.salesboom.com/products/web-based_sales_quote_management_software.html

The SFA client has the following features. The sample screen layout for each of the features is also provided.

Appointment Scheduling

This facilitates creating, viewing and rescheduling appointments by a sales representative on his PDA. A unique feature is re-routing of appointments to the central server for allocation. This facility allows the Sales Representative to view appointments for the current week/day. They also have the option of rescheduling the appointments.

Figure 14.2: Appointment Scheduling

Source: http://www.salesboom.com/products/web-based_sales_quote_management_software.html

The Sales Representative can also view the list of customers available in the PDA. They can view the customers based on Customer ID or Customer Name.

Order Management

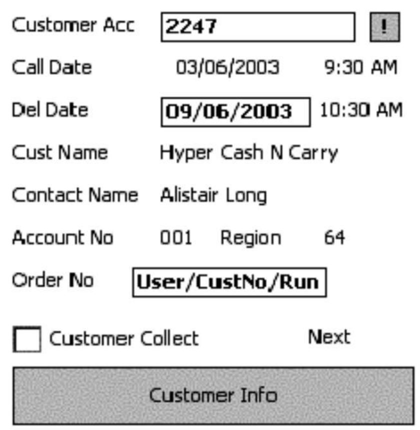
Figure 14.3: Order Management

Source: http://www.salesboom.com/products/web-based_sales_quote_management_software.html

Sales representative can manage inquiries, quotations and sales orders on their device. Basic functionalities like capturing user requirements, suggesting solutions etc are possible. Viewing order status is a key feature of this module.

Customer Management

Figure 14.4: Customer Management

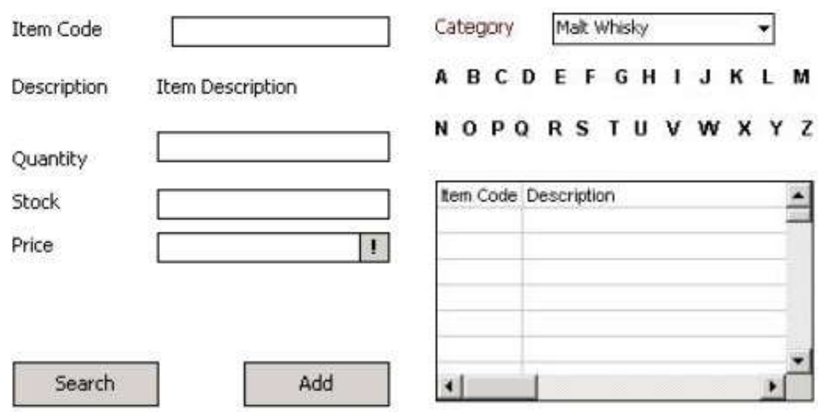


Source: http://www.salesboom.com/products/web-based_sales_quote_management_software.html

Caution This only facilitates creation and viewing of customer information like contact information or customer history.

Product Viewing

Figure 14.5: Product Viewing



Source: http://www.salesboom.com/products/web-based_sales_quote_management_software.html

Real time information can be viewed on the handheld device. The information on products can be viewed categorically or by alphabetical order. Information on product prices, availability, description and other specifications can be obtained.

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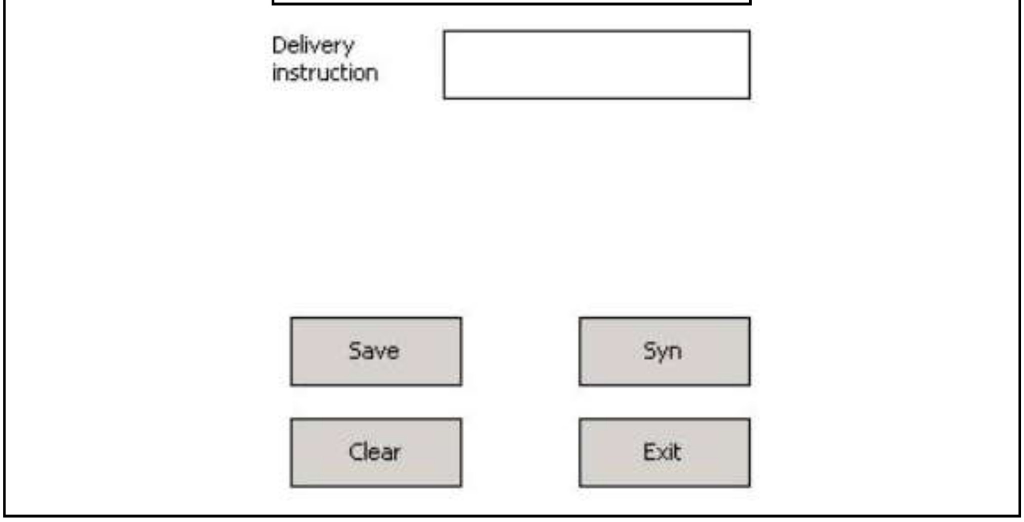
Delivery Instructions

Figure 14.6: Delivery Instructions



Source: http://www.salesboom.com/products/web-based_sales_quote_management_software.html

The Sales Representative can enter a Delivery Instruction if required and save the order. If they choose to Synchronise the order, then it is saved and synchronized with the server, provided GPRS connectivity is available. There is also an option to clear and exit from the order entry screen.

Synchronization

This module facilitates in synchronising data on the device with the server using cradle or wireless synchronisation. Synchronisation has XML components on the server and client side as well.

Self Assessment

Fill in the blanks:

9. The sales representative can enter a …………………… if required and save the order.
10. …………………… manages the sales representatives PDA and the requests from the PDA
11. Sales force automation can help you to control your entire …………………… .
12. Sales force automation is an …………………… software channel.
13. Sales force automation systems can also create competitive …………………… for your business.
14. SFA application gives businesses HELP with their sales …………………… .
15. Data Quality Management is a …………………… of SFA.

Task Discuss the importance of SFA for a BPO.

Notes

Case Study

Mobile SFA: Brewery Company

Automating the sales process freed sales staff from tedious paperwork and improved business analysis accuracy.

Challenges

- All sales processes were manual, so sales staff spent a lot of time on paperwork.
- It was difficult to monitor sales processes and to obtain real-time data for business analysis.
- The company was looking for a more effective way to manage their sales processes.
- The company required up-to-date and accurate information at the point of sale as well as increased visibility and sales productivity.

Solution

- The Mobile Sales Force Automation (SFA) system automated all sales processes and eliminated paperwork.
- Mobile SFA provided real-time data and a range of reports, allowing management to conduct accurate business analyses.
- Mobile SFA is part of a suite of mobile internet applications that support a wide range of handheld devices capable of accessing data remotely over mobile telecommunication networks.
- NEC provided a total solution that included the management of mobile devices, software customization, ERP integration, and technical support.

Results

- Increase in sales staff productivity with more visits being made per day
- Simplified sales and inventory data collection process
- Automated daily store operations
- Reduced possibility of human error in issuing forms
- Improved business analysis accuracy and customer service

Questions

1. Analyse the case and present your views
2. How far was SFA responsible for the company's problem solving situation?

Source: http://www.nec.com/en/global/solutions/mobility/mobile_sfa/m_casestudy.html

14.3 Summary

- Sales force automation refers to automating all the actions related to sales of an organization or business. This is a coordination of applications that chiefly center on scheduling and contact management.

Notes

- Sales force automation actions are usually incorporated with other systems that supply the status of orders, inventory and products and other related information and can be a part of a bigger program of customer relationship management.
- Sales force automation helps by making all business actions pertaining to sales, automatic.
- Nowadays there is a variety of software and solutions available for sales force automation that can help small, mid-size, and large enterprises to meet and surpass their sales targets and initiatives.
- All the information provided by such solutions can help businesses to analyze their sales and pinpoint future trends and courses.
- You can get sales force automation solutions that are customized according to your specific business. These solutions are completely configurable to meet your individual business and sales automation needs.
- Highlights of sales force automation:
  (a) Effectively processes and quotes orders
  (b) Manages opportunity and pipeline for products and services to be sold
  (c) Improves lead distribution and tracking
  (d) Sales methodology support including guided sales activities and achievements
  (e) Productivity tools to reduce the amount of time spent on administrative tasks, and increase that spent on deals most likely to close
  (f) Forecast Management capabilities
  (g) Provides remote sales staff with instant access to corporate information

14.4 Keywords

Alerts: Messaging facility allows sales representative to receive from as well as send alerts to central server.

Appointment Scheduling: This facilitates creating, viewing and rescheduling appointments by a sales representative on his PDA.

Client Application: The client application is hosted in the Sales Representative's PDA device and has the ability to view appointments, create orders, search for customer details and item details and synchronise with the Mobile Server using GPRS.

Delivery Instructions: The Sales Representative can enter a Delivery Instruction if required and save the order.

Mobile Server: It is the key sub-system of the entire sales force automation system.

Sales Force Automation (SFA) Software: It is a type of program that automates business tasks such as inventory control, sales processing, and tracking of customer interactions, as well as analyzing sales forecasts and performance.

Sales Force Automation: It refers to automating all the actions related to sales of an organization or business.

Synchronization: This module facilitates in synchronising data on the device with the server using cradle or wireless synchronisation.

14.5 Review Questions

Notes

1. What do you understand by sales force automation?
2. Describe the important features of sales force automation system.
3. Discuss the advantages and disadvantages of sales force automation.
4. How is SFA important for a business?
5. What are the emerging technological advancements in SFA?
6. Discuss the general concept of SFA.
7. How far is the scope of SFA reached?
8. Is SFA used in manufacturing companies?
9. What is SFA included in CRM strategy?
10. What is meant by synchronization?

Answers: Self Assessment

1. Sales force automation
2. Application
3. Mobile Server
4. Lodish
5. False
6. True
7. True
8. True
9. Delivery instructions
10. Mobile server
11. Sales process
12. Automatic
13. Advantage
14. Data
15. Feature

14.6 Further Readings

Books

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Notes

Online links

http://barnraisersllc.com/tag/social-crm/

http://www.contactyourclient.com/index.php?

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