Customer Relationship Management
Growth of the power of customer information and the ability to affect corporate reputation
Development of integrated offerings
Diffusion of ICT
Speed and response capability in reduced times competitive pressure

the customer is a scarce resource
THE CUSTOMERS AND THE MARKETING AIMS

CUSTOMERS

Prospect  Current  Ex

ANALYSIS AND TARGETING

To get customers

To increase the loyalty

To get customers back

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

Credit cards
Car insurance
Distribution
Concessionaire service

1st year 2nd year 3rd year 4th year
THE ADVANTAGES FOR THE LOYAL CUSTOMER

LOYAL CUSTOMERS

COSTS
- Lower promotion costs
- Lower management costs

RETURNS
- Cross-selling
- Premium price
- Costant and increasing incomes

OTHER
- Positive word of mouth
- Innovative and customized offered mix
- Stimulated staff

Positive word of mouth
Innovative and customized offered mix
Stimulated staff
- Management costs may increase over time
- The multichannel opportunity move customers from the channels less costs to more expensive ones
- As a result of so-called "polygamous loyalty" is not always the most enduring customers are the most profitable (eg. Customers "leeches")
LOYAL TRAPS

Advanced Marketing

Focalizzare

Massimizzare

Controllare

LE FARFALLE

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

GLI AMICI VERI

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

GLI ESTRANEI

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

LE SANGUISUGHE

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

Durata della relazione

Breve

Lunga

Molto elevata

Scarsa

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

1. Collecting customer data
2. Analyzing the customer data and identifying target customers
3. Developing CRM programs
4. Implementing CRM programs
Transactions – a complete history of purchases
  - Purchase date, price paid, SKUs bought, whether or not the purchase was stimulated by a promotion

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

Customer preferences

Descriptive information about customer
  - Demographic and psychographic data

Customer’s responses to marketing activities
Collecting Customer Data: Identifying Information

Approaches that store-based retailers use:

- Asking for identifying information
  - Telephone number, name and address

- Offering frequent shopper cards
  - Loyalty programs that identify and provide rewards to customers who patronize a retailer
  - Private label credit card (that has the store’s name on it)

- Connecting Internet purchasing data with the stores
Privacy Concerns

- **Control over Collection**
  - Do customers know what information is being collected?
  - Do customers feel they can decide upon the amount and type of information collected by retailers?

- **Control over Use**
  - Do customers know how the information will be used by the retailer?
  - Will the retailer share the information with third parties?
PHASE 2: ANALYZING CUSTOMERS PROFILING

⇒ The main aim of this phase is to make a ranking of customers through a precise rating: “rating for ranking”

⇒ The customer marketing aims are defined on the basis of the ranking
PORTFOLIO ANALYSIS

STATIC

1 VARIABLE

2 VARIABLES

DYNAMIC

N VARIABLES
Customer Pyramid

Platinum
Best
Most loyal
Least price sensitive

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

PORTFOLIO ANALYSIS WITH ONE VARIABLE

Advanced Marketing

Selling %

20%  4%  29%

Profits %

50%  26%  55%

NUMBER OF CUSTOMERS %

30%  70%  16%
WHICH IS THE INFLUENCE OF THE 5% OF CUSTOMERS ON THE PROFITS?

- **Credit cards**
  - Customers: 95
  - Profits: 75

- **Cosmetics**
  - Customers: 95
  - Profits: 85

- **Telephone market**
  - Customers: 95
  - Profits: 72
**ABC ANALYSIS**

- It involves the use of a single variable (usually revenue) to analyze the importance of the customer's business portfolio.
- Customers are ranked in descending order according to the variable.
- Usually Pareto Paradigm is confirmed (rule 20/80).

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<td>35.100.00</td>
</tr>
<tr>
<td>30</td>
<td>16.433.00</td>
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Average 1-12 customers = 282.807
Average 30 customers = 157.380
Average 13-30 customers = 73.762
PORTFOLIO ANALYSIS

STATIC

1 VARIABLE

2 VARIABLES

DYNAMIC

N VARIABLES
We use two variables

Matrixes are more realible and to identify Key Clients

It’s difficult to chose two variables

There are three different typologies

- Matrices of customer profitability: economic variables
- Matrices of the competitive situation of customers estimate the customers’ competitiveness in key markets
- Matrices of customer relations: non-economic variables (satisfaction, no complaints, ease of maintenance, etc.)
The matrix shows that the **recommended strategies** for various segments differ substantively.

The firm makes optimal resource allocation decisions only by **segmenting customers** along the two dimensions simultaneously.
CUSTOMERS TYPOLOGIES AND THE RELATIONSHIP BETWEEN LOYALTY AND SATISFACTION

- **Hostages** (Defection area)
- **Indifference area**
- **Loyalty area**
- **Almost apostles**
- **Apostles**
- **Mercenaries**

**Levels**
- Level of Customer Loyalty:
  - Very Unsatisfied
  - Unsatisfied
  - Nor satisfied
  - Satisfied
  - Very Satisfied

**Levels**
- Level of Customer Satisfaction:
  - Very Unsatisfied
  - Unsatisfied
  - Nor satisfied
  - Satisfied
  - Very Satisfied
CUSTOMER ANALYSIS

PORTFOLIO ANALYSIS

STATIC

1 VARIABLE

2 VARIABLES

DYNAMIC

3 VARIABLES
RFM Analysis

Used by catalog retailers and direct marketers

Recency: how recently customers have made a purchase

Frequency: how frequently they make purchases

Monetary: how much they have bought

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Monetary</th>
<th>RECENTY</th>
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<tr>
<td></td>
<td>0–2 months</td>
<td>3–4 months</td>
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<tr>
<td>1–2</td>
<td>&lt;$50</td>
<td>5.0%*</td>
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<tr>
<td>1–2</td>
<td>Over $50</td>
<td>5.0</td>
</tr>
<tr>
<td>3–4</td>
<td>&lt;$50</td>
<td>8.0</td>
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<td>3–4</td>
<td>Over $150</td>
<td>8.8</td>
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<td>5–6</td>
<td>&lt;$300</td>
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<td>5–6</td>
<td>Over $300</td>
<td>12.0</td>
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<tr>
<td>Over 6</td>
<td>&lt;$450</td>
<td>15.0</td>
</tr>
<tr>
<td>Over 6</td>
<td>Over $450</td>
<td>16.0</td>
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## RFM Target Strategies

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<thead>
<tr>
<th>Frequency</th>
<th>Monetary</th>
<th>0–2 months</th>
<th>3–4 months</th>
<th>5–6 months</th>
<th>Over 6 months</th>
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<tr>
<td>1–2</td>
<td>&lt;$50</td>
<td>First-time customers</td>
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<td></td>
<td>Low-value customers</td>
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<tr>
<td></td>
<td>Over $50</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3–4</td>
<td>&lt;$150</td>
<td>Early repeat customers</td>
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<td>Defectors</td>
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<td>Over $150</td>
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<tr>
<td>5–6</td>
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<td>High-value customers</td>
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<td>Core defectors</td>
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<td>Over $300</td>
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<tr>
<td>Over 6</td>
<td>&lt;$450</td>
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<tr>
<td>Over 6</td>
<td>Over $450</td>
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### CUSTOMERS ANALYSIS BASED ON 3 VARIABLES (FRM METHOD)

<table>
<thead>
<tr>
<th>CUSTOMER</th>
<th>Frequency</th>
<th>Recency</th>
<th>Monetary</th>
<th>Score frequency</th>
<th>Score recency</th>
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<td>5</td>
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<td>37</td>
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</table>

**HYPOTHESIS**

- **Recency** = 15 for the third 4 months period; 10 for the second; 5 for the first
- **Frequency** = number of agreements dealt in the period \( \times 5 \)
- **Monetary** = 0.004% of the value
CUSTOMER ANALYSIS

PORTFOLIO ANALYSIS

STATIC

1 VARIABLE
2 VARIABLES

DYNAMIC

3 VARIABLES
DYNAMIC ANALYSIS OF THE PORTAFOGLIO: THE MIGRATION

PERIOD To

PERIOD T+1

Prospect

New

Other

Small

Medium

Large

Customers

Prospect customers

Customers
THE MIGRATION FLOWS IN THE PORTFOLIO

- INCREASE RATE VS UPPER CLASSES
- DECREASE RATE VS LOWER CLASSES
- STILLNESS RATE
- NEW CUSTOMERS ACQUISITION RATE
- DEFECTION RATE
**Customer Retention Rate (CRR)**

\[
\text{CRR} = \frac{\text{Customer end period} - \text{New Customer}}{\text{Customer at beginning}}
\]

Es. Customer at beginning=100; Customer end period=120; New customer acquired in the period =40

CRR = \((120-40)/100 = 80\%\)

**Defection rate**

\[
\text{Defection rate} = [1 - \text{CRR}]
\]

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

**Customer Life Time**

\[
\text{CLT} = \frac{1}{1 - \text{CRR}}
\]

Es. CRR =80\%
CLT= \(1/(1- 0,80) = 5 \text{ years}\)
CUSTOMER PORTFOLIO INDICATORS

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

Example: Number of customers defect = 60
Total of customers = 200
Churn Rate = 30%

Acquisition Rate

Acquisition = first purchase or purchasing in the first predefined period

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

- Probability of a customer being active in time $t$
- $P(\text{Active}) = P(\text{Active}) = (T/N)^n$

- Where: $n = \text{the number of purchases in a given period}$,
- $T =$ is the time of the last purchase
- $N =$ Observation period
P(Active) of the two customers in the 12th month of activity:

Customer 1: \( T = \frac{8}{12} = 0.6667 \) e nr purchases = 4
\[ P(\text{Active})_1 = (0.6667)^4 = 0.197 \]

And for Customer 2: \( T = \frac{8}{12} = 0.6667 \) e nr purchases= 2
\[ P(\text{Active})_2 = (0.6667)^2 = 0.444 \]
Customer Life Time Value:

\[ \sum_{t=1}^{T} P_{\text{active}} \frac{AGM_{it}}{(1 + d)^t} \]

**AGM**: Average gross margin in period \( t \)

**P active**: Probability of a customer being active in time \( t \)

**i**: I customer

**t**: time when CLTV is calculated

**T**: number of periods

**d**: discount rate
Developing CRM Programs

- Retaining Best Customers
- Getting Rid of Unprofitable Customers
- Converting Good Customers into Best Customers
Customer Retention

- Frequent Shopper Programs
- Special Customer Services
- Personalization
  - 1-to-1 Retailing
- Community
Elements in Effective Frequent Shopper Programs

- Tiered rewards based on customer value
- Offer choices of rewards
  - No all customers value the same rewards
  - Non-monetary incentives, altruistic rewards
- Reward all transactions to ensure the collection of all customer transaction data and encourage repeat purchases
- Transparent and simple so that customers easily understand when they will receive rewards
Issues with Effective Frequent Shopper Programs

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

Recommended for Barton Weitz (If you're not Barton Weitz, click here.)
Converting Good Customers into Best Customers

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

- Charge customers for extra services demanded
Implementing CRM Programs

- Need systems, databases
- Close coordination between departments – marketing, MIS, store operations, HR
- Shift in orientation
  Product Centric → Customer Centric