



CUSTOMER RELATIONSHIP MANAGEMENT

CONCEPTS AND TECHNOLOGIES

Chapter 2 Understanding relationships

Defining 'relationship'

- ❖ A relationship is composed of a series of interactive episodes between parties over time.
- ❖ Episodes are time bound (they have a beginning and an end) and are nameable.
- ❖ Episodes are composed of a series of interactions. Interaction consists of action, and response to that action.
- ❖ Is a relationship more than interaction-over-time?
 - What about emotional content ? Do relationships have some type of affective connection, attachment or bond?

Dwyer, Schurr & Oh's model of relationship change

1. Awareness
2. Exploration
3. Expansion
4. Commitment
5. Dissolution

Major relationship attributes

- ❖ Trust
- ❖ Commitment

Types of trust

A party in a relationship may trust the other's..

❖ **Benevolence.** A belief that one party acts in the interests of the other.

❖ **Honesty.** A belief that the other party's word is reliable or credible.

❖ **Competence.** A belief that the other party has the necessary expertise to perform as required.

How trust emerges

- ❖ Trust emerges as parties share experiences, and interpret and assess each other's motives.
- ❖ As they learn more about each other, risk and doubt are reduced.
- ❖ For these reasons, trust has been described as the glue that holds a relationship together across time and different episodes.

Commitment defined

- ❖ Commitment is shown by ‘an exchange partner believing that an ongoing relationship with another is so important as to warrant maximum effort to maintain it; that is, the committed party believes the relationship is worth working on to ensure that it endures indefinitely’.

Characteristics of commitment

- ❖ Commitment arises from trust, shared values, and the belief that partners will be difficult to replace.
- ❖ Commitment motivates partners to cooperate in order to preserve relationship investments.
- ❖ Commitment means partners forgo short-term alternatives in favour of more stable, long-term benefits associated with current partners.
- ❖ Commitment entails vulnerability, leaving partners open to opportunism.

Evidence of commitment

- ❖ Evidence of commitment is found in the investments that one party makes in the other.
- ❖ One party makes investments in the promising relationship and if the other responds, the relationship evolves and the partners become increasingly committed to doing business with each other.
- ❖ Investments can include time, money and the sidelining of current or alternative relationships.
- ❖ A partner's commitment to a relationship is directly represented in the size of the investment in the relationship, since these represent termination costs.

Attributes of high-quality relationships

❖ Core attributes

- Trust
- Commitment

❖ Additional attributes

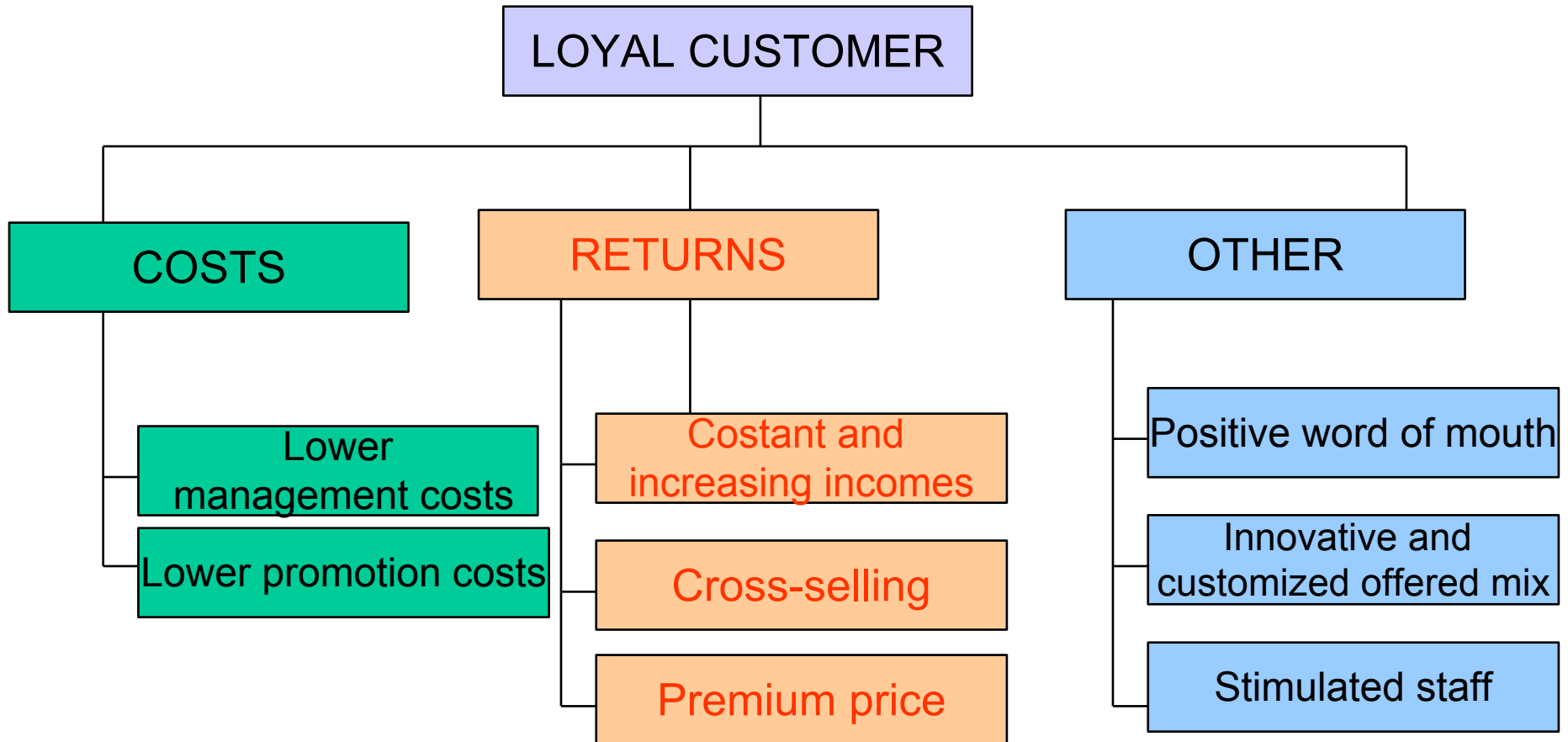
- Relationship satisfaction
- Mutual goals
- Cooperative norms

Companies want relationships with customers

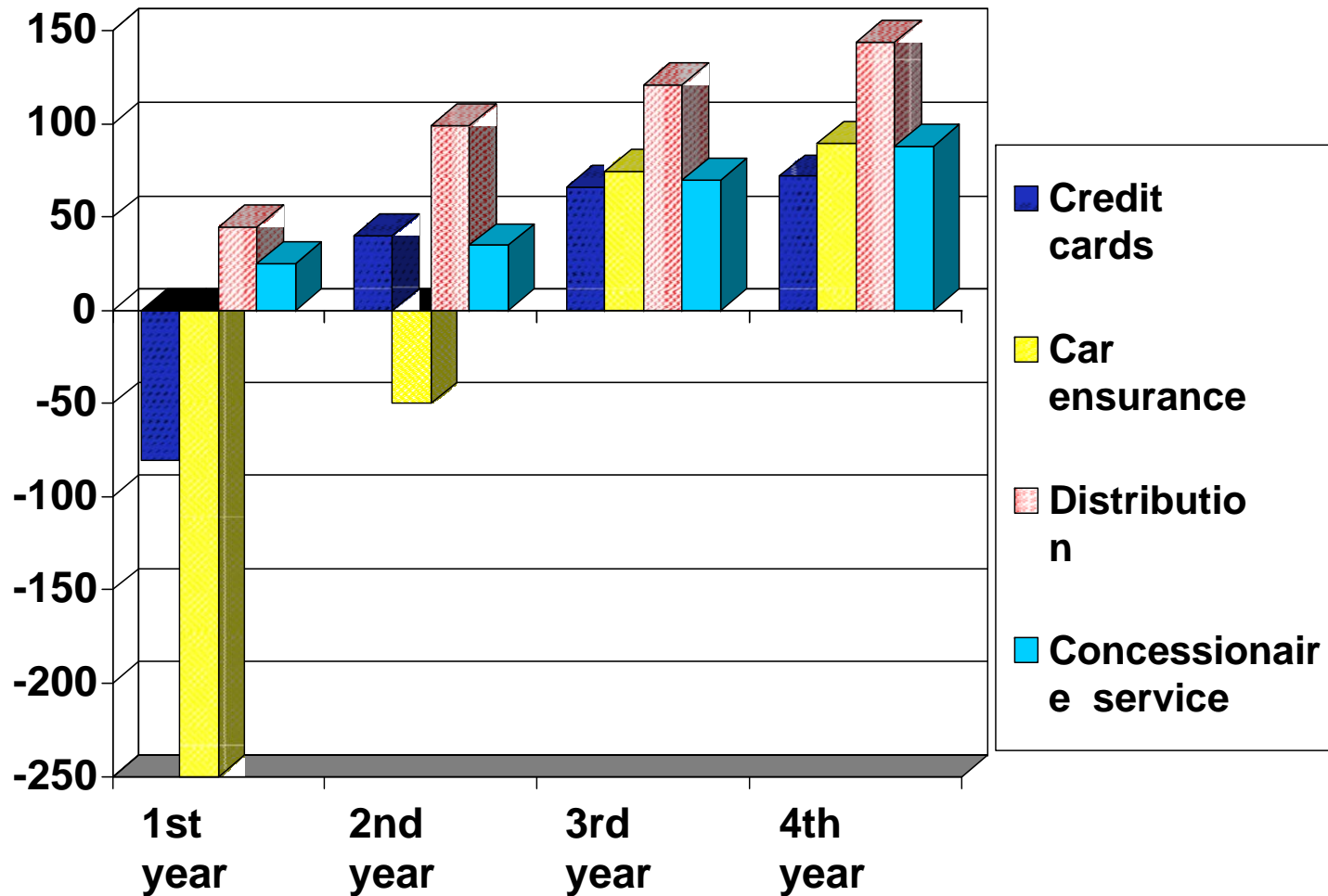
❖ Why?

- because companies that manage their customer base in order to identify, satisfy and retain profitable customers enjoy better business results
- reduced customer churn creates
 - A larger customer base
 - Longer average customer tenure
 - Reduced marketing costs to replace defected customers
 - Better understanding of customer requirements
 - More cross-selling opportunities

THE ADVANTAGES FOR THE LOYAL CUSTOMER



UNITARY PROFIT PER CUSTOMER (in \$)



Impact of churn on customer numbers

Year	Company A (5% churn)			Company B (10% churn)		
	Existing customers	New customers	Total customer base	Existing customers	New customers	Total customer base
1	1,000	100	1,100	1,000	100	1,100
2	1,045	100	1,145	990	100	1,090
3	1,088	100	1,188	981	100	1,081
4	1,129	100	1,229	973	100	1,073
5	1,168	100	1,268	966	100	1,066

Connecting customer retention to customer tenure

Customer retention rate (%)	Average customer tenure
50	2 years
67	3 years
75	4 years
80	5 years
90	10 years
92	12.5 years
95	20 years
96	25 years
97	33.3 years
98	50 years
99	100 years

Organizational benefits from managing customer retention

- ❖ Reduced marketing costs
 - Fewer dollars need to be spent replacing churned customers
- ❖ Better customer insight
 - Suppliers are able to develop a better understanding of customer requirements and expectations. Customers also come to understand what a supplier can do for them.
 - Consequently, suppliers become better placed to identify and satisfy customer requirements profitably, selling more product and service to the retained customer.
 - Over time, as relationships deepen, trust and commitment between the parties is likely to grow, and revenue and profit streams from customers become more secure.

The customer journey

Suspect	Does the potential customer fit your target market profile?
Prospect	The customer fits the target market profile and is being approached for the first time.
First-time customer	The customer makes a first purchase.
Repeat customer	The customer makes additional purchases. Your offer plays a minor role in the customer's portfolio.
Majority customer	The customer selects your company as supplier of choice. You occupy a significant place in the customer's portfolio.
Loyal customer	The customer is resistant to switching suppliers, and has a strong positive attitude to your company or offer.
Advocate	The customer generates additional referral dollars through positive word-of-mouth.

Customer lifetime value (CLV) defined

- ❖ CLV is the present-day value of all net margins earned from a relationship with a customer, customer segment or cohort.
 - To compute CLV, all historic net margins are compounded up to today's value and all future net margins are discounted back to today's value.
 - Estimates of CLV **potential** look to the future only, and ignore the past.
 - A customer that appears to be valuable on the basis of the gross margins generated will most likely be less profitable once cost-to-serve the customer is taken into account.

Four causes of profit margin growth over time

1. **Revenues grow** over time, as customers buy more.
2. **Cost-to-serve is lower** for existing customers, because both supplier and customer understand the other.
3. **Higher prices are paid** by existing customers than new customers.
4. **Value-generating referrals** are made by existing, satisfied customers through their unpaid advocacy.

Profit from customers over time

Table 2.4 Profit from customers over time

<i>Service</i>	<i>Profit (loss) per customer over time (\$)</i>					
	<i>Year</i>					
	<i>0</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>
Credit card	(51)	30	42	44	49	55
Industrial laundry		144	166	192	222	256
Industrial distribution		45	99	121	144	168
Auto servicing		25	35	70	88	88

Customers are potential income streams

- ❖ A core CRM idea is that a customer should not be viewed as a set of independent transactions but as a lifetime income stream.

Customer lifetime value

- ❖ The total present-day value of a customer is the sum of
 - all past net margins compounded to today's value, and
 - all future net margins discounted to today's value

- ❖ The potential value of a customer is
 - all future net margins discounted to today's value

What you need to compute CLV

- ❖ insight into future buying behaviour
 - probabilities of buying products 1-n over the next x time periods
- ❖ margins earned from those products
- ❖ periodic costs of customer management

Plus, for new customers

- ❖ costs of customer acquisition

And finally

- ❖ Discount rate

When do B2B companies not want relationships?

- ❖ When they fear **loss of control**. Relationships are bilateral arrangements, which involve giving up unilateral control over resources.
- ❖ When **exit costs** are high. Not all relationships survive. It is not necessarily easy or cost-effective to exit a relationship.
- ❖ **Resource commitment**. Relationships require the commitment of scarce resources such as people, time and money.
- ❖ When **opportunity costs** are high. If resources are committed to one customer relationship, they cannot be used for another.

Business customers want relationships when ...

1. the product or its applications are complex, for example, networking infrastructure
2. the product is strategically important or mission-critical, for example, core raw materials supply for a manufacturer
3. there are downstream service requirements, for example, for machine tools
4. financial risk is high, for example, in buying large pieces of capital equipment
5. reciprocity is expected. A financial audit practice may want a close relationship with a management consultancy, so that each party may benefit from referrals by the other.

When do customers want relationships with suppliers?

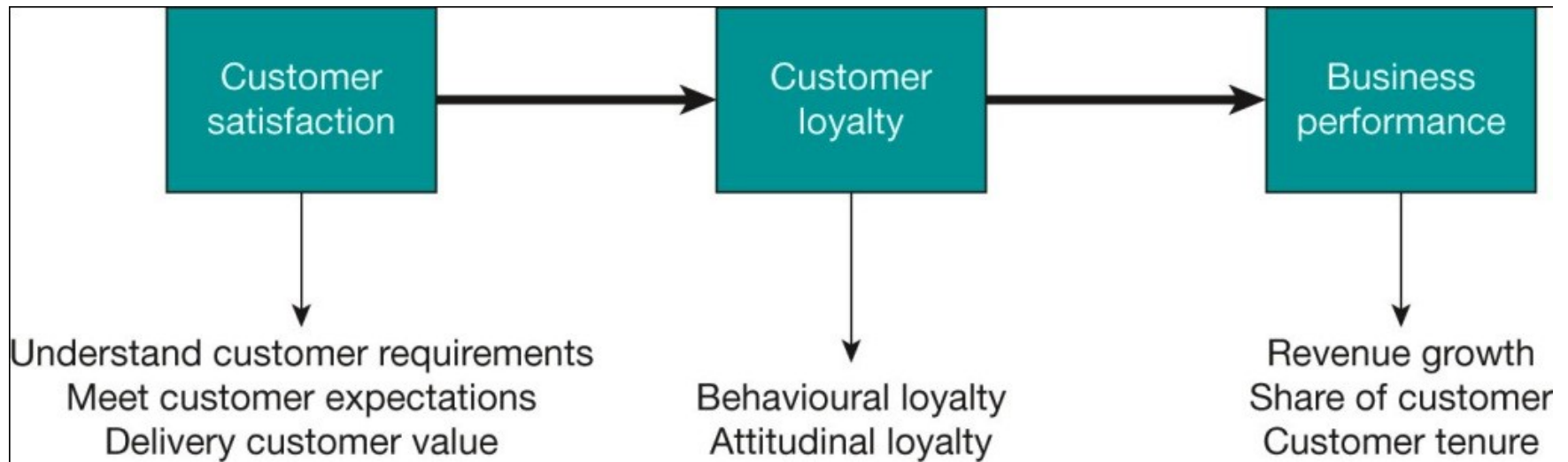
In the B2C context, customers may value relationships for several reasons:

- ❖ **Recognition.** Customers may feel more valued when recognized and addressed by name.
- ❖ **Personalization.** Products or services can be customized.
- ❖ **Power.** Relationships with suppliers can be empowering.
- ❖ **Risk reduction.** A relationship can reduce, or even, perhaps, eliminate perceived risk.
- ❖ **Status.** Customers may feel that their status is enhanced by a relationship with a supplier.
- ❖ **Affiliation.** People's social needs can be met through commercially based, or non-commercially based, relationships.

Why B2B customers do NOT want relationships with suppliers

- ❖ Fear of dependency
- ❖ Lack of perceived value in the relationship
- ❖ Lack of confidence in the supplier
- ❖ Customer lacks relational orientation
- ❖ Rapid technological changes

The satisfaction–profit chain



Customer satisfaction defined

- ❖ Customer satisfaction is the customer's fulfilment response to a customer experience, or some part thereof.

Two dimensions of customer loyalty

❖ Behavioural loyalty

- Is the customer active?
- What is our share of customer spend?
- RFM variables
 - Recency
 - Frequency
 - Monetary value

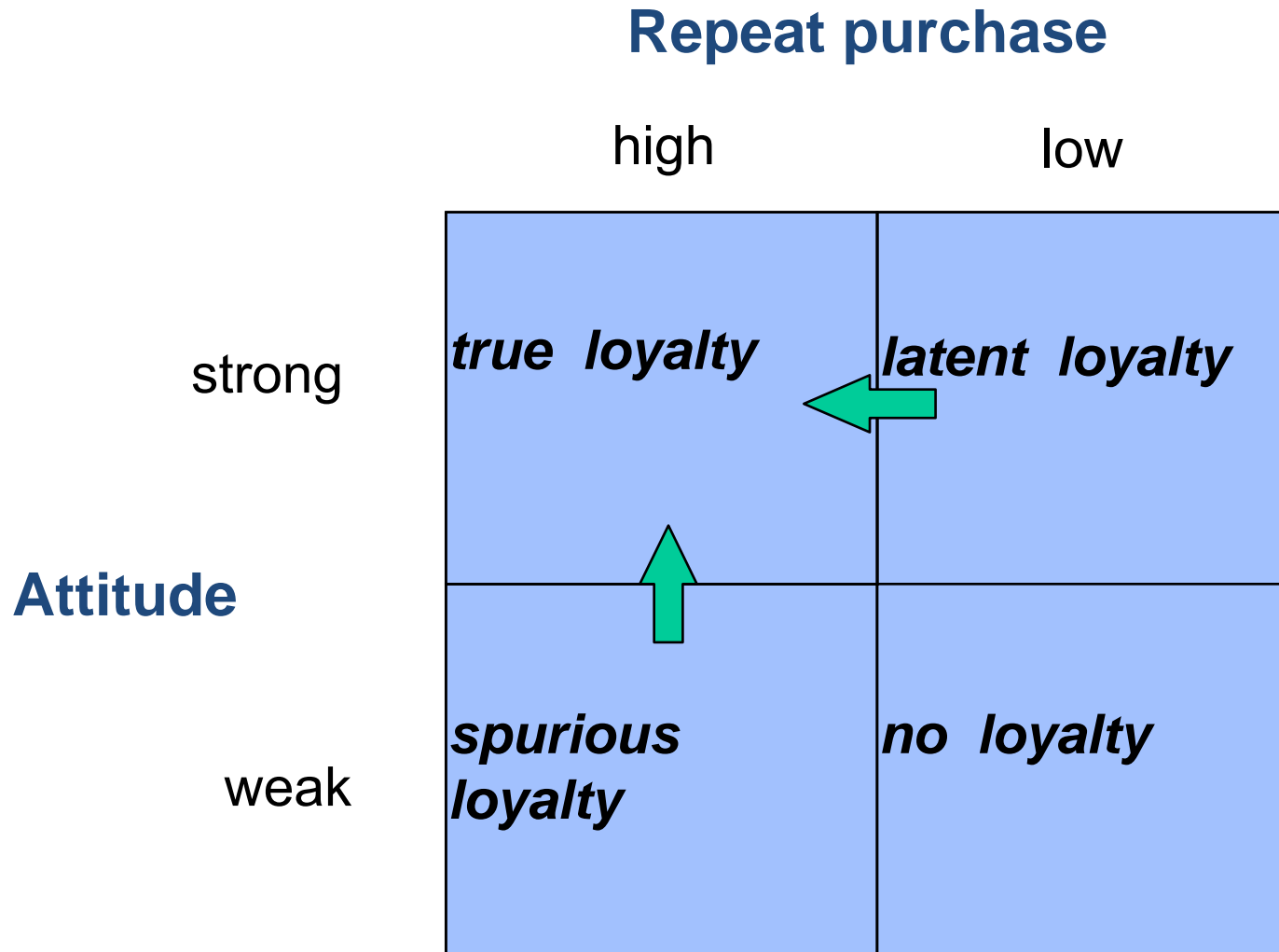
❖ Attitudinal loyalty

- Beliefs
- Commitment
- Preference
- Intention to buy

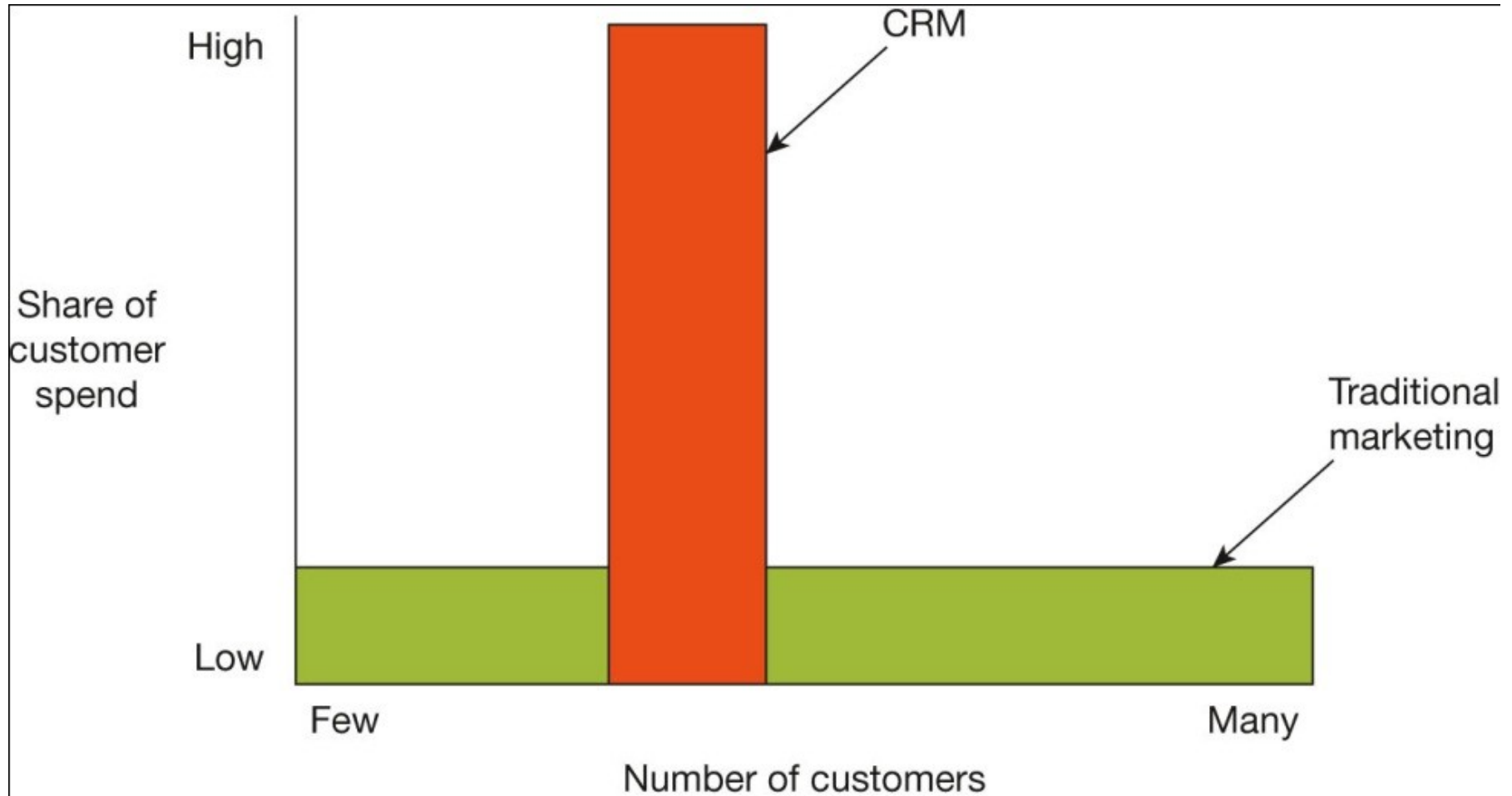
RFM measures behavioural loyalty

- ❖ R = time elapsed since last purchase
- ❖ F = number of purchases in a given time period
- ❖ M = monetary value of purchases in a given time period

Loyalty squares (Dick and Basu)



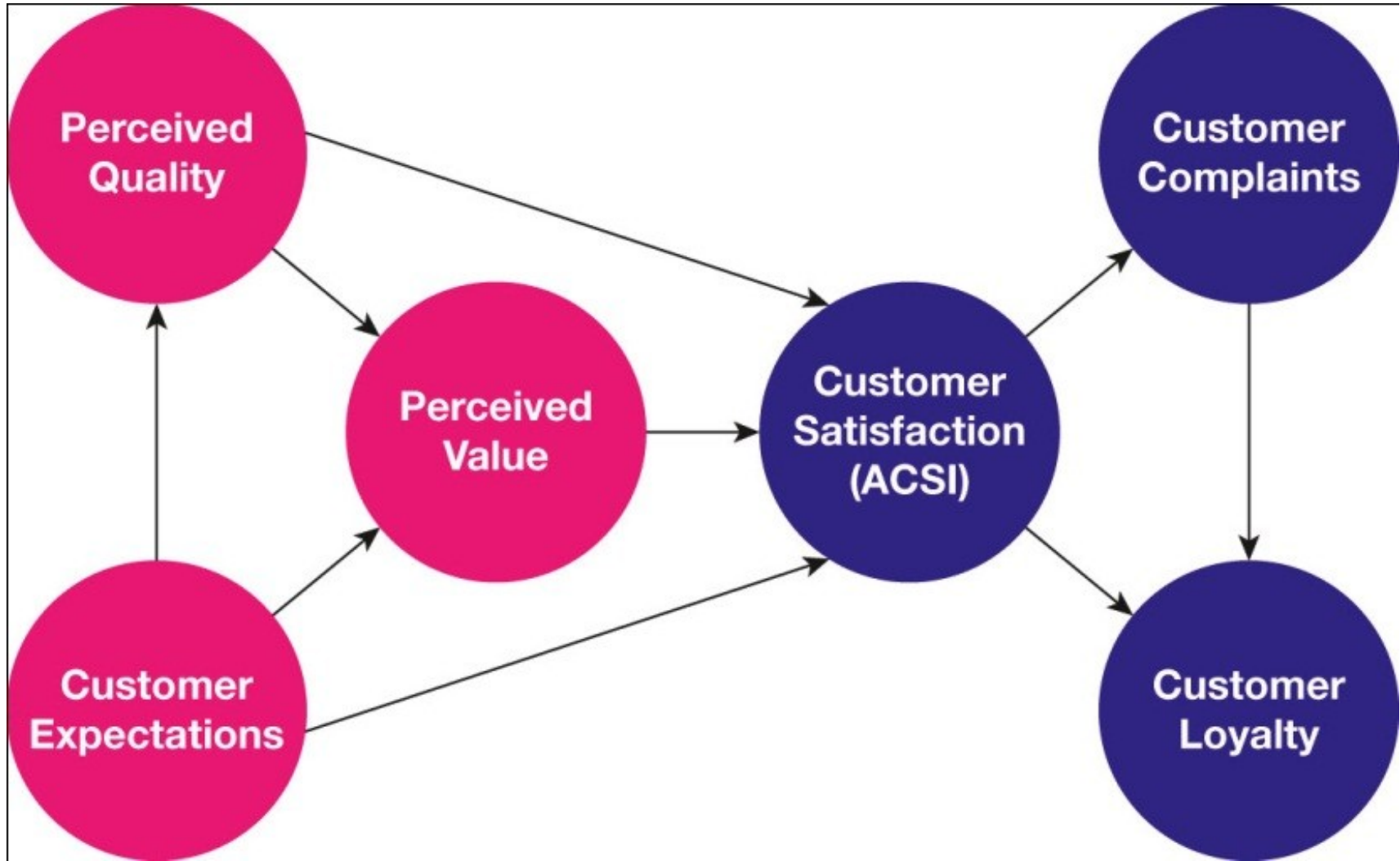
Share of market vs. share of customer



Researching the satisfaction–profit chain

- ❖ International data
- ❖ National data
- ❖ Industry data
- ❖ Corporate data
- ❖ Individual customer data

The American Customer Satisfaction Index (ACSI) model



Returns from investments in customer satisfaction



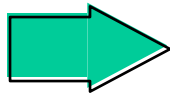
FOCUS: Managing Service Quality and Customer Satisfaction



CS measurement methods

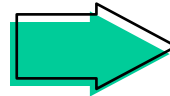
We have two different approaches in CS evaluation:

DIRECT



Customer is engaged

INDIRECT

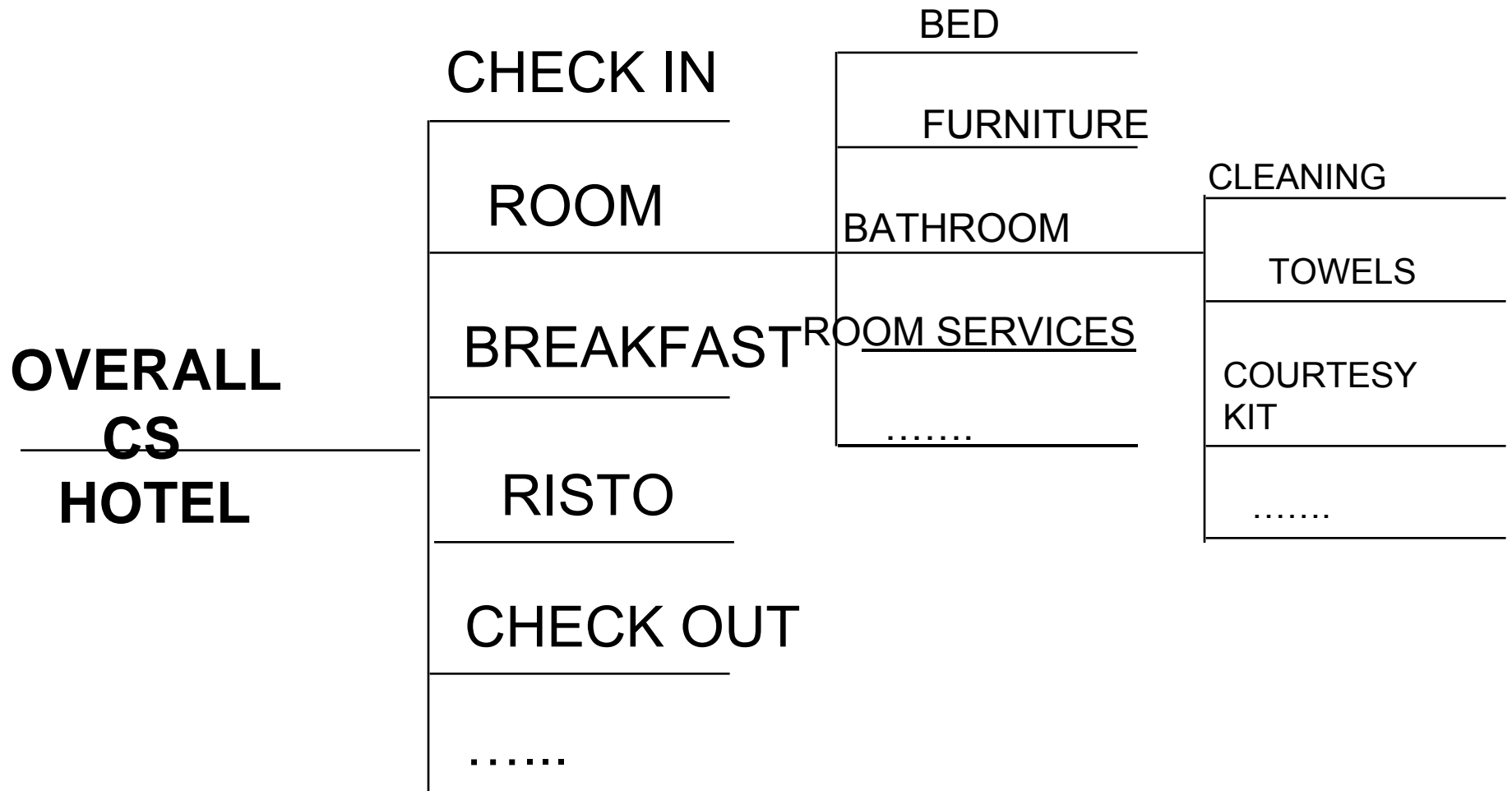


We use KPI or other techniques

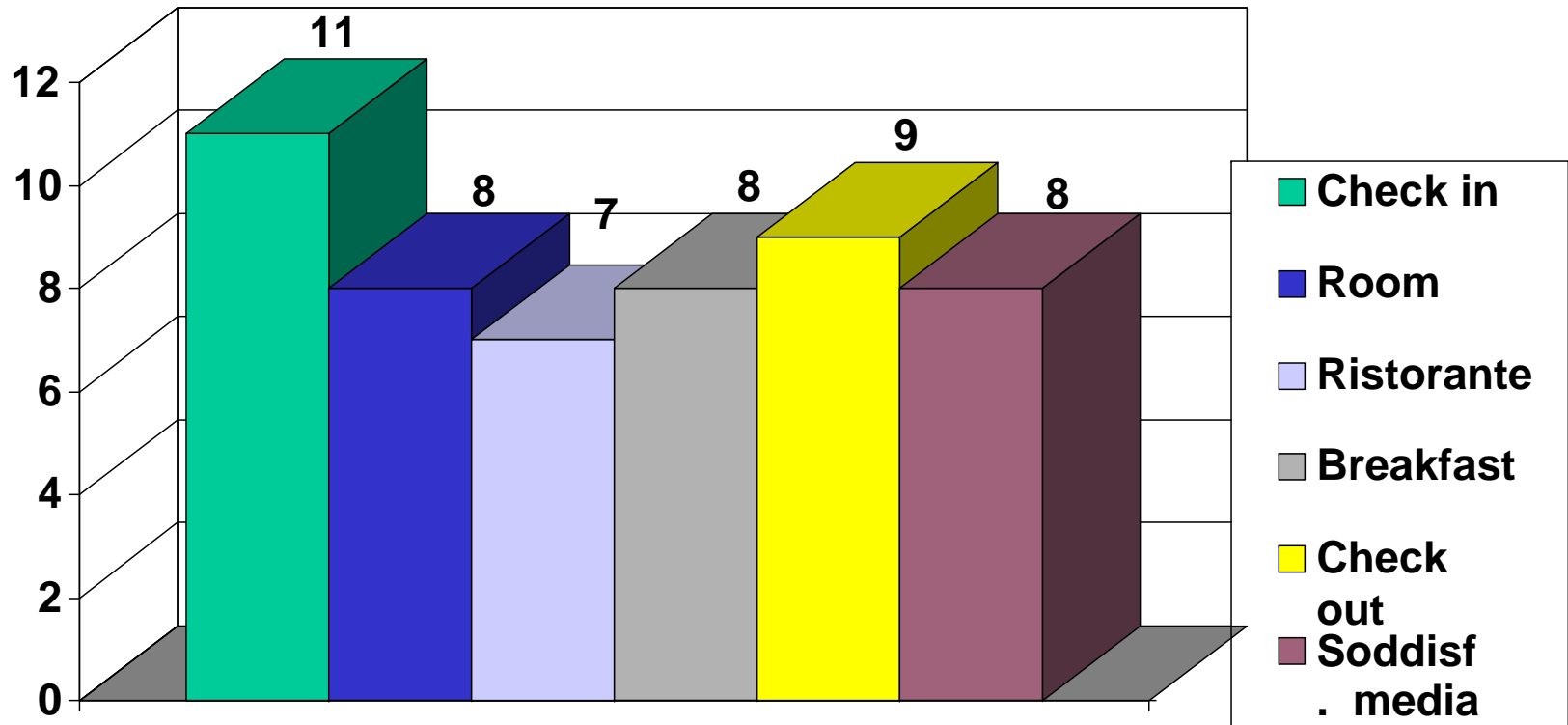
Some implications about CS

- ❖ **CS is different among segments**
- ❖ **CS can change during the time**
- ❖ **CS can change in the space**
- ❖ **CS in service is different from product**
- ❖ **CS is post- experience**

CS drivers of an hotel service



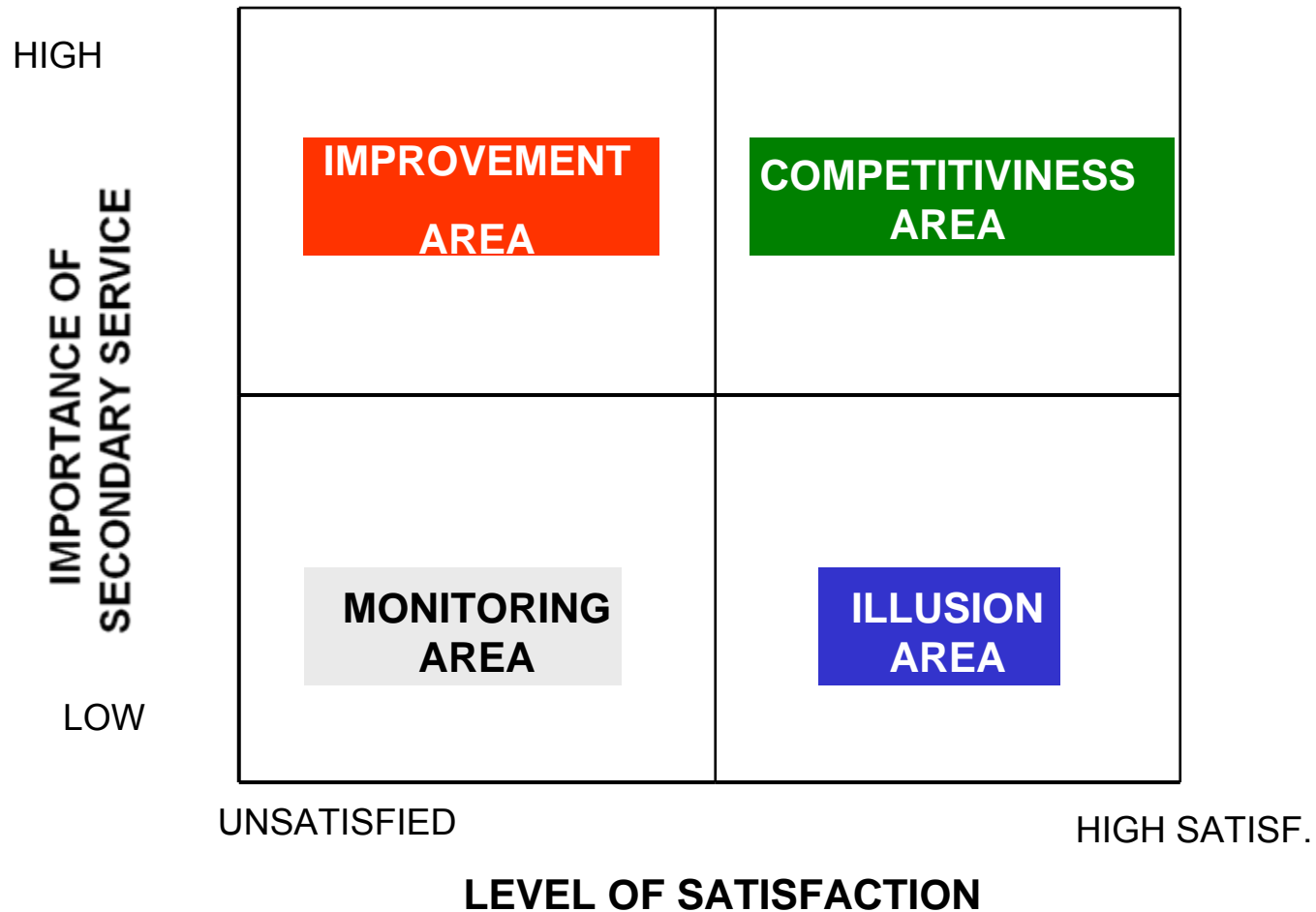
Customer Satisfaction in Hotel



Importance of secondary service and their impact on Overall Satisfaction

	Importance (0= Low.)	Satisfaction
Check in	0,17	11
Room	0,30	8
Breakfast	0,24	8
Restauran t	0,01	7
Check out	0,12	9

Customer Satisfaction Matrix



Example (1)

In base alla Sua esperienza quale cliente di alberghi, La preghiamo di pensare al tipo di impresa alberghiera che fornirebbe una qualità eccellente. Pensate al tipo di impresa alberghiera con la quale sarebbe lieto di intrattenere rapporti d'affari. E' gentilmente pregato di indicare in quale grado tale impresa presenterebbe le caratteristiche descritte in seguito. Se ritiene che una caratteristica non sia affatto essenziale cerchi il numero 1 ; se ritiene che una caratteristica sia assolutamente essenziale per le imprese alberghiere eccellenti, cerchi il numero 7 .

	Incompletamente d'accordo			Assolutamente d'accordo			
	1	2	3	4	5	6	7
Le imprese alberghiere eccellenti avranno attrezzature dall'aspetto moderno.							
Le strutture fisiche di imprese alberghiere eccellenti sono attraenti a vedersi.							
I dipendenti di imprese alberghiere eccellenti hanno sempre un aspetto curato e in ordine.							
Nelle imprese alberghiere eccellenti i materiali associati al servizio (come pieghevoli o libretti) sono attraenti a vedersi.							
Quando le imprese alberghiere eccellenti promettono di fare qualcosa entro un certo tempo, la fanno realmente.							
(continua)	1	2	3	4	5	6	7

L'insieme di proposizione che segue si riferisce alle Sue sensazioni sull'albergo XXX . Per ciascuna proposizione La preghiamo di indicare quanto l'albergo XXX possiede la caratteristica descritta. Anche in questo caso se ritiene che la caratteristica non sia affatto presente in XXX cerchi il numero 1 ; se è assolutamente d'accordo che l'albergo XXX la possiede, cerchi il numero 7 . Può cerchiare i numeri intermedi per far vedere quanto specifica sia la Sua posizione in un senso o nell'altro.

	Incompletamente d'accordo			Assolutamente d'accordo			
	1	2	3	4	5	6	7
L'albergo XXX ha attrezzature dall'aspetto moderno.	1	23	4	5	6	7	
Le strutture fisiche dell'albergo XXX sono attraenti a vedersi.	1	23	4	5	6	7	
I dipendenti dell'albergo XXX si presentano sempre con un aspetto curato e in ordine.	1	23	4	5	6	7	
Nell'albergo XXX i materiali associati al servizio (come pieghevoli o libretti) sono attraenti a vedersi.	1	23	4	5	6	7	
Quando l'albergo XXX promette di fare qualcosa entro un certo tempo, la fa realmente.	1	23	4	5	6	7	
(continua)							

Example (2)

Gentile Cliente, La preghiamo di apporre una X nella casella che più si avvicina al suo giudizio. Se vi sono dei servizi non utilizzati, per favore lasci le caselle in bianco e passi alla domanda successiva. E' sufficiente un questionario per stanza.

SODDISFAZIONE GENERALE

Q1. Nel complesso, è rimasto soddisfatto della permanenza all'Hotel XXX?

Molto soddisf.	Soddisfatto	Né soddisf. né insoddisf.	Insoddisfatto	Molto insoddisf.
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Perchè? _____

RECEPTION

Q2. Qual è la Sua opinione complessiva sui servizi della reception?

Molto positiva	Positiva	Né positiva né negativa	Negativa	Molto negativa
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Perchè? _____

Q3. E' rimasto soddisfatto dei seguenti aspetti relativi alla reception:

	Molto soddisf.	Soddisfatto	Né soddisf. né insoddisf.	Insoddisfatto	Molto insoddisf.
Efficienza del servizio prenotazioni	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Accoglienza del check-in	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Soluzione a richieste specifiche	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Cortesia e disponibilità del personale addetto	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Q4. Ha ricevuto informazioni sui servizi dell'albergo?

SI	<input type="checkbox"/>	NO	<input type="checkbox"/>
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STANZA

Q5. Qual è la Sua opinione complessiva sulla stanza in cui ha pernottato?

Molto positiva	Positiva	Né positiva né negativa	Negativa	Molto negativa
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Perchè? _____

Q6. E' rimasto soddisfatto dei seguenti aspetti relativi alla stanza:

	Molto soddisf.	Soddisfatto	Né soddisf. né insoddisf.	Insoddisfatto	Molto insoddisf.
Comfort del letto	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Acustica della camera	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Arredamento e atmosfera	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Pulizia della stanza	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Servizio del personale ai piani	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Pulizia del bagno	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Aerazione del bagno	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Servizio cortesia presentenel bagno	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Periodicità delricambio della biancheria	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Servizio lavanderia	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

COLAZIONE

Q7. Qual è la Sua opinione complessiva sulla colazione offerta dall'Hotel XXX?

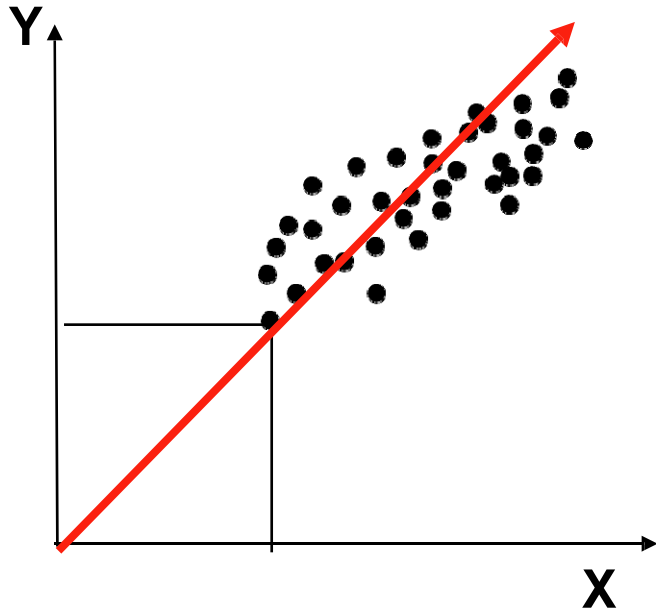
	Molto positiva	Positiva	Né positiva né negativa	Negativa	Molto negativa
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Perchè? _____

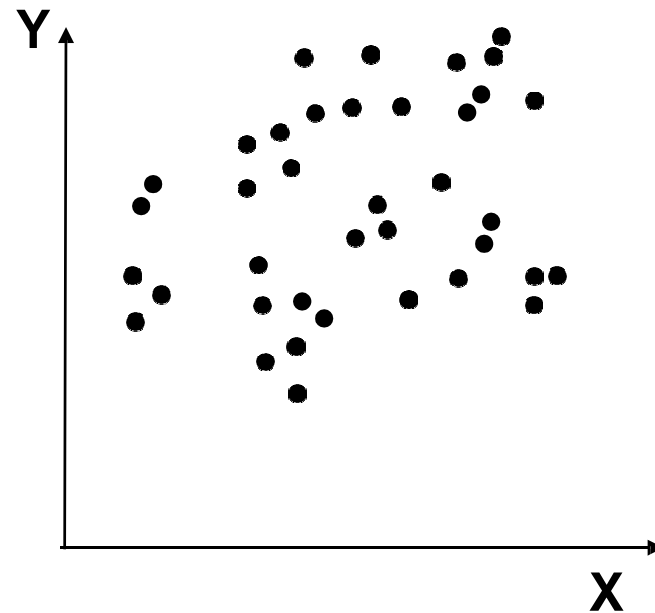
Q8. E' rimasto soddisfatto dei seguenti aspetti relativi alla colazione:

	Molto soddisf.	Soddisfatto	Né soddisf. né insoddisf.	Insoddisfatto	Molto insoddisf.
Qualità e varietà del cibo	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Presentazione del cibo e delle bevande	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Accessibilità e fruibilità del buffet	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Pulizia	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Efficienza e cortesia del personale di sala	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

REGRESSION ANALYSIS



**HIGH
IMPACT**



**LOW
IMPACT**

Soft Measures of Service Quality

- ❖ Key customer-centric SQ measures include:
 - ♥ Total market surveys, annual surveys, transactional surveys
 - ♥ Service feedback cards
 - ♥ Mystery shopping
 - ♥ Analysis of unsolicited feedback—complaints and compliments, focus group discussions, and service reviews
- ❖ Ongoing surveys of account holders to determine satisfaction in terms of broader relationship issues
- ❖ Customer advisory panels offer feedback/advice on performance
- ❖ Employee surveys and panels to determine:
 - ♥ Perceptions of the quality of service delivered to customers on specific dimensions
 - ♥ Barriers to better service
 - ♥ Suggestions for improvement