CUSTOMER RELATIONSHIP MANAGEMENT

CONCEPTS AND TECHNOLOGIES

Managing the customer lifecycle –
customer retention and development
Three stages of the customer lifecycle

1. Customer acquisition
2. Customer retention
   aims to keep a high proportion of current customers by reducing customer defections
3. Customer development
   aims to increase the value of those retained customers to the company
Generic goals of customer retention and development

- Customer retention: to keep a high proportion of valuable customers by reducing customer defections (churn).
- Customer development: to increase the value of those retained customers to the company.
Customer retention is the number of customers doing business with a firm at the end of a financial year expressed as percentage of those who were active customers at the beginning of the year.
The appropriate time frame

- Depends on repurchase cycle found in the industry
  - Insurance policies are renewed annually.
  - If the normal replacement cycle is four years, then retention rate is more meaningful if it is measured over four years instead of 12 months.
Can you tell if a customer has defected?

- May not be able to measure retention and defection if you have
  - Product-based views of customers
  - Channel-based views of customers
  - Separate customer records in sales, marketing and service
Three measures of customer retention

- **Raw customer retention rate**
  - the number of customers doing business with a firm at the end of a trading period expressed as a percentage of those who were active customers at the beginning of the period.

- **Sales-adjusted retention rate**
  - the value of sales achieved from the retained customers expressed as a percentage of the sales achieved from all customers who were active at the beginning of the period.

- **Profit-adjusted retention rate**
  - the profit earned from the retained customers expressed as a percentage of the profit earned from all customers who were active at the beginning of the period.
Retention issues

- Retention measures should be made with an understanding of customer profitability issues.
- The fundamental purpose of focusing CRM efforts on customer retention is to ensure that the company maintains relationships with strategically significant customers.
- It may not be beneficial to maintain relationships with all customers. Some are:
  - too costly to serve
  - strategic switchers constantly in search of a better deal
  - not strategically significant in roles such as benchmark, door opener, inspiration or technology partner.
Customer retention vs. value retention

- Companies should focus on retaining customers that contribute value
- Sometimes this will mean that the focus is not on retention of customers, per se, but on retention of share of wallet
  - In the banking industry, for example, it may be more important for companies to focus on managing the overall downward migration of customer spending than customer retention. Many customers simply change their buying behaviour rather than defect.
The economic argument for customer retention

- Purchases grow as tenure grows
- Customer management costs fall over time
- Customer referrals grow
- Premium prices
  - Customers who are satisfied in their relationship may reward their suppliers by paying higher prices
Which customers to retain?

❖ Strategically significant customers
  ● High lifetime value customers
  ● High volume customers
  ● Benchmarks
  ● Inspirations
  ● Door openers

❖ But … these may also be attractive to your competitors
Commitment and retention

- The level of commitment between your customer and you will figure in the decision about which customers to retain
  - If the customer is **highly committed**, i.e. impervious to the appeals of competitors, you do not need to invest so much in retention.
  - If strategically significant customers are **not committed** to you, you may want to invest considerable sums in their retention.
Why focus on newly acquired customers?

- New customers may have greater future lifetime value potential than longer tenure customers
  - evidence suggests that retention rates rise over time, so if defections can be prevented in the early stages of a relationship, there will be a pay-off in future revenue streams.
Two basic strategies for customer retention
Negative and positive customer retention strategies

- Create exit barriers
- Enforce the contract
- Extract switching penalties
- Delight customers
- Create customer-perceived added value
- Create social and structural bonds
- Create customer engagement
DRIVER TO INCREASE CUSTOMER VALUE

- Increasing the level of expenditure
- Increasing cross-buying
- Encourage customers to diversify their purchases
- Encourage the customer to reduce average repurchase times
- Encourage the customer to reduce the number of refurbishments/returns required
- Encourage the customer to reduce the frequency of contacts or push them towards communication channels at a lower cost of ownership.
CLASSYFY CRM TOOLS

- Tools that try to work on “time” of purchase
- Tools that try to work on “value” of purchase
- Tools that try to work on “strength” of relation
What is customer delight?

Customer delight = \( P > E \)

where
\( P \) = Perception
\( E \) = Expectation
Bridging the gaps: importance against performance

Clean toilets
- Importance: 5.5
- Performance: 2.5
- OFI

Food quality
- Importance: 6.5
- Performance: 4.5
- OFI

Numbers are scores on a 7-point scale

OFI = opportunity for improvement
Customer delight through product quality

- Attractive qualities (unexpected attributes)
- Linear qualities (wanted attributes)
- Basic qualities (expected attributes)
Simple ways to delight customers

- provide information about the customer’s served market
  - A packaging company could alert a fast-moving consumer goods manufacturer customer to competitive initiatives in the market.
- volunteer to collect and replace a faulty product from a customer rather than issuing a credit note
- offer better, lower cost solutions to the customer, even though that might reduce margin
Three ways to create customer-perceived added value

1. loyalty schemes
2. customer communities
3. sales promotions
Loyalty programme definition

- A loyalty scheme is a customer management programme that offers delayed or immediate incremental rewards to customers for their cumulative patronage.
Reward programmes

- Co-op dividend > Green Shield Stamps
  > American Airlines’ AAdvantage Card > Nectar

- Card-based schemes have changed over time
  - No identification – member’s name
  - Magnetic strip – chip-embedded
  - Solus – networked
  - Company-operated – third-party operated
  - Trivial reward – major reward (5%)
Nectar loyalty programme

- Spend your points with our amazing range of rewards!
- Collect points at 500+ online stores via Nectar eShops
- This week’s top promotions:
  - Collect DOUBLE points with Expedia
  - Win food for a year with PizzaExpress
  - Collect 500 bonus points with Sainsbury’s eBooks
  - Collect 100 bonus points with Nectar Adpoints
Sources of added value from loyalty programmes

- Collecting points may deliver some pre-redemption psychological benefits to customers, such as a sense of belonging and of being valued, and an enjoyable anticipation of desirable future events.
- At the redemption stage, customers receive both psychological and material benefits.
Criticisms of loyalty programmes

- They are ineffective at generating attitudinal loyalty
- They cost too much to operate
Customer club definition

- A customer club is a company-run membership organization that offers a range of value-adding benefits exclusively to members.
B2C customer clubs

- Swatch the Club (www.swatch.com)
- The Harley Owners Group (HOG) (www.hog.com)
- The Subaru Owners Club (www.subaruownersclub.com)
- Nestlé’s mother and baby club (www.nestlebaby.com)
Harley Owners Group®, the official riding club of Harley-Davidson, offers a wide variety of member benefits, membership options, and events. The men and women of H.O.G. all have one thing in common – we all love to ride. If you love it too, we want you to join us.

**H.O.G.® ADVENTURE GUIDE**

*U.S. version shown. Benefits may vary by country.
Sales promotions that build repeat purchase

- In pack or on-pack voucher
- Rebate or cash-back
- Patronage awards
- Free premium for continuous purchase
- Collection schemes
- Self-liquidating premium
PRICE PROMOTION (discount)

- An increase is necessary to balance the lower earnings

- **SALE INCREASE (%) =**
  
  Price reduction (Gross margin - Price reduction)
  
  PR=9%, GM=30%
  
  Sales increase = \( \frac{0.09}{0.30 - 0.09} = 42.8\% \)

- A retail company sells an average of 300 units per week to its loyal customers, the cost is €2.5 and the price €3. If company introduces a 10% reduction for one week, how many more products does it have to sell to keep same earnings?
Cash-back sales promotion

UP TO $100 CASH BACK

On Selected Brother Inkjet and Laser MFC's, Printers and Consumables.

Rapid Cash Back

Register and choose your payment method online at www.brother-cash.com.au
Payment is made within 5 days of approval.

* Terms and conditions apply. See outlet.
Bonds

❖ Social
  • Positive relationships between individuals
    • Empathy
    • Responsiveness
    • Reliability
  • Leads to development of trust and commitment

❖ Structural
  • Investments linking customer and supplier
    • Financial
    • Legal
    • Equity
    • Technological
    • Values-based
    • Geographic
    • Project
    • Multi-product
Insurers encourage loyalty with financial bonds

- Excellent claims service
- No-claims discounts
- Tenure-related discounts
- Multi-policy discounts

Financial Bonds
Engaged consumers are generally thought to have a higher intensity of participation in and connection to a brand or organization.

They feel a strong sense of connection to the organization or brand based on their experiences of the firm’s offerings, activities and reputation.
Four types of engagement

1. cognitive engagement
2. affective engagement
3. behavioural engagement
4. social engagement
Building engagement

- Interactivity
  - Gamification
- Relational attachment
- Values-based attachment
Values are core beliefs that transcend context and serve to organize and direct attitudes and behaviours.
Values-based attachment

- Body Shop International
- Harley-Davidson
- Virgin Group
Body Shop’s core values
Context makes a difference to customer retention strategies

- Number of competitors
- Corporate culture
- Channel configuration
- Purchasing practices
- Ownership expectations
- Ethical concerns
KPIs for customer retention programmes

1. Raw customer retention rate.
2. Raw customer retention rate in each customer segment.
3. Sales-adjusted retention rate.
4. Sales-adjusted retention rate in each customer segment.
5. Profit-adjusted retention rate.
6. Profit-adjusted retention rate in each customer segment.
7. Cost of customer retention.
8. Share of wallet of the retained customers.
9. Customer churn rate per product category, sales region or channel.
The role of research

- Why are customers churning?
- Are there any lead indicators of impending defection?
- What can be done to address the root causes?
Advance indicators of intention to churn

- Reduced RFM scores (Recency – Frequency – Monetary value)
- Non-response to a carefully targeted offer
- Reduced levels of customer satisfaction
- Dissatisfaction with complaint handling
- Reduced share of customer (e.g. customer only flies one leg of an international flight on your airline)
- Inbound calls for technical or product-related information
- Late payment of an invoice
- Querying an invoice
- Customer touchpoints are changed, e.g. store closes, change of website address
- Customer change of address
Two main strategies for customer development

- Cross-selling is selling additional products and services to an existing customer.
- Up-selling is selling higher priced or higher margin products and services to an existing customer.
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CLASSIFY CRM TOOLS

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CRM TOOLS FOR INCREASING AND RETAINING CUSTOMER VALUE (1/2)

- Tools that offer mainly economic benefits (free additional services, premiums, discounts...)

- Tools that offer mainly immaterial or social benefit (engagement to a forum, club, events, ....)
CRM TOOLS FOR INCREASING AND RETAINING CUSTOMER VALUE (2/2)

- Tools for extending the duration of the relationship

- Tools to extend the breadth of relationship (cross-buying)

- Instruments aimed at extending the depth of the relationship, i.e. instruments that push a more intense frequency of use and purchase or, in any case, that concern decisions to update or purchase premium price products compared to those at the lowest cost.
RETAIND AND DEVELOP LOYAL CUSTOMERS: TOOLS
RETAIN AND DEVELOP LOYAL CUSTOMERS: TOOLS

STRATEGIC PROACTIVE ACTIONS (1/2)

Actions to improve familiarity
Welcome calls
Newsletter
Instructions for Use

Actions to prevent the perception of problems
Panel of early adopters
Power users panel
PROACTIVE POLICY ACTIONS (2/2)

**Actions to facilitate and improve use**
Automatic detection
New products and restyling
Actions on the distribution network
Vip clubs
Website
Newsletter

**Actions to facilitate the positive assessment, repurchase and guidance of other potential customers**
Managing critical steps
Provision of unexpected benefits
Customer convention
Member get a member
RETAIN AND DEVELOP LOYAL CUSTOMERS: TOOLS

- REACTIVE STRATEGIC ACTIONS AND PROACTIVE TACTICAL ACTIONS

- Targeted actions to deal effectively with the unresolved problem
- Replacement services
- Immediate alternative benefits
- Customer Guarantee
RETAIN AND DEVELOP LOYAL CUSTOMERS: TOOLS

✧ Negative actions

- Bundling on product/service
- Bundling on customer
- Legal barriers
- Knowledge barriers
REACTIVE TACTICAL ACTIONS

Actions aimed at a positive management of defection
- Retention team
- Ad hoc network programmes
- Recovery actions
- Win-back letter
- Competitive upgrades
CRM technologies used for customer development

- Campaign management
- Event-based marketing
- Data mining
- Customization
- Channel integration
- Integrated customer communications
- Marketing optimization
Strategies for terminating customers

- Make them profitable by raising prices or cutting the cost-to-serve.
- Un-bundle the offer
- Respecify the product
- Reorganize sales, marketing and service departments
- Introduce ABC class service
A typology of companies’ termination behaviours

- **Hardliners**
  - take an active and rigorous stance in terminating unprofitable relationships, including the regular clearance of their customer portfolio.

- **Appeasers**
  - take a more cautious approach concerning the termination of unprofitable relationships.

- **The undecided**
  - are reluctant to terminate unprofitable relationships.