

E-Business Strategy

Customer Relationship Management

Unit Overview

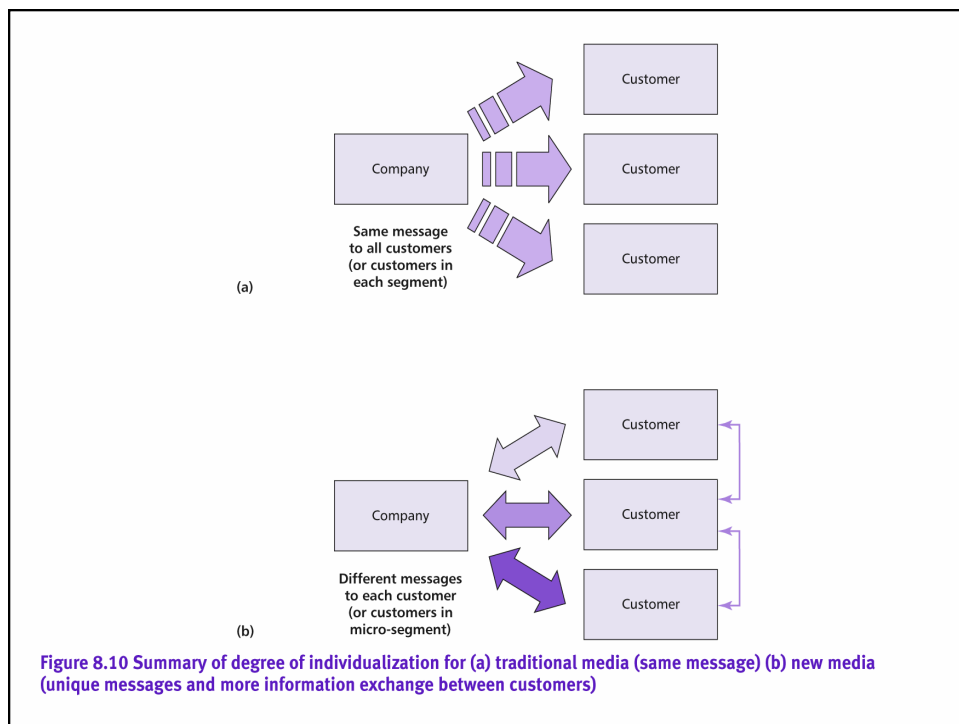
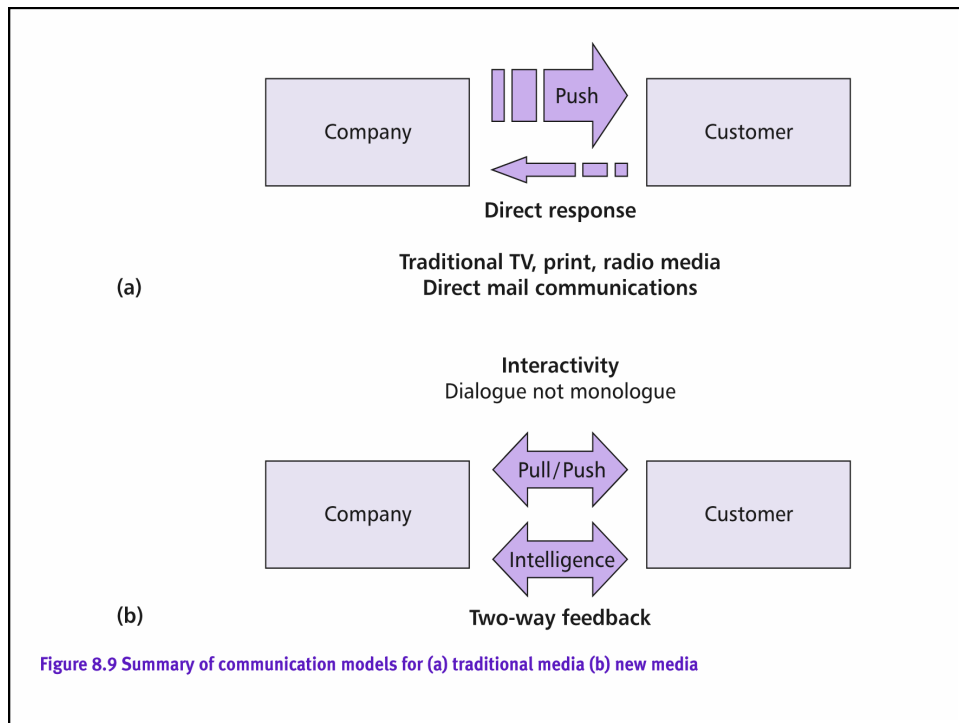
- Business Principles of CRM
 - Relationship Marketing and CRM
 - The Phases of CRM
- CRM Technologies



Part 1: Business Principles of CRM

Traditional and Relationship Model of Marketing

- Traditional Transactional Model:
 - one-off transaction,
 - Short-term orientation
 - Sales to anonymous buyers
 - Salesperson is the main interface between buyers and sellers
 - Push Strategy
- New Relationship Model:
 - repeating purchase;
 - Long-term orientation
 - Tracking buyers' names
 - Gain commitment from customers
 - Both Push and Pull Strategy



One-to-one and Relationship Marketing

- One-to-one marketing: Marketing that treats each customer in a unique way; offering customized products & services.
- Personalization: The matching of services, products, and advertising content to individual customers
- Relationship marketing: Building, managing, retaining, and extending relationship
 - a new business-wide strategy
 - a customer-centric business strategy Focusing on Managing and optimizing entire customer life cycle.

New Marketing Model in Sell-side E-commerce

- CRM: a part of Relationship Marketing
 - The Implementation part of Relationship marketing CRM.
 - Demand re-engineering of work processes with customer in focus.
- CRM: the extension and consolidation of Sell-side E-Commerce by building and retaining customer long-term relationships.
- Customers in Sell-side E-commerce
 - Consumers (B2C)
 - Organizational/Business Customer (B2B)
- Goal is, especially for B2B, to convince your customers that you are their partners, live with them, and add value to their business (secure and maintain business relationships both upstream and downstream)

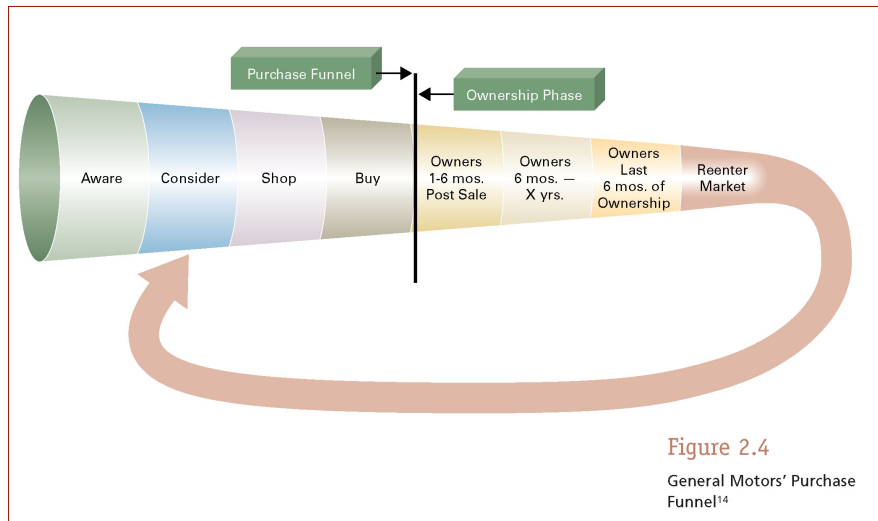
CRM and Its Relationship with EC

- Customer relationship management (CRM): A customer service approach that focuses on building long-term and sustainable customer relationships that add value both for the customer and the company
- E-CRM: Customer relationship management conducted electronically, i.e. CRM Systems, processes and ICT mediated human-human interactions

Customer Relationship Management

- Traditional wisdom: the best customers you can have are the ones you have already
 - It is said to cost 10 times more to get a new customer than to keep an existing one
 - Cost of acquiring online customers 20-30% higher than for traditional businesses
- CRM focuses on techniques for getting and keeping customers

How do Market Leaders see CRM?



The Phases of Customer Relationship Management

- Three main phases:
 - Customer Acquisition
 - Customer Retention
 - Customer Extension
- Plus:
 - Customer Selection for each phase
- Closely related idea: *permission marketing*:
 - Marketing communications sent only to customers who are willing to receive them

Customer Relationship Management

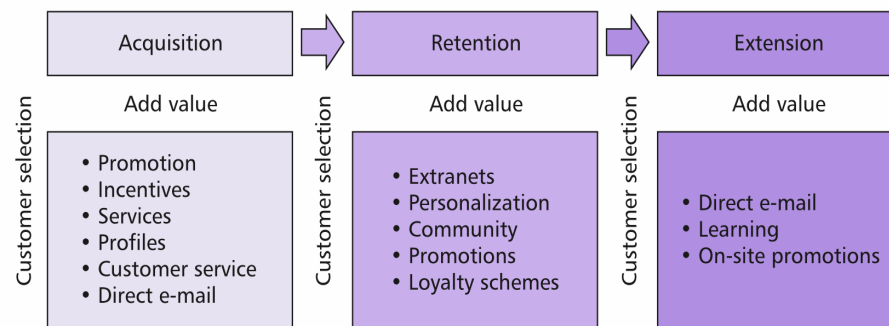
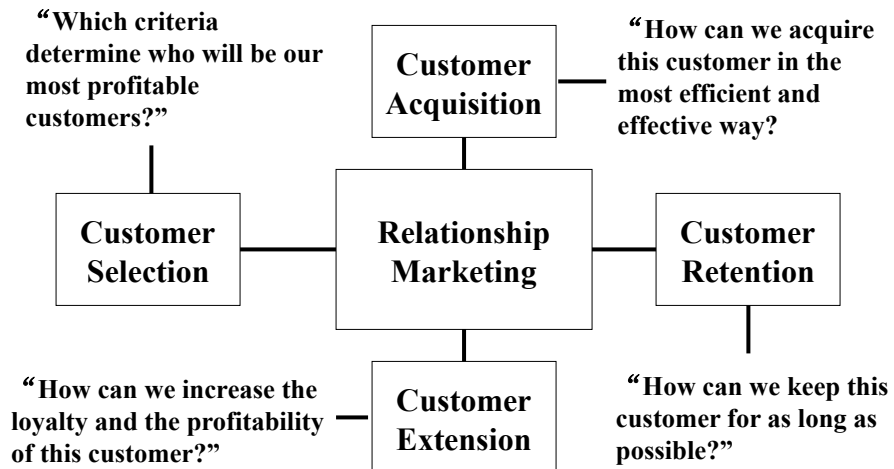


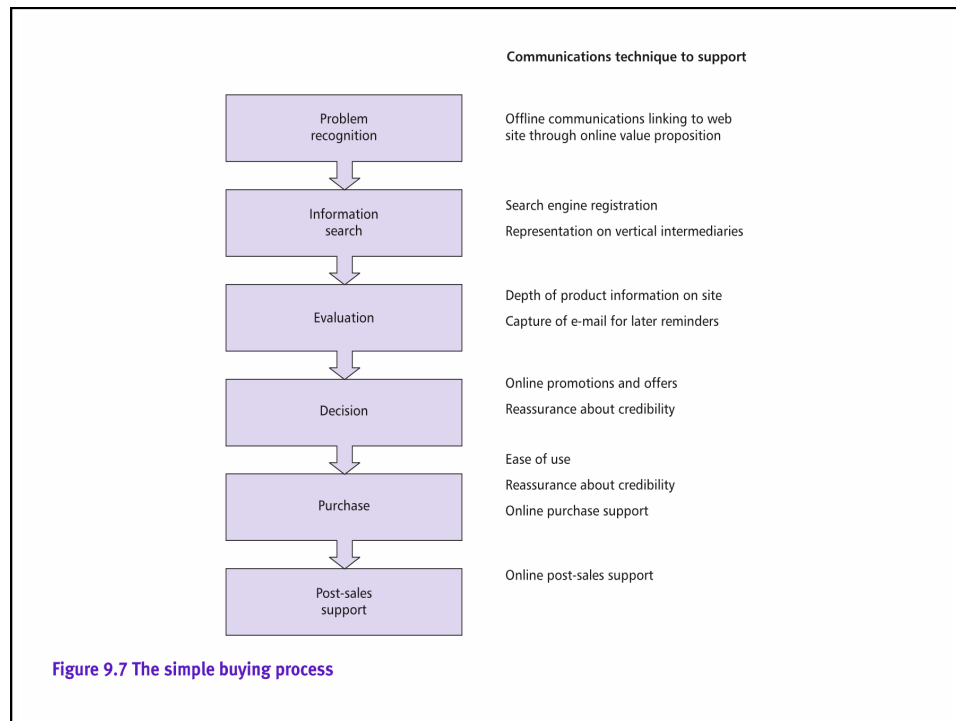
Figure 9.1 Three phases of customer relationship management

Customer Acquisition

- Plan to approach the customers
- Plan for making new campaigns
- This phase includes
 - Marketing Communication tools (ads, PR, PS, etc)
 - Various Software (Intelligent agents)
- Marketing & Sales personnel are involved in this phase

Customer Acquisition & Buyer/ Consumer Behaviour

- Interaction with the website needs to be designed appropriately
- The phases of the decision / purchase can be supported



Customer Acquisition

- Profiling:
 - Identify potential customers, e.g. by cookies
 - Differentiate by building a profile
 - Interaction on the website
 - Communications are personalised to the customer

Customer Acquisition Personalization in EC

- Major strategies used to compile user profiles
 - Solicit information directly from the user
 - Observe what people are doing online
 - Build from previous purchase patterns
 - Perform market research

Customer Acquisition

- Communications techniques:
 - Search engine registration
 - Linking from other sites (includes affiliate referrals and banner adverts)
 - Viral marketing – e.g. email a friend, or forward URLs
 - Advertising – banner ads one of the main Internet revenue models
 - Offline – use any traditional communications
 - Ads, telesales, personal selling, and other traditional approaches

Customer Acquisition and Technology

- *Cookie*: A data file that is placed on a user's hard drive by a Web server, frequently without disclosure or the user's consent, that collects information about the user's activities at web sites

Customer Acquisition and Technology

- *Collaborative filtering*: A personalization method that uses customer data to predict, using formulae derived from models, which other products or services a customer may enjoy; predictions can be extended to other customers with similar profiles.

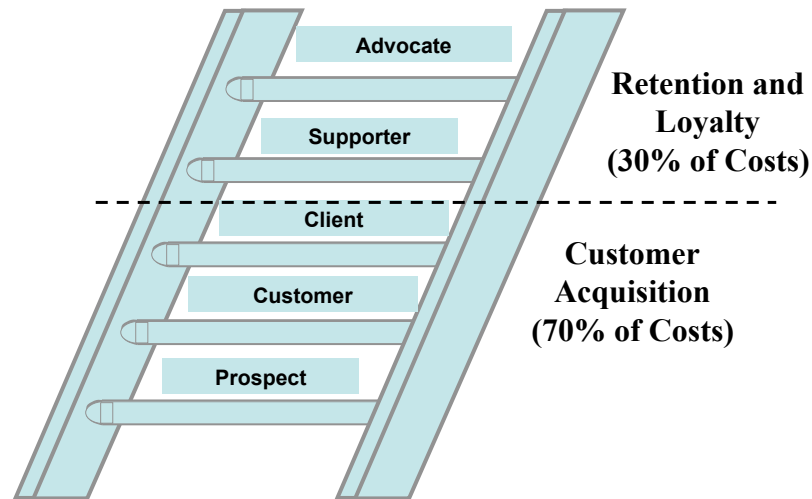
Customer Acquisition and Technology

- Variations of collaborative filtering:
 - Rule-based filtering
 - Content-based filtering
 - Activity-based filtering
- Legal and ethical issues in collaborative filtering
 - Invasion-of-privacy issues
 - *Permission-based* personalization tools to request customer permission

Customer Loyalty and Retention

- **Customer loyalty**
 - ***Customer loyalty***: Degree to which a customer will stay with / advocate a specific vendor or brand.
 - ***Customer retention***: Degree to which a customer will purchase from you again.
 - Increased customer loyalty produces cost savings through:
 - lower marketing costs
 - lower transaction costs
 - lower customer turnover expenses
 - lower failure costs
- ***E-loyalty***: Customer loyalty to an e-retailer

Loyalty Ladder Model



After-sales and Customer Retention

- Importance of retention – relative cost much less than acquisition
- Factors that drive loyalty:
 - Order fulfilment
 - Product performance
 - Post sale service and support
- Loyalty Scheme:
 - Examples ?? How to build loyalty in e-retail?
- Community building – debate over the value of this to brand loyalty
 - Brand community.

Customer Extension

- Extension means making the most of existing customers
 - don't just keep them, also do cross-selling (i.e. sell them more / different products / services).
 - Lifetime value of a customer is what matters.

Customer Extension

- Success stories with CRM by Cross-selling in Finance Industry:
 - USA: CitiGroup and Wells Fargo Bank both sell more than four additional banking products to customers compared with an industry average of 2.2
 - EU: BNP Paribas (France), UBS and CSFB (Switzerland) all cross-sell their diversified financial products to their business customers.

CRM and Its Relationship with E-Commerce

- CRM: the core of EC strategy focused on customers
- Steps in building EC strategy focused on customer:
 - focus on the end customer
 - systems and business processes that are designed for ease of use and from the end customer's point of view
 - efforts to foster customer loyalty.

CRM and Its Relationship with EC (cont.)

- Five factors required to implement a CRM program effectively:
 1. Customer-centric strategy
 2. Commitments from people
 3. Improved or redesigned processes
 4. Software technology
 5. Infrastructure

Airline Industry Example -Frequent Flyer Programs

- Frequent flyer programs are a great example of CRM with BI.
- Air travelers concentrate their travel with a single airline to get “perks”.
- Many airlines, such as AA, Emirates, BA, and Lufthansa, are using BI to increase loyalty.
- Most information needed for frequent flyer programs is obtained from reservation systems.

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More Advanced CRM Applications

- Mobile CRM
the delivery of CRM applications to any user, whenever and wherever needed.
- Voice communication
people are more comfortable talking with a person, even a virtual one, than they are interacting with machines. The smile and the clear pronunciation of the agent's voice increases shoppers' confidence and trust.

Challenges to Success with CRM

- More than 50 percent of CRM installations are seen as failures
- Why many CRM installations are less than successful
 - The company's goals are too broad
 - The company's strategies are too generic
 - Implementations are often too software-centric
 - Diverse customer base has highly differentiated customer support needs.

CRM Limitations

- Expensive
- Hard to implement
- Time consuming
- It requires a lot of management and money
- It does not remove human-human interactions completely.

Reading

Main:

Books:

- Chaffey (2007), “E-Business and e-commerce management”, chapter 8 & 9
- Efraim Turban (2006), “E-commerce 2006: A management perspective”.

Articles:

- Scullin et al (2004), “E-relationship marketing: changes in traditional marketing as an outcome of electronic customer relationship management”
- Lindgreen et al (2004), “Customer relationship management - the case of a European bank”

Further:

Articles:

- Zeng et al (2003), “Customer relationship management (CRM) in business-to-business (B2B) e-commerce”
- Chen et al (2003), “Understanding customer relationship management (CRM), People, process and technology”