

MK282
Customer Relationship Marketing
 Lecture One: Introduction to CRM

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Aims

- To explore the development of CRM
- To understand key definitions
- To examine what is meant by customer loyalty
- To be able to calculate a customer's lifetime value to a company

Marketing developments: Ps & Cs

Customer solution
 Product
 Promotion
 Communication
 Customer cost
 Price
 Place
 Convenience

Marketing mix

McCarthy, J. and W. Perreault (1984), Basic Marketing (8 ed.), Homewood, IL: Irwin.
 Kotler, P. (2003), Marketing Management (11 ed.), New Jersey: Pearson.

Marketing developments: 7Ps

People
 Product
 Price
 Place
 Promotion
 Physical evidence
 Processes

7ps

Booms, B. and M. Bitner (1981), "Marketing Strategies and Organization Structures for Service Firms," in Marketing of Services, J. Donnelly and W. George, Eds. Chicago: AMA Proceedings Series.

Developments in Marketing

- 1950s Consumer marketing
- 1960s Industrial marketing
- 1970s Societal marketing
- 1980s Services marketing
- 1990s Relationship marketing
- 2000s New Media marketing

Egan, J. (2001), Relationship Marketing, Harlow, Essex: Pearson.
 Shukla, P. (2005) Pitfalls of Traditional Marketing, Conference Proceedings, Marketing in the Age of Convergence

Forces of change

- Internet and the overall information technology infrastructure (Parvatiyar and Sheth 1999; Sheth 2002; Zineidin 2002)
- Rise of the Value Savvy Customer (VSC) (Day and Montgomery 1999; Palmer 2002; Shukla 2001)
- Increase in wealth and liberalization (Aljo 1996)
- Rise of global competition and market fragmentation (Day and Montgomery 1999; Hunt et al. 2006)
- Increasing pace of innovation (Buzzell 1999; Day and Wensley 1998)
- Adoption of service centric market philosophy (Gronroos 1999, 2004; Vargo and Lusch 2004)

What is CRM?

- CRM is software, system, technology.
- CRM is data storage and analysis.
- CRM is a change in corporate culture from a transaction focus to a customer centric one.
- CRM is “managing demand.”
- CRM is a strategy cycle focusing on customers.

Baran, R. J., R. J. Galka, and D. P. Strunk (2008), Principles of Customer Relationship Management: Thomson.

Traditional Focus on Transactions

- Transactions Focus
 - orientation to single sales
 - discontinuous customer contact
 - focus on product features
 - short time scale
 - little emphasis on customer service
 - limited commitment to meeting customer expectations
 - quality is the concern of production staff

Payne, A. (Ed.) (1995), Advances in Relationship Marketing, Kogan Page, London.
Grönroos, C. (1997), "Keynote paper: From marketing mix to relationship marketing-towards a paradigm shift in marketing," Management Decision, 35 (4), 322-39.

The Shift to Relationship Marketing

- Relationships Focus
 - orientation to customer retention
 - continuous customer contact
 - focus on product benefits
 - long time scale
 - high customer service emphasis
 - high commitment to meeting customer expectations
 - quality is the concern of all staff

Payne, A. (Ed.) (1995), Advances in Relationship Marketing, Kogan Page, London.
Grönroos, C. (1997), "Keynote paper: From marketing mix to relationship marketing-towards a paradigm shift in marketing," Management Decision, 35 (4), 322-39.

Definitions of RM

the automation of horizontally integrated business processes involving front office customer contact points (marketing, sales, service and support) via multiple, interconnected delivery channels

Metagroep

'Lifetime relationship with the customer.'

CIM

'Attracting, maintaining and enhancing customer relationships'.

Berry 1983

Berry, L.L. (1983), "Relationship marketing", in Berry, L.L., Shostak, G.L., Upch, G.D. (Eds), *Emerging Perspectives of Services Marketing*, American Marketing Association, Chicago, IL, pp.25-38.

Definition of RM

'Relationship marketing is an approach which views marketing as relationships, networks and interactions'

Gummesson 1994

'Activities directed towards establishing, developing and maintaining successful relational exchanges'

Morgan and Hunt 1994

Gummesson, E. (1994), "Making Relationship Marketing Operational," International Journal of Service Industry Management, 5, 5-20.
Morgan, R. M. and S. D. Hunt (1994), "The Commitment-Trust Theory of Relationship Marketing," Journal of Marketing, 58 (3), 20-38.

Definition of a Customer

- 'A customer is a person who becomes accustomed to buying from you. This custom is established through purchase and interaction on frequent occasions over time. Without a strong track record of contact and repeat purchases, this person is not your customer; he or she is your "buyer". A true customer is "grown" over time.

Griffin J.

Griffin, J. (1995), "Customer Loyalty: How to Earn It How to Keep It," Jossey-Bass Publishers.

Why Customer Retention?

A customer is the most important visitor on our premises. He is not dependent on us. We are dependent on him. He is not an interruption of our work. He is the purpose of it. He is not an outsider to our business. He is part of it. We are not doing him a favour by serving him. He is doing us a favour by giving us the opportunity to do so.

M K Gandhi

The Objectives of CRM

"To identify and establish, maintain and enhance and, when necessary, terminate relationships with customers and other stakeholders, at a profit so that the objectives of all parties involved are met; and this is done by mutual exchange and fulfillment of promises".

Gronroos 1994

Gronroos, C. (1994). "From Marketing mix to Relationship Marketing: Towards a Paradigm Shift in Marketing." Management Decisions, 32 (2), 4-20.

Loyalty Ladder

The diagram shows a progression of customer stages: Suspects, Prospects, Disqualified prospects, First-time customers, Repeat customers, Clients, Advocates, and Partners. Arrows indicate transitions between these stages. A path from First-time customers, Repeat customers, Clients, and Advocates leads to Inactive or ex-customers.

Peck, H. Payne, A. Christopher, M. Clark, M. (1999) Relationship Marketing: Strategy and Implementation: Butterworth-Heinemann, Oxford.

Key Components of RM

- Superior prod or service quality
- Customer service
- Differential pricing
- Availability
- Dialogue (DM)

Gummesson, E. (1994). "Making Relationship Marketing Operational," International Journal of Service Industry Management, 5, 5-20.

The relationship orientation

- Interactions must take place between at least two parties; activities of one of the parties influence those of the other and vice versa.
- A degree of continuity; interactions from the past influence present and future interactions; extend over a longer period of time.
- The effects of interactions are dependent upon the actual events and the subjective approach to these events.

Gronroos, C. (1997). "Keynote paper: From marketing mix to relationship marketing—towards a paradigm shift in marketing." Management Decision, 35 (4), 322-39.
Peelen, E. (2005). Customer Relationship Management: Financial Times/Prentice Hall.

Customer Lifetime Value

Average transaction value
x
Yearly frequency of purchase
x
Customer life expectancy

$$Value = \int_{k=0}^{\infty} \int_{t=k}^{\infty} n_k m_{t-k} e^{-ik} e^{-\left(\frac{1+i-r}{r}\right)(t-k)} dt dk - \int_{k=0}^{\infty} n_k c_k e^{-ik} dk$$

Gupta, S., D. Lehmann, and J. Stuart (2004). "Valuing Customers," Journal of Marketing Research, 41 (February), 7-18.

Value of Customers, Market Value and Price-Earnings Ratio

	Value of Customers (\$ billion)	Market Value (\$ billion)			P/E Ratio
		As of Mar 31, 2002	High for the Quarter	Low for the Quarter	
Amazon	0.82	5.36	6.36	3.39	N/A
Ameritrade	1.62	1.40	1.49	1.09	370.00
Capital One	11.00	14.08	14.31	9.48	9.08
Ebay	1.89	15.85	19.45	13.67	112.02
E*Trade	2.69	3.35	4.49	2.71	N/A

Gupta, S., D. Lehmann, and J. Stuart (2004), "Valuing Customers," Journal of Marketing Research, 41 (February), 7-18.

Impact of Improving Retention, Acquisition Cost and Margins On Customer Value

	Customer Value (\$b)	% Increase in Customer Value for a 1% improvement in				
		Base Case	Retention	Acquisition Cost	Margin	
Amazon	0.82		2.45%	0.07%	1.07%	0.46%
Ameritrade	1.62		6.75%	0.03%	1.03%	1.17%
Capital One	11.00		5.12%	0.32%	1.32%	1.11%
Ebay	1.89		3.42%	0.08%	1.08%	0.63%
E*Trade	2.69		6.67%	0.02%	1.02%	1.14%

Gupta, S., D. Lehmann, and J. Stuart (2004), "Valuing Customers," Journal of Marketing Research, 41 (February), 7-18.