

Customer Relationship Management
Prof. Swagato Chatterjee
Vinod Gupta School of Management
Indian Institute of Technology, Kharagpur

Lecture - 03
CRM: The Strategic Imperative (Contd.)

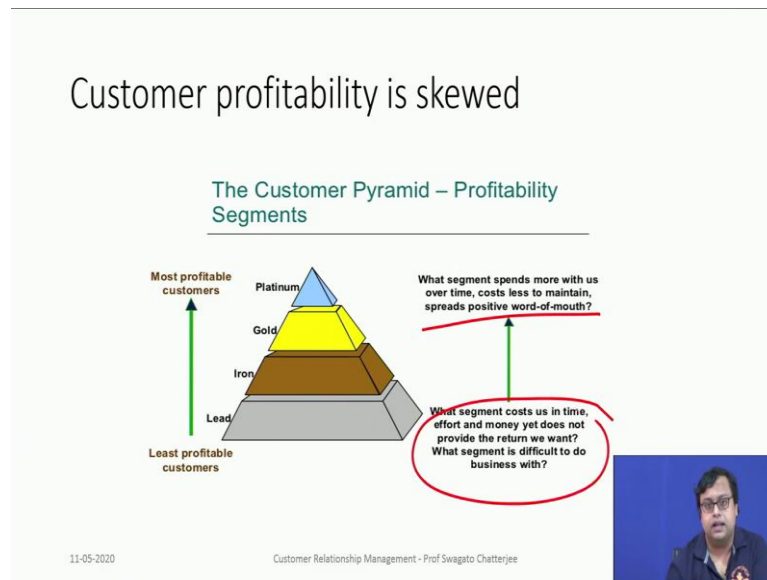
Hello everybody, welcome to the NPTEL course of Customer Relationship Management. This is Dr. Swagato Chatterjee from VGSOM from IIT, Kharagpur who is taking this course. We are in week 1, this is Session 3 and we are discussing the Strategic Imperative of Customer Relationship Management. So, in the last class if you were with me I was discussing about profitability of customers.

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And I discussed that how customers become profitable over a long run.

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Now, there is a pyramid of profitability obviously and if you go from the lower to higher: so, we named as Lead, Iron, Gold, and Platinum which is nothing, but the least profitable customers to the most profitable customers. So, the least profitable customers are high in size and the most profitable customers are low in size which is obvious.


And thus the least profitable customers are those kinds of customers which segment cost us in time effort and money yet does not provide the return we want. So, in the lower side they cost you a lot, but the returns are not high like the Airtel's customer who does give missed calls.

So, what segments is difficult to do business with. So, you have to ask yourself or you have to find out who are those customers and you have to probably try to move them out from your customer base. And the platinum customers are basically, one segment spends more with us over time. So, these are the customers who over time will become more profitable and cost less to maintain and spreads positive word of mouths. Spreads positive word of mouth is another important factor about these customer: I would say the Customer Relationship Management's profitability issue. So, this is also one of the important factors where the Customer Relationship Management creates some kind of benefits.

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Marketing Benefits of CRM

Particulars	Amount (Rs)
Cost of sending 1,00,000 mails	
- Cost of address database - Rs 5,00,000 ✓	
- Printing (mailer + envelope) - Rs 12,50,000 ✓	
- Handling and mailing - Rs 5,00,000 ✓	Rs 22,50,000
Hit rate, i.e. average response (~3 per cent)	
Actual purchase (25 per cent of the respondents), i.e. 750 sales	
Direct marketing cost per sale	Rs 3,000



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So, to give an idea: so, if I want to give a marketing — monetary benefit of CRM, you see that there are some costs of sending. So, when we do mass selling, mass emails what are the costs of mass emails? So, let us say, I have to send 1, 00,000 mails. So, 1 cost of 1, 00,000 sending 1, 00,000 mails mass mails and if I am a Retail company - let's say is to get a database often times we buy the database from a various kind of vendors let us say telecom companies or somebody else sometimes publicly available sometimes privately available.

Sometimes, we create the Apps where you, have you seen that? Okay, how will you look like 10 years later? That kind of App comes in Facebook and you click on the app that have asked that—okay, I will get the information from your public profile and probably your email address and your public profile and your photos that is something that they ask access and you give that access. You just say yes, and the moment you give the access the information goes — he gives you something, but that information gets created.

So, that is how the databases have been created and people are selling that database, which is authenticated. I would say real people are there behind that particular email address that kind of an accuracy that kind of credibility can be obtained from those databases. So, you have to buy those databases and the cost is something like, let's say, the printing cost will be something like this, ok, so, it is not mass mailer I would say this is this is an example of a mailer that you get at your home, but that applies for emails

also. If you just send emails instead of that, even that their Mailchimp and etcetera will have some costs involved. So, that will also be considered and handling and mailing charges.

So, this is something that you totally incur, this is your Total Cost. And you think that the hit rate; that means, average response is only 3 percent. So, 3 percent of these people will respond. And 25 percent of these respondents; respond means they will do some inquiry and 25 percent of this people will make the actual purchase-- you just think about that.

So, then there are 750 sales, then the cost of direct marketing cost per sale is coming up to be 3,000. So, you have to make sure that the prices that you are generating, revenue that you are generating is higher than 3,000, but that is done when you are doing only for the one time.

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Service Benefits of CRM

- 95 per cent of the customers do not bother to complain, they just take their business elsewhere. CRM
- Most loyal customers take time to complain. This enables the product/service provider to improve and ensure that such mistakes do not recur. CRM
- A typical dissatisfied customer will tell an average of fourteen others about her bad experience while she will tell only six about a satisfying experience with an organisation. CRM
- 70 per cent of customers who complain will do business with the company again if it quickly takes care of a service problem. CRM

But loyalty is different from profitability

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So, what are the benefits? 95 percent of the customers do not bother to complain. So, another important benefit of CRM is that, --- people do not bother to complain, they just take their business elsewhere. So, if you do not, if you are not adopting a CRM strategy, then most of your customers who are not happy if they are there are customers who are not happy will not even stay with you, will actually switch to another service provider without even telling you. So, you will not even know that why they went away. So, only

if you have a CRM strategy you can track your dissatisfied customers properly. Most of all customers take time to complain.

So, even the loyal customers take time they think whether they will complain or not. This enables the product and service provider to improve and ensure that such mistakes do not recur. So, generally the loyal customers are more , I would say forgiving in nature. So, if I am loyal to you if there is some problem I will not complain on the first day. I will complain only after third/fourth occasion.

So, disloyal customer will go away, but the loyal customer will stay back, but not complain. Now, if you know by chance that you have done something wrong and this guy is not complaining, you should also understand that this guy has it in his mind. So, if you recur the, recur the same mistakes then probably this guy will complain and then go away.

So, you have to make sure that within that time frame that you are getting, you have to probably improve your services so that this kind of problem does not recur. So, that is also can be done through CRM. A typical dissatisfied customer will tell in an average of fourteen others. So, a dissatisfied customer, average dissatisfied customer, not loyal or disloyal, normal customer will tell fourteen other people about her bad experience, while, she will tell only six about a satisfying experience. So, in simple words what we are trying to say that people talk about negative things more than positive things.

So, if you have a CRM strategy then you can, one thing is you can track whenever people are saying bad you can track that and then you can probably try to mend that that is number 1. Number 2 is you can encourage people to take positive — talk positively with you. Have you seen that often times if you are using an App the one pop up comes in in that app and says that will you will you rate us? How was your experience? Will you rate us? Will you rate us in Google Play? This that. Now, that is an indication — that is basically a CRM push that why don't you talk good about us.

And if you talk good about us, because, in general you will not talk good about us: even if you are satisfied you will not go and rate. But if you are dissatisfied you will obviously go and rate negatively. So, positive ratings are not coming very commonly very frequently unless you follow a CRM strategy. So, that is the benefit, and 70 percent of customers who complain will do business with the company again.

So, why do customers complain? Customers complain only when there is a chance of any kind of resolution. If the chances of resolution is not there, if the customers feel that there is no chance of resolution, they will follow this path, they will just go away. So, customers complain when there is a chance of resolution. So, you have to give them a complaining platform. If you do not give a platform where they can complain then that that will create lots of fly away.

So, 70 percent of customers who complain will do business with the company again if you quickly take care of the service problem. So, that is also where this CRM will help. But, you have to, importantly you have to think that generally loyalty and profitability is not the same thing. Loyalty leads to profitability, but there can be people who are loyal, but not profitable. So, you have to make sure, like we discussed here, that there can be people who are loyal, but not profitable. We have to make sure that those kinds of people are taken care of properly.

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Transaction Marketing vs Relationship Marketing

<i>Transaction Marketing</i>	←————→	<i>Relationship Marketing</i>
One off Exchanges	Focus	Ongoing Exchanges
Brand Management		Customer Management
Short-term Focus	Time Perspective	Long-term Focus
Mass Communication	Primary Communication	Personal Communication
Isolated Market Research	Customer Feedback Mechanism	Ongoing Dialogue
Mass Markets or Market Segments	Market Size	Markets of One
Market Share	Criterion for Success	Mind Share (Share of Customers)
Profitability of Transaction	Critical Metrics	Lifetime Value of Customer
Brand Equity		Customer Equity

Source: Adapted from Gronroos, C., 'The Marketing Strategy Continuum', *Management Decision*, January 1991, pp. 7-13.

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Now, in marketing there are two concepts we call it Transaction Orientation and Relationship Orientation. So, Transaction Orientation's major focus was one off exchange and brand management when we focus on brand and you will think that the brand will attract. It is the Samsung brand will attract people or iPhone brand will attract people. I will not have to call them. So, the focus is majorly on the brand.

But in the Relationship Management the focus is mostly on the customer and it focus on the ongoing experiences at that one single exchange. And the time perspective obviously Transaction Oriented is short term and on the other hand Relationship Marketing is long term relationship. You have to — you think about the profitability, you do your calculations from the profitability in the long term not in the short term.

In the short term, you can make certain, I would say losses and we will show mathematically how you will do that, but in the long term you can make profits. Primary communication in obviously in case of these things ads work well. So, mass communication works well and here probably emails work well or calls work well or SMSs work well or push notifications work well.

So, the things I have changed slowly. So, here the mass ads in probably various kinds of platforms like TV or radio or newspaper will work in case of Transaction Oriented Marketing. Then the market size: so, here we think about the mass market or at least the market segment. We do not think about, think about individual people, but in the other one in this one, just 1 minute In this one, we will focus on only one person.

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Transaction Marketing vs Relationship Marketing

Transaction Marketing	↔	Relationship Marketing
One off Exchanges	Focus	Ongoing Exchanges
Brand Management ✓		Customer Management
Short-term Focus	Time Perspective	Long-term Focus
Mass Communication	Primary Communication	Personal Communication
Isolated Market Research	Customer Feedback Mechanism	Ongoing Dialogue
Mass Markets or Market Segments	Market Size	Markets of One <i>(Recommendation Engine / Market Basket Analysis)</i>
<u>Market Share</u>	Criterion for Success	<u>Mind Share (Share of Customers)</u>
<u>Profitability of Transaction</u>	Critical Metrics	<u>Lifetime Value of Customer</u>
<u>Brand Equity</u>		<u>Customer Equity</u>

Source: Adapted from Gronroos, C., "The Marketing Strategy Continuum", *Management Decision* January 1991, pp. 7-13.

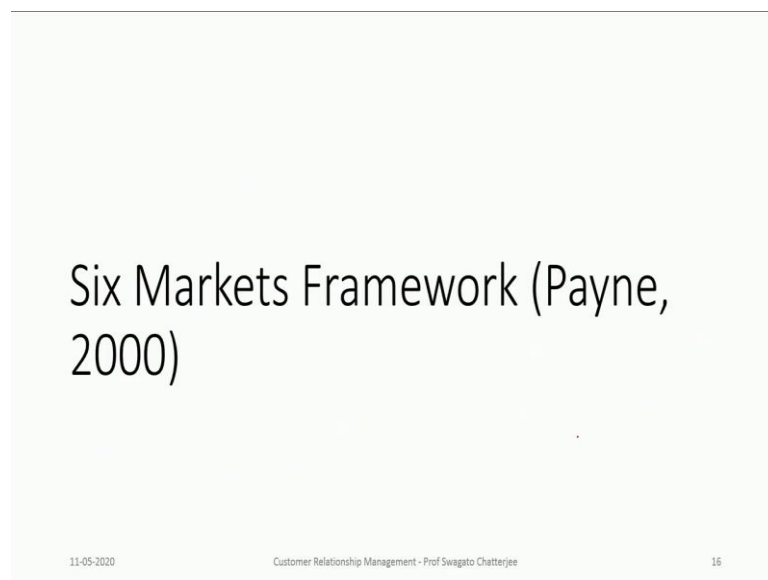
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So, each person is different. My market is one single person and that is what we generally try to focus on, and this is where the recommendation engine- if you have heard about that it is coming in this kind of concept: Recommendation Engine or basically Market Basket Analysis is coming in where people think about one person as

the Market Basket Analysis. This kind of things are coming in. What people think about one particular person is what market says. I do not think about 10 people together, I think about one person and then I think about millions of such one person differently.

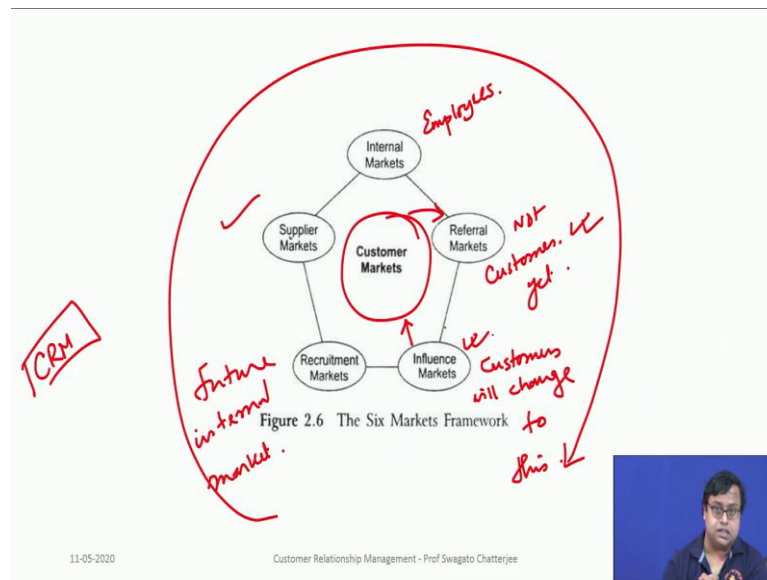
Criterion of success is market share here, major focus is in market share, here major focus is in mind share; that means, the share of customers. So, whether you think about me and the critical metrics is basically profitability of transaction, and brand equity as people focus on brand management. Here, customer lifetime value, not the profitability of one transaction, but the customer lifetime value and what is that we will discuss about that in the next thing and customer equity. These are the two major things that become most important in a Relationship Management.

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So, Payne 2000 has given 6 market frameworks which we use in Customer Markets.

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One is the Internal Market, one is the Referral Market; one is the Influence in Market, Recruitment Market and Supplier Market. So, Internal Market is basically your employees — part time or full time employees. The Referral Market is basically your customer referrals: so, who are not customers yet.

Influencer Market is basically, Influence Market is basically the market who influenced you. So, the customers get influenced by this type of people, customers, these are customers will change to this. And then Recruitment Market is basically future internal Market and then Supply Market you understand that.

Now, Customer Market is basically governed by these 5 guys. So, altogether this 6 is your market. So, often time this CRM strategies are trying to make sure that all of these things were taken care of. We do not only think about customers alone. We will think about all of them, for example, how Internal Market can play an important role. Lots of product companies in today's world are using their internal customers—that means, the employees as the test bed.

Let us say I have created a new product. What will I do? I will ask my company's people to use it and then there is ERP system, a CRM system where I track the customer's behavior, internal customer's behavior and they can write their complaints. They can write their service issues this that and based on that I improve my product. So, that is

how the Internal Market helps the product development and thus Customer Relationship Management Strategies. Then, Referral Influence I will talk about later.

Recruitment Market how — Recruitment Market means the customers, the future customer future internal market; that means, future employees which are outside. Now, future employees also create a brand image about a particular company and that brand image is also something that you have to take care of and the brand image will come from this Customer Relationship Management — the service strategy not a brand strategy which is done in a transactional orientation.

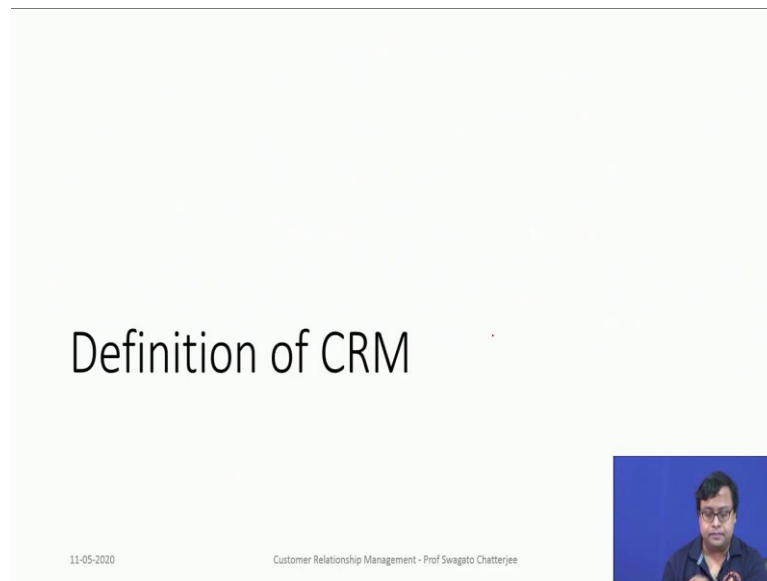
So, that is also another important market we should focus on. Then comes: Supplier Markets - obvious the supplier will have lots of information. Often times, this channel, the sales channel we try to use the sales channel to get information about the market in a B2B environment. Let us say I am selling a paint — I am Asian Paints or Berger and etcetera and there is some supplier of me or there might be some distributor of me.

Now, I am not selling paints door to door. I have my own supply chain network. Now, that supply chain network also gives me very crucial market information, the Customer Market information which can be adopted. Now, if you do not have a CRM system, if these guys do not have any platform, where they can post their problems they can give their information, if it is just a human based information system, not a computerized human information generation system, then you are, there is a chance that you will lose lots of information. And those are crucial information and you think that this is a competition between Berger Paints and Asian Paints.

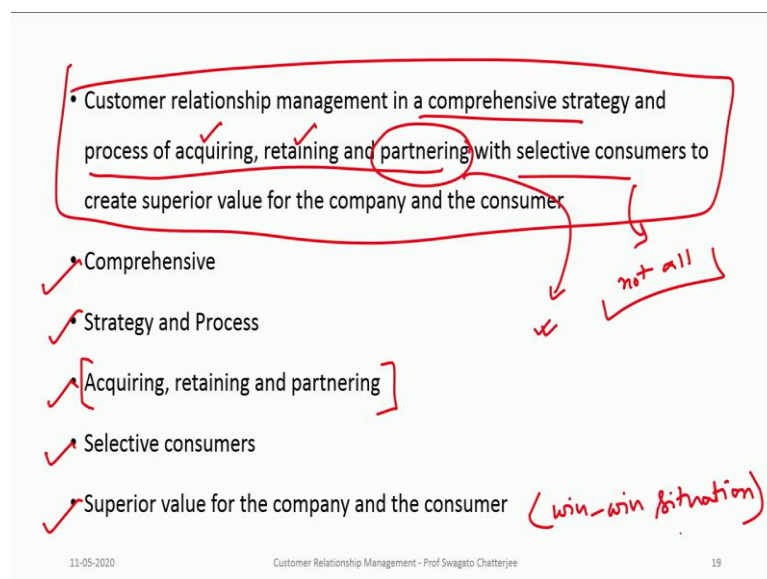
If Berger Paints can collect the market information properly using this supply chain having a CRM system and Asian Paints cannot do, then there will be a loss. So, obviously, supplier market is also major information. And then what else: the Referral Market who is your future customers what is being told to those guys and Influence Market who influence. So, this is like this: Influence Market impact Customer Market and Customer Market Impact your Referral Market. So, you have to know your future customers and you have to know whoever influences your current customers. So both knowledge have to be generated using your CRM system so that you can get enough information which can be applied to improve your business.

So, these are The Six Markets that framework is given by Payne in 2000, in the paper which is a very crucial understanding that you do not only think about your customer which are your existing customer when you do Customer Relationship Management. There are lots of other people — other stakeholders which can also be treated as customers when you are handling Customer Relationship Management. Today, I talked lot about this term Customer Relationship Managements.

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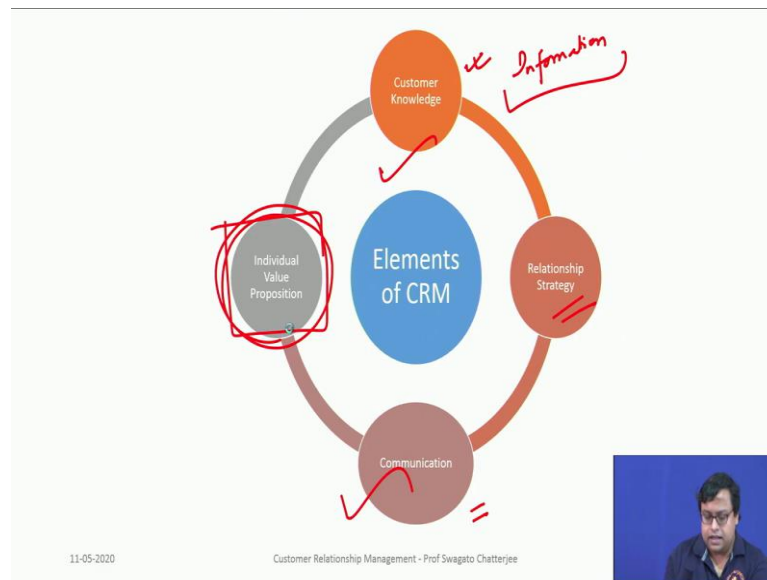


Let us talk about the definition. So, the hard code definition is as a comprehensive strategy - that is number 1 and a process. So, there is a strategy involved and there is a process of acquiring, retaining and partnering with selective consumers. Not all consumers but selective consumers that is number 1. It starts from acquiring, then goes to retention means keeping them and then partnering. This is a very important factor which we will discuss as we go ahead, but you have to make sure that he is your, not only your customer, but he is a part of you. He also helps you in improving your or he thinks that he is one member of your team.

So, that kind of an environment has to be created with the customer then only, that is the ultimate goal. Then you can say that it is a successful Customer Relationship Management and you will not do it for all customers, you will do it for selective profitable customers to create superior value for the company and for the consumer. So, both will be having a win-win situation by adopting this kind of a strategy. It has to be comprehensive and so the major key terms in this particular definition is first of all- it has to be comprehensive. Comprehensive means it has to cover everything as I told.

It has to be comprehensive, it has to be a strategy and process. It is, it cannot be just a strategy it has to be implemented the process with an implementation. So, it's not just definitions it has to be actionable also. So, that is something acquiring, retaining and partnering as I told. So, this is these are the 3 processes, major processes for selective customers as I told and superior value for all. So, there it has to come up with a win-win situation otherwise this CRM strategy will not work, you have to get a win-win situation out of it.

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And what are the elements? The elements are basically, there are 4 elements and we will discuss about all these elements separately. One is the knowledge — the information, then the relationship, that you generate the long term relationship. The communication, that means, what you, the information customer knowledge comes from the customer towards you, communication is from you to the customer that happens and individual value proposition, not a mass value proposition.

So, you have to create the elements, whatever CRM strategy you make, these 4 elements should be there. How will I get the data about the customer? So, let's say if to give an idea of these elements: let us say if I discuss about the CRM strategy of these points that you get. You generate points when you buy in Big Basket or Big Bazaar or somewhere. So, let us say in Big Bazaar you are accumulating points.

So, the customer knowledge that gets accumulated from that CRM strategy is that what you buy, because the moment you swipe I know, who is the customer. I know what is the name of the customer, his customer ID and I also know what are the various products he purchased, what was the price whether in discounts were going on the whole basket information I get. Now, if I have been acquiring this basket information for quite some time because you have a long term relationship with me, then that creates customer knowledge.

I know what you like, what you dislike, what you purchase, at what price you purchase, whether you are a price sensitive person, price insensitive person — all that details comes in my head hand. When I get that, the next step is relationship strategy. I create a strategy how to generate more benefits from this relationship and how to elongate the relationship. So, I can probably in that after getting knowledge from you, after knowing you properly, I create a strategy that okay now I know that this guy is price sensitive with product X why do not I give product Y. I say that product Y will be giving you at this price.

Let's say you are for quite some time, I found out that you are price sensitive about a certain food material which is let's say noodles. I will try to sell you Atta noodles which is a better version of noodles let's say, and I will say that I will charge you the same price, but why do not you try? You try it for once, twice, thrice after fourth or fifth purchase I start increasing the price because we have already get habituated with a better version you have improved your lifestyle a little bit. And now you know you think that buying this particular product which is a little bit more costly is okay, not very luxury, it's a part of life.

The sense of luxury, the sense of what should be part of life and what should be luxury is different for different people and that changes over time. So, that sense of luxury has to be removed in certain cases and has to be brought in in certain other cases through CRM strategy. So, we can take that in Relationship Management. Then I have to communicate I have to come there is a strategy that I, that I have made.

Now, I have to implement the strategy and that implementation is communication. What kind of information I give you, when I give you, through which channel I give you all of these things come under CRM strategy. So, oftentimes CRM is used majorly for this and this: that collecting data and then sending mails. But, CRM has another very important information part which is individual level value proposition. Are you using any kind of analytics techniques or any kind of strategic techniques to create micro segmentation? Are you creating value propositions for each customer separately?

So, here I told that market is one and here the market is at least a mass market or market segment. So, in case of us, the market is one only single person is the market. So, until and unless you are creating that kind of a value proposition where every person is one

market you are not using CRM properly. So, that has to be an element of CRM: not only just creating knowledge and creating communication —It's not a good enough strategy for CRM. So, that is where we will stop about CRM as a strategic concept, we will be discussing about two small case studies in the next videos and I will continue on that in the next video.

Thank you very much! See you in the next video.