

## **PART 4**

# **Managing customer relationships**

In **PART 4** we will examine the technology systems and processes used to manage ongoing relationships with customers. Organisations today are realising that effective customer relationship management (CRM) is a genuine management function, requiring strategic planning, integration between market research, sales, advertising, and customer service activities, and the employment of sophisticated computer systems.

In this part we will also move into the higher levels of selling and customer relationship skills. By developing these skills you will be preparing yourself for increased responsibility and advancement within your organisation.

Chapter 11 positions CRM within the modern organisation. The appendix to Chapter 11 takes you through the technology and logistics of the world's most widely used customer contact program. Chapter 12 considers specific aspects of planning for and managing relationships with the organisation's most important, or key, accounts. Chapter 13 examines the nature of formal, multiple-issue negotiation, and suggests techniques for conducting these negotiations effectively. Chapter 14 provides practical strategies and hints for making presentations to groups of people, whether they be a buying committee of an important customer or your own firm's management.

**CHAPTER 11** Customer relationship management in the modern organisation

**APPENDIX TO CHAPTER 11** Implementing customer contact programs

**CHAPTER 12** Managing relationships with key customers

**CHAPTER 13** Negotiating with customers

**CHAPTER 14** Making presentations to customer groups



# Customer relationship management in the modern organisation

## learning objectives

This chapter explores the concept of customer relationship management (CRM) as a function within organisations that sell goods or services. After reading this chapter you should be able to:

1. explain the term *relationship* from both a customer and organisation perspective;
2. place CRM in a modern business context;
3. explain customer *loyalty* and the factors that build it;
4. assess the requirements of effective CRM;
5. outline a step-by-step approach to developing an effective CRM system.



PIC TO COME

# PROFILE OF A PROFESSIONAL

## ACT! NOW

Cedric Amoyal, Database Strategy Manager for The Contact Group, began his career as a telemarketer in a direct marketing agency. 'I was put in front of a computer that had ACT! installed and told "this is ACT!, you'll be using this every day, so get to know it". I started playing around with the system and was soon hooked, and after twelve years I still am!'

For Cedric, the best aspect of his job helping client firms meet their CRM requirements is quite simply 'knowing I have a product that is needed'.

'We all like to be needed', he says, 'and these days almost every business that does business with other people needs a CRM system'.

What about a down-side? 'I do get annoyed sometimes', says Cedric, 'that even though our mission is to enhance relationships between people, often the technology takes precedence. My own personal mission, therefore, is to keep the focus on people—how they communicate and interact. CRM technology should be a means to an end, not the end itself.'

## HOW HAS CRM CHANGED?

'The main change has been that the products have become more focused on what firms really need, rather than just adding features for their own sake. On the other hand, and I don't want to harp on just this one point, a trend has developed where the technology drives the client rather than the other way around. It is true that CRM systems have not always delivered on their promise, not because of the software, which is rarely the weak link, but because it is poorly applied or customised. I try to focus on what my client really needs from the system. After all, isn't that what selling is about?'

## SELLING CRM = EMPATHY + SERVICE

Cedric is adamant about what it takes to be successful in his field. 'You have to be a consultant, or even like a doctor, in dealing with your clients. Most firms have only a general idea what they want from a CRM system and little knowledge about the issues and problems they might encounter. My task is to listen, then to really empathise with their situation. If I simply sell them an off-the-shelf solution, I know they will be disappointed. Let's face it, that would be as inappropriate as a doctor who simply hands out prescriptions to each patient as they walk in the door. Then, I need to be creative in the solutions I develop, because every client's situation is different. In fact, I find that if I concentrate on what *this* client really needs and then show them how ACT! can offer that, I don't need to do any other selling.'

'After that', Cedric concludes, 'service is the key. Clients today demand exceptional service, before and after the sale. Of course, we not only sell the ACT! systems, we also use them in our business, and that makes it much easier to offer high service levels. In fact, ACT! is literally the first thing we open each morning and the last thing we close at night. It helps us with everything but the laundry!'

# The principles of CRM

In Chapter 1 we looked briefly at CRM, one of the fastest growing, yet controversial, approaches to sales and marketing. Now, it is time for us to examine CRM more closely. Rather than simply detailing the techniques and technology that are the mainstays of CRM, however, we will first consider the basic principles that will ultimately determine the success of a firm's CRM program, and perhaps the long-term future of CRM itself.

## What are customer relationships?

You will remember from Chapter 1 that much of modern selling focuses on strategies to encourage existing customers to make repeated purchases from us rather than continuously having to locate and 'win' new customers. Modern salespeople believe that by developing relationships with their customers they are more likely to achieve this goal.

In order to understand modern CRM as a business strategy and process then, we must first of all be clear about the *relationships* that need managing. And because it takes two to have a relationship, we need to do this from both the *customer* and *company* point of view.

### Customer perspective

First, let's consider the dealings that *you*, as a customer, have with various suppliers of goods and services; for example, your mobile phone or Internet service providers. Or the gymnasium you attend for aerobics classes. Or perhaps you purchase wine, or books, or stationery on a regular basis from one of the many firms that offer these products. What do you *want* from your relationship with these suppliers? Personal attention? The cheapest prices? The best advice? The quickest service? You probably want all of these, and much more. And because in most markets you will have more than one supplier to choose from, if you don't receive enough of these from your current supplier you will take your business to another. From a CRM perspective, this is your major (sometimes your only) means of *managing* the relationship.

### Organisation perspective

Now, what about the firms supplying these goods and services: what do *they* want from you? The simple answer is that they want to earn profit from their customers. In their relationship with *you*, they want the revenue they receive from you to exceed the costs involved in making the goods or services they provide. If they can't achieve this, if the costs of supplying you exceed the revenues, what management tactics can they employ? Let's look at their options:

- withdraw product—In some situations suppliers might simply be able to refuse to supply you. But unless you have not paid your account or failed to live up to particular terms or conditions of an agreement, this is often difficult. There are legal and market constraints that restrict suppliers' ability to refuse to supply.
- increase sales—Alternatively, suppliers might decide that the best way for their relationship with you to become profitable is to sell you *more* goods or services.

They might offer you incentives to increase your purchases or to upgrade to a higher quality product.

- reduce costs—Suppliers might seek to reduce the cost of providing you with their product by limiting your access to their backup service, providing their service by cheaper methods such as e-mail rather than phone or face-to-face, sending you fewer catalogues, and so on.
- increase prices—Suppliers might decide that to ensure their relationship with you is profitable they need to charge more for the products they supply you. Here also, of course, they will need to operate within the conditions of any current contract.

So, the relationships in customer *relationship* management are commercial ones in which both buyer and seller have certain aims and certain strategies available to achieve them. It should also be obvious now that the supplier does most of the work to maintain the relationship. And because CRM is a *business* strategy, we are mainly interested in how suppliers of goods and services go about managing relationships with their customers.

So, what's new? Surely all kinds of suppliers have been managing relationships with all kinds of customers for as long as business has been conducted? Why the increased interest in the field of CRM in recent years, and what is different about it now?

Firstly, as we have emphasised throughout this text, firms have learned that it is more profitable to make repeated sales to existing customers than to continuously try to win new customers. One of CRM's main focuses is to measure the profitability of each customer relationship and to develop means of retaining and enhancing those that are profitable.

Secondly, the technology has now become available to allow thousands, or even millions, of relationships to be managed *simultaneously*. In the past, firms might have *suspected* which of their customers were really profitable and which were not. Now they can know for sure. And once they know, they can set out to manage each relationship to maximise profitability.

## Defining CRM

Unfortunately, the term 'customer relationship management' has been used to describe different business strategies and processes. It has also been used interchangeably, or at least linked with, terms such as 'relationship marketing', 'loyalty marketing' and 'customer metrics'. Because each of these fields is relatively new, playing around with the terms is likely to continue for a few years yet, so let's not get bogged down in semantics. Here, we will describe CRM as:

- a business concept that recognises the need to treat each customer *differently* to increase value for both customer and company;
- a management approach for *systematically* managing relationships between a company and its customers;
- a computer-based process to
  - identify each customer's actual or potential needs and preferences
  - measure the profitability of the relationship with each customer
  - encourage customers to continue with mutually beneficial commercial exchanges
  - dissuade customers from engaging in exchanges that are not profitable for the company.



Table 11.1 outlines the main functions being performed by CRM systems within organisations.



**TABLE 11.1** CRM functions

Business segment	Function
Sales	Coordinating sales team activities
E-commerce/selling	Managing e-business transactions (mainly B2B)
Customer support	Managing service inquiries by phone or e-mail
Contact call centres	Phone-based inquiry centres
Marketing	Using prospect lists and databases for direct mail and telemarketing

Helping you manage your business...  
quickly, easily, productively!

ACT! centralises and organises key data around your contact information. So when prospects or customers call, just click and up pops the information you need.

Think of it as "Contact Central." You instantly see histories of past calls, meetings and to-do items. You have notes about follow-up and potential opportunities.

Really, you know everything about the contact and his or her company—so you can quickly and easily provide answers and resolve issues.

Your contact feels important. You build more solid relationships. And you get the results that'll help you increase your bottom line. Not bad.



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Make contact.  
Build relationships.  
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CONTACT &  
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**WARNING:**  
Do not upload ACT! 7  
to the same PC containing  
previous versions of ACT!

**ACT! 7**  
Contact and Customer Manager



CRM systems, like those offered by ACT!, are used by many firms. Think of one organisation you deal with—for example, a clothing store, sports club, airline or mobile phone company—and consider how it might use CRM to better meet your needs.

## The requirements of an effective CRM system



Now that you have some idea of the CRM concept, let's use a fairly typical example to look at the attributes of an effective CRM system.

CRM systems rely for their effectiveness on *databases*; that is, interactive computer-based systems for organising, storing, manipulating and updating large



amounts of information. To store the information, databases use individual *records* or files on each customer (or other variable) and each record contains a number of *fields* or specific pieces of information. A customer database, for example, will have fields for the customer's name, address and other contact details, perhaps other useful information such as the size and type of the customer's business and, most importantly, details about the customer's previous purchase history with your firm. As each contact with the customer occurs, a data entry operator can update the database using invoices, sales team reports, phone contacts and so on.

The great power of a database is the capacity to select and manipulate the data by accessing each field; you might, for example, ask the database to select all customers within a specific geographic area who operate particular types of businesses and who have purchased a certain type of product from you within the past six months. These customers might then receive a particular offer that you feel they would be most likely to respond to.

Let's say you are the CRM manager for a firm that sells stationery and office equipment to the SOHO (small office, home office) market as well as to larger corporate clients. Your firm has a database to maintain its customer records. You have more than ten thousand customers on your database; some buy often, others less frequently, some buy in large dollar amounts, others in quite small amounts, some buy only when you run low-price specials, some are serviced by your sales reps and others are serviced by your call centre. You also produce various catalogues and brochures that are direct mailed to customers.

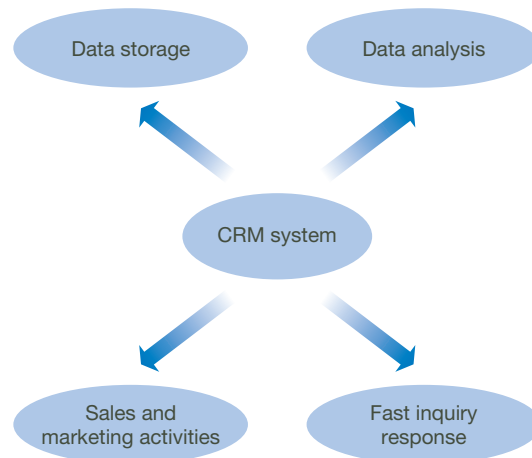
Consider first what your CRM system will be trying to achieve. The system will attempt to:

- better understand each customer's characteristics and needs;
- identify profitable and potentially profitable customers;
- improve customer satisfaction (for profitable customers);
- build customer loyalty (for profitable customers);
- increase profitable sales;
- reduce unprofitable sales and other exchanges.

Figure 11.1 illustrates a number of specific tasks the system will have to perform to achieve these goals.



**FIGURE 11.1**  
CRM system tasks



## Data storage

The system will have to store all relevant information about your customers; for example, contact details, needs and preferences, and purchase history. Using our example, this will create more than ten thousand customer records, each with perhaps twenty or more types of information.

## Data analysis

The CRM software will need to analyse this information in ways that are useful to your marketing department, sales department and customer service department. Each department requires different analytical reports; for example, marketing might want to assess which customers are most likely to respond to a new product offer, a sales rep might want to track a customer's recent purchases and a customer service operator might want to look up how many times a customer has asked for service desk support. Management will want to measure the profitability to the company of each customer. No company can continue to provide unprofitable services to customers.

## Fast inquiry response

Because the system will often be used during actual exchanges with customers, it must be able to respond to information needs in 'real' time. If a sales rep is about to conduct a sales call with an important customer he or she needs the customer's purchase record *now*; similarly, if a customer phones the call centre because, say, the printer delivered that morning won't work, the service operator has to be able to respond immediately.

## Sales and marketing activities

The CRM system's sales and marketing role is to develop a set of 'rules' to guide the firm's management of individual customer relationships. We can't make decisions on ten thousand relationships manually or individually, so the CRM system uses rules (technically, algorithms or equations) to decide on the frequency and type of contact to be made with each customer, offers to be made to different customers, prices, terms and conditions, access to services, and so on. For example, the most profitable customers might be programmed to receive regular contact by sales reps supported by telemarketing, fax, e-mail and direct mail. Others will receive fewer contacts at a lower average contact cost.

## The benefits and limitations of CRM

Theoretically, the benefits of modern, computer-based CRM come from better information in two areas: *customer predictability* and *operating costs*.

By examining customers' past contacts with the firm (purchases, inquiries etc.) the CRM system is able to better understand the customers' situations and needs and thereby predict their likely responses to particular offers. Up-selling and cross-selling are two methods of building on this enriched information about customers. Up-selling



involves customers moving from a lower quality or specification product to a higher one. Cross-selling occurs when customers are offered different products from those previously bought.

The better a firm knows its customers, the more it can eliminate unnecessary activities from its marketing, sales and warehousing/distribution processes. The more accurately the firm can measure the profitability of each customer, the more efficiently it can allocate resources such as sales reps' time, direct mail and telemarketing campaigns, and even deliveries.

## The assumptions of CRM

The use of CRM principles and technology is based on three assumptions:

1. Customers' *past* purchase behaviour is the best predictor of their future needs.
2. Customers are *consistent* in the mix of quality and price they look for.
3. Establishing better relationships with customers will reduce the number of customers the firm will lose.

Because CRM is a new area of business strategy, it is not clear yet how valid these assumptions are. In many ways, this is what makes CRM such an exciting field. Many Australian organisations and their marketing and information technology strategists are right now developing and testing models of CRM to see whether the promised benefits to customers and their suppliers can be consistently realised.

## Who benefits from CRM?

It is important to note here that the long-term success of a CRM program depends on ensuring that genuine benefits accrue to customers, not just to the firm supplying them. The evidence suggests that some firms have approached CRM with the aim simply of improving profitability rather than really improving customer value. Unless managed sensitively and with the customer's interests at heart, the very 'rules' that govern the firm's contacts with its customers can alienate those customers. They can also alienate the firm's front-line staff who have to follow the rules in their exchanges with customers. A rule setting limits on the time to be spent on the phone dealing with customer inquiries or complaints, for example, might reduce costs, but it might also be frustrating for both the customer and the call centre service operator.

The main message here is that using customers' data to manipulate them into a limited range of behaviour and options is unlikely to achieve the desired long-term results. In the short term the CRM system may improve efficiency by reducing costs, but customers are not foolish and eventually they will withdraw from such a relationship. As we stated at the beginning of the chapter, it takes two satisfied parties for an effective relationship to survive. Customers who feel that they are not genuine participants and that they have no genuine control over their dealings with a firm will eventually exercise their ultimate control right; that is, the right to discontinue the relationship.

A further illustration of this point relates to the amount and type of information a customer is prepared to make available to suppliers. To best understand their customers' situations and needs firms want detailed, often private, information on

such aspects as product and brand preferences, budgets, purchase motivations and so on. But customers will only feel inclined to provide this information if they believe it will be used to benefit them, the customer, rather than just the firms. Firms must prove to customers that they can be trusted. (Note how similar this is to the rapport development stage of the consultative sales interview.)

## Social criticisms of CRM

We should also mention at this point that, as a business strategy, CRM has critics on other grounds. Some people and groups believe that CRM programs are responsible for breaches of privacy and encourage firms to behave unethically. Computer systems that can gather large amounts of information about customers from various sources and then identify complex relationships between pieces of data certainly provide the basis of a very powerful tool.

Of course, all kinds of ventures use computer-aided analysis. The same basic principles are used in scientific research, tax collection, crime detection, medical diagnosis and treatment, and many other aspects of modern life. The critics might say, 'but these are legitimate purposes'. But if the ultimate aim of CRM is to match individual customers with products that best meet their needs, then isn't this also legitimate?

CRM should be criticised when it is used deceptively or manipulatively. If a firm gathers data from illegitimate sources, hides this from customers, then uses it in inappropriate ways, then it deserves to be criticised, and more. The argument really is about *use* rather than the CRM process itself. And isn't that the way it is with every technological advancement?

Finally, the aim of this text is not to make value judgments about CRM but to show how it can be developed and used as a sales and marketing tool. Use it wisely and ethically and you should have nothing to fear from any critic.

## Is CRM right for all firms?

There is no doubt that CRM has been very successful for some organisations but will it always deliver additional profits? One problem in answering that question is that the history is very short: the mid-1990s is generally agreed on as the birth date for computer-based CRM. So, both successes and failures with CRM may well be due more to the 'newness' of the approach than to its intrinsic value. Here, though, are some facts worth considering:

- A full CRM system can cost hundreds of thousands of dollars, or even more for a large, complex organisation.
- Limited off-the-shelf customer contact software is much cheaper but will provide only limited customer management capability.
- Up to two-thirds of all CRM initiatives have failed to deliver the expected improvements in customer satisfaction levels, cost reductions or profit improvements.
- In spite of the cost and difficulties, almost all large firms, most medium-sized firms and many small firms have CRM systems because they believe in the fundamental idea that understanding their customers better will eventually pay dividends.



# Customer loyalty

Because many CRM programs aim to increase the loyalty of profitable customers, we should clarify exactly what loyalty is and, more importantly, what creates it.

## How to measure loyalty

In a general sense, we think of loyalty in terms of a bond or allegiance that holds, say, one person to another, or to a group, or even to a country. We know it exists, we recognise it when we see it, but we have no concrete means of actually measuring it. Similarly, loyalty in commercial relationships is also impossible to define exactly or to quantify. But we *can* measure certain indicators of loyalty. We can measure, or at least track, the customer behaviours that demonstrate loyalty, such as:

- a customer who continues to buy from us over an extended period of time or through changing circumstances—perhaps we were initially the most convenient supplier, now we have moved, or the customer has moved, but they continue to buy from us;
- a customer who continues to buy from us even when offered a better alternative by another firm, such as a cheaper price, an extra incentive, or some other benefit;
- a customer who continues to maintain a relationship with us even when we let them down by delivering the wrong product, keeping them waiting on the phone or failing on a promise of support service;
- a customer who refers us to their friends or their business colleagues.

## How to build loyalty

It would be great to know if these customer behaviours indicate loyalty in the sense of faithfulness or allegiance, or if they are simply the result of habit or resistance to change. The reality is that we can never really be sure. We can, however, take steps to maintain a customer's loyalty. Here are some suggestions.

## Manage customer expectations

Customers change suppliers when they feel let down; when their expectations are not met. And it is certainly true that customers have increased their expectations of suppliers in recent years. So, how do you ensure you don't lose customers this way?

Firstly, compare your methods of dealing with customers with your competitors'. Why? Because that's what your customers will do. Their expectations of you will in part be determined by their experiences with your competitors.

Secondly, research what customers expect from the various exchanges they will have with you. What do they expect from your direct mail, your customer service hotline, your website, your e-mail facility?

Thirdly, let customers know clearly what you can and cannot do. In the long run it is usually better (that is, more profitable) to reduce customer expectations, and then meet or exceed them in actual performance, than the other way around. You might gain fewer customers initially but you will keep them longer, and that is where the profit lies.

## Selling insight

How important is a promise? I buy wine from two separate catalogue marketers. Both exceed their delivery promise. The first guarantees delivery within five days, the second in seven to ten days, and they both achieve three to four days. I say to the second firm, 'Why don't you upgrade your delivery promise? It will make your offer sound more attractive and you will still meet or exceed customer expectations.' They reply, 'One of our guiding principles is that we will *never* fail to beat our promise, so we deliberately create a very conservative delivery expectation.'

I think they are robbing themselves of a CRM opportunity but I also understand their position.



## Be consistent across all contact points

Whether loyalty is conscious or habitual, customers seem to react very badly to significant variations in the service they receive. Increasingly, customers these days expect to be able to have exchanges with suppliers via several different contact methods: phone, fax/mail, e-mail, face-to-face. Your CRM system must ensure that all of these offer your *profitable* customers a consistent experience. Of course, there are differences between communicating in person and through automated e-mail responses, but the tone and effectiveness of each should reassure your customers that they are dealing with the same organisation and that the organisation values their business.

Note that we have highlighted *profitable* customers. You will not necessarily make the same *level* of service available to all customers. In fact, one way of avoiding costly exchanges with unprofitable customers is to restrict their service access. Your CRM system should have the capability to identify such customers and set the contact 'rules'; such as predetermined time limits on free phone service calls for customers at certain levels of value to the firm, or access rules and costs for online services.

## Manage privacy issues

Privacy is one of the hottest issues in CRM. CRM systems rely on accurate and often extensive information. But customers worry about the information you hold about them. What do you know? How do you use it? Who else has access to it? A related issue is the security of credit card and bank account details within CRM systems. This is particularly an issue where customers are dealing with you online. (Actually, credit card misuse is more prevalent in restaurants and shops than it is on the Internet but somehow we feel more vulnerable online.)

In Australia, the Ten Privacy Principles attached to the Regulations to the *Privacy Act 1988* set out firms' legal responsibilities in respect of the information they hold about customers. Figure 11.2 lists the Ten Privacy Principles. Here are some practical methods for reducing customers' concerns:

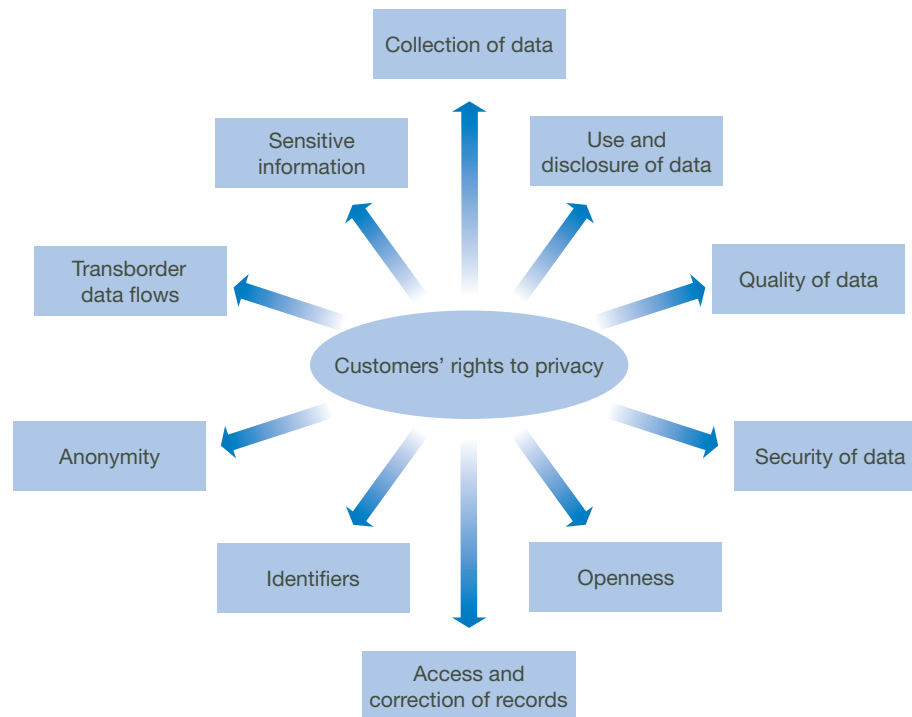
- Be open about how you use information. It is often what customers don't know that worries them, so be clear and straightforward. Most customers will be happy simply to know where they stand.
- Give customers easy ways to opt out. Customers worry less if they feel in control so allow plenty of opportunities for them to say, 'I'm happy for my information to

be used this way, but not *this* way.’ Ask them if they want to receive further offers from you or from related organisations and ask them *how* they would like these offers to be communicated (by phone, e-mail and so on).

- Allow customers to access and correct the information. Customers worry that you might have incorrect or biased information about them. Allow them easy access and ensure the CRM system is able to correct information easily.
- Provide an order-tracking facility. Customers worry about the money they have paid you and the products they have ordered. Being able to track the orders during the waiting time helps reassure customers that the exchange is proceeding.



**FIGURE 11.2**  
The Ten National  
Privacy Principles



## Focus on value

The main reason customers remain loyal to a supplier is to receive better value than they think they will receive elsewhere. For this, customers will put up with the inconveniences and annoyances that often come with being *managed* by a CRM program.

Of course, value is not a precise concept. Obviously, there is the price and quality combination that is the foundation of any offer, but value might also include dimensions of time, support service, reliability and so on. CRM involves trying to understand the value that profitable customers are looking for and then focusing the firm's attention on delivering that particular combination.

## Reduce switching attractiveness

You won't keep all customers happy all of the time. When problems do occur, and the aggrieved customers consider switching to another supplier, you want them to



think twice, or even three times! This is one of the aims of 'frequent flyer' schemes: a customer's baggage is lost by the airline, the customer swears never to fly with that airline again, but when he or she checks how many 'points' will be sacrificed the customer reconsiders.

Other methods of reducing the attractiveness of switching include contracts or agreements over an extended period, penalties for early withdrawal, unique elements of service or support not offered by others and, wherever possible, personalising the relationship. This last, the creation of a personal bond between the customer and a representative of the firm, is difficult and expensive, but should not be underestimated. Even quite tenuous links between two human beings can be stronger than many other elements of a loyalty scheme.



CRM systems can replace many other methods of collecting, storing and retrieving customer information. How much better could you function if all relevant data was available in one place?

## Developing a CRM strategy

To build a CRM strategy from the ground up requires a firm to work through a series of logically sequenced steps.

### Rationale

You need to decide exactly what you want to achieve from CRM and how your CRM system will 'fit in' with your core business.



It is also important that your CRM system does not *reduce* your capacity to serve your customers. It is ironic that some companies have implemented a CRM approach for various internal reasons, largely forgetting about their customers! CRM uses technology, but it should not be technology-driven. Creating satisfied and loyal customers should be the primary aim of modern businesses. If you cannot see how your new CRM system will help you to achieve this, then you should think again about whether to implement CRM. CRM technology can help you reduce costs, but without commensurate customer benefits those cost savings might be short-lived.

So, the key rationale question should be: in what specific ways do we want our CRM system to help us create satisfied, loyal customers? Examples might include easier communication, faster problem-solving and more accurate understanding of customers' situations and needs.

CRM must also be a whole-of-firm discipline, a total approach, rather than simply a new tactic or tool. You need to ask whether your current methods and styles of managing customer relationships can be integrated with a technology-based CRM system. CRM should assist your marketers, salespeople and customer service staff to interact with customers. On the other hand, we have already said that CRM sets the 'rules' for such interactions. There needs to be a consensus among all management and front-line staff as to how the system is to be implemented, otherwise you may finish up with the worst of both worlds: unsatisfied customers and front-line staff and few, if any, efficiency benefits.

## Customer analysis

Customer analysis involves the marketing practice of segmentation; that is, classifying customers into specific groups that will help you to better, and more profitably, meet their demands.

We have already seen that not all your customers have the same value to your firm, and so their relationships need to be managed differently. Using database technology your CRM system can help you develop cheaper, faster and more interactive relationships with your customers, but you need to build-in to the system the basis on which it should do this; in other words, what relationships do you want with which customers?

The step here, then, involves working through your current customer list and deciding what factors make a more, or less, valuable (that is, profitable) customer, how these factors might change over time and how they can be measured. You will need to take into account such variables as products purchased, frequency and quantity of purchases, method and style of purchasing, before- and after-sales service required, number and complexity of contacts required, delivery costs and so on. You might have an apparently valuable customer who buys in large quantities but buys low-profit-margin lines, uses up a lot of customer service time and is expensive to deliver to.

The critical aspects of current and future customer profitability will vary for every firm, but your segmentation must clearly determine and define these if your CRM system is to do its job.

## Customer value proposition

This step involves clarifying which specific elements of your offering are valued by your customers and the extent to which they value them. In other words, what is the

gap between the cost to your firm of providing each part of your offering and the price your customers are prepared to pay for it?

You need to remember here the fundamental marketing principle that customers do not buy products but, rather, the benefits those products can offer them. It may be, for example, that your physical product is hardly differentiated from your competitors', but you have a faster response time on servicing, you can provide a higher level of advice or you simply have a reputation for honesty and reliability. Each of these is part of your total offering, with the capacity to add value for your customers.

Of course, not all customers will assign the same value to the same elements of your offer. So, your CRM system needs to be developed with a clear picture of these value-adds and it must have the capacity to match each customer or customer group with the specific aspects they most value and are prepared to pay for. How do you establish what these aspects are? Many firms conduct regular customer needs studies; that is, questionnaires or focus groups aimed at finding out first-hand what customers want and value. Salespeople, of course, are also an excellent source for this type of information. Ideally, they can provide this information as part of their normal reporting function as they meet with prospects and current customers. Many firms these days also invite visitors to their websites to provide feedback on their needs and preferences.

## Contact strategy

This step involves deciding how you can best contact your customers and how they can best contact you. The main choices are face-to-face contact (at your place or theirs), phone contact, fax, direct mail, e-mail, Internet and, in some situations, SMS.

Here again, it is important to consider the customer first, rather than just the cost. Technological advances in recent years—specifically telecommunication and the Internet—have led many firms to make significant changes to their methods of customer contact.

The cost of an online exchange is a tiny fraction of the cost of a call centre exchange, which in turn is much cheaper than a face-to-face exchange. But a cost-efficient exchange may be false economy if it leaves your customer dissatisfied to the point of ending the relationship. And remember, different customers will prefer (that is, value) different methods of communication, depending on their specific needs from the contact.

Your CRM system needs the capacity to uncover the contact methods different customers prefer, for different purposes, and the profitability of those contacts for each customer. The system can then encourage customers to use those contact methods that are most profitable for your firm, while still allowing some flexibility. Dell Computers, for example, encourages small, infrequent purchasers to buy online. The Dell website is set up to help customers 'build' a computer to their own requirements, to answer their questions and help them make choices, and to pay for their purchases. Further, Dell, and many other suppliers including airlines, hotels and even movie theatres, offer discounts to customers who purchase this way rather than by phone.

The selection of customer contact methods is possibly the most controversial aspect and biggest test of CRM as a business strategy. Many firms, in fact entire

industries, such as banking, have been criticised for taking what some see as a heavy-handed approach to the methods of contact they direct their customers into. The firms have justified this on the basis of the cost savings that, they say, will eventually benefit their customers. Many customers are not convinced. The establishment of Bendigo Bank, for example, seems to have been a direct response to the major banks' quests to reduce the number of face-to-face contacts with their customers. It will be interesting to see over the next few years how this and other similar examples evolve.

To repeat the general principle, your CRM system development should take into account customer preferences, as well as cost, in its rules for customer contact.

## Distribution strategy

Distribution involves actually making your product available or accessible to your customers. This step is related to your customer contact strategy, and for services (as opposed to physical goods) will often be part of the same process.

It should be no surprise that the guiding principles here again should be customer preferences, flexibility and cost. The first decision is whether you will use intermediaries, such as distributors or retailers, or whether you will retain the entire distribution function in-house. Dell, for example, believes that only it has the product knowledge and service capability to keep its customers satisfied. IBM, on the other hand, uses intermediaries because it believes they can be closer, both geographically and personally, to potential buyers.

Here too, your distribution options will vary according to the nature of your good or service. For services that do not require physical contact between supplier and customer, the Internet has revolutionised 'delivery'. An airline's customers can book their flights and purchase their tickets online, then simply check-in at the airport at the scheduled time. The insurance, entertainment, accommodation and many other industries are also adopting this low-cost method of making their products available.

Many CRM systems recognise, however, that some purchasers feel more secure if they have a hard copy confirmation of their purchase and so they make this available. This may well be simply a phase until customers come to trust the system.

For physical goods, the choice is either delivery to the customer's location or pick-up from the supplier's outlet. Apart from cost, the main requirement of your CRM system is to provide real-time information to customers about the progress of their order. Amazon.com, for example, provides a link that allows purchasers to check, at any time, what stage of the distribution channel their order has reached.

To ensure the highest level of efficiency in distribution, your CRM system should also link the front-end customer ordering process to the back-end production, assembly or organisation of each customer's order. Dell's system, for example, automatically transfers a customer's order into orders on its suppliers, complete with just-in-time delivery instructions. This dramatically reduces Dell's need to hold inventories of parts and finished goods.

## Information strategy

This step involves deciding what customer information to collect and how to use it to enhance relationships with customers.

Firstly, a word of warning: this has been one of the biggest traps that many CRM development programs have fallen into. The explosion of available information from a variety of sources has often seduced firms into collecting information simply because they can. Worse, as the amount of information has grown, so have the CRM systems, simply to 'keep up', regardless of whether they actually help the firm with its customer relationships.

A related problem has been that many firms have stored their customer information in several unconnected databases. One major Australian bank, for example, spent millions of dollars trying to bring together the masses of information it held by account number and name, hoping that this would help it to better understand the customers who held the accounts. It didn't. Why? Because customers are more than a series of cheque or savings or loan or credit card accounts. Bank customers are individuals or businesses with behaviour patterns, preferences and future expectations that cannot be discerned simply from their accounts.

The correct way to approach this step is to build a coordinated *corporate memory* of each customer. In practical terms this usually means developing a customer-focused data warehouse that can extract information from several databases containing information relevant to individual customers. In the bank example above, for example, an investment adviser preparing for a meeting with a customer can use the data warehouse and its linked software to extract information about the customer from, say, various account-based database sources, plus details of previous dealings with the bank, expressed preferences, responses to previous offers and so on.

The test for this step in developing your CRM system is to decide whether any particular piece of information will really help you to better, and more profitably, meet your customers' needs. Given the privacy concerns that many people have about CRM systems, this approach also allows you to confidently and openly show your customers the information you are holding and to explain how this information can help you to help them.



If this couple are regular customers, this hotel's CRM system should assist reception staff to greet them and meet their needs. What information about the guests might be useful?



## Measurement

The final step in CRM system planning is to include measurements. Is the system achieving its aims? Is it improving your customers' satisfaction? Is it improving your firm's performance and profits?

Here are some of the strategic, customer and operational factors your CRM system might be set up to measure:

- Does the system help the organisation to achieve its overall corporate mission and positioning?
- How much of the information produced by the system is used in developing strategy?
- Has the CRM system improved customer satisfaction levels?
- Has the system improved profitable customer retention and lifetime value?
- Has the system reduced customer acquisition costs?
- Has the system reduced customer contact and servicing costs?
- Has profitability by customer segment been improved?
- Has the system improved levels of staff motivation, productivity and performance?



## Key terms and concepts

Benefits and limitations of CRM (p. xx)

Contact management systems (p. xx)

Contact strategy (p. xx)

CRM requirements

data analysis (p. xx)

data storage (p. xx)

fast inquiry response (p. xx)

sales and marketing activities (p. xx)

CRM systems (p. xx)

Customer analysis (p. xx)

Customer loyalty

consistency (p. xx)

focus on value (p. xx)

managing expectations (p. xx)

privacy issues (p. xx)

reduce switching attractiveness (p. xx)

Customer relationships (p. xx)

Customer value proposition (p. xx)

Distribution strategy (p. xx)

Information strategy (p. xx)

Integrated CRM systems (p. xx)

Levels (tiers) of CRM

cost (p. xx)

flexibility (p. xx)

functionality (p. xx)

scalability (p. xx)

Measurement of CRM (p. xx)

National Privacy Principles (p. xx)

Personal information managers (p. xx)

Principles of CRM (p. xx)

Sales force automation (p. xx)



## Review questions

1. Explain the term *relationship* as it is used in CRM, highlighting the possible objectives and options of both parties in the relationship.
2. Define CRM and explain the three critical elements in a modern CRM system.
3. List and explain the operational requirements of a modern CRM system.
4. The benefits of CRM are said to flow from reduced operating costs and improved customer predictability. Explain how these can benefit a firm with an effective CRM system.
5. Define customer loyalty and outline the main ways of encouraging loyalty in customers.
6. Outline the steps a firm should take to develop an effective CRM system.

## Selling application exercise

CRM systems rely on data on customers—lots of it. Contact an organisation that will be holding data on you (your bank, credit card supplier, mobile phone or Internet service provider etc.). Ask the staff what procedures you need to go through to establish exactly what data the organisation is holding relating to you. (Note: Under the Privacy Act Regulations (National Privacy Principle: Openness) organisations are obliged to reveal such information.)

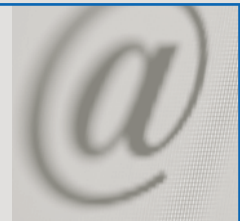
## Group activity

Divide the class into small groups. Each group assumes it wants to install a CRM system to help its firm manage its dealings with customers. Each group then chooses an organisation it is familiar with and prepares a written brief for a supplier of CRM systems. The brief will need to include:

- a brief outline of the firm and its products;
- an outline of the customer base—numbers, types, purchase behaviours etc.;
- details on which departments within the firm will be using the system—sales, marketing, customer service etc.;
- a list of the *specific* functions the firm needs the CRM system to be able to do—records maintenance, sales team support, contacts by e-mail, direct marketing, report preparation and analysis etc.

## Browse the Web

Given the volatile history of CRM over the past decade, it is not surprising that academics, consultants, practitioners and organisations have all got something to say about this business approach. Use the search words 'customer relationship management' to access a wealth of interesting articles, debates and studies.







# SELLING SCENARIO 11

‘This is Goodchild’s Pharmacy, not amazon.com’, laughed Paul Goodchild, then he turned away as he realised he had offended his son, Steven. ‘Look, Steve, I know you’re keen for me to modernise and do more marketing and all that, but really, how do I know I’ll get a return for what you want me to outlay?’

This was not a new argument. Since completing his marketing studies, Steven had been convinced the family’s large suburban pharmacy would be much better off if his father would just listen to his advice. After all, even his Dad was prepared to admit that business was tougher than it used to be, what with supermarkets and pressures on prices and increasing wage costs.

‘Look, Dad’, Steven persisted. ‘You’re on first name terms with lots of your customers, but there are many more you don’t know. And even your regulars probably patronise the supermarket for lines you could sell them. CRM systems like this one can help you identify your customers and build lots of information about them, what they want and don’t want, how much they’re buying from you, what else you might be able to offer them, and lots more. Then you can use the system to contact your customers with offers and new lines, maybe even run some specials for them when sales are a bit flat.’

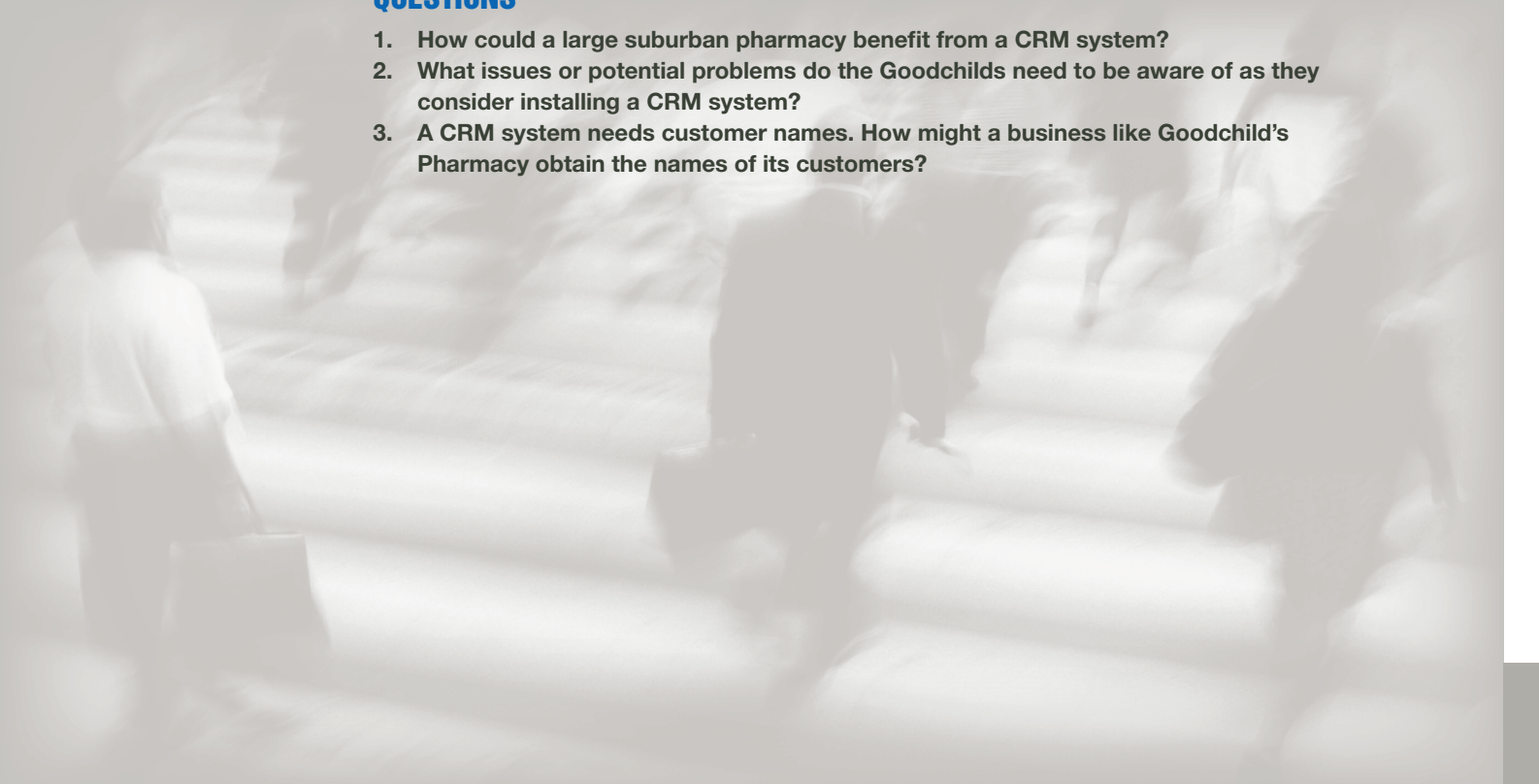
Paul turned sharply back towards his son.

‘Yes, like right now, Dad’, Steven met his father’s stare. ‘Why don’t you at least let me run through it with you, then maybe have a chat to a couple of suppliers?’

Steven’s father sighed. ‘GST, OH&S, now CRM’, he grumbled. ‘I’m being buried by initials. All right, let’s see how your marvellous software can help us develop a better relationship with old Mrs Lightfoot and all my other customers.’

For a moment Steven was taken aback by his father’s sudden change of heart. ‘It’s not just about the software, Dad’, he said, hoping he really was on the right track.

## QUESTIONS

1. How could a large suburban pharmacy benefit from a CRM system?
  2. What issues or potential problems do the Goodchilds need to be aware of as they consider installing a CRM system?
  3. A CRM system needs customer names. How might a business like Goodchild’s Pharmacy obtain the names of its customers?
- 

# Implementing customer contact programs

This appendix provides you with the opportunity to acquire practical, hands-on knowledge and skill in CRM through a series of activities using a market-leading CRM software program, ACT! 6.

## The four tiers of CRM

As we have already indicated, the term CRM is used to cover a variety of systems for managing an organisation's relationships with its customers. One way of understanding the different meanings given to the general term 'CRM' is to examine the software technologies employed to 'drive' organisations' CRM activities. In fact, CRM software systems can be thought of as existing at four reasonably distinct levels or tiers. So, organisations operating at the various levels will speak of 'our CRM system' even though the systems will all differ quite significantly.

Figure 11A.1 outlines these four product tiers and the leading suppliers of software in each tier.

Note that at each successively higher level the software offers improved functionality, scalability and flexibility, and costs more to develop, install and operate. Let's look at each of these.

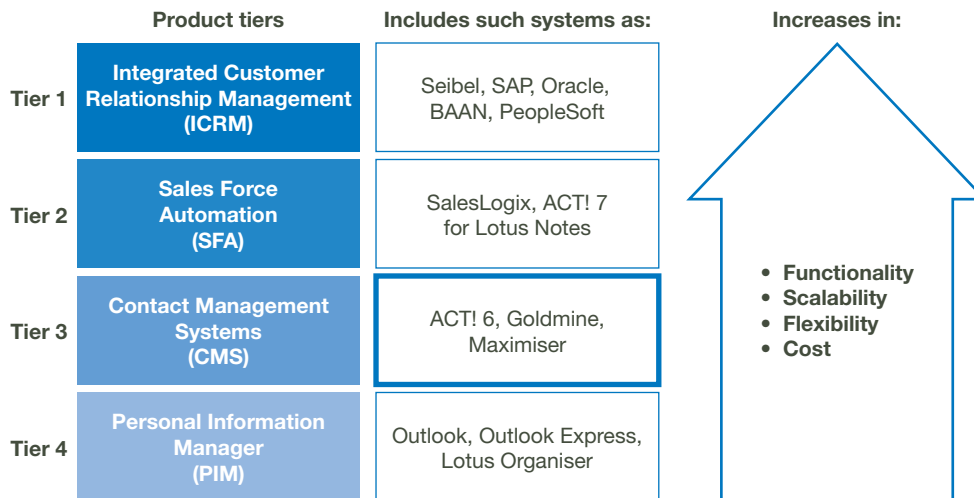
## Functionality

Lower-level systems are generally limited to organising and scheduling customer contacts, while higher-level systems allow for additional functions such as identifying sales opportunities, complex data analysis, and integration with back-office applications, such as accounting systems, warehousing and inventory systems, human resource systems, and many others.





**FIGURE 11A.1**  
CRM product levels



## Scalability

There are three main measures of scalability for CRM systems:

1. the number of users (or staff) that can access the systems at any one time, ranging from just a few up to several thousand;
2. the number of individual records that the system can hold (from thousands in Personal Information Manager (PIM) systems to millions in Integrated Customer Relationship Management (ICRM));
3. the number of transactions per record that the system can cater to—transactions might include the number of notes you wish to write or product sales you wish to record against each customer.

## Flexibility

Lower level systems tend to be purchased ‘off-the-shelf’ and therefore allow for only very basic customisation; however, these limited changes can be made quickly and easily. Higher level systems, on the other hand, allow for far more advanced customising to an individual firm’s specific applications and needs. All large organisations, such as banks, airlines, telecommunications firms and so on, need CRM systems that are designed to suit exactly their industry and products, and the nature of the relationships they have with their customers. Of course, small- and medium-sized firms would like this customisation too, but are unlikely to be able to justify the costs of achieving it.

## Cost

Higher-level systems cost more—a lot more! As a rule of thumb, each time you move up a tier the cost is multiplied by a factor of ten. For example, PIM software might cost between \$20 and \$50 per user, whereas Contact Management Systems typically cost between \$200 and \$500, and so on. It is not unheard of for Integrated Customer Relationship Management projects to require an investment of several million dollars in software.

It is worth noting here that the software is actually only part of the investment required for CRM projects, and typically the smaller part. The various services involved in supporting the software often constitute the largest part of the investment. These services include requirements evaluation, customisation, installation, training and technical support. For every dollar invested in CRM software, organisations spend approximately three dollars on CRM services.

## ACT! 6

As this text is intended primarily for salespeople, we will focus in this appendix on contact management systems. Due to their ease of use, these systems are those most commonly used by field sales reps and managers of small to medium enterprises (SMEs). With more than 70 per cent of the market share, ACT! 6 dominates the world market for this level of CRM software. Throughout the remainder of this appendix, we will use ACT! 6 to help you develop a true appreciation of CRM systems of this type.

In fact, by using your personalised access password (see page xxx) to download the ACT! 6 demonstration software from <[www.thecontactgroup.com/Peter\\_rix](http://www.thecontactgroup.com/Peter_rix)> you will be able to work through practical, hands-on activities and quickly become proficient in the use of this important modern sales tool.

This free trial is available for thirty days from the date of your log-on. Please check with your teacher/instructor for the ideal time for you to use the trial.

Before we launch into the ‘nuts and bolts’ of ACT! 6, however, let’s get a firm understanding of what CRM means in a day-to-day context at this level. We have defined CRM as:

1. a business concept that recognises the need to treat each customer differently;
2. a management approach for systematically managing the relationships a company has with its customers.

Quite simply put, if a company manages to make its customers feel special, those customers will choose to spend more and more money with that company, rather than switch to one of the company’s competitors who may offer better goods or services. We’ve all experienced this phenomenon in everyday social contexts. In fact, the basis of any successful friendship or relationship is the ability of both parties to make the other feel special. A significant factor in attaining this result is knowing and remembering all those ‘little things’ about that person. How special does a husband or wife feel if their birthday is forgotten by their partner? What about simply forgetting the most basic of details, like a person’s name at a party? Customers are people too, and so the rules are exactly the same. The difference is that while in social circumstances the implications can be negligible, in the business world getting the small details correct is quite often the difference between winning and losing a sale, or between keeping and losing a customer!

So, what type of information would you like to remember about your customers to make them feel special and thereby retain their loyalty (and their budget) well into



the future? Figure 11A.2 sets out the type of information that all businesses should remember (that is, store) about their customers to better manage their relationship with each one.

**FIGURE 11A.2**  
Useful customer  
information



## Field information

Name, address, phone number, fax number, e-mail address and other such quantifiable information is typically stored in a CRM system in what are called ‘fields’. These fields are completely customisable to suit whatever information your particular business needs to capture about your customers.

## Notes and history

This information is used to store a history of everything that has happened with your customers; for example, previous meetings or agreements. Before you take your customers into the future, it’s always good practice to know where they have come from.

## Activities

As with any calendar, this information lets you keep up-to-date on what is ‘coming up’ with your customers, such as your next meeting, when a proposal is due, or when you should be making your next sales follow-up call. Remember our section on time management in Chapter 6? With this system, nothing gets forgotten.

## Sales opportunities

Nothing tells you more about what customers will want to buy from you in the future than what they have bought from you in the past. The sales opportunity feature allows you to keep a log of what customers have bought, when they bought it, how much they bought, what price they paid and so on.

## Groups

Sometimes, people cannot be dealt with as individuals but, rather, need to be considered as part of a team (such as a buying group or a large organisation). The groups feature allows you to see what is happening with the ‘account’ as a whole, rather than having to search through all of the individuals within that account.

## Documents

What about all of the documents that exist between you and your customer: letters, proposals, spreadsheets, PowerPoint presentations and so on? Where better to keep them but on that person’s record in the CRM system? You can simply attach the documents to that person’s record and access them whenever you need them.

## Letters, faxes and e-mails

Whether you wish to send your customer a letter, a fax or an e-mail, you can send them directly from ACT! 6. The system will then automatically create a history of the communication in the notes and history section as a permanent record.

## Reports

There are countless reports with ACT! 6—more than 40 customisable reports in all, from phone lists to call activities to sales by product or customer type.

## Hands-on experience with ACT! 6

Now that you have a basic understanding of CRM systems at this level, you are ready to get some real hands-on experience. Given that ACT! 6 is used by more sales teams around the world than any other CRM system, developing a familiarity with the system might be just the career boost you have been looking for.

To get started, simply go to [www.thecontactgroup.com](http://www.thecontactgroup.com) and download your free trial copy of ACT! 6 and the Training Guide Book. Follow the prompts and you’re off!

This free trial is available for thirty days from the date of your log-on. Please check with your teacher/instructor for the ideal time for you to use the trial.