

# Fundamentals of CRM

Gülser Köksal      Özge Uncu  
METU  
Ankara

© 2004-2010

## Objectives

**To understand:**

- ▶ **basics of Customer Relationship Management**
- ▶ **value of CRM**
- ▶ **basic relevant marketing approaches and evolutions of them**
- ▶ **activities involved in CRM**
- ▶ **CRM for e-business**

# Contents

- ▶ Definition of CRM
- ▶ Customer retention and profit
- ▶ Value of CRM
- ▶ Marketing and its evolution
- ▶ Relationship marketing
- ▶ CRM components and activities
- ▶ E-CRM



# What is CRM?

**‘Customer Relationship Management is an enterprise approach to understanding and influencing customer behavior through meaningful communications in order to improve customer acquisition, customer retention, customer loyalty and customer profitability.’**

*Source: “Accelerating Customer Relationships”, Ronald S. Swift, Prentice Hall - 2001*

**‘CRM integrates *people, process and technology* to maximize relationships with all customers. CRM is a *comprehensive approach* that provides *seamless coordination* between all customer-facing functions. CRM increasingly *leverages the Internet*.’**

*Source: Barton Goldenberg, ISM Inc.*



## Customers

**CONSUMER**

**BUSINESS  
TO  
BUSINESS**

**CHANNEL  
DISTRIBUTOR  
FRANCHISEE**

**INTERNAL  
CUSTOMER**

Source :  
« accelerating customer relationships » , p 4



## Effects of Customer Retention on Profit

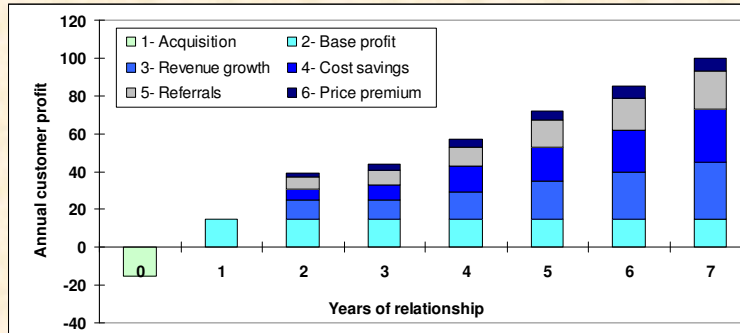
- 80% of an enterprise's profits come from 20% of its customers
- Retention of actual customers costs 5 times less than acquisition of new customers
- By increasing the customer retention rate by 5%, profits could increase by 85%
- A typical dissatisfied customer will tell 8-10 people
- 70% of the complaining customers will remain loyal if problem is solved



## Effects of Customer Retention on Profit (cont'd)

"Some companies can boost profits by almost 100% by retaining just 5% more of their customers"

Reicheld & Sasser, *Harvard Business Review*



**Customer Life Time Value (LTV) = Base profit+Revenue growth+Cost savings+referrals+price premium**



Source :

CRM returns on investment over time, *Accelerating Customer Relationships*, p 43  
(adapted from Frederick Reicheld, *The Loyalty effect*)



## Value Created by CRM

- Increase sales revenues : 10% for 3 years
- Increase win rates : 5% for 3 years
- Increase margins : 1% for 3 years
- Improve customer satisfaction : 3% for 3 years
- Decrease sales/marketing costs : 10% for 3 years



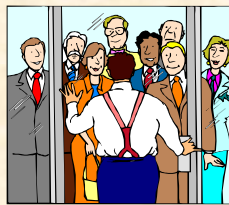
Source : Barton Goldenberg president of ISM in CRM : What is it all about



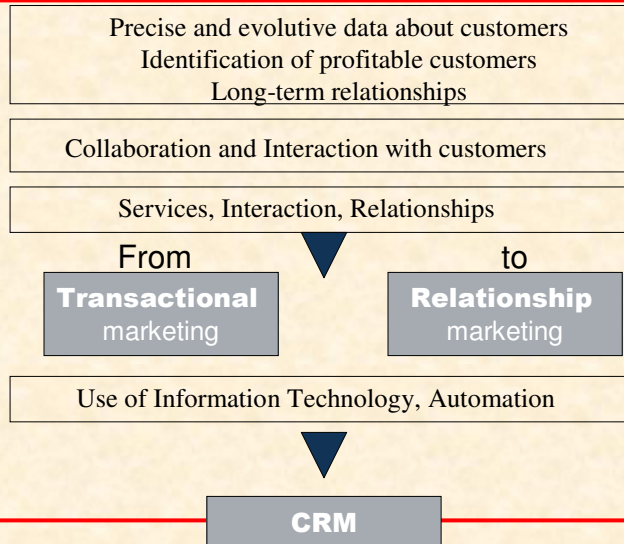
# What is Marketing?

“The process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organization goals.”

**American Marketing Association**



## Evolutions of Marketing: Synthesis



# Relationship Marketing

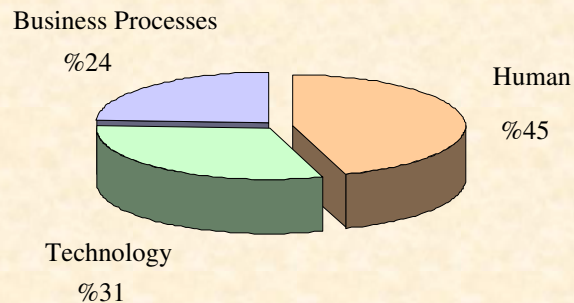
“Consumer RM seeks to establish long-term, committed, trusting, and cooperative relationships with customers, characterised by openness, genuine concern for the delivery of high-quality goods and services, responsiveness to customer suggestions, fair dealing and (crucially) the willingness to sacrifice short-term advantage for long-term gain. Suppliers attempt to create and strengthen lasting bonds with their customers, they shift from attempting to maximise profits on each individual transaction towards the establishment of solid, dependable, and above all, permanent relationships with the people they serve.”



Source : “Relationship marketing defined? An examination of current relationship marketing definitions”, Marketing intelligence and planning 17/1 (1999) pp 13-20.



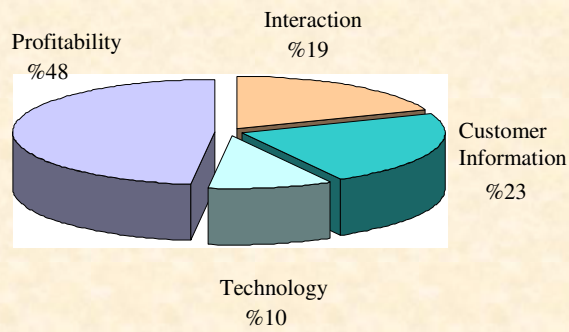
# CRM Components



Source: CRM Institute of Turkey, Survey 2001



## CRM Triggers in Turkey



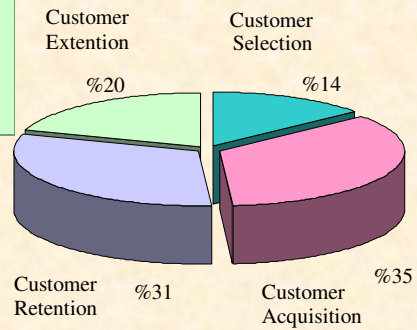
Source: CRM Institute of Turkey, Survey 2001



## CRM Activities

1. *Customer Selection*
2. *Customer Acquisition*
3. *Customer Retention*
4. *Customer Extension*

Don Peppers & Martha Rogers



Source: CRM Institute of Turkey, Survey 2001



## CRM Activities

### **Customer Selection :**

- Segmentation
- Campaign Modelling
- Brand Management
- New Products

### **Customer Acquisition:**

- Order Processing
- Demand Analysis
- Logistics Management
- Complaint Management

### **Customer Retention :**

- Pioneering
- Requirement Analysis

### **Customer Extension:**

- Analytical CRM
- Cross Sales Campaigns



## Suggestions for Increasing Value of Customer Base

- ▶ **Acquiring** profitable customers
- ▶ **Retaining** profitable customers longer
- ▶ **Eliminating** unprofitable customers
- ▶ **Up-selling** additional products
- ▶ **Cross-selling** other products
- ▶ **Referral** and word-of-mouth benefits
- ▶ **Reducing** the cost of services for customers

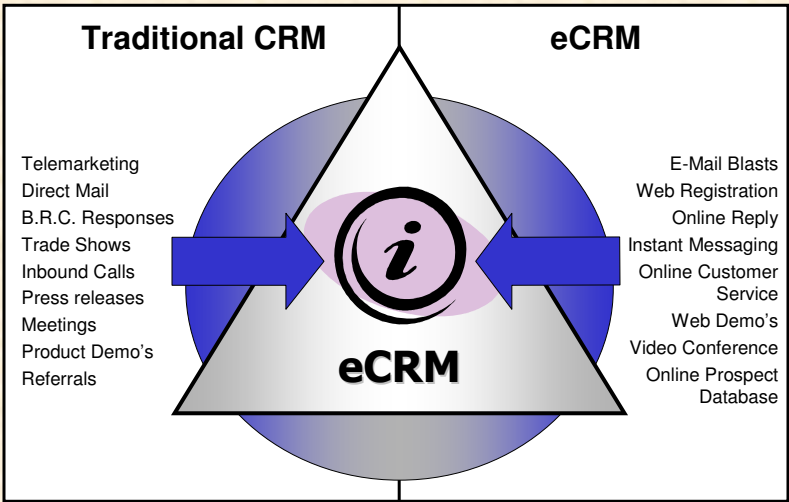


Source : Peppers&Rogers Group, 2001

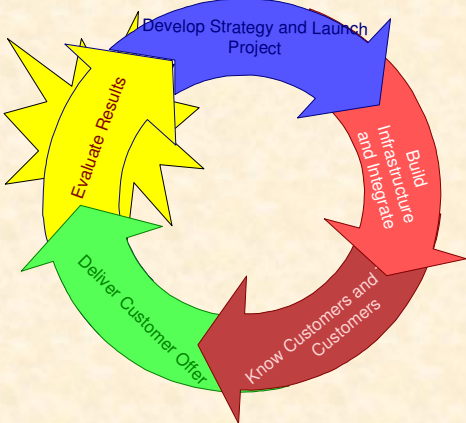




# CRM versus E- CRM



# CRM Project Lifecycle



# Delivering CRM

## Objectives

**To understand:**

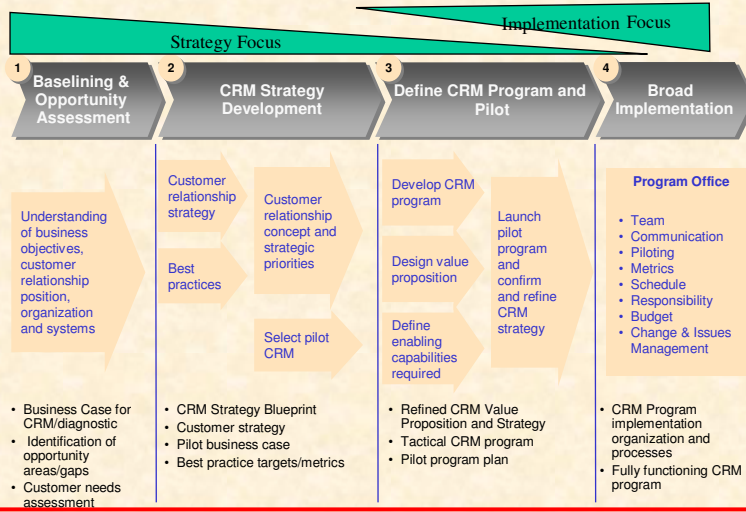
- ▶ **the CRM approach**
- ▶ **requirements for successful CRM applications, obstacles and enablers of CRM**
- ▶ **how CRM system works**

# Contents

- ▶ CRM approach
- ▶ Success factors
- ▶ Main facets of CRM
- ▶ Operational CRM
- ▶ Analytical CRM



# CRM Approach



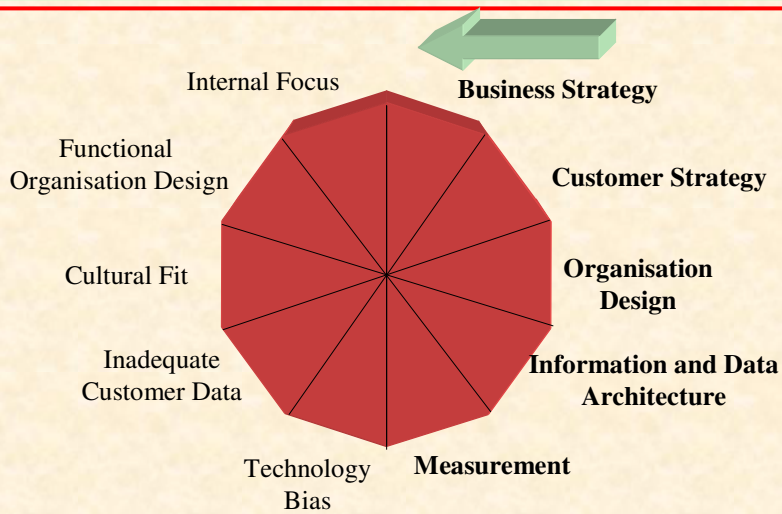
# CRM Success Factors

- 1) Sales process is well-defined
- 2) Commitment from senior mgmt., sales mgmt., and sales reps./channel partners
- 3) Automate activities to close more sales and remove barriers
- 4) Right vendor(s) or external services provider(s) selection
- 5) Emphasize salespeople and customers, not management
- 6) Extended support to handle all time zones, users and work styles
- 7) Remote communication for field sales
- 8) Keep it simple, not too data-intensive
- 9) Train based on selling scenarios
- 10) Technology is maintainable and extendable

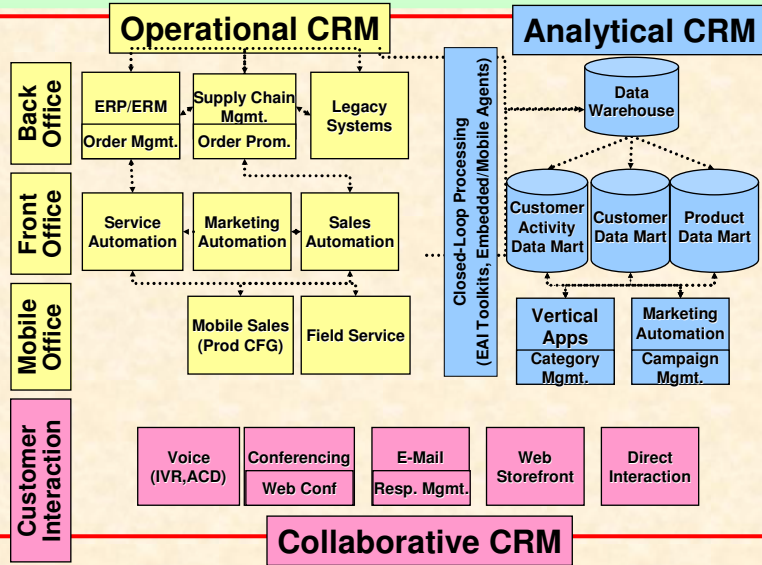
Source: Gartner Group



# CRM: Obstacles and Enablers

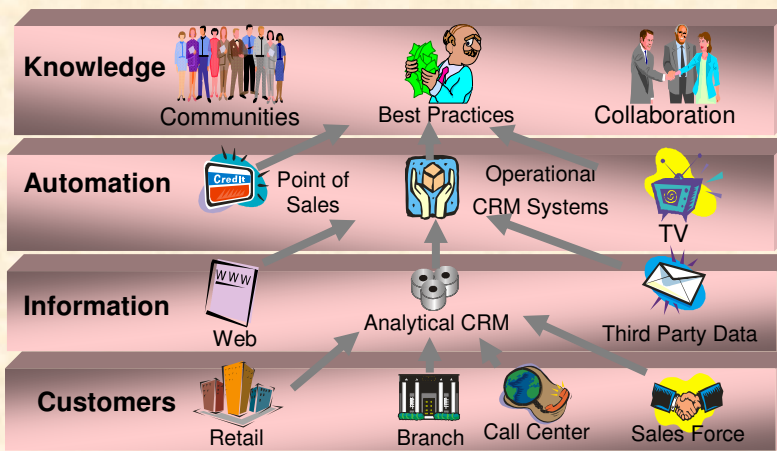


# Main Facets of CRM





Source: "Beyond e: 12 Ways Technology Is Transforming Sales & Marketing Strategy"

# CRM Knowledge Generation



## Operational CRM

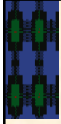





<div style="background-color: #cccccc; padding: 5px; text-align: center; font-weight: bold; margin-bottom: 10px;">MARKETING AUTOMATION</div>	<p>➔ designed to get the right mix of the company's products and services in front of each customer at the right time</p>
<div style="background-color: #cccccc; padding: 5px; text-align: center; font-weight: bold; margin-bottom: 10px;">SALES FORCE AUTOMATION</div>	<p>➔ Collaborative tools that enable all parties to the transaction to interact with one another</p>
<div style="background-color: #cccccc; padding: 5px; text-align: center; font-weight: bold; margin-bottom: 10px;">CUSTOMER SERVICE AND SELF-SERVICE</div>	<p>➔ Serving existing customer base through problem resolution systems, workflow automation and field service dispatch systems</p> <p>➔ Capabilities that can be directly invoked by the customer on the internet via PC and wireless devices</p>










## Operational CRM: Marketing Automation Processes

- **Customer List Management**
  - Generating and managing list of customers, usually by using simple filtering criteria or filtering criteria discovered through the use of data-mining analytics.
- **Campaign Management**
  - Delivering personalized, relevant offers across any channel phone, e-mail, web, service applications, e-commerce applications
- **Event Monitoring**
  - Based on prospect responses
- **Prospect Selection**
  - Finding the most promising customers or customer groups




	<h2 style="margin: 0;">Operational CRM: Sales Force Automation Processes</h2>	
	<ul style="list-style-type: none"> <li>▶ <b>Sales Management Process</b> <ul style="list-style-type: none"> <li>▶ Account information and geographical territory</li> </ul> </li> <li>▶ <b>Contact Management</b> <ul style="list-style-type: none"> <li>▶ Identifying and facilitating contacts with new prospects for the sales force</li> </ul> </li> <li>▶ <b>Lead Capture</b> <ul style="list-style-type: none"> <li>▶ Includes collecting names of promising individuals and companies for future campaigns</li> </ul> </li> <li>▶ <b>Customer Information Sharing</b> <ul style="list-style-type: none"> <li>▶ Across sales teams and geographical regions</li> </ul> </li> <li>▶ <b>Opportunity Management</b> <ul style="list-style-type: none"> <li>▶ Targeting the likeliest opportunities for sales and the highest margin sales when used with sales tracking and forecasting.</li> </ul> </li> </ul>	
		

	<h2 style="margin: 0;">Operational CRM: Sales Force Automation Processes</h2>	
	<ul style="list-style-type: none"> <li>▶ <b>Sales Analytics</b> <ul style="list-style-type: none"> <li>▶ Enables better customer targeting and cross product selling</li> </ul> </li> <li>▶ <b>Generation of Customer Proposals and Quotes</b> <ul style="list-style-type: none"> <li>▶ tailored to specific requirements and needs</li> </ul> </li> <li>▶ <b>Product Configuration</b> <ul style="list-style-type: none"> <li>▶ Allows alternatives of configuration to be explored</li> </ul> </li> <li>▶ <b>Flexible Pricing</b> <ul style="list-style-type: none"> <li>▶ Accommodates promotional pricing, bundling of deals...</li> </ul> </li> </ul>	
		

## Operational CRM: Interactive Selling Systems

▶ Applications that allow customers and businesses to utilize self-service capabilities to make purchases without a sales person

▶ ISS usage modes include

▶ Customer self-service e-commerce – customers navigate the ISS on the Web, requesting product information and completing transaction without assistance from the seller

▶ Mediated customer service – sales representatives and customers share control of the ISS over a shared browser session.



## CRM and e-CRM: Operational Applications

### CRM

MARKETING  
AUTOMATION



### e-CRM

MARKETING  
AUTOMATION

SALES FORCE  
AUTOMATION



SELF SALES

CUSTOMER  
SERVICE  
AND  
SELF-SERVICE



SELF SERVICES





# Analytical CRM

## Objectives

**To understand:**

- ▶ **Motivation for employing analytical CRM**
- ▶ **What Data Mining (DM) is**
- ▶ **The basics of DM project lifecycle and DM process**
- ▶ **The basics of DM tasks and methods**
- ▶ **How DM can be used in CRM**

## Contents

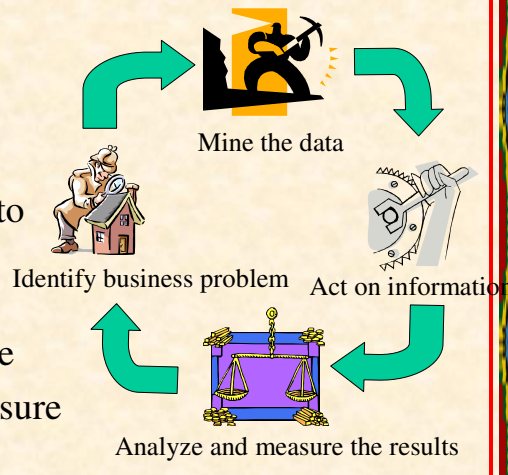
- ▶ Motivation of analytical CRM
- ▶ Definition of Data Mining
- ▶ Data Mining Project Lifecycle
- ▶ Basic Data Mining Tasks
- ▶ Applications of DM in CRM
- ▶ Data Mining Techniques
- ▶ Case Study: Propensity-to-buy model

## Facts&Figures on Data Explosion

- World's population in 1900's 1.6 billion  
Today: 6 billion
- Library of Congress collected 17 million books up to today. Assume size of a book is 1MB. 17 terabytes
- Size of DB of big Corps in 1950's <10 MB  
Today: UPS's package level DB 17 terabyte  
i.e., DB of a company = Books collected in 5000 years → **DATA EXPLOSION**

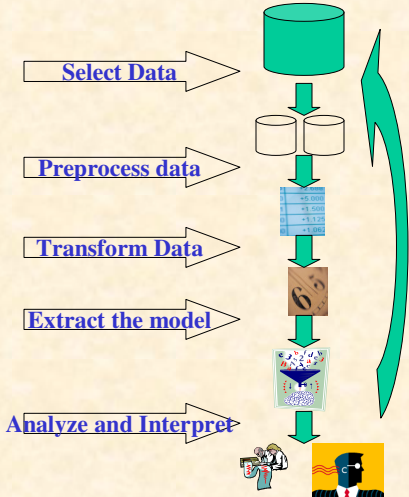
# Data Mining Project Cycle

1. Identify business opportunity
2. Use data mining techniques to transform data into actionable knowledge
3. Act on knowledge
4. Analyze and measure the results



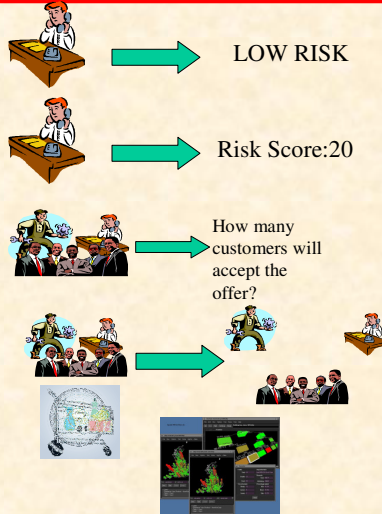
# Data Mining Process

1. Select the data (data)
2. Preprocess the data (Information [when, where, who...])
3. Transform the data (Information [when, where, who...])
4. Extract patterns & rules (Knowledge [how?])
5. Analyze and Interpret the knowledge (Understanding[why?] and Wisdom)



## Basic tasks performed in DM

- **Classification:** examines the features of new object and assign it to a predefined class
- **Estimation:** examines the features of new object and assign it to a value of continuous variable
- **Prediction:** Close to classification&estimation. Wait and see!! (note:I don't agree)
- **Clustering:** segments a diverse group into similar subgroups
- **Affinity Grouping:** identify which things go together
- **Visualization:** Visually display patterns in a complicated DB



## Applications of Data Mining

- **Banking:** predictive and risk assessment models for the financial services industry, including credit and insurance scoring algorithms
- **Biotechnology and pharmaceutical industry:** building special data mining and visualization tools for pharmaceutical and biotech companies, focused on genomics/functional genomics and drug discovery, tools for the analysis of genetic sequence data
- **Fraud detection:** detecting fraud and predicting typical card usage at merchant location, internet credit card fraud detection and risk management service for online merchants, uncovering network intrusions, detecting bad debt and application fraud
- **Human resources:** matching employers needs and job applicant's references. Allows employers to select job applicants who are best suited to the company's needs.
- **Stock and investment analysis and prediction:** predicting stocks changes, optimizing trading strategies

....

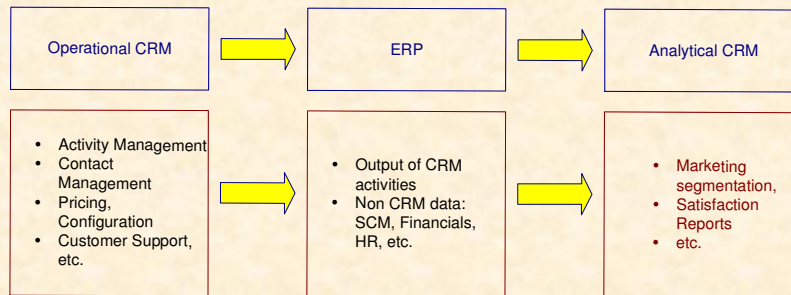
## Future Trends in CRM

## CRM and eBusiness

- eBiz original goal was to acquire customer at any cost (Questionable goal – has to be customer-centric)
- eBiz create a new channel for CRM (this channel can work with existing channels)
  - Buy online, return at store
- Tons and tons of data
  - Not only buy, return transactions, but also behavioral patterns

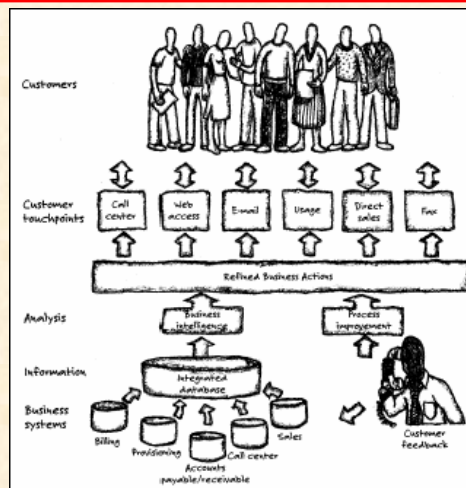
# CRM and ERP

- ERP is the point of real data integration



# Goal of ERP – CRM perspective

- Integrate operational and analytical CRM



## Technology and CRM

- Technology greatly enhances CRM processes.
  - ⇒ Incoming toll-free numbers, electronic kiosks, FAX-on-demand, voice mail, and automated telephone routing = examples of technology that assist in moving customers through the life cycle.
- The Internet is the first fully interactive + individually addressable low cost multimedia channel.
  - ⇒ Cookies, Web site logs, bar code scanners help to collect information about consumer behavior and characteristics.
  - ⇒ Databases and data warehouses store and distribute these data from online and offline touch points.
  - ⇒ These information allow to develop marketing mixes that better meet individual needs.
- Important tools that aid firms in customizing products to groups of customers or individuals include “push” strategies that reside on the company’s Web and e-mail servers, and “pull” strategies that are initiated by Internet users.

\*taken from e-Marketing, J. Strauss, A.I. El-Ansary, R. Frost, 3ed, 2003

