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CRM: Technology spices up old flavours

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Many CEOs consider it fashionable to say they have initiated CRM (customer relationship management) programmes in their organisations. Yet, there is considerable confusion as to what it is. Companies that are engaged in some form of direct marketing or database marketing think they have a CRM programme going. Others who have started some kind of customer satisfaction measurement also believe that they are in the CRM game. Any company that has a special club for its dealers or customers too claims to use CRM. Many others consider CRM a new promotional or selling tool.

So, what is CRM? Why is there a sudden revival of interest in the concept of customer relationships? Is it any different from traditional marketing?

The interest in relationship marketing is not new to business. After all, CRM is about customer retention and leverage. Marketing textbooks have always talked about customer loyalty and there have been a number of studies done on customer retention.

In the early 1990s, the concept of relationship marketing was formally introduced into services marketing literature. Financial services institutions, airlines and other service providers found it profitable to retain and reward existing customers rather than run after new customers. It was established that building closer relationships with customers resulted in better returns to companies through the following means:

-Increased use of company services by loyal customers

-Charging of price premiums for customised services

-Referrals by satisfied customers that brought in new customers.

The concepts developed for services marketing also found application in the case of industrial and consumer products. This led to the debate as to whether marketing should be rewritten with the new relationship paradigm or should continue to rest on the traditional 4Ps -- Product, Price, Place and Promotion -- approach.

The 4P approach is strongly grounded in the industrial age where goods were mass-produced, mass-distributed and mass-communicated using mass media. The whole concept revolves around the uniform needs of a large number of customers who can be identified as a target segment. The concept then tries to satisfy the needs of the identified target customers using the 4Ps. This worked very well during the last half a century or so.

However, with the advent of the Information era, it has become possible to target customers on a one-to-one basis and satisfy their individual needs. For instance, clothes such as jeans and bikinis, and even items such as cars, can be produced according to custom designs and manufactured to individual specifications thanks to flexible manufacturing facilities.

Basically, flexible manufacturing enables companies to increase their variety and design without much additional cost. Even supermarkets have started logging purchase information of individual customers and have started customised communication targeted at individual customers.

These new technological developments have made it possible for companies to understand individual customer needs and ensure satisfy them on a one-to-one basis. This has led to a revival of interest in the concept of customer relationship management. What was originally known as relationship marketing is now repositioned as CRM.

Though the basic concepts were developed and propagated by researchers such as Gronroos, Payne, Berry and Jagdish Sheth, they did not gain much acceptance among the practitioners until the software vendors started promoting CRM in a big way. A number of companies such as Siebel, Oracle, Peoplesoft, IBM and many others are promoting CRM concepts through their efforts.

Another factor contributing to the popularity of this concept is the convergence of telecom technology and information technology, which has made it possible to enhance customer interaction. Most companies practising CRM set up call centres, which are able to provide customised advice and services to individual customers. This enables companies to have a continuous ongoing relationship with customers by enhancing the organisational memory about customers' interactions with the company. As in the case of Pizza Hut, which remembers the items ordered for home delivery on previous occasions, apart from the names and addresses of individual customers, thus paving the way for an ongoing relationship.

From this, it is evident how combining the basic relationship concept with modern technology has resulted in the development of CRM. This is now universally applicable across all products and services. However, most companies really use bits and pieces of the CRM concepts.

CRM is not old wine in a new bottle. It is a whole new way of doing business. It is neither a new promotional tool nor a selling technique. There has to be a change in the mindset of everyone in the organisation, from the CEO down to employees at the lowest level. The whole organisation has to become customer-centric to implement CRM.

The concept is very different from the 4Ps approach, which believes in constantly acquiring new customers and satisfying the particular need of the targeted customer. CRM seeks to retain the existing customers and tries to satisfy as many of their needs as possible through cross-selling and up-selling methods.

For example, a push cart vendor selling bananas also starts selling mangoes during the mango season, thus exploiting up-selling opportunities within the existing customer base. It would be cross-selling if he also does some real estate business or offers some unrelated third party product or service to his current customers.

The 4Ps approach tries to satisfy the needs of all the customers in the target segment. CRM on the other hand, does not advocate closer relationships with all customers. It recommends that companies identify their Most Valuable Customers (MVCs) by looking at their Life Time Value (LTV), and then have closer relationships with the MVCs. Many companies make the mistake of using ABC analysis (top 20 per cent customers who account for 80 per cent of sales) to identify their MVCs. This will lead to concentration of efforts on customers who are currently contributing to the profitability of the company thereby ignoring customers with long-term profit potential.

The key here is the use of LTV to identify the MVCs. This again is not a revolutionary concept invented by marketing researchers or practitioners. Even ordinary people such as vegetable vendors practise the concept of MVCs. In Chennai, curry leaves are given free along with the purchase of vegetables. On days when either of these products is in short supply, the vendors hide them and offer them only to their MVCs.

The next step in CRM is the use of MVCs to bring new customers through referrals. This too is not a very new concept. Reader's Digest has been practising the concept of referrals for a very long time.

However, there is not a single company in India that has an integrated approach to CRM. The whole new model of CRM revolves around the customer life cycle comprising the following four stages:

1. Customer acquisition through referrals

2. Customer development through personalisation and customisation

3. Leveraging customer equity through cross-selling and up-selling

4. Customer retention and referrals

Unlike the traditional approach where customers are acquired through mass media advertising, CRM normally gets its customers through referrals. Then the company develops a personalised and customised relationship with customers. The closer customer relationships help the company to identify additional needs of the customers, that are then satisfied through cross-selling and up-selling. As the customers develop a close relationship with the company they also help the company find new customers.

These steps in the CRM process are currently being managed with the use of technology. Say, for example, in order to identify up-selling opportunities, a number of companies such as banks and supermarkets use IT tools such as data warehousing and data mining.

In order to personalise communication and services, the companies use call centres and flexible manufacturing facilities. In essence, technology forms the backbone of CRM.

In sum, CRM is practised even today by shop keepers in villages who personally know individual customers and offer customised services. The database about the customer resides in the shopkeeper's mind. In fact, large corporations follow the same personalised approach using CRM; the only difference is that they use technology to help them.

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