



# UNIT 7

## CUSTOMER RELATIONSHIP MANAGEMENT (CRM)

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# Learning outcomes

By the end of the lecture, students should be able to:

- Define the term CRM.
- Give & explain the benefits of CRM.
- Give the reasons for lose of customers by an enterprise.
- Provide solutions to maintain different customers by any business organization.



# Introduction

Customer relationship management is a very important concept in modern marketing and maintaining the value chain in Operations Management.

- ❖ **Customer relationship management** is defined as the overall process of building and maintaining profitable customer relationship by delivering superior customer value and satisfaction.

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- ❖ Deals with all aspect of acquiring, keeping and growing customers.
  - ❖ The key to building customer relationship is to create **superior customer value** and **satisfaction**.

# Customer Relationship Evolution

- Relationship with customers can change from time to time and evolves in the following stages:

**Exploration**- investigates or tests the supplier's capabilities and performance

**Awareness**- the customer understands the motivational values of supplier or the products.



**Expansion**– the supplier wins customer's faith and customer falls under huge interdependence of the supplier. There are more chances of doing business with that particular customer and expand business.

**Commitment**– adapting business rules and goal to excel.

**Dissolution**– end of relationship.

# Essentials of customer relationship

- **Trust:** - confidence and security in any relationship built when they experience flawless and satisfied motives between each other.
- **Commitment:** - there exists mutual trust and the two parties share each other's values. In a committed relationship both the supplier and customer strive to uphold the relationship and never want to exit which in turn results in building the relationship stronger and sharper.



# Customer value

- Customer value is the customer evaluation of the difference between all the benefits and all the cost of a market offering relative to those of the competitors.
- Superior customer value creates highly satisfied customers who stay loyal and buy more.

# Process of Capturing value from customers .

- ❖ Focus on value
- ❖ Compete on value not price
- ❖ Look through your customers eye.
- ❖ Make your customer successful
- ❖ Reduce cost
- ❖ Give them something extra
- ❖ Create customer loyalty and retention
- ❖ Grow share of customer
- ❖ Build customer equity
- ❖ Build the right relationship with the right customer.

# Building the right relationship with the right customer

- **Note:** Not all customers, not even loyal customers are good investments.
- Customers are classified into **four** relationship groups, according to their profitability and projected loyalty.
  - Strangers
  - Butterflies
  - True friend
  - Barnacles

# Strangers

- Strangers show low potential profitability and little projected loyalty.
- In serving "strangers" the seller should make sure it makes profit from every transaction and make no investment in loyalty.
- The relationship management strategy is simple. **Don't invest anything in them.**

# Butterflies

- Butterflies are potentially profitable, but not loyal.
- They move from one supplier to another looking for lower price or some other feature so they have no loyalty to any particular company and are always in search of a better deal or a new inducement.
- The company should use promotional ways to attract them, create satisfying and profitable transaction with them.



# True friends

- True friends are both profitable and loyal.
- There is a strong fit between their needs and the company's offerings.
- The goal is to please, nurture, defend and retain these customers.
- The company wants to make continuous relationship investment to delight these customers and retain and grow them.

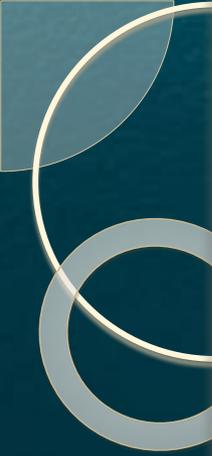
# Barnacles

- Barnacles are highly loyal, but not profitable.
- There is a limited fit between their needs and the company's offering.

# Reasons for CRM

The use of a CRM system will confer several advantages to a company:

- ❖ Quality and efficiency
- ❖ Decreased in overall costs
- ❖ Decision support
- ❖ Growth of the enterprise
- ❖ Customer Attention
- ❖ Competitive advantage
- ❖ etc



# Customer Relationship Marketing (CRM)

- Identifying and establishing, maintaining and enhancing, and, when necessary, also terminating relationships with customers and other stakeholders, at a profit, so that the objectives of all parties are met, through a mutual exchange and fulfillment of promises.



# Customer Satisfaction Management (CSM)

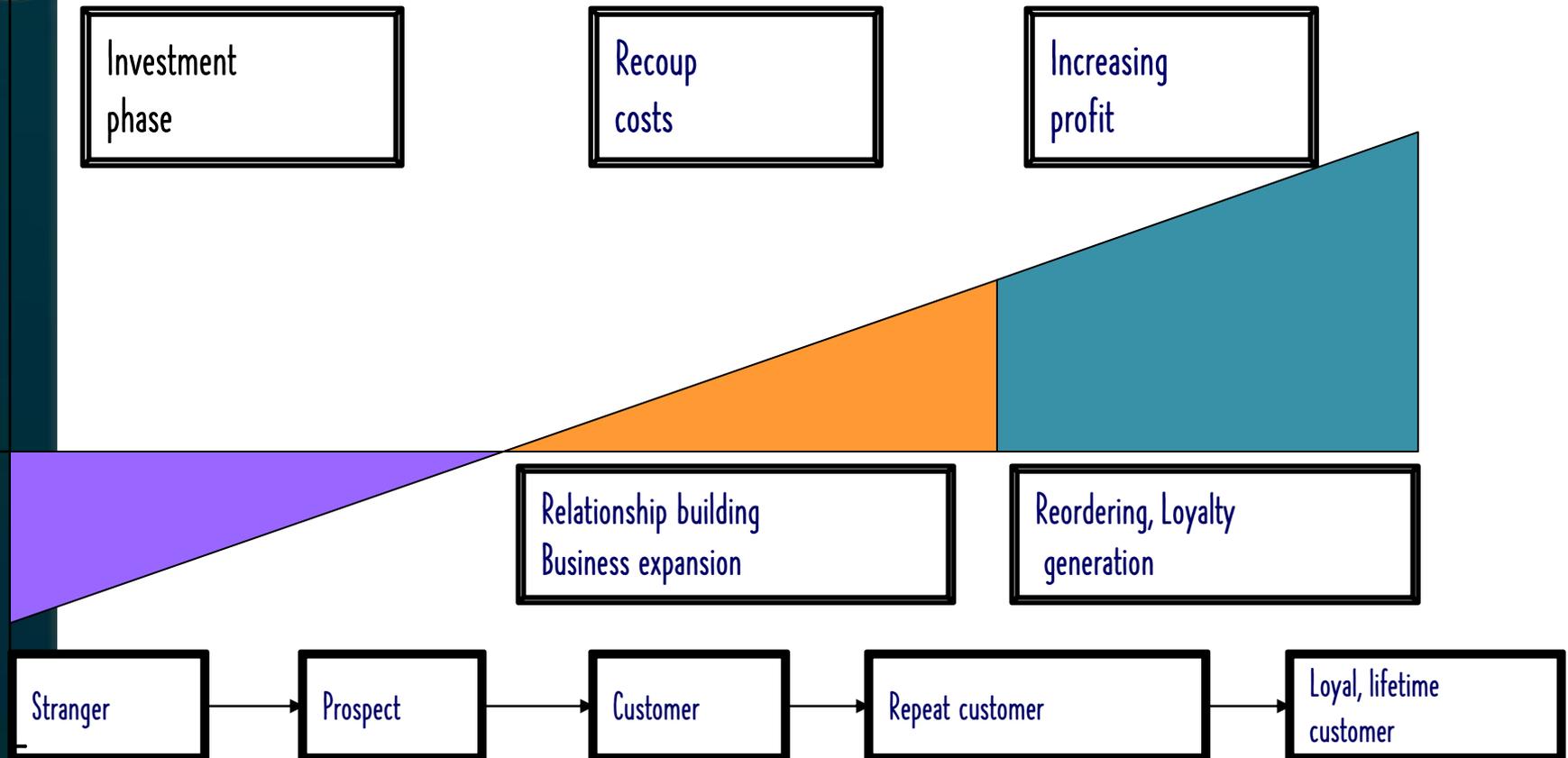
- A program that focuses on identifying key performance areas to meet or exceed the average customer's expectations.

# Total Customer Satisfaction

- Providing a good or service that fully and without reservation conforms to the customer's requirements.
- Lifetime-Customer Value (LCV)
- The sum of all future-customer revenue streams minus product and servicing costs, acquisition costs, and marketing costs.
- The long term relationship of the customer and the life-time -value of the customer future purchases is threatened unless everyone works together to provide customer value before, during and after each purchase.

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- In other words, anytime the customer value is reduced because the benefits to the customer decreases, or the cost increases, the relationship is weakened.

# Lifetime-Customer Value (LCV) Development

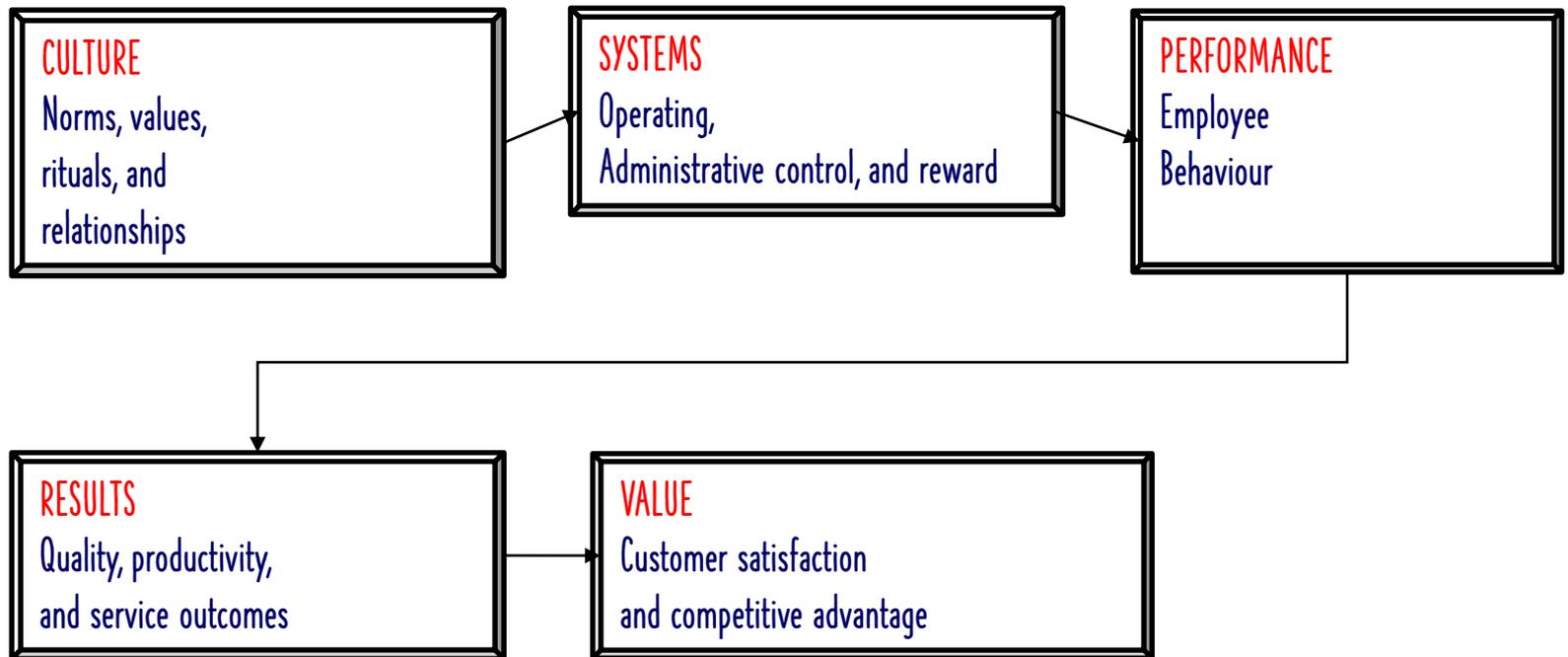




# Value

- Part of customer expectations, which are a combination of cost, time, quantity, quality, and human factors.
- The challenges for providing value among others are:
  - Escalating customer expectations
  - Competitive forces
  - Cost pressures

# The Value-Adding Chain



# A Relationship View of Marketing

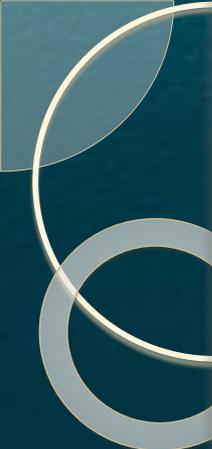
## TRANSACTIONAL VIEW

- Purpose of marketing is to make a sale
- Sale is a result and the measure of success
- Business is defined by its products and factories
- Price is determined by competitive market forces; price is an input
- Communications are aimed at aggregates of customers
- Marketer is valued for its products and prices
- Objective is to make the next sale and/or find the next customer

## RELATIONSHIP VIEW

- Purpose of marketing is to create a customer
- Sale is beginning of relationship; profit is measure of success
- Business is defined by its customer relationships
- Price is determined by negotiation and joint decision making; price is an outcome
- Communications are targeted and tailored to individuals
- Marketer is valued for its present and future problem-solving capability
- Objective is to satisfy the customer you have by delivering superior value

Source: Presentation by Frederick E. Webster, Jr., at Special Session on "Relationship Marketing," American Marketing Association Educators' Conference (August 1993), Boston, MA. In Michael D. Hutt and Thomas W. Speh, *Business Marketing Management*, 6th ed. (Fort Worth, TX: Dryden Press, 1998), p. 16. Reprinted with permission by the American Marketing Association.



# Customer care –golden rules

- ❖ It costs far more to gain a new customer than it does to retain an existing one
- ❖ Unless you recover the situation quickly, a lost customer will be lost forever
- ❖ Dissatisfied customers have far more friends than satisfied ones
- ❖ The customer isn't always right, but how you tell them that they are wrong can make all the difference and ultimately they do pay our wages/salaries

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- ❖ Welcome complaints—they allow for recovery
  - ❖ In a free market economy never forget that the customer has a choice
  - ❖ Treat internal customers as you would treat external ones
  - ❖ You must listen to the customer to find out what they want
  - ❖ If you do not believe, how can you expect the customer to believe?
  - ❖ If you do not look after your customers, somebody else will

# Stages of developing customer care.

- ❖ Gain management commitment
- ❖ Develop TQM
- ❖ Listen to customers
- ❖ Establish a customer care program
- ❖ Engender ownership
- ❖ Understand internal customers [employees]
- ❖ Train
- ❖ Communicate
- ❖ Recognise and reward good service
- ❖ Sustain a customer focus

# Ways to lose a customer

- ❖ Poor quality product or service
- ❖ Making it difficult to buy [complex order or enquiry forms]
- ❖ Poor internal communication until your rival body eventually decides to deal with the customer
- ❖ Slow response to enquiries, orders, problems or complaints
- ❖ Slow phone answering

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- ❖ Inadequate information [no brochures, no price list, unknowledgeable sales people etc.,
  - ❖ Rash promises [the product or service does not match the promises]
  - ❖ Arrogance.



# Tutorial Questions

- a) Define the term CRM
- b) Explain the benefits of CRM to any business organization.
- c) Describe the different forms of customers that you know of?
- d) Why do some businesses firm fail to maintain it's customers?
- e) As an operation's manager, what advise would you give such an enterprise in maintaining it's customers?