

## Customer Relationship Management (CRM)

CRM as a discipline, is a critical modern approach to running any business that has to compete in a hostile market – particularly during the current downturn – and if you think business is hard in the United Arab Emirates today, try running a business in Europe or the USA where markets are currently totally unforgiving.

The reason for the increasing popularity of CRM is that it focuses the business on its most valuable asset – which is not the people who run the business – nor even the customers (sounds like heresy – “No customers = No business”<sup>1</sup>) but it is the **relationships** that exists between the people in the company and the customers they serve (internal and external).

External customers are the only source of income for a business (if they provide income, they are customers in my book). And keeping them coming back time and time again, to one extent or another, is everyone’s responsibility.

These successful relationships pay off in several ways:

### **Costs:**

The most well known relevant statistic is the ratio of the costs of gaining a customer versus the costs of keeping a customer. Some studies put this at 5 to 1. i.e. it costs at least five times more to convert a ‘Prospect’ to a first time ‘Customer’ than it does to convert that ‘Customer’ to a ‘Friend’<sup>2</sup>

### **Incomes:**

Apart from footnote 2 below, CRM oriented firms regularly calculate the ‘Lifetime Values’ (LTV’s)<sup>3</sup> of their customers, which practice can produce figures so dramatic that they answer decisively any efficiency freak who argues that looking after customers is a costly thing best avoided, “*lets all get with the program re the Automated Telephone Reception and the Web Page –it is far cheaper than using real live people*”. If you meet anyone like this refer them to the Singapore Airlines so called Customer Service Systems, then get them to compare how this made them feel with the Emirates Airlines way of doing things, and with Emirates you don’t even have to be a frequent flyer to be treated like a valued human being.

The LTV calculation can be simply done –

- i.e. Average size of average customer’s purchase,
  - times the average number of purchase per year,
  - times the number of years you can expect to keep them coming back for more. –
- OR -

All the above but then treated to a Discounted Cash Flow [DCF] calculation to produce a Net Present Value.

Whichever way it is done - the outcomes can be quite startling – e.g. the mean LTV for the Groceries industry is in the order of 250,000 Dirhams for an average family of four.

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<sup>1</sup> HRH Prince Charles – a notable British entrepreneur – yes really – the way he runs his various estates is world class.

<sup>2</sup> i.e. one who buys regularly –

<sup>3</sup> LTV’s are often so valuable that we call this ‘Brand Equity’ the modern term for what we used to call ‘Good-Will’, and we even put this on our Balance Sheets nowadays.

Now you know why Carrefour is investing so heavily in Dubai, Singapore and elsewhere in the developing world.

### **Other Benefits & Downsides of CRM:**

Apart from the above, there are also the benefits and downsides of customer referral to consider. It is well documented that the 'Advocate' & 'Partner'<sup>4</sup> will tell upward of 5 Prospects how wonderful they think we are – thus a considerable benefit of CRM is that it is the cheapest and yet most convincing form of Promotion for any business – far better than any advertising medium.

However, this also has a dramatic downside, Disappointed 'Advocates' (i.e ones we have let down) will also be just as eager to get even.

The figures are that 85% of disappointed Advocates will tell 10 or more Prospects how bad we are, 13% will tell 20 or more, and 2% will go on a lifetime warpath to get their revenge – truly it must have been such disappointed advocates that Congreve had in mind when he penned the immortal "*Hell hath no fury ...*" lines.

### **Definition:**

So CRM can be defined as "*The Strategy whereby a firm can generate a major 'Competitive Differential Advantage' (CDA) via consistently providing all 'Target Customers' with an 'Excellent'<sup>5</sup> and exceptional sales and service experience at EVERY point of their interaction with the firm.*"<sup>6</sup>(my Caps.)

Note it is a 'Strategy' and therefore does involve Structural, Administrative and Organisational changes to accommodate the delivery of these experiences. AND training at all levels to ensure that the requisite skills are in place and are being continually reinforced.

### **The Seven Steps:**

CRM adoption and maintenance<sup>7</sup> involves a continuing cycle of the following Seven Steps:

#### **1. Know your Markets:**

The CEO must know where their industry stands on the Supply & demand Cycle, the Product Life Cycle (and if you are in high tech, where they are on the Diffusion of Innovation Curve). The CDA provided by CRM is only useful in competitive markets. If your market is structured and in short supply, CRM is a waste of money. OPEC has no need to be nice to its customers.

- The more competitive the market is – the more the firm needs CRM – SO:-

#### **2. Know Your Customers:**

No firm can be all things to all people, they need to focus on those customers that offer the best cost-benefit ratios for the required CRM investment – So the firm must 'Segment'<sup>8</sup> And get close to their Target Group/s (TG's) via assiduous use of Qualitative Research and Behavioural Analysis of the firm's customer data base. The firm will be looking at:

<sup>4</sup> Two variants of the actively loyal customer.

<sup>5</sup> Defined by McKinsey as "The majority of your customers put you in the top quartile of the firms with whom they prefer to do business."

<sup>6</sup> Phil Allen of MCE

<sup>7</sup> Because competitive markets are by definition dynamic, ever changing, and the CDA providing CRM of today will be standard practice tomorrow.

<sup>8</sup> See my book 'Mastering Marketing' on how to best segment a Market

- their TG's preferences re the service interface,
- the Customer's Life styles, Cultures, Prejudices, Opinions and Attitudes etc. (particularly for, but not confined to Consumer Markets), etc.etc.etc.

**3. *Position the total offering:***

CRM will usually not affect the configuration of the 'Good'<sup>9</sup> being traded – today in most markets, there is little apart from branding, that can be cost-effectively done to really differentiate one supplier from another within a given class of product. The real differentiator is most often to be found in the service interface.<sup>10</sup> Here we need to use the 'Levitt Construct' to see things through the eyes of the customer, not only in terms of what can differentiate us today, but what riposte to have ready when the competition copy's us. (which they will do – if our differentiator is working, they would be negligent not to).

**4. *The Service Level Agreement (SLA):***

These may be implied in consumer markets, though there is a tendency for firms to publish at least the 'mission' part of them, often in their advertising. (e.g. "Delivery in 30 mins anywhere, or your money back" – Domino's Pizza's original service promise). However in Business to Business Markets (B2B), they should not only be formal documents so that everyone knows where they stand, but in addition, the very act of compiling one is pure CRM – it gets the Supplier more into the Customer's shoes than anything else can ever do.

**5. *Promulgate the agreement throughout the firm:***

Every one in the supplier firm must be committed to the delivery of CRM (no better way than by training them in what it means and what interpersonal and administrative skills it will require of them).

However, each person must know the big picture, and how they fit into this scene. They must be aware and constantly reminded of what the firm specifically promises to deliver. This is a fairly easy thing to do in consumer Markets, but it is much more difficult in B2B situations, where each customer will have a unique SLA, and the specific 'Key Account Manager' is the only one who can, and should sell their external customers to the relevant internal suppliers.

**6. *Live CRM, Live the Agreement:***

Those managing the delivery of CRM must learn to LEAD not just administer. And they must LEAD by example. This involves not only being seen to practice the interpersonal skills they wish their teams to apply, but also to oversee, mentor and coach its delivery via such practices as 'Management By Walking About' (MBWA). And when it gets hectic in the front line, as it will from time to time,<sup>11</sup> unless the firm enjoys costly levels of excess capacity, managers at all levels must not lurk in their offices, but they must get down on to the 'shop floor' roll up their sleeves and get stuck in helping to serve customers as best they can (good for team morale and good customer experience for the manager).

- And finally, to join-up both ends of the cycle -

**7. *Measure, Measure, Measure and Measure again:***

Not only can't you manage what you don't measure, but today what you don't measure can change so rapidly, that before you know it, your CRM no longer

<sup>9</sup> i.e.a 'Physical, Tangible, Product' as apposed to a 'Service product such as Travel, and Banking etc.

<sup>10</sup> A major motor manufacturer found that the greatest predictor of re-purchase for their models, was the level of satisfaction their customers had with their distributor's servicing experience during the ownership of the previous car.

<sup>11</sup> See 'Managing the Resource Dilemma' in my book Marketing the Service Advantage.

provides you with a true CDA – your competitor has the CDA instead.

To do this the firm must build a ‘Score Card’ of indices, such as:

- Customer turnover
- Customer complaints (issues and their frequency)
- Competitive shopping results
- Customer referrals (via ‘member get member’ schemes)  
etc. etc. etc.

That is the essence of CRM – what successful firms in competitive markets have been doing for thousands of years, and were able to get close to their customers because they were small enough to know them all personally.

But today CRM is available to the big and global enterprises, because, as currently practiced, it is made all the more effective via the use of IT applications such as Data Base programmes, Contact Managers, Data Mining etc. etc.

However, it must never be forgotten that technology is just a management tool, it’s the personal touch that makes CRM a reality.