UNIT 16 CRM — CUSTOMER RELATIONSHIP MARKETING

Objectives

After going through this unit, you should be able to:

- understand the concept of customer relationship marketing (CRM);

- understand the various types of CRM efforts;

- analyse the nature of customer service as part of CRM efforts;

- understand the nature and role of loyalty programmes in building and maintaining relationship with customers

- analyse and compare loyalty programmes across sectors; and

- appreciate the role of employees in building and maintaining customer relationships.

Structure

16.1   INTRODUCTION

Customer Relationship Marketing (CRM) refers to all marketing activities directed towards establishing, developing, and maintaining successful relationship with their customers. The theories and concepts of CRM draw upon a number of distinct areas including service quality, services marketing, customer retention economics, and issues related to interpersonal and social interaction. However, the practice of relationship marketing is as old as marketing and selling.

The relationship marketing philosophy suggests that, at a macro level, retail organizations should consider their impact across a broad range of market relationships in the value chain.

The objective of relationship marketing is to attract, maintain, and enhance customer relationships with the existing and potential customer. Many retailers and marketers have now acknowledged the relevance of relationship marketing in retail strategy. Relationship marketing is implemented through various components such as rewards, customer services, and involvement of customers in planning and execution of retail strategy. Retail stores that enact a system of rewards but neglect to have a focus on customer service fail.

CRM, at a theoretical level, emerged in the 1990s and has ever since become an important marketing tool due to the compulsions of competition, globalization, and

the emergence of more knowledgeable and demanding customers. In consumer products marketing, it is the function of retailing that has attracted the most obvious interest in the development of relational strategies. In the organized retail sector, the popularity of store loyalty cards is provided as an evidence of the wide take-up of relationship marketing in this field. It comes as no surprise that retailers, today, are interested in relational strategies.

The intimate nature of the relationship the industry shares with the ultimate consumer (compared to businesses further back in the distribution chain) suggests that the closer the retailers get to the customers, the better they can provide the services the customers seek. The `moment of truth' in consumer goods and services marketing is seen as that point when the consuming public comes face-to-face with the point of supply. As it is the retailer who most often manages this interaction and who, historically, has gone beyond the mere `service encounter', their potential interest in relational strategies becomes even more apparent.

At this point it would be good to mention the drivers towards an effective relationship marketing.

Indicators of Effective Relationship Marketing in Retailing

A high level of trust between consumer and retailer

A high level of commitment between the consumer and the retailer

Open communication channels between both parties with free exchange of information

A retailer having heartfelt interest in their consumers.

An attempt by the retailer to favorably lock-in or retain their consumers

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Customer service is a vital part of relationship marketing. High level of customer service and satisfaction forces the suppliers and customers to have high `switching costs'. Customer commitment is crucial for market share retention of any product, brand, or store, which is the result of effective relationship marketing. A customer who has committed loyalty to a single seller for a return of some `valued reward' is not going to satisfy a competitor's grab for additional sales.

16.2 THE EVOLUTION OF RELATIONSHIP MARKETING

Customer relationship management (CRM) had its origins in two unrelated places. One was in the US where it was driven by technology. Under the direction of marketers, information technology and statistical algorithms were developed to increase the efficiency and effectiveness of selling what a company makes. This popularly came to be referred to as database marketing. CRM systems such as call centres, websites, customer service and support teams, and loyalty programmes were used to manage the relationship with customers.

The second place where the CRM concept developed was in business to business (B2B) marketing in Scandinavia and northern Europe. The IMP (Industrial Marketing and Purchasing) Group has been instrumental in developing our understanding about the nature and effects of building long-term, trust-based relationships with customers, which are managed by the marketing and sales departments.

They may be based as much on the structural ties between companies as they are on personal relationships among managers. Here, the emphasis is on

understanding customer needs and then solving problems or delivering benefits that create demonstrable customer value. While information technology is important in this style of CRM, it is designed to support rather than drive the customer relationship. The types of relationship that develop here are often deep and meaningful-for both the retailers and the customers involved. In the latter half of the 1990s, the focus of database marketing began to shift to relationship marketing. Marketers and retailers started using improved information technology to regularly communicate with a firm's customers and to base product offerings as per the consumer's buying behaviour.

Speedy-computer connections help in the communication among channel members and also have the added effect of creating a relationship between a buyer and a seller. There is an economic and non-economic incentive for both entities to remain committed to the relationship.

Customer relationship marketing in retailing has emerged out of two major considerations:

- At a **macro level**, the recognition that marketing influences a wide range of areas including customer, employee, supply, internal, referral, and `influencer' markets such as the governmental and financial markets; and

- At the **micro level,** the recognition that the nature of interrelations with customers is changing. The emphasis is on moving from a transaction focus to a relationship focus.

An essential factor to be understood from this is the difference between customer relationship marketing and transactional marketing. Few of these differing points are given in the table below:

Relationship Marketing	Transactional Marketing
• Focus on customer orientation	• Focus on single sale
• Efforts on adding more of product benefits	• Efforts on adding more product features
• High customer service emphasis	• Little emphasis on customer service
• Quality is a concerned only on production	• Quality is the concern for all
• Moderate contact with the customers, hence limited commitment with them	• High customer contact hence higher commitment with them

Thus, customer relationship marketing is different from the old concept of marketing, which used to be based more on increasing the customer base. Relationship marketing focuses on using relational strategies to acquire customers, retain them, and enhance relationship with them. In fact, as per Pareto's Law, 80% of the total sales comes from 20% of the customers, and, thus, relationship marketing attempts to optimize the resources for the retailer by retaining the most profitable of the customers.

The retailing industry plays an important role in the success of relationship marketing as it serves as the major link between the supplier and customers. Therefore, it engages, maintains, and enhances the relationship with the ultimate entity of the value chain, which in turn determines the success of all the members of the value chain. The retailers have always acknowledged the importance of long-term relationship with customers in their business.

16.3 STRATEGIES OF CUSTOMER RELATIONSHIP MARKETING IN RETAILING INDUSTRY

Customer Relationship Marketing (CRM) strategies refer to any effort that is actively made by a seller towards a buyer, and is intended to contribute to the buyer's customer value above and beyond the core product and/or the service provided. This can only be perceived by the buyer after continued exchange with the seller. For instance, if the traditional Indian retailers treat their regular customers in a warm and friendly manner and also provide them with special benefits in terms of home delivery, discounts, etc, then these efforts are an attempt to provide benefits above and beyond the core service performance.

From this we can figure out that strategies laid for CRM *is a **combination** of several benefits.*

Let's familiarize ourselves with the major four components that help in formulating a Customer Relationship marketing strategy. The figure below shows the four components in a snap shot
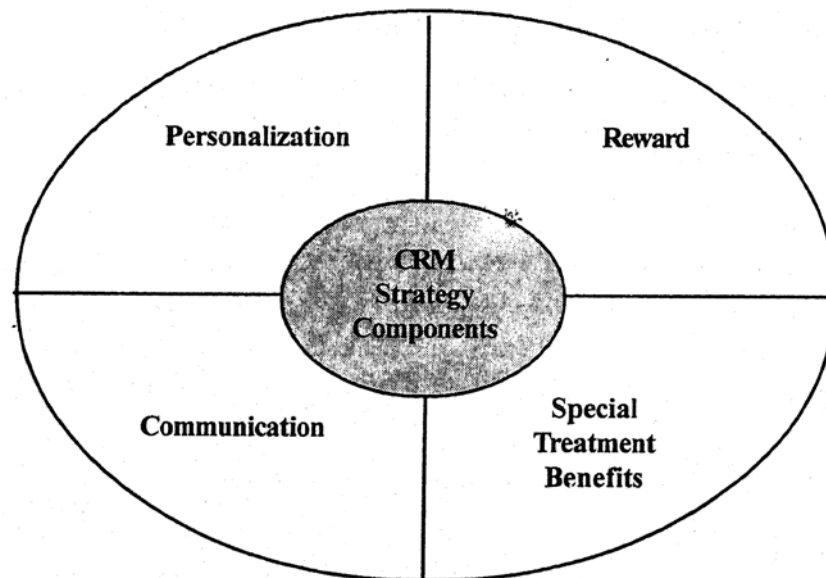
Let's discuss on each of the components starting from,

1) Personalisation

Personalization describes the social interaction between service employees and their customers. It refers to the way in which employees relate to customers as people - cold and impersonal at one end, and warm and personal at the other. Consequently, personalization can be regarded as a means of showing recognition and respect for the other party. Some of the common examples of social relationship benefits include feelings of familiarity, personal recognition, friendship, and social support. Such an interaction afforded by shopping sometimes works as a prime motivator for some consumers to visit retail establishments. One of the suggested ways of valuing a buyer's uniqueness as an individual is to address him by his name, as people feel good when someone remembers their names at a later point in time. Sales practitioners often stress the importance of remembering and using customers' names. Other indicators of personalization efforts are employees' attempts to get to know a customer as a person, their efforts to engage in friendly conversations, and their exhibition of personal warmth. This corresponds to the feeling of `being included in the communication processes and of 'being liked and treated with respect'. Therefore, personalization leads to a positive impact in terms of increasing trust in the seller/ store, customer satisfaction with the relationship, and repeat purchase.

2) Communication

Communication is without a doubt, an essential condition in the existence of any relationship. A retailer's communication with a buyer conveys his interest in them and serves to strengthen their relationship. So, efforts to `stay in touch' with the customers have been identified as

The key determinants of relationship enhancement in retailer - customer relationship. It is generally observed that buyer - seller relationships become stronger when the ease and volume of exchange between buyers and sellers increase.

From this we understand that the intense levels of buyer - seller communication will help in increases the probability of discovering behaviours that generate rewards,

- Enhances the prediction of behaviour of the other party and clarifies each other's roles,

- Leads to easier discovering of similarities between parties, and

- Encourages feelings of trust, special status, and closeness.

  Generally, communication strategies as part of relationship marketing efforts refer to directed communication to the customers as against mass-media communication, which does not afford selectivity. However, it does not include face-to-face interaction, which forms part of personalization efforts by the retailer. Many retailers now also adopt direct mail, e-mail, telephone, and SMS as means to interact with their loyal customers or members of loyalty programmes.

3) Rewards

Providing customers with tangible rewards is often referred to as `level one relationship marketing'. This level of CRM relies primarily on pricing incentives and money savings to secure customers' loyalty. Frequent flyer programmes, customer loyalty bonuses, free gifts, personalized discount coupons, and other point-for-benefit `clubs' are examples of these efforts. Trying to earn points on such things as hotel stays, movie tickets, and car maintenance would help customers to remain loyal, regardless of service enhancement or price promotions of competitors. Rewards should be designed to promote long-term behaviour and discourage short-term deal-seeking behaviour. Rewarding efforts refer to structured and planned marketing efforts that should encourage loyal behaviour, distinguishing it from short-term oriented sales promotions.

4) Special Treatment Benefits

A key aspect of relationship marketing is that all consumers do not need to be served in the same way. If a consumer receives personalized, customized service from retailer A, but not from Retailer B, and if this service is valued, then the consumer will be less likely to leave Retailer A for B. The retailers can distinguish between at least two identifiable customers segments: loyal customers and non-loyal customers. Differentiating between loyal and non-loyal buyers enables a seller to address a person's basic human need to feel important. Most retailers use core service upgradation and service augmentation as ways to provide special treatment benefits to customers in return for their loyalty.

Activity 1

Select a departmental store each in two different product categories in your city/ location and compare their relationship marketing strategies. Assess the impact of market conditions, product category issues, and customer preferences in both cases.

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16.4 CUSTOMER RELATIONSHIP MARKETING (CRM) IN ORGANISED VS. UNORGANISED RETAIL SECTOR

Broadly the organized retail sector can be divided into two segments

1) In-store retailers, who operate in fixed point-of-sale locations, located and designed to attract a high volume of walk-in customers, and

2) Non-store retailers, who reach out to the customers at their homes or offices.

The organized retailers provide various standardized services to their customers. Large retail formats with high quality ambience and courteous and well-trained sales staff is the distinguishing features of these retailers. In most of the cases, they have a wide range of merchandise stocked with them so that the customers can enjoy a wider choice. People visit these stores not only for shopping but also for having a nice time outside their homes.

The unorganized retailers in India, on the other hand, comprise of the *kirana* or small independent stores located in neighbourhood centres and central business districts of a city. These stores have a limited reach in the sense that people living in a particular locality visit stores in their own colony. The USP of these stores is the locational convenience they provide to their customers. They provide customized services to their customers and also go to the extent of procuring merchandise and delivering them to their customers on order.

In the context of Indian traditional retail formats, one -can comfortably establish the significance of relationship marketing in the success of a retail store, particularly the relationship between retailers and customers. The existence of a sound relationship between these two entities (retailers and customers) comprehensively suggests the importance of the present unorganized retail network in India in the entire value chain.

The strength of the relationship enjoyed by retailers with customers has provided them with the bargaining power in the value chain, particularly in developing economies where organized retailing is at a growing stage. Sound relationship between the two is mutually beneficial both economically and non-economically.

Customer Service in Retailing

Today's competitive environment requires a retailer to understand and properly apply the concept of relationship from the perspective of the customer and other channel members. This will ensure that:

• Customers strongly believe that the retailer offers good value for money; and

• All the channel members (including the customers) would like to do business with that retailer.

The challenge for a retail unit is to bring three critical areas, namely marketing, customer service, and quality, into closer alignment and the attempt of CRM is to bring these three areas together. The provision of quality customer service involves an understanding of what a customer wants and eventually buys, and determining how additional value can be added to the products or services being offered. Yet the implementation of customer service varies from one retail unit to another.

Managing Gaps Between Expectation and Performance

When customers' expectations are greater than their perceptions of the delivered product or service, customers are dissatisfied and feel that the quality of the retailer's service is poor. Thus retailer need to reduce this gap, which is known as the `service gap'.

There are four important dimensions that customers employ to judge the effectiveness of customer services provided by retailers, these are:

1) **The Knowledge Gap:** The difference between consumer expectations and the retailer's perception of customer expectations. For example, a grocery store may put everything on display so that a customer chooses what he wants, but it may fail to realize that customers in the locality prefer being served personally. Therefore, what the store should have done is to keep staff to take orders from the customers and serve there over the counter.

2) **The Service Standards:** The difference between the retailer's perceptions of customers' expectations and the customer service standards it sets. For example, a mail order house may require its employees to answer a phone call after not more than two rings. However, the customer may not be concerned with the time he has to spend over phone. Instead, he may be concerned with the time it takes to deliver the merchandise ordered.

3) **The Delivery Gap:** The difference between the retailer's service standards and the actual service provided to customers. The retailer must try to deliver in excess of what is expected by the customers to earn their loyalty

4) **Communication:** The difference between the actual service provided to customers and the service communicated in the retailer's promotion programme. For example, ICICI Bank has attracted customers through an extensive advertising campaign regarding the innovative product profile, luxurious ambience, helpful sales staff, and above all convenient and effective services. But with the unexpected increase in the number of customers the established infrastructure could not provide the services as communicated to the customers.

Activity 2

Select a store in your neighborhood and evaluate its customer service strategy.

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16.5 ESTABLISHING LOYALTY PROGRAMMES

Retailers rely on loyalty programmes extensively since it is believed that:

Loyal Customers are Cheaper to Serve: In most of the cases, retailers are not be required to invest to attract, maintain, and communicate with loyal customers as they are already inclined to search for information on new arrivals, services, and developments of the store in comparison to customers who are not loyal.

Loyal Customers are Willing to Pay More for Package Offerings: Loyal customers generally are more familiar about product offerings and can better assess their quality, That means they can develop solid reference prices and make better judgments about value than sporadic customers can. Because of this, it is almost impossible these days to work on price differentiation for any length of time. A good example to quote would be of Amazon, which almost destroyed its brand when it attempted to charge different prices to different customers for the same DVDs.

Loyal Customers are Strong Advocates for the Store's Offerings: The word-of-mouth marketing is very effective, and many stores justify their investments in loyalty programmes by seeking profits not so much from the loyal customers as from the new customers the loyal ones bring in.

A number of factors play a part in influencing the loyalty and commitment of customers, such as the quality and value of the retailer's core offering, levels of customer satisfaction, `elasticity' inherent in the sector or product category, other competitors in the market, and even social, demographic, and geographical influences.

The influencing factors for a successful loyalty programme can be examined in the box below :

- A loyalty programme must be **highly visible** regardless of the channel. A website can show special offers for programme members, a catalogue can feature the programme prominently and shoppers in the store should be asked if they would like to join.

- To succeed, a loyalty programme must be **simple to use** in all channels. If more of fine prints are used, there is a high risk of the customers using less of the programmes.

- The balance of reward and recognition must **establish value** in the customer's mind Programme rewards should be credited regardless of where the customer prefers to shop, the price of merchandise should be consistent across all channels, do not be afraid to offer incentives to encourage customers to try a new shopping experience.

- The loyalty programme should **generate trust** amongst the customers. If the promise is for a personalized, highly valued service, there should not be a bombardment of meaningless offers that obviously are available to everyone.

- **Communication** with the loyal customers plays an important role at every stage from engagement to maintenance. There are many more communication channels available today than there were before the rise of interactive and electronic media such as the Internet and mobile telecommunications.

One of the essential areas of focus wherein such loyalty programmes need to be implemented can be specific sectors of the industry. Let's examine some of the important areas

Sector-Specific Loyalty Programmes

Different sectors are viewing and approaching loyalty differently, and are at different stages of development, both in business terms and in the minds of consumers. Moreover, there are regional, national, and international variations and forces at work, which drive and determine the direction of loyalty programme in specific geographical areas of operation.

Supermarkets and General Retail Stores

Today, leading supermarkets are among the most sophisticated retailers in the world. They lead most other sectors in customer data collection and analysis, in stock management, in level of customer service and in retail innovation. The questions of innovative techniques faced by the supermarket retailers are:

- Which sector will be the first to widely adopt RFID technology? Or

- Which sector has the `smart' shopping carts? or

- Which one has the latest self-scanning of purchases? or

- Which sector has the in-store kiosk-based information and sales points?

Telecom

The overall telecom market around the world has been volatile over the past two years, with non-telecom firms joining the battle for consumer communications spend-including internet service provision-and governments deregulating the market, and of course the innovation of number portability. In the meantime, firms in the mobile telecom sector have been developing their offerings beyond communications into the financial services sector, through `m-payments' and `en-cash' (mobile payment systems). Some of the popular loyalty programmes in the telecom sector are the Airtel's Recharge Rewards Programme and MTNL's loyalty programmes

Travel and Entertainment

A great deal has happened in the travel and entertainment sector in the pest few years, with particular emphasis on increasing both the visit frequency and providing compelling offers and gifts to encourage loyalty. Airlines, hotels, restaurants, and even car rental firms have focused on improving customer service and offering more relevant options to encourage consumers to buy more of what they want.

Financial Services

Here, it is important to discuss the role of credit and debit cards as loyalty building tools for the financial services as well as the other retail sectors of the economy. Credit cards make use several co-branded and affinity programmes for establishing customer loyalty

- A co-branded card is the result of a partnership between an issuing bank and a co-branding partner, which could be any commercial organization such as an airline, insurance company motor manufacturer etc. One example of a co-branded card is the UK's GM Platinum Card issued by HDFC Bank.

- An affinity card is generally a non-profit making organization like a club, association, charity, or professional body (without a commercial partner). One example is the Amnesty International Visa Card issued by the Cooperative Bank. The affinity cards allow the issuer to mine the potential of the database of members of an already formed non-commercial group.

Hospitality Industry

Business travellers for most of the loyalty programmes. They have their company booking them into hotels all across the world. In case they make a decision to be loyal to a particular chain, the hotel's loyalty programme subsequently rewards them and various other rewards which listed under a respective programme that are directly proportionate to the number of points earned. Any of these programmes should be accessible and well administered and one good example to support this discussion would be the internationally acclaimed `gold passport' of the Marion programme. In India, the Taj also provides a loyalty programme names as the Taj Hotels Innercircle Programme.

Franchise Retail Outlets

The franchise retail format faces a distinct set of challenges in the successful launch and operation of a loyalty programme. While the coordinated planning and execution of marketing campaign is required from the entities, parties to the loyalty programme, funding issues relating specifically to loyalty programmes in the franchise retail format become a challenge and a constraint for their successful implementation. A striking example of loyalty-programmes launched in a franchise outlet would be of Barista Coffee issuing smart cards for its regular customers named `Brewards' which offers flat discounts of 12.5% for students and 10% for others.

Activity 3

How-can you evaluate the loyalty pr9granimp of a pharma retail store with that of a local chemist in the same locality?

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Role of Employees in Maintaining Store Loyalty

The dynamic business environment provides ample alternatives to customers to shop at every stage from the shopping centre retail format to the retail store format (independent, specialty, etc.), so much so that they may buy from one store today and shift to another tomorrow. Not that they think that the earlier store was bad, but it is the luxury of variety, which the customers enjoy.

The concept of an engaged employee becomes important especially for the retail businesses. In this industry, the level of services by the employee determines store patronage by the customers.

Employee retention has become important for the retail players in the organized sector. With the competition heating up in this sector, the retailers now face a peculiar problem of limited supply of experienced and trained manpower. Most of the retailers facing major constraints in their expansion plan are in need of trained manpower.

Even as the company trains employees, there is no guarantee whether me company will be able to retain them given the competition hot only from the retail sector but also from other sectors like BPOs (business process outsourcing). Therefore, the time spent in training means that others take the share of responsibility and may not be able to service the customers adequately given the pressure.

To build commitment within the employees, the companies need to assess whether adequate tools are being provided to enable them to do their job well. The tools that the company needs to provide are product knowledge and behavioural skills.

Monetary remuneration plays a important role in all of this. The retailers and marketers have to initiate two-way policy theme to meet this problem. There is a need to generate a short term-long term interest of employees to build employee's trust and loyalty. The short-term measure is more pay and the long term is constant training to equip the workforce with new techniques enabling them to upgrade in their performance.

16.6 SUMMARY

To sum our discussion, Customer Relationship Marketing (CRM) aims at providing four types of benefit components to the customers - personalization, communication, rewards and special treatment benefits. The CRM strategies in the organized retail sector have become extremely important these days with the introduction of several loyalty programmes and major focus on customer service. Now rewards are price offerings and money savings in order to procure the customer's loyalty.

While customer service refers to the complex activities involving all the major areas of retail business, which combine to deliver the store's product and service as satisfactory by the consumers. Many of the retailers operate loyalty programmes for this purpose. This can take the form of frequent shopper programme such as store credit cards, co-branded cards and affinity programmes

16.7 SELF ASSESSMENT QUESTIONS

1) Discuss the concept of relationship marketing? How does it stand different from transactional marketing?

2) Evaluate the various strategies in customer service operating in retailing industry.

3) Discuss the key aspects of emphasis for loyalty programmes. How can the design of such programmes be improved?

16.8 FURTHER READINGS

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