# Customer Relationship Management

Concept, Strategy, and Tools

# Contents

### Part I CRM: Conceptual Foundation

1	Stra	ategic Customer Relationship Management Today	3		
	1.1	Overview			
	1.2	An Introduction to Strategic CRM	. 3		
	1.3	Why Managing Customers Is More Critical than Ever	6		
		<b>1.3.1</b> Changes with Respect to Consumers	6		
		1.3.2 Changes with Respect to the Marketplace	.11		
		1.3.3 Changes with Respect to Data Storage			
		Technology	12		
		1.3.4 Changes with Respect to the Marketing Function	13		
		1.3.5 Implications.	. 15		
	1.4	The Benefits of the Customer Value Management			
		Approach	15		
	1.5	Evolution and Growth of CRM	16		
		1.5.1 Timeline of CRM Evolution.	16		
	1.6	CRM and the IT Revolution: The View from			
		the Industry.	. 18		
	1.7	Further Growth of the CRM Industry.			
		1.7.1 Factors Driving the CRM Industry			
	1.8	Summary.			
	Refe	erences.			
2	Rel	ationship Marketing and the Concept of Customer			
-		ue	21		
	2.1	Overview			
	2.2	The Link Between CRM and Database Marketing,			
	2.2	and the Importance of Customer Value.	21		
	2.3	Satisfaction-Loyalty-Profit Chain.			
	2.3	2.3.1 issues to Consider			
		2.3.2 What Does It All Mean?			
	2.4	Summary.			
		erences.			
	ICIC	oreneed, , , , , , , , , , , , , , , , , , ,	50		

## Part II Strategic CRM

3	Stra	tegic C	<b>PRM</b>				
3.1		Overview					
	3.2	Strateg	gic CRM				
		3.2.1	Customer Management Orientation				
		3.2.2	Integration and Alignment of Organizational				
			Processes 37				
		3.2.3	Information Capture and Alignment				
			of Technology				
		3.2.4	CRM Implementation				
	3.3	Steps	in Developing a CRM Strategy 41				
	3.4	Case S	Study: CRM Implementation at IBM. 46				
		3.4.1	CRM Implementation Process Objectives. 47				
		3.4.2	CRM Implementation Process Stages 47				
		3.4.3	CRM Implementation. 48				
		3.4.4	Case Summary				
	3.5	Summ	ary				
	Refe	rences.					
4	Imn	lement	ing the CRM Strategy				
-	4.1						
	4.2		ents of a CRM System				
	4.3		on Investment of CRM				
		4.3.1	Costs Associated with a CRM Implementation 58				
		4.3.2	Financial Benefits from a CRM Implementation 59				
		4.3.3	Computing the ROI of CRM Initiatives 60				
	4.4	CRM	Implementation				
		4.4.1	Operational Projects				
		4.4.2	Analytical Projects 62				
		4.4.3	Deploying Operational and Analytical				
			Outputs (To Improve Marketing Decisions				
			and Customer Relationships)				
	4.5	CASE	STUDY: Customer Relationship Management				
		at Cap	oital One (UNITED KINGDOM). 65				
		4.5.1	Case Background				
		4.5.2	Industry Background 67				
		4.5.3	Capital One Company Background 71				
		4.5.4	Customer Relationship Management Practices				
			at Capital One (UK)				
		4.5.5	Future Challenges				
	4.6	Summ	nary				
	4.7	Exerc	ise questions				
	References						

### Part III Analytical CRM

Cust		Analytics Part I			
5.1	Overv	iew	89		
5.2	Traditional Marketing Metrics.				
	5.2.1	Market Share.			
	5.2.2	Sales Growth *	90		
5.3	Custon	mer Acquisition Metrics	91		
	5.3.1	Acquisition Rate	91		
	5.3.2	Acquisition Cost			
5.4	Custon	mer Activity Metrics.			
	5.4.1	Average Inter-Purchase Time			
	5.4.2	Retention and Defection Rale			
	5.4.3	Survival Rate			
	5.4.4	Lifetime Duration			
	5.4.5	P(Active).	99		
	5.4.6	Comprehensive Example of Customer Activity			
		Measures			
5.5	-	ar Customer-Based Value Metrics			
	5.5.1				
	5.5.2	Share of Category Requirement			
	5.5.3				
	5.5.4	Transition Matrix			
5.6		nary			
Cus		Analytics Part II			
6.1		iew			
6.2	Strate	gic Customer-Based Value Metrics			
	6.2.1	RFM Method			
	6.2.2				
	6.2.3				
	6.2.4	Customer Equity			
	6.2.5	Comprehensive Example			
6.3		ar Customer Selection Strategies.			
	6.3.1	Profiling.			
	6.3.2	Binary Classification Trees.			
	6.3.3	Logistic Regression	130		
6.4		iques to Evaluate Alternative Customer Selection			
		gies			
	6.4.1	Misclassification Rate.			
<i>-</i> -	6.4.2	LIFT Analysis			
6.5		nary			
		I			
		<b>II.</b>			
Kere	erences.		141		

7	Data	<b>Mining</b>				
	7.1	Overview	.143			
		7.1.1 The Need for Data Mining.	.143			
		7.1.2 The Business Value of Data Mining.	.144			
	7.2	The Data-Mining Process	.144			
		7.2.1 Define Business Objectives	.147			
		7.2.2 Get Raw Data	150			
		7.2.3 Identify Relevant Predictive Variables	.153			
		7.2.4 Gain Customer Insight	.156			
		7.2.5 Act	.157			
	7.3	Summary	.162			
	Refe	rences.	.163			
8	Hein	g Databases	165			
o	8.1	Overview				
	8.2	Types of Databases.				
	0.2	8.2.1 Categorization Based on the Information Included	.105			
		in the Databases	166			
		8.2.2 Categorization Based on the Nature of	.100			
		the Underlying Marketing Activities.	160			
		8.2.3 Categorization Based on the Database Technology .				
	8.3	The Benefits of Marketing Databases.				
	0.5	8.3.1 The Ability to Carry Out Profitable Segmentation .				
		8.3.2 Retained Customers and Repeat Business.				
		8.3.3 The Ability to Spot Potentially Profitable				
		Customers	.172			
	8.4	The Uses of Marketing Databases				
		(Jackson and Wang 1994)	.172			
		8.4.1 Uses that Directly Influence the Customer				
		Relationship	.172			
		8.4.2 Uses that Directly Influence Other Business				
		Operations	172			
	8.5	Summary				
	Refe	rences.	174			
<b>D</b>	4 TX7	Overest and CDM				
Par	t IV	Operational CRM				
9	Soft	ware Tools and Dashboards	177			
	9.1	Introduction				
	9.2	CRM Implementation Options				
		9.2.1 Developing Software In-House				
		9.2.2 Buying Licensed CRM Software				
		9.2.3 Outsourcing a Managed Service.				
	9.3	CRM Software and Applications.				
	- 10	9.3.1 Stage-Wise Implementation Versus an Enterprise				
		Wide CRM Solution.	180			
		9.3.2 Relationships and Flows Between CRM				
		Modules	180			
	9.4	Summary				
		References 182				

10	Loyal	ty Programs: Design and Effectiveness	183			
	10.1	Overview	183			
	10.2	What Is Loyalty? Behavioral Versus Attitudinal				
		Loyalty	184			
	10.3	What Is a Loyalty Program? Definition and Key				
		Objectives	184			
		10.3.1 Building True Loyalty	185			
		10.3.2 Efficiency Profits.				
		10.3.3 Effectiveness Profits				
		10.3.4 Value Alignment.				
	10.4	Loyalty Programs: Increasing in Popularity.				
	10.4					
		Problems with Loyalty Programs.				
	10.6	Design Characteristics of Loyalty Programs				
		10.6.1 Reward Structure				
		10.6.2 Participation Requirements				
		10.6.3 Payment Function				
		10.6.4 Sponsorship.				
		10.6.5 Cost and Revenues of LPs.	196			
	10.7	Drivers of Loyalty Program Effectiveness	196			
		10.7.1 Loyalty Program Design Characteristics	197			
		10.7.2 Customer Characteristics				
		10.7.3 Firm Characteristics				
		10.7.4 Achieving a Competitive Advantage.				
	10.8	Empirical Evidence on Loyalty Program	170			
	10.0	Effectiveness	200			
	10.9	Loyalty Programs, Shackle or Reward:				
	10.9	And to Whom?	200			
	10.10		200			
	10.10	The Seven-Point Checklist for Successful	200			
	10.11	LP Design and Implementation				
	10.11 Summary					
		ndix I. Key Studies of LPs with Notable Empirical				
	Findings.					
	Refere	ences	206			
11	Comr	ooian Managamant	207			
11	Campaign Management					
	11.1					
	11.2	Campaign Management				
	11.3	Campaign Planning and Development.				
		1.3.1 Setting Objectives and Strategies.				
		1.3.2 Identifying Customer Segments				
		1.3.3 Developing the Communication Strategy				
		1.3.4 Developing the Offer				
		1.3.5 Campaign Budget				
		1.3.6 Testing	223			
	11.4	Campaign Execution	227			
		11.4.1 Implementation and Coordination				
		11.4.2 Monitoring, and Fine-Tuning				
		11.4.3 Problems to Take into Account.				

	11.5	Analysis and Control	. 230
		11.5.1 Measuring Campaign Results	230
		11.5.2 Response Analysis.	231
		11.5.3 Profile Analysis.	231
	11.6	Campaign Feedback	231
	11.7	Summary	232
	Refere	ences	234
12	Impa	ct of CRM on Marketing Channels	235
	12.1	Overview	235
	12.2	CRM and Marketing Channels	235
		12.2.1 The Role of Channels in Customer	
		Relationships	237
		12.2.2 Multichannel Trends and CRM	
	12.3	CRM and Multichannel Design	
		12.3.1 Attributes of Multichannel Designs	. 247
		12.3.2 Designing Optimal Multichannel Offers	. 249
	12.4	CRM and Multichannel Management.	251
		12.4.1 Managing Multichannel Systems: Integration	
		Versus Separation	
		12.4.2 Managing Multichannel Shoppers.	
		12.4.3 Managing Research Shoppers	
	12.5	Summary	
	Refer	ences	259
13		omer Relationship Management Issues in the	
	Busin	ness-To-Business Context	
	13.1	Overview	
	13.2	CRM and Sales Force Automation	
		13.2.1 What Is SFA?	
		13.2.2 SFA Benefits.	
		13.2.3 Conditions for Realizing Benefits.	
	13.3	CRM and Key Account Management	
		13.3.1 What Is KAM?	
		13.3.2 Implementation of the KAM Program	
	13.4	CRM and the Shift from Goods to Services.	
		13.4.1 What Are Hybrid Offerings?	. 272
		13.4.2 Advantages and Disadvantages of the Shift	
		to Hybrid Offerings.	
		13.4.3 Rules for Successful Shifts	
	13.5	Summary	
	Refer	ences	277
14	Cust	omer Privacy Concerns and Privacy Protective	
	Resp	onses.	
	14.1	Overview	
	14.2	Customer Privacy Concerns.	280

		14.2.2	Drivers of Customer Privacy Concerns	280
	14.3	Regula	ations to Protect Customer Privacy	. 287
		14.3.1	United States: Customer Privacy Protection	
			Based on Industry Self-Regulation	. 288
		14.3.2	Germany: Customer Privacy Protection Based	
			on Governmental Legislation	289
		14.3.3	Safe Harbor Provision.	
	14.4	Custor	ner Privacy Protective Responses	
	14.5		y Paradox	
	14.6	-	quences of Privacy Protective Responses	
	14.7		ations for Companies.	
	14.8	_	ary	
			ellier, Milne, & Phelps, 2009)	
			· · · · · · · · · · · · · · · · · · ·	
Par	t V	Advances	s in CRM Applications	
15	Annl	ications	of CRM in B2B and B2C Scenarios (Part I)	303
15	А <b>рр</b> і 15.1		W	
	15.1			
	13.2	15.2.1	ing Customer Profitability.	
		15.2.1	Computing CLV	
	15.2			300
	15.3		Setime-Profitability Relationship in a	206
			tractual Setting	
		15.3.1	Background and Objective	
		15.3.2	Conceptual Model	
		15.3.3	Research Methodology	
		15.3.4	Empirical Findings	
	15.4	15.3.5	Implications.	318
	15.4		for Incorporating Customers' Projected	210
			ility into Lifetime Duration Computation.	
		15.4.1	Background and Objectives	318
		15.4.2	A Dynamic Model of the Antecedents of	• • •
			Profitable Lifetime Duration.	
		15.4.3	Research Methodology	
		15.4.4	Determining Profitable Customer Lifetime	
			Duration	
		15.4.5	Analysis	
		15.4.6	Results.	
		15.4.7	Technical Appendix: Estimation of P(Alive)	. 327
	15.5		for Identifying the True Value of a Lost	
			er	
		15.5.1	Conceptual Background	328
		15.5.2	Modeling the Effects of Disadoption	
			on the Value of a Lost Customer	330

		15.5.3	The Key Determinants of the Value	
			of a Customer.	.330
	15.6	Summa	ıry	.331
	Refer	ences		.332
16	Appl	ications	of CRM in B2B and B2C Scenarios (Part II)	335
	16.!	Overvie	ew	.335
	16.2	Optima	l Resource Allocation Across Marketing and	
		Commu	unication Strategies	336
	16.3		se Sequences Analysis: Delivering the Right	
		_	ge to the Right Customer at the Right Time	338
	16.4		nk Between Acquisition, Retention, and	
			bility: Balancing Acquisition and Retention	
		Resource	ces to Maximize Customer Profitability	339
	16.5		ting Customer Churn.	
	16.6	Custom	ner Brand Value.	
		16.6.1	What Is Customer Brand Value?	344
		16.6.2		
			Lifetime Value	345
		16.6.3	What Are the Managerial Benefits of Linking	
			Customer Brand Value to Customer Lifetime	
			Value?	
	16.7	Custon	ner Referral Value.	
		16.7.1		.346
		16.7.2	r	
			Be Computed?	347
		16.7.3	How Can Customer Referral Value Be Linked	
			to Customer Lifetime Value?	. 349
		16.7.4	What Are the Managerial Benefits of Linking	
			Customer Referral Value and Customer Lifetime	
			Value?	. 349
		16.7.5	What Should the Focus Be on: Customer Referral	
			Value or Customer Lifetime Value?	
	16.8		ary	
	Refer	rences		355
17	Futu	re of CR	RM	357
	17.1		ew	
	17.2		CRM	
		17.2.1	Popular Social Media Channels	
		17.2.2	Consumer-to-Consumer Interaction: A New	
			Marketing Portal	361
		17.2.3	Social CRM Strategies: How to do it?	
		17.2.4	Sentiment Analysis.	
		17.2.5	A Final Word on Social CRM.	
	17.3	Global	CRM (GCRM).	
		17.3.1	Informational Technology Needs.	
		1732	<b>.</b> .	368

### Contents

17.4	Databas	se CRM
	17.4.1	Introduction 369
	17.4.2	Cloud Computing 369
	17.4.3	Privacy Issues and Concerns. 371
17.5	Summa	ry
Refer	rences	
Index		