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Promotion strategies of customer relationship management

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ABSTRACT

In an era of rapidly changing technology and increasing reliance on the web, lasting customer relationship are critical to thrive in the market place, reorganizing company has become competitive mandate, not an option. e-CRM is just the right way to go about it. The need for e-CRM is dictated primarily by the new global electronic economy. CRM is a well-defined business strategy, is a fusion of series of functions, skills, processes and technologies which together allow companies to more profitably manage. It is a management approach to understanding and influencing customer behavior. A good thought experiment for an executive audience is to ask them how much they spend and focus on acquisition versus retention activities. By combining the abilities to respond directly to customer requests and to provide the customer with a highly interactive, customized experience, companies have a greater ability today to establish, nurture, and sustain long-term customer relationships than ever before.

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1. Introduction

The essence of the information technology revolution and, in particular, the World Wide Web is the opportunity to build better relationships with customers than has been previously possible in the offline world. By combining the abilities to respond directly to customer requests and to provide the customer with a highly interactive, customized experience, companies have a greater ability today to establish, nurture, and sustain long-term customer relationships than ever before. The ultimate goal is to transform these relationships into greater profitability by increasing repeat purchase rates and reducing customer acquisition costs. Indeed, this revolution in customer relationship management (CRM) has been referred to as the new “mantra” of marketing.¹ The need to better understand customer behavior and focus on those customers who can deliver long-term profits

has changed how marketers view the world. Traditionally, marketers have been trained to acquire customers, either new ones who have not bought the product category before or those who are currently competitors’ customers. This has required heavy doses of mass advertising and price-oriented promotions to customers and channel members.²

The concept of customer relationship management has gained its importance in marketing domain. It is generally described as a comprehensive strategy including processes of retaining and partnering with selective customers to create value for both the company and customers. Today, the tone of the conversation has changed from customer acquisition to retention. This requires a different mindset and a different new set of tools. A good thought experiment for an executive audience is to ask them how much they spend and focus on acquisition versus retention activities.³ Based on the philosophy that retailers can increase their profitability by building relationships with their better customers, the goal of CRM is to develop a base of loyal

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customers who patronize the retailer frequently. In other words, it is the process of developing and managing long term relationships with customers so that they will keep coming back make repeat purchases. 70 percent of the average company's sales come from present customers. It makes more sense to focus resources on keeping the best customers than to spend than chasing fair weather customers who will defect to any better deal that comes along. Customers have a life time value to a business and that keeping the best customers over time may be a company's greatest sustainable advantage.⁴

CRM means different things to different people; for some it is direct e-mails. For others, it is mass customization or developing products that fit individual customers' needs.⁵ For IT consultants, CRM translates into complicated 4 technical jargon related to terms like OLAP (on-line analytical processing) and CICs (customer interaction centers). The objective of CRM is more than having customers make repeat visits to a retailer and being satisfied with their experiences.

Customer loyalty to a retailer means that customers are committed to purchasing merchandise and services from the retailer and will resist the activities of competitors attempting to attract their patronage.⁶ They have a bond with the retailer, and the bond is based on more than a positive feeling about the retailer. Programs that encourage repeat buying by simply offering price discounts can be easily copied by competitors. In addition, these types of price-promotion programs encourage customers to always look for the best deal rather than develop a relationship with one retailer.⁷ However, when a retailer develops an emotional connection with a customer, it is difficult for a competitor to attract that customer. Emotional connections develop when customers receive personal attention.⁸ This change in perspective is supported by research indicating that it costs three to six times more to sell products and services to new customers than to existing customers and that small increase in customer retention can lead to dramatic increases in profits.⁹

In this context the major purpose of this paper is to provide a managerially useful, end-to-end view of the CRM process from a marketing perspective. The basic perspective taken is that of the customer, not the company; what managers need to know about their customers and how that information is used to develop a complete CRM perspective.

2. Background

2.1. CRM process

CRM is a process that turns customer data into customer loyalty through four activities:

2.1.1. Collecting customer data

The process begins with the collection and analysis of data about a retailer's customers and the identification of target customers.

2.1.2. Analyzing the customer data and identifying target customers

The analysis translated the customer information into activities that offer value to the targeted customers.

2.1.3. Developing CRM programs

The activities are executed through communication program undertaken by the marketing department. Having segmented customers according to their future profit potential, the next step in CRM process is to develop programs for the different customer segments.

2.1.4. Implementing CRM programs

Customer service programs implemented by customer contact employees, typically sales associates.

2.2. Customer Retention

There are four approaches that retailers use to retain their best customers:

1. Frequent shopper programs
2. Special customer services
3. Personalization
4. Community

Till recently, most marketers focused on traditional modes of marketing to segment and acquire new customers from its target segments, using the tools and techniques developed for mass marketing in the industrial era, as a way to engender growth. In the present competitive era, this is highly ineffective, there is a different approach to business that involves relationship marketing, customer retention and cross-selling, leading to customer extension, which is a far cry from the traditional segmentation models. The relative and marked emergence of CRM as a business strategy has radically transformed the way organizations operate.¹⁰ There has been a shift in business focus from transactional to relationship marketing where the customer is at the center of all business activity and organizations are now desperately trying to restructure their processes around the needs of their strategically significant customers. The critical driver of such a dramatic shift towards customer orientation is the realization that customers are a business asset that when managed effectively can derive continuous and sustainable economic value for an organization over their lifetime.

The dynamics of the business ecosystem have changed the way in which companies do business both in relationship management and the streamlining of their operations. Relationship management is emerging as the core business

activity for companies operating in fiercely competitive environments. On an average, business spends six times more to acquire new customers than to keep them. Therefore, many firms are now paying more attention to their relationships with existing customers to retain them and increase their share of customer's purchases.

2.2.1. Customer retention strategies

The cost of acquiring customers is nine to ten times more than the cost of retaining existing ones. Instead of rushing headlong into CRM, it is important for companies to realize the customer it is targeting the kind of loyalty they need to build with them and identify the technology that will be used.

Retaining and developing customers has long been a critical success factor for businesses. In that sense, Customer Relationship Management is not new, previously falling under the guise of customer satisfaction. Worldwide, service organizations have been pioneers in developing customer retention strategies. Banks have relationship managers for select customers, airlines have frequent flyer programs to reward loyal customers, credit card companies offer redeemable bonus points for increased card usage, telecom service operators provide customized services to their heavy users, and hotels have personalized services for their regular guests.¹¹ It is, however, with the rapid rise of new entrants into the market place and increased competition that companies in other sectors have recognized the business potential within a captured base. CRM software applications facilitate the coordination of multiple business functions (such as sales, marketing, customer services, and support) and also coordinate multiple channels of communication with the customer face to face, call centers and the Web, so that organizations can accommodate their customers preferred channels of interaction.

3. Analysis and Discussion

3.1. Advantages of CRM

The advantages of customer relationship management are manifold. It allows organizations not only to retain customers, but enables more effective marketing, creates intelligent opportunities for cross selling and opens up the possibility of rapid introduction of new brands and products. To be able to deliver these benefits, organizations must be able to customize their product offering, optimize price, integrate products and services and deliver the service as promised and demanded by the customer base.

Keeping the customer happy is obviously one way of ensuring that they stay with the organization. However, by maintaining an overall relationship with the customer, companies are able to unlock the potential of their customer base and maximize the contribution to their business. Whilst the value of customer relationship management has

been identified by organizations, the full implications and benefits are yet to be.¹² Those responsible for delivery are perhaps the most informed about these strategic benefits yet the transformation is a long-drawn-out process.

The strategic benefits of customer relationship management allow companies to reduce the cost of customer acquisition and give established players the ability to react like a new market entrant. Ironically these are increased and the potential of customers can be then capitalized through cross selling of other products and services. It is important to understand the key benefits of CRM for most companies; these benefits generally fall into three categories: cost savings, revenue enhancement, and strategic impact.

3.2. Technology-an enabler for CRM

Developments in information technology, data warehousing and data mining have made it possible for firms to maintain relationship with their customers. Firms can now manage every single contact with the customer from account management personnel, call centers, interactive voice response systems, on-line dial-up applications, and websites to build lasting relationships. These interactions can be used to glean information and insights about customer needs and their buying behavior to design and develop services, which help to create value for the customers as well as the firms. Although customized as well as off the shelf technological solutions are available in the marketplace, businesses need to do a lot more than just adopt these solutions to implement customer relationship management (CRM) practices.

CRM offers huge potential benefits but requires a more sophisticated approach adapted to specific opportunities and circumstances. At the core of any technology enabler for CRM is the customer database. This represents the data hub that integrates the various statistical modeling, campaign management, contact history and response tracking components of the marketing campaign life cycle.¹³ The technology layer and its integration with emerging business processes is therefore the key to successful implementation of a data-driven customer relationship management.

To take advantage of the benefits of CRM, a company must undertake a structured process that ensures the automation venture does not become the automation misadventure. For effective implementation of CRM concept, it is important to identify which process to automate and which not to automate. Reengineering could be improved for providing complete end-to-end set of activities that together create value for a customer. It should be coupled with the complete vision of the business process, keeping customer as its base. Top management commitment, personnel motivation, user training and prototyping the system are the other key factors for successful implementation of CRM concept.

3.3. Implementation

Customer relationship management is accomplishable. However, the following guidelines must be taken into consideration before embarking upon its implementation.

1. Evaluate and plan. All aspects of customer relationship management, including technology solutions, must be fully explored to effectively deliver the competencies required to realize the business benefits.
2. Tackling any one competence alone will lead to a dysfunctional business. One competence does not make customer relationship management.
3. Take pragmatic steps with a clear view on delivery of all the components in the medium term, rather than adopting a piecemeal approach in the short term.
4. Successful mass customization is crucial to reducing customer acquisition costs and improving the cross-selling capability.
5. Channels are a delivery mechanism. The effectiveness of the mechanism can be achieved only when it is seamless.

Customer relationship management, if implemented successfully, enables companies to capitalize and grow their business. Still relationship marketing appears to be an expensive alternative to firms practicing mass marketing due to the relatively high initial investment. Firms would adopt relationship marketing only if it in CRM has the potential to benefit them. The benefits come through lower costs of retention and increased profits due to lower defection rates. When customers enter into a relationship with a firm, they are willingly foregoing other options and limiting their choice. Some of the personal motivations to do so result from greater efficiency in decision making, reduction in information processing, achieving more cognitive consistency in decisions and reduction of perceived risks with future decisions.

It is generally accepted that it costs more to acquire a customer than to retain an existing one. However, identifying valuable customers is also important. There is still a trend that a customer must be kept no matter what the cost to the organization, even if it means incurring a loss. It is a realization that countless organizations have been oblivious to and in the process have experienced substantial customer churn. Successful implementation of CRM requires a strategic approach, which encompasses developing customer eccentric processes, selecting and implementing technology solutions, employee empowerment, customer information and knowledge generation capabilities to differentiate them, and the ability to learn from outstanding practices.

3.4. CRM vital lifeline for company's survival

Competitive environment, eroding margins, need to reduce costs, finding and keeping customers are the prime drivers for organizations. The need for CRM, however, varies across different industries citing an example, the need for a manufacturing industry to use CRM would be to tailor made products for its customers, while range of product offerings. Many experts view that happy employees in turn give happy customers.

3.5. CRM is basically an offshoot of data mining

There is a serious necessity to keep an intelligent database, which is the key for a good implementation of CRM. Data mining ensures to change the heavily loaded database into an intelligent database worthy of taking intelligent decisions. It's a process of extraditing valid previously unknown actual business information into useful data capable of taking intelligent decisions.

3.6. CRM Applications

1. Customer knowledge
2. Sales effectiveness
3. Customer retention
4. Customer segmentation
5. Product presentation
6. Customer fulfillments
7. Customer acquisition
8. Channel management
9. Marketing intelligence
10. Campaign management

3.7. Strategies for the promotion of CRM

There are three strategies that are widely used to boost the sales promotion activities. These are; push strategy, pull strategy, and a combination of both.

4. Push strategy

It is the work a manufacturer of a product needs to perform to get the product to the customer. This may involve setting up distribution channels and persuading middle men and retailers to stock the product. The push technique can work particularly well for lower value items such as fast moving consumer goods (FMCGs), when customers are standing at the shelf ready to drop an item into their baskets and are ready to make their decision on the spot. This term now broadly encompasses most direct promotional techniques such as encouraging retailers to stock the product, designing point of sale materials or even selling face to face. New businesses often adopt a push strategy for their products in order to generate exposure and a retail channel. Once a brand has been established, this can be integrated with a pull strategy. In a push strategy the company is sure that

its customers want the product. The only thing lacking is the lack of push the products have from the intermediaries i.e., the wholesalers and retailers. In this the company provides incentives to these intermediaries and asks them to push the product by increasing its sale. This kind of strategy is usually involved in products where there is fierce competition amongst producers and the intermediaries are given heavy margins by each producer to ensure his product is given the preference. The important Push tactics are:

1. Trade show promotions to encourage retailer demand
2. Direct selling to customers in showrooms or face to face
3. Negotiation with retailers to stock the product
4. Efficient supply chain allowing retailers an efficient supply
5. Packaging design to encourage purchase
6. Point of sale displays

5. Pull strategy

Pull strategy refers to customer actively seeking out products and retailers placing orders for stock due to direct consumer demand. A pull strategy requires a highly visible brand which can be developed through mass media advertising or similar tactics. If customers want a product, the retailers will stock it - supply and demand in its purest form and this is the basis of a pull strategy. Create the demand, and the supply channels will almost look after themselves. By adopting this strategy the producer works with the intermediaries, especially the retailers to better present the products not only in shelves but also improve its general outlook. The important Pull tactics are:

1. Advertising and mass media promotion
2. Word of mouth referrals
3. Customer relationship management
4. Sales promotions and discounts

5.1. Strategy

This kind of strategy is adopted when the company thinks that the products need a push from both sides. Neither the intermediaries are pushing the product of the company to the extent nor the customer knows or is interested in the product. To make this thing really happen the company simultaneously launches a two prong battle. This strategy is obviously more cost bearing and takes more time to materialize. In this strategy the company not only gives heavy margins to the intermediaries like the wholesalers and distributors, but also tries to attract the customers by making its products more attractive in shelves and packaging.

5.2. CRM in banks and financial services

The focus of banks has shifted from their orientation from transaction marketing to cultivation of relationship

marketing. Customer relationship management has become a requisite fixture at many companies around the world. Also, organizations are realizing that customers have different economic value to the company and are subsequently adapting their customer offerings and strategies accordingly. Thus, organizations are in essence, moving away from product or brand-centered marketing towards a customer-centered approach. Many organizations turn to CRM software to help them manage their customer relationships.¹⁴ CRM technology is offered on-premise, on-demand or through Software as a Service CRM, depending on the vendor. Recently, mobile CRM and the open source CRM software model have also become more popular.

Sales promotion has been one of the most heavily used weapons of the producers and manufacturers. It is counted amongst one of their most effective ways of boosting their sales. Sales promotion has certain misconceptions attached to it. One of the most obvious is that sales promotion is only considered as targeted only at the wholesalers. There are many ways to promote the sales. Sales promotion can be targeted at the wholesaler, retailer or even at times the end customer. There are various methods that are used. First of all, a producer or manufacturer should be able to know his channel members i.e., is the intermediaries and the end customer very well. Moving a product through all these members to the end customer is not an easy job. It takes a lot of patience and understanding. There are many strategies built around the philosophy of moving the products through.

It's inevitable fallout of brand proliferation and mounting competition. And, one that not even the bluest of blue chip brand marketers have been able to escape. As parity products abound, advertising alone can no longer provide the edge in the marketplace. And to beef up their brands, marketers have taken resort to direct marketing, promotions and tele-marketing. But all that is still not enough to keep customers loyal to brands. "Relationship management is an attempt at a long-term relationship and is in an exercise in brand building, with interaction between the brand and the consumer the companies have to move beyond the conventional methods of marketing to relationship marketing.

5.3. Future of CRM

With the increased penetration of CRM philosophies in organizations and the concomitant rise in spending on people and products to implement them, it is seen that, improvements in how companies work to establish long-term relationships with their customers. However, there is a big difference between spending money on these people and products and making it all work: implementation of CRM practices is still far short of ideal. Everyone has his or her own stories about poor customer service and emails sent

to companies without hearing a response. More companies are recognizing the importance of creating databases and getting creative at capturing customer information. Companies will learn how to develop better communities around their brands giving customers more incentives to identify themselves with those brands and exhibit higher levels of loyalty. One way that some companies are developing an improved focus on CRM is through the establishment or consideration of splitting the marketing manager job into two parts: one for acquisition and one for retention. The kinds of skills that are need for the two tasks are quite different. People skilled in acquisition have experience in the usual tactical aspects of marketing: advertising, sales, etc. However, the skills for retention can be quite different as the job requires a better understanding of the underpinnings of satisfaction and loyalty for the particular product category.

6. Conclusion

Customer relationship management is a strategic approach that is concerned with creating improved value through the development of appropriate relationships with key customers and customer segments. Customer relationship management unites the potential of relationship marketing strategies in long-term and in the relationships with customers and other employees. The key aspects of customer relationship management are customer satisfaction and customer retention. Customer relationship management provides enhanced opportunities to use data and information to understand customers. This requires a cross-functional integration of human resource and marketing capabilities. CRM is a widely-implemented strategy for managing a company's interactions with customers, clients and sales prospects. It involves using technology to organize, automate, and synchronize business processes, principally sales activities, but also those for marketing, customer service, and technical support. The overall goals are to find, attract, and win new clients, nurture and retain those the company already has, entice former clients back into the fold, and reduce the costs of marketing and client service. Customer relationship management describes a company-wide business strategy including customer-interface departments as well as other departments. CRM consists of four dimensions such as customer identification, customer attraction, customer retention, and customer development. Customer identification is meant to identify segments of potential customers, each of which includes customers who are relatively similar. Customer attraction attempts to attract the target customer segments by motivating customers to place orders through various channels. Customer retention refers to the activity of preventing the existing customers from switching to competitors by enhancing the level of customer satisfaction through one-to-one marketing, loyalty program, complaints management, etc. Customer development, the

ultimate goal of CRM, aims to maximize the revenue by expanding transaction intensity, transaction value and individual customer profitability through customer lifetime value analysis, up/cross selling and market basket analysis. Information-technology enabled strategy aimed at identifying, targeting, acquiring, and retaining the best mix of customers. CRM helps in profiling prospects, understanding their needs, and in building relationships with them by providing the most-suitable products and a very high level of customer service. It integrates back and front office systems to create a database of customer contacts, purchases, information requested, technical support, etc. This database helps the firm in presenting a unified-face to its customers, and improving the quality of relationship.

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8. Conflict of Interest

None.

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