Managing Customer Data & Knowledge
For Competitive Advantage

A Process-Oriented Framework for CRM
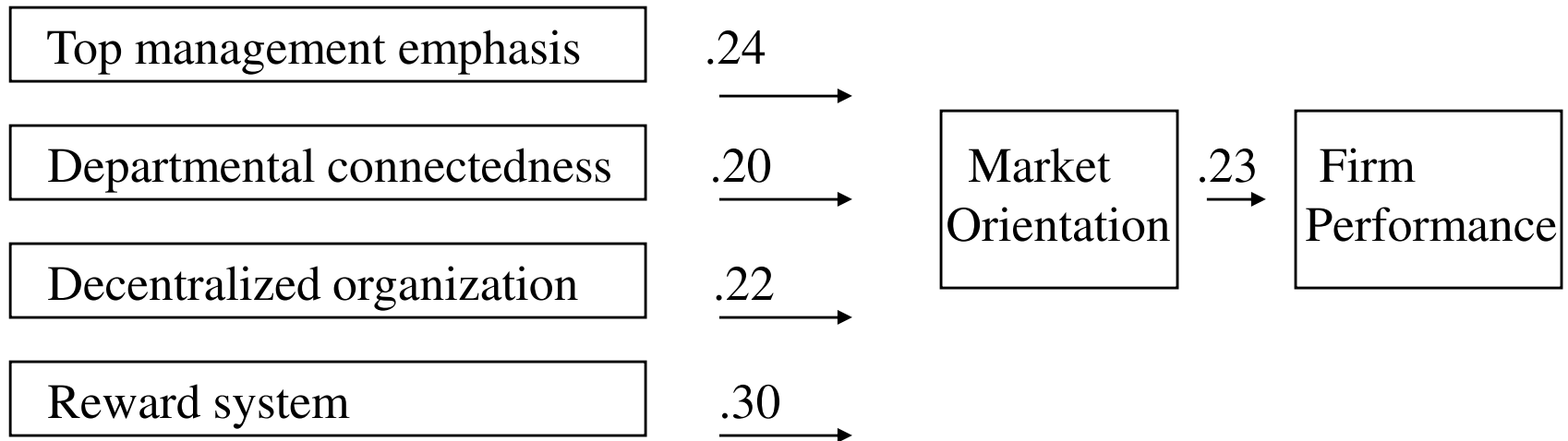
Information

| Customer | Firm |
| Interaction | Learning/Planning |

Actions

Source: Swift 2001

A Process-Oriented Framework for CRM

Information

Customer	Firm
Interaction	Learning/Planning

Actions

Source: Swift, 2001
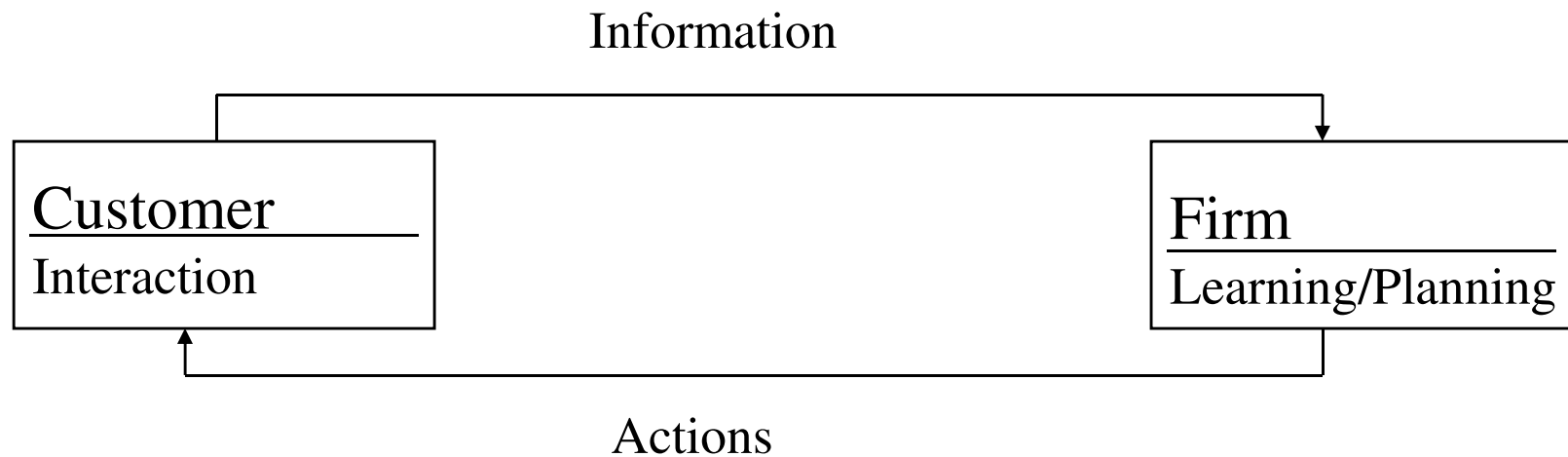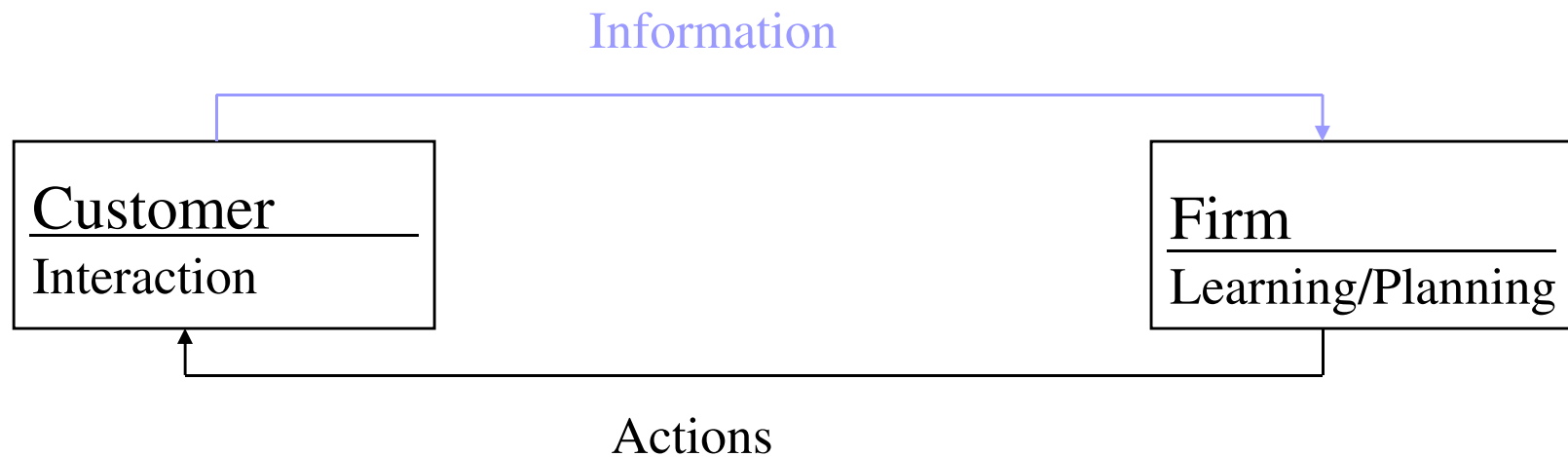
Is Customer Information a Source of Competitive Advantage?
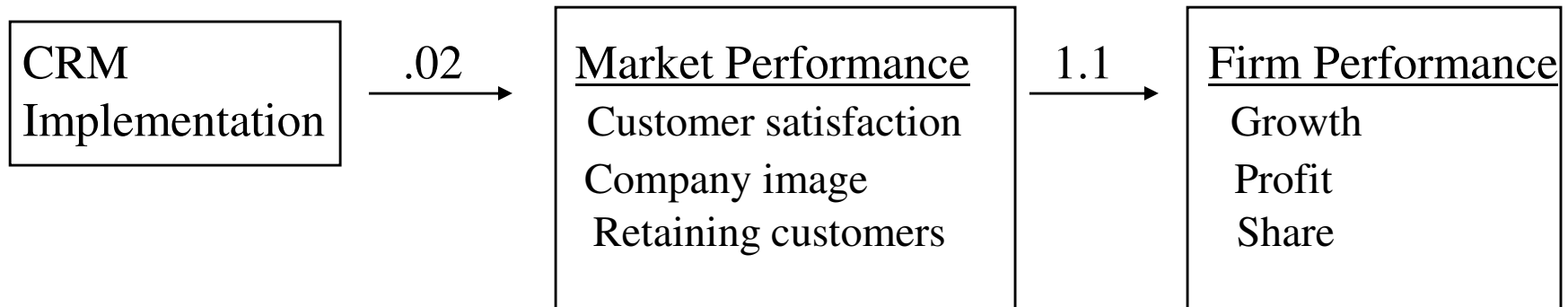
- Marketing Orientation: the generation and utilization of customer information (Jaworski and Kohli, 1993)

Top management emphasis	.24
Departmental connectedness	.20
Decentralized organization	.22
Reward system	.30

Market Orientation → .23 → Firm Performance

- But, Market Orientation ≠ CRM

Recent Work Suggests CRM Can Improve Firm Performance.
(Reinartz, Kraft and Hoyer, 2002)

CRM Implementation		.02 →	Market Performance		1.1 →	Firm Performance	

CRM Implementation   .02 →   **Market Performance**   1.1 →   **Firm Performance**

- Customer satisfaction
- Company image
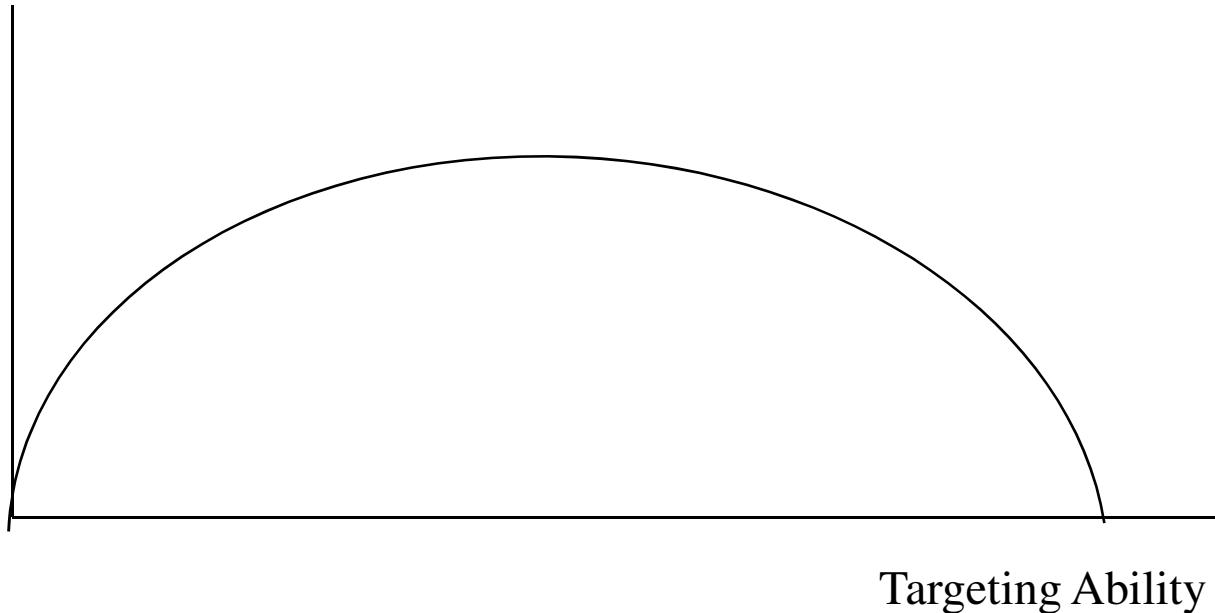- Retaining customers

- Growth
- Profit
- Share

But what about competitive response?
Is this sustainable in the long run?

Economic Analysis of Competitive Advantage
(Chen, Narasimhan and Zhang, 2001)
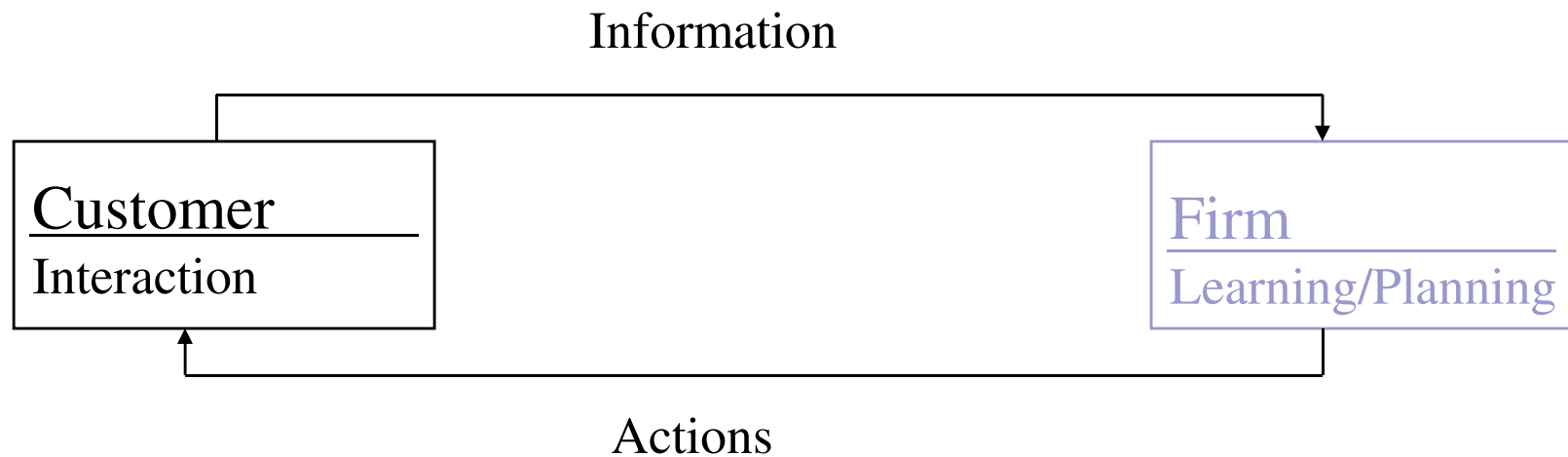
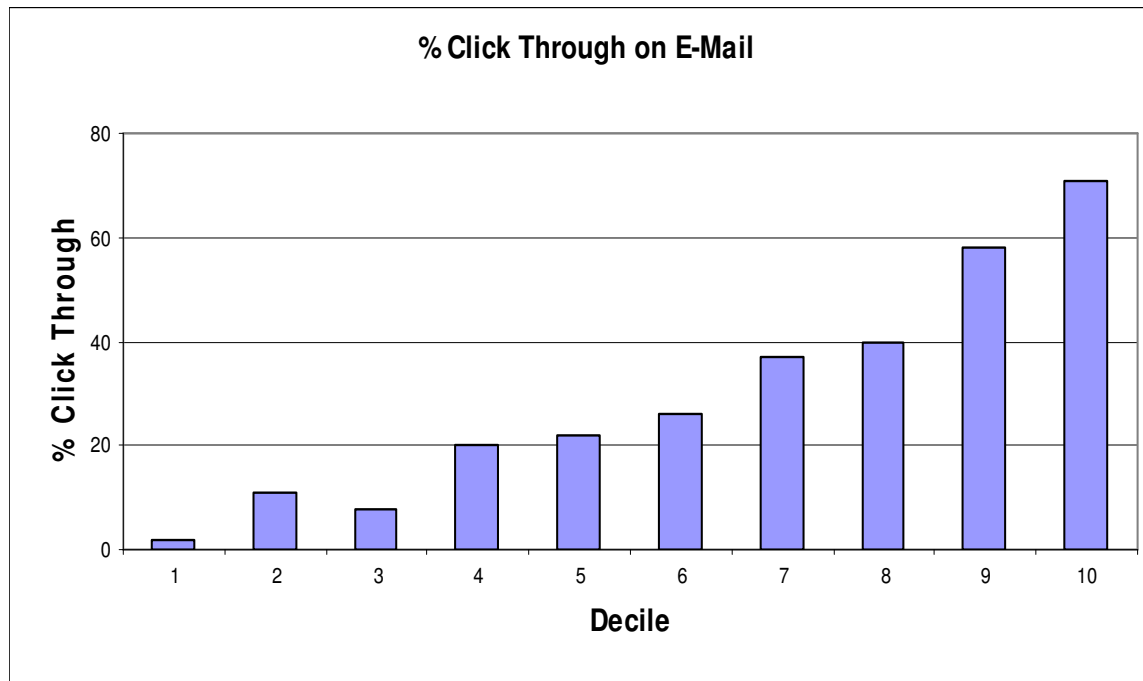Better targeting can be a double-edged sword:

Challenge # 1

Make CRM a sustainable competitive advantage.

- Which organizational factors are crucial?

- Avoid prisoner's dilemma of spiraling CRM efforts.

- Is privacy friend or foe?

Focusing on the Firm

Information

Customer
_____

Interaction

Firm
_____

Learning/Planning

Actions

Response Models Clearly Can Predict Customer Behavior.

% Click Through on E-Mail

Response Models Perform Better Than Managerial Judgment.

Response rate and revenues from top decile:

	# Customers	Response Rate	Revs/Customer
Model	23,877	1.13%	$ 8,249
Judgment	23,639	.44%	$ 6,735

Source: Knott, Hayes and Neslin, 2002

There Is "Low-lying Fruit" for Achieving Predictive Accuracy

- But then it's more difficult to improve.

Percentage Who Buy Predicted Product
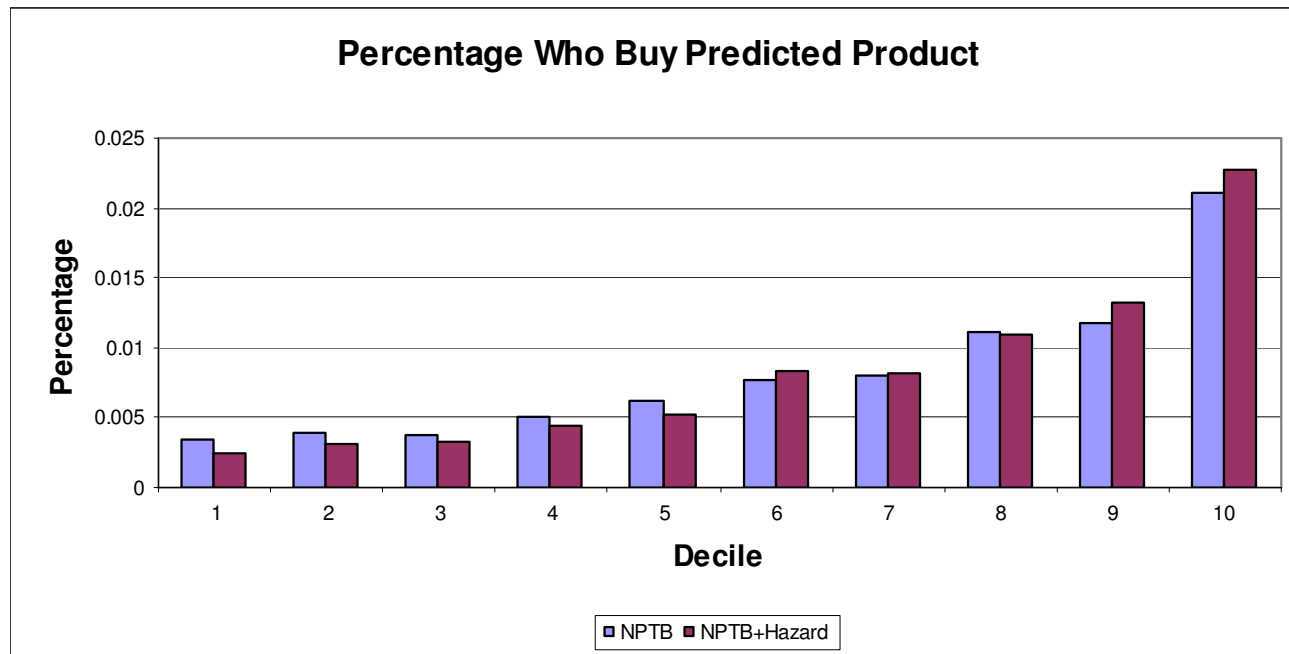
Source: Knott, Hayes, and Neslin, 2002

The Difference Seems More to be the Data Than the Technique.

Contribution to Predictive Accuracy
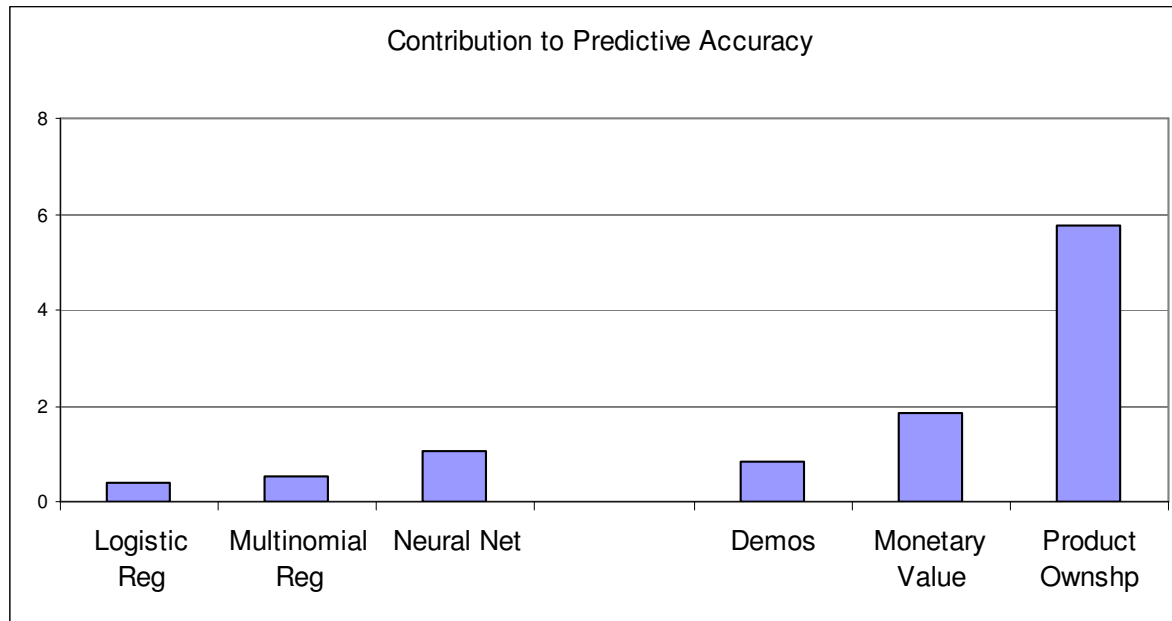
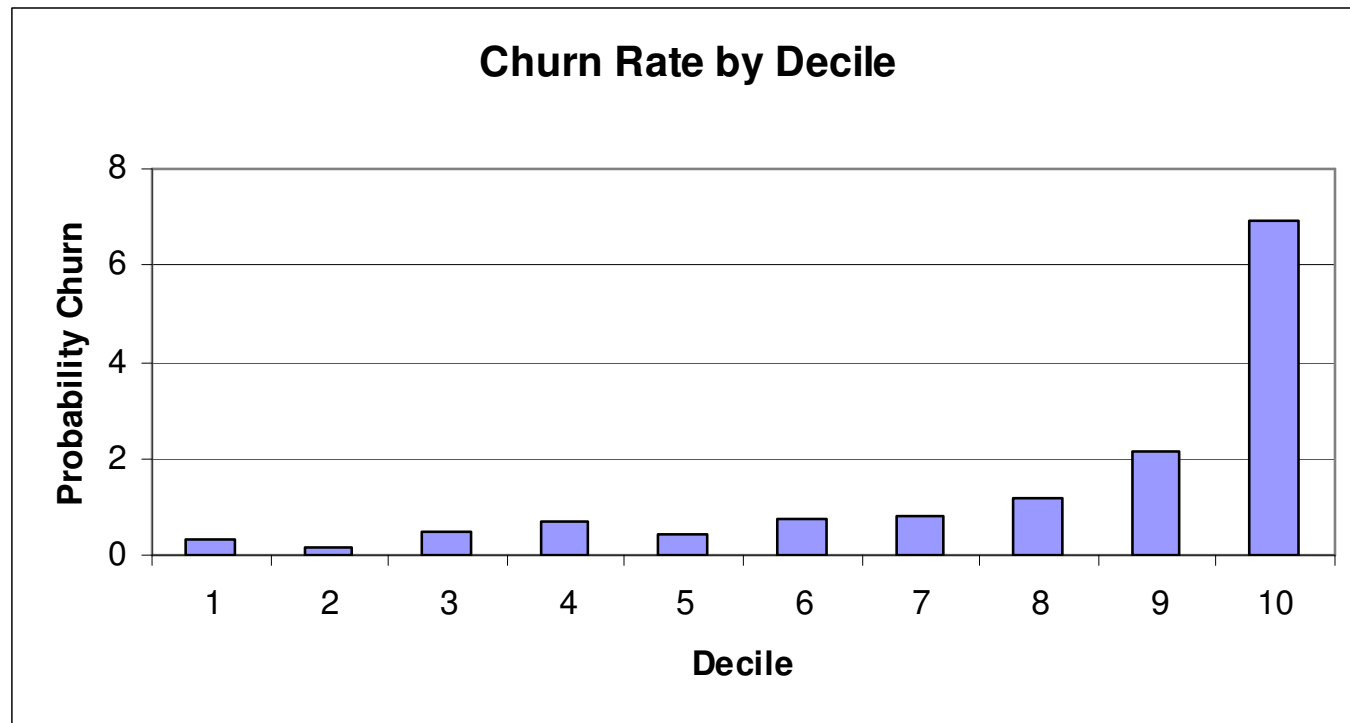
Source: Knott, Hayes, and Neslin, 2002

Challenge # 2:

Develop response modeling capabilities that really make a difference.

- Better than judgment.

- Better than competition.

- Is it the data or the technique?

Even Good Models May Not be Enough: The Problem of Churn Management.

Churn models produce decent lift:

Churn Rate by Decile

The Churn Management Dilemma

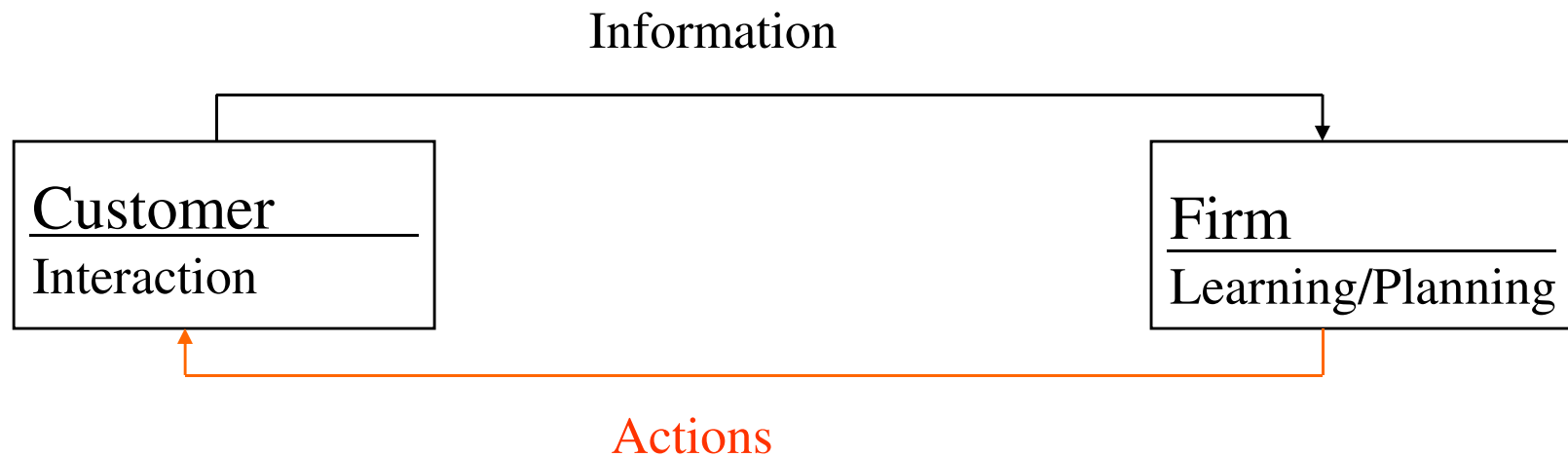|	Intervene early	Intervene late
Expenditure/Customer	Low	High
Predictive Accuracy	Medium	Perfect

Challenge # 3:

Manage churn effectively.

- Trade off early vs. late intervention.

- Need accurate churn prediction models.

Developing the Right Actions

Information

Customer
Interaction

Firm
Learning/Planning

Actions

Do Multiple Channels Cannibalize or Synergize?

- Direct mail channel can increase sales over retail.

Group	# Customers	Response Rate	Revs/Customer
Model	23,877	1.13%	$8,249
Control	1,209	.50%	$7,475

Source: Knot, Hayes and Neslin, 2002

- But, this need not be the case.

A Model of Channel Migration
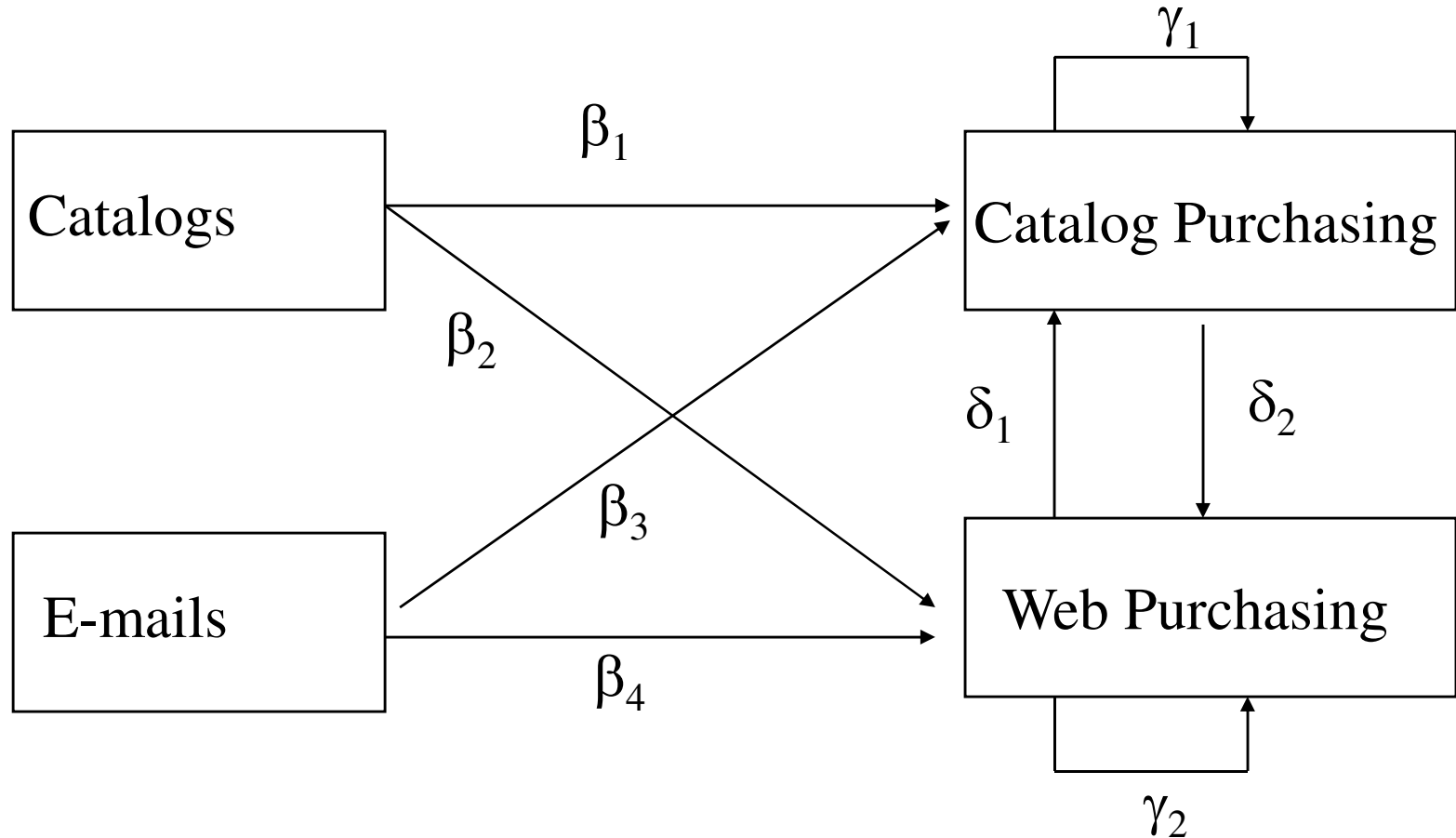
β's = marketing impact of channel migration.
γ's = inertial channel loyalty.
δ's = cross-channel synergy/cannibalization.

Challenge # 4:

Manage the customer channel portfolio.

- Generate incremental sales.

- Trade off versus costs.

- Market segmentation.

Loyalty Programs for Customer Retention

- Reward programs can generate incremental sales
  (Lewis, 2002)
  - On line retailer
  - Reward earned at $1,000, $1,500 and $2,000

- Program pulls customers to higher spending levels.

Distribution of Expenditures
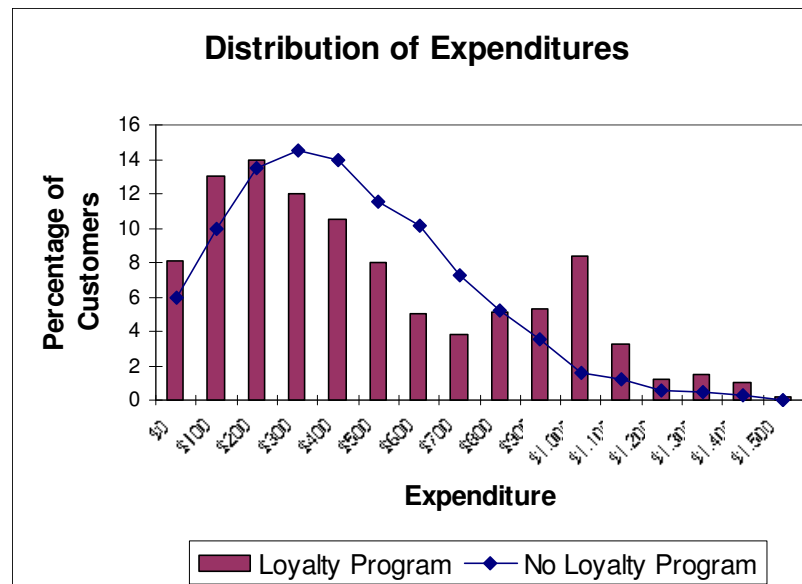
But What is the Competitive Impact?

	Firm B	
	Loyalty Program	No Loyalty Program
Firm A — Loyalty Program	Profit = 70,70 Price = $1.40, $1.40	Profit = 80, 65 Price = $1.55, $1.70
Firm A — No Loyalty Program	Profit = 65, 80 Price = $1.70, $1.55	Profit = 74, 74 Price = $1.90, $1.90

Source: Kopalle and Neslin, 2001

Frequent Shopper Programs

Who stands to benefit → manufacturer or retailer?

Answer: BOTH!

Key is to segment customers and target.

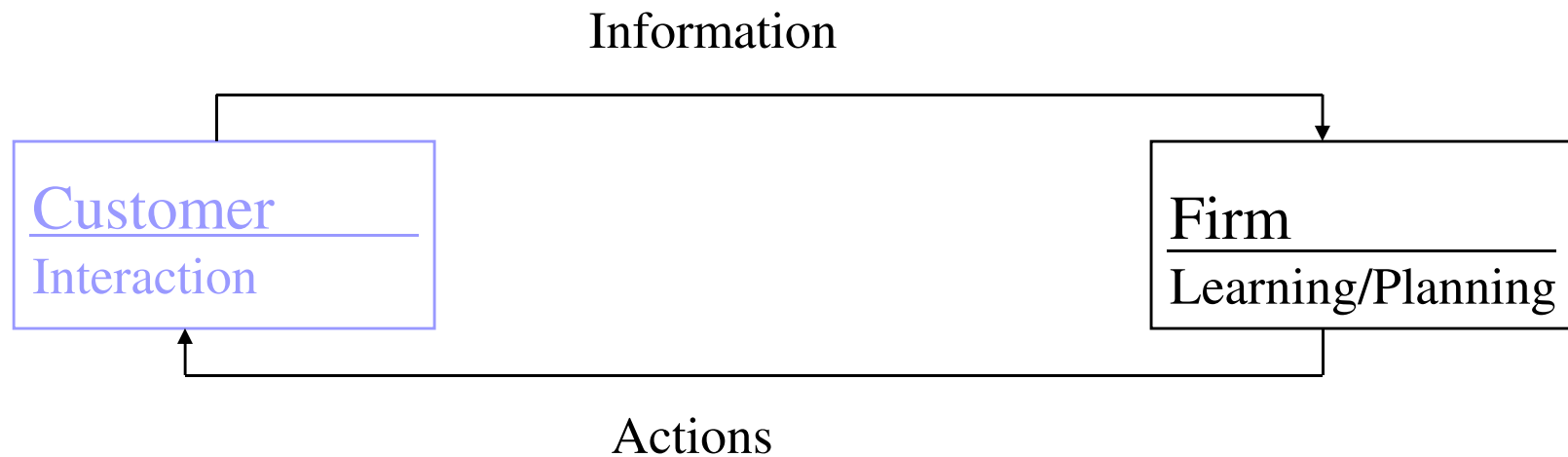|	Category Growth Potential	
	Hi	**Lo**
Loyalty Enhancement **Hi** Potential	Win/Win	Mfr. Wins
Lo	Retailer Wins	Lose/Lose

Challenge # 5

Design loyalty programs that work.

- Evaluate programs.

- Grow the market.

- Create win-win with partners.

Managing the Interaction

Information

| Customer | | Firm |
| Interaction | | Learning/Planning |

Actions

Source: Swift 2001

It's All About Customer Satisfaction

106 online retailers

Order trading	.17 →
Product selection	.22 →
Customer support	.21 →
On time delivery	.46 →

Customer Satisfaction → .20 → Business Performance Cash flow

Source: Srivastava and Moorman, 2002
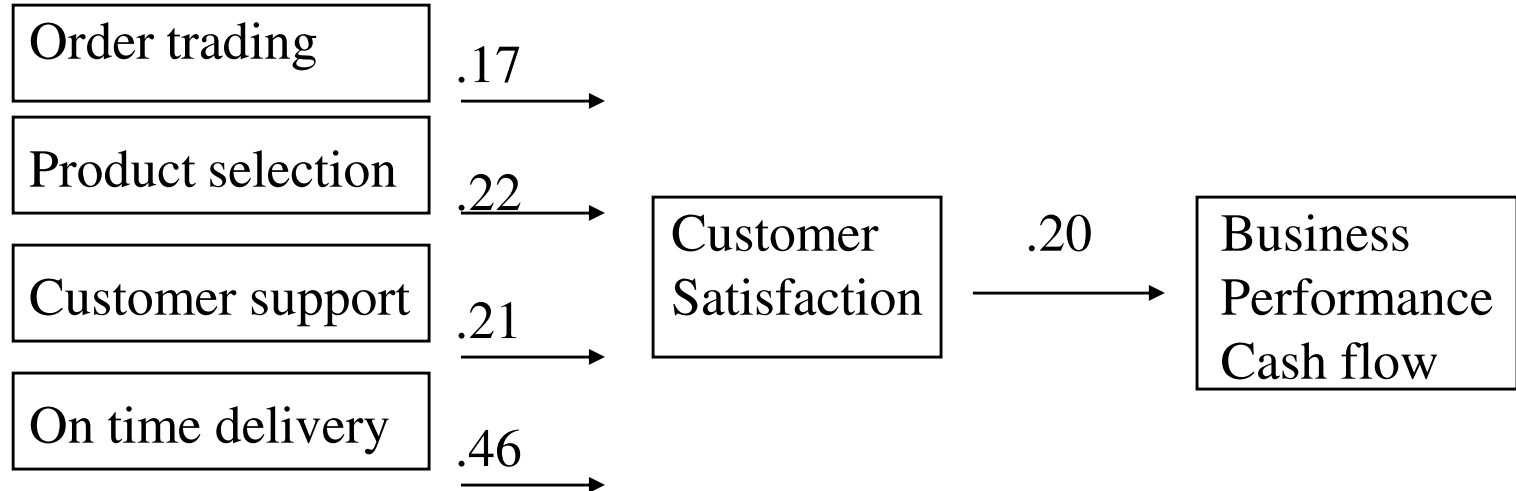
The Customer's View of Relationships

Firms view the relationship in terms of acquisition, retention, share-of-wallet and RFM.
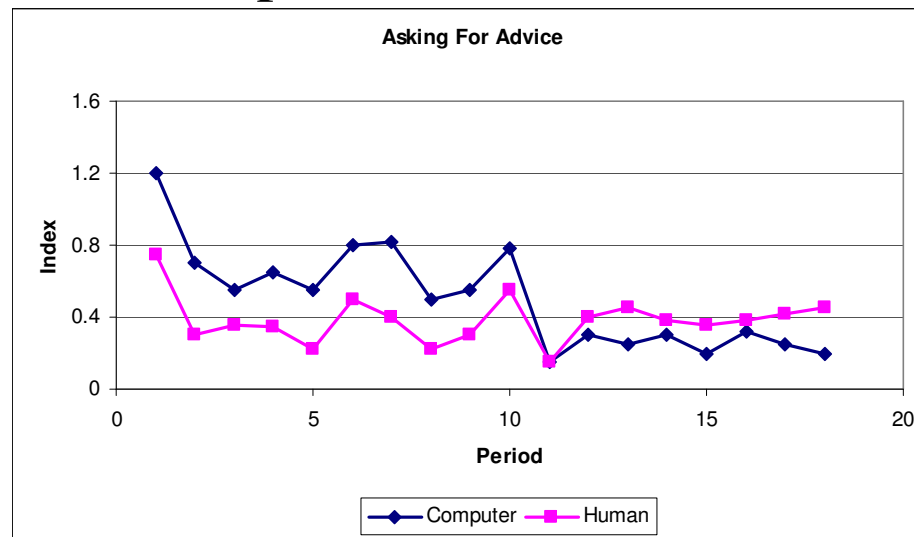
Customers view it in terms of :
- Utility: Product benefits
- Meaning: Friendship, Flings, Enmities
- Complexity: Fits into life's routine, involves family
- Dynamics: Always changing

Source: Fournier, 1998

- Investment website
  Subject decides what to invest each period.
  Market 'crash' in period 10.

Asking For Advice

- Subjects react differently to computer vs. human.
- Are less forgiving of computer than human.

Challenge # 6

Manage the relationship

- Focus on satisfaction

- Take the customer perspective

- Human vs. machine interaction

Customers Need to Trust That They Are Getting A Good Deal, or At Least A Fair Deal

- Impact of Brand A offering a targeted promotion to Brand B switchers.

.23

Brand B Switchers

Brand A Loyals

-.12

Customer Acquisition   Customer "Betrayal"
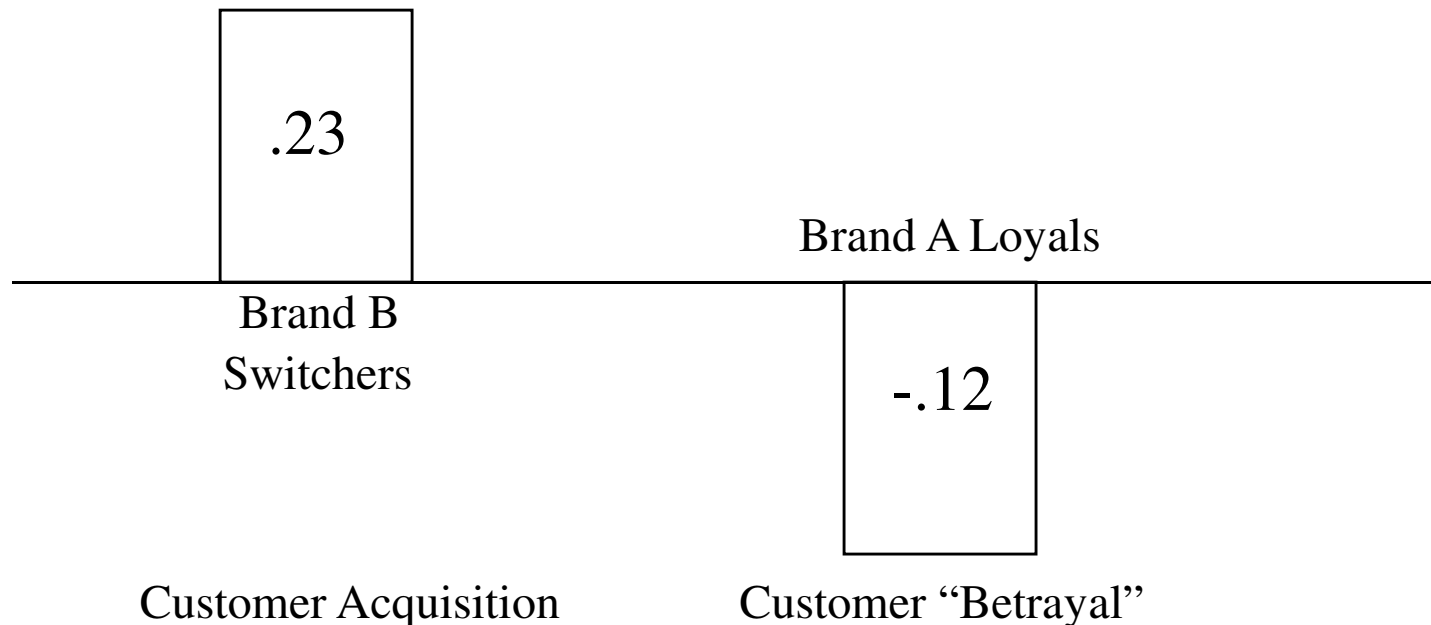
- Target marketing can 'turn-off' loyals who are aware that they are not targeted.

Challenge # 7

Balance the nurturing of current customers with the need to attract new ones.

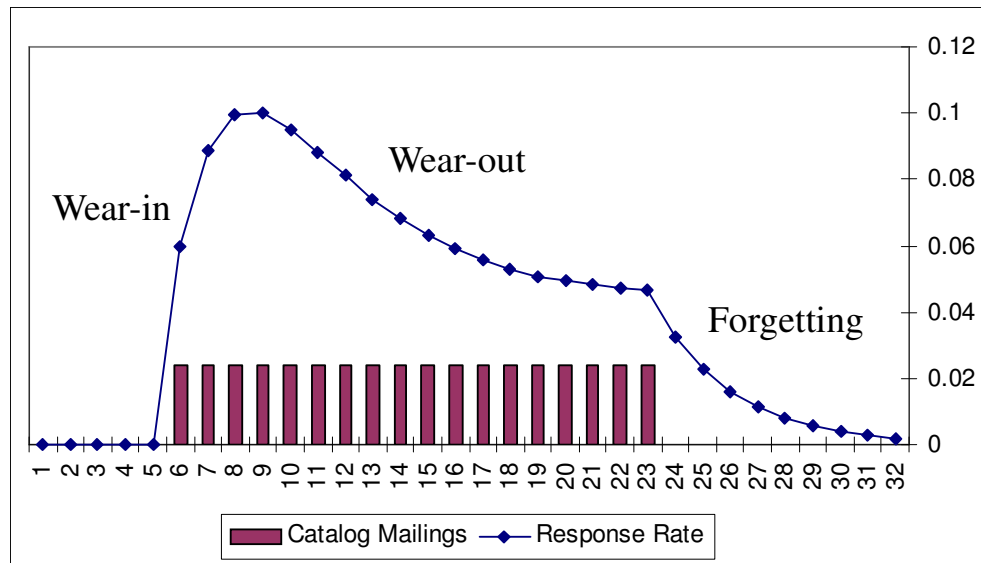- Don't betray your loyals.

- Be aware of 'leakage.'

Managing the Complete Process

Information

Customer
Interaction

Firm
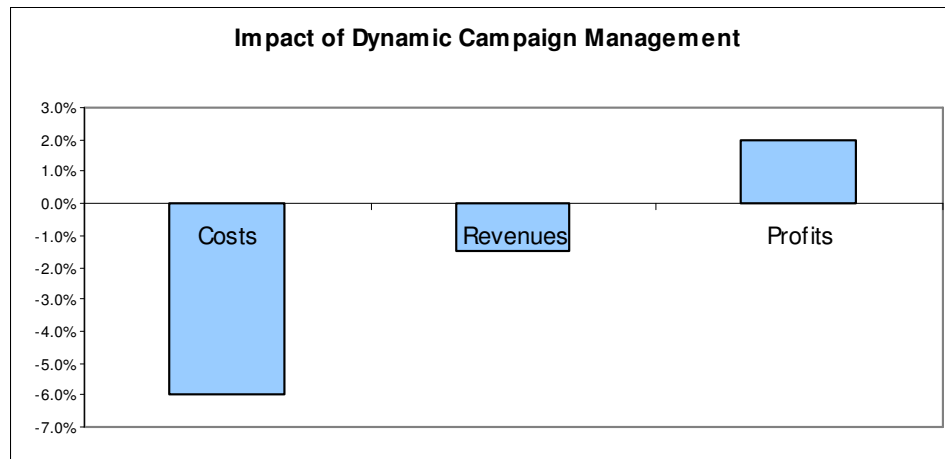Learning/Planning

Actions

Modeling the CRM Process: Multiple Campaigns

The key concepts are wear-in, wear-out, and forgetting

Multiple Campaign Management Can Improve ROI

- Fingerhut (Campbell et al. 2001)

- 700,000 test – use multiple campaign system

- 700,000 control – use current system

Impact of Dynamic Campaign Management

(Bar chart showing: Costs at approximately -6.0%, Revenues at approximately -0.5%, Profits at approximately +2.0%. Vertical axis ranges from -7.0% to 3.0%.)

Challenge # 8

Manage multiple campaigns

- Measure wear-in, wear-out, and forgetting.

- Develop forward-looking methods.

- Develop forward-looking mentality.

Challenge # 9

- Balance product-centric vs. customer-centric marketing.
- To whom do we sell product 4 vs. what do we sell to customer 1002.

Customer	Prod 1	Prod 2	Prod. 3	Prod 4
1000	.1	.1	.6	.2
1001	.2	.1	.6	.1
1002	.1	.5	.1	.3
1003	.2	.2	.1	.3
1004	.1	.3	.2	.4
1005	.3	.3	.2	.2
1006	.5	.1	.1	.3
1007	.1	.6	.1	.2
1008	.5	.2	.2	.1
1009	.7	.1	.1	.1

Challenge # 10

Need to study and manage CRM as part of the big picture.

Society
Firm Performance
Competition
Organization
Marketing Strategy
CRM

10 Challenges For CRM - the Academic Perspective

1.   Make CRM a sustainable competitive advantage.
2.   Develop response models that really make a difference.
3.   Manage churn effectively.
4.   Manage customer channel portfolio.
5.   Develop loyalty programs that work.
6.   Manage the *relationship*.
7.   Nurture current customers while attracting new ones.
8.   Manage multiple campaigns.
9.   Balance product-centric and customer-centric marketing.
10.   Manage CRM as part of the big picture.