Customer Relationship Management

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Definition of CRM

CRM is the
strategic process of

selecting the customers
a firm can most profitably serve and

shaping the interactions
between a company and these customers with the

objective of
optimizing current and future value
of customers for the company.

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A Changing World – Customers

	Traditional Approach	Today's Approach
Natureofexchange	Transaction	Relationship
Marketing	Customeracquisition	Customerretention
Focus	Products	Customers
Buyersare	Ill-Informed	Well-Informed
Powerlieswith	Sellers	Buyers
Productsandservices	Standardized, made-to-inventory	Customized, made-to-order
Communication	Massapproach	Targetedapproach
Performancemetrics	Productprofit,volume, marketshare	Customerprofit,life-time value,loyalty

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CRM Strategy: Objectives

- Why do you want to engage in customer relationship management?
  - Greater efficacy : Better customer insights enable a firm to better match the right products and services with the right customers at the right time for the right price in the right quantities
  - Strategic CRM: hard to implement, requires substantial changes, significant potential for improving business performance
- IT is only an enabler

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CRM Strategy: Challenges

- CRM: Better customer insights
  - What kind of data must be collected and analyzed to better understand customers and develop a CRM strategy?
  - What are key implementation obstacles?
  - How big is the potential for improved performance?
  - What else is needed to develop lasting and profitable customer relationships?

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CRM Strategy: Basics

- Relationship has to be mutually beneficial (win-win)
  - –Value *to* the customer
  - –Value *from* the customer
- Business objective is to maximize value from the customer
  - –Without delivering superior value to the customer there is no business

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CRM Strategy: Objectives

- Why do you want to engage in customer relationship management?
  - Greater efficiency : Do what you do at lower cost
    - Better allocate sales people
    - Replace snail-mail with e-mail, telephone access with Internet access
  - Tactical CRM: can be implemented relatively quickly, but has limited potential to improve business performance

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Competitive Advantage With CRM

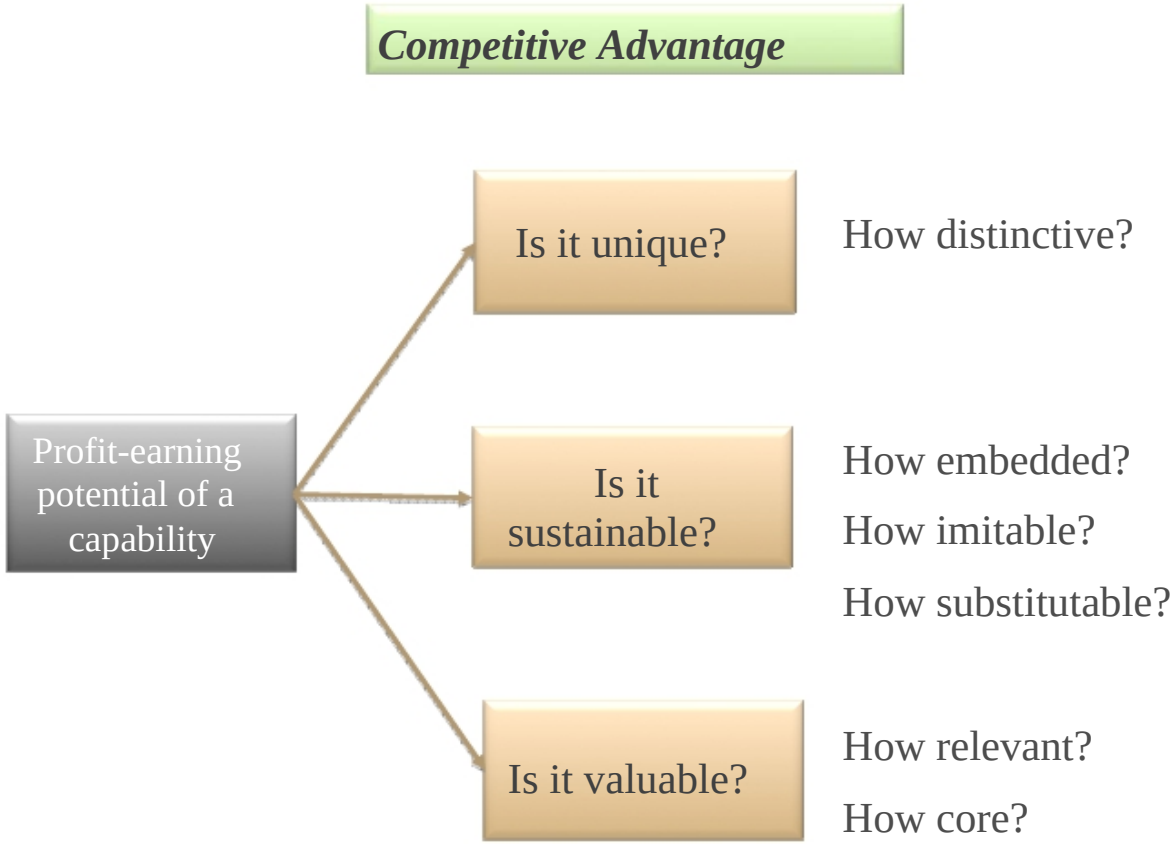


- Competitive advantage can be defined as …

  … a company's ability to outperform rivals in terms of sustained profitability .

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Establishing Competitive Advantage



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Customer & Consumer Focus



- Understand the consumer
  - Look for dissatisfied consumers across segments and identify a new way to configure segments
  - Focus on the decision making process, including the consumption stage
  - Identify the different members of the decision making unit and understand the role they play and what drives their decision making
  - Provide ONLY the features consumers want
  - The entire organization needs to be consumer focused

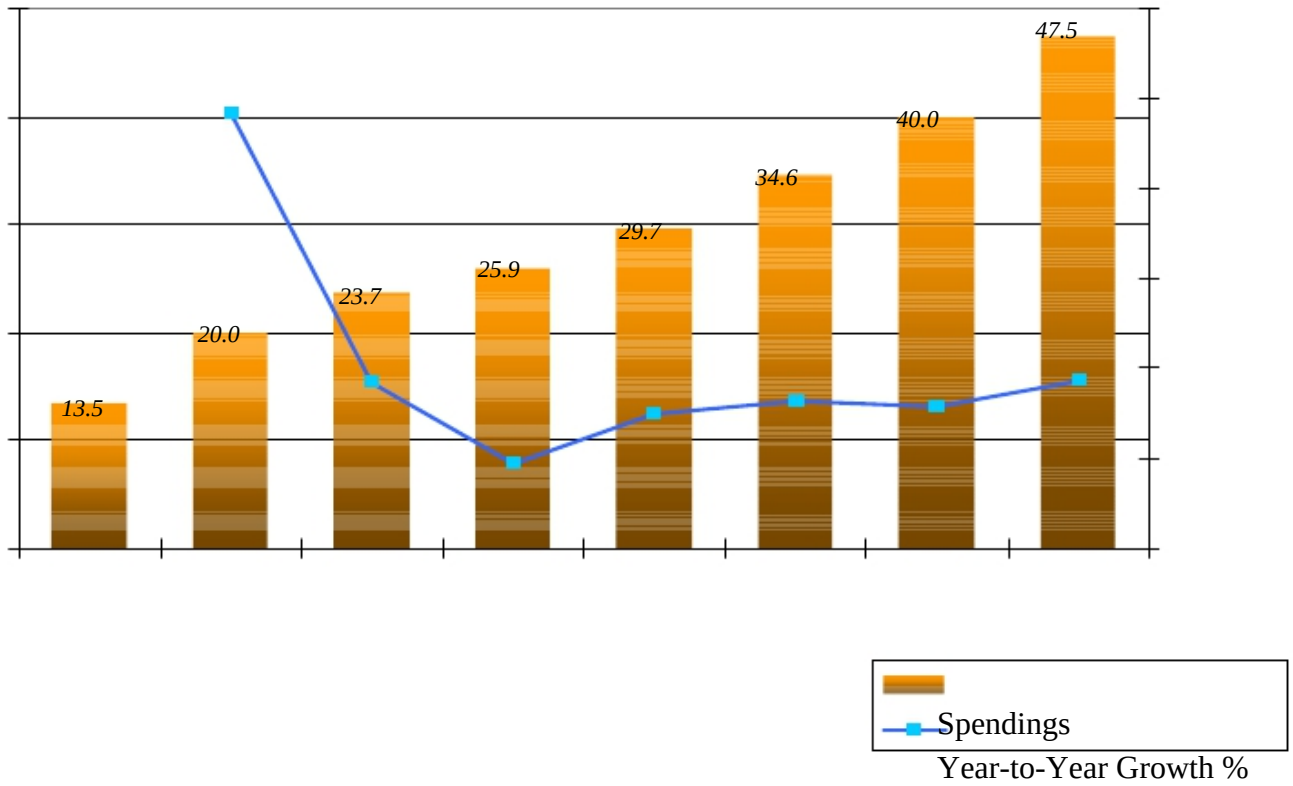
Customer-Focused Management



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Whatever CRM Is – Firms Invest in IT

Approximate Worldwide CRM Investments
(applications, hardware and services)

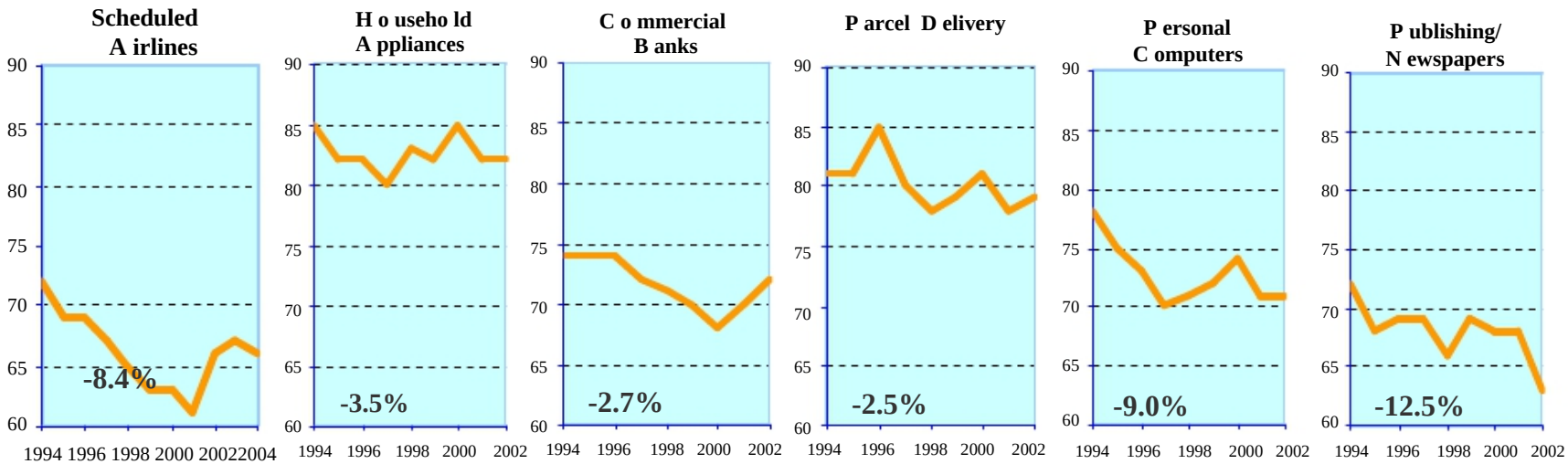


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Decreasing Customer Satisfaction

American Customer Satisfaction Index (ASCI)

more than 50.000 consumes,
measuring overall satisfaction with products and services.



Source: http://www.theacsi.org, University of Michigan

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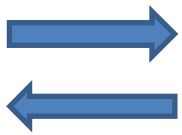
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What is Strategy?

What is Strategy?

An organization's approach towards long-term value creation (& capture)…

Where to play?
(Scope)

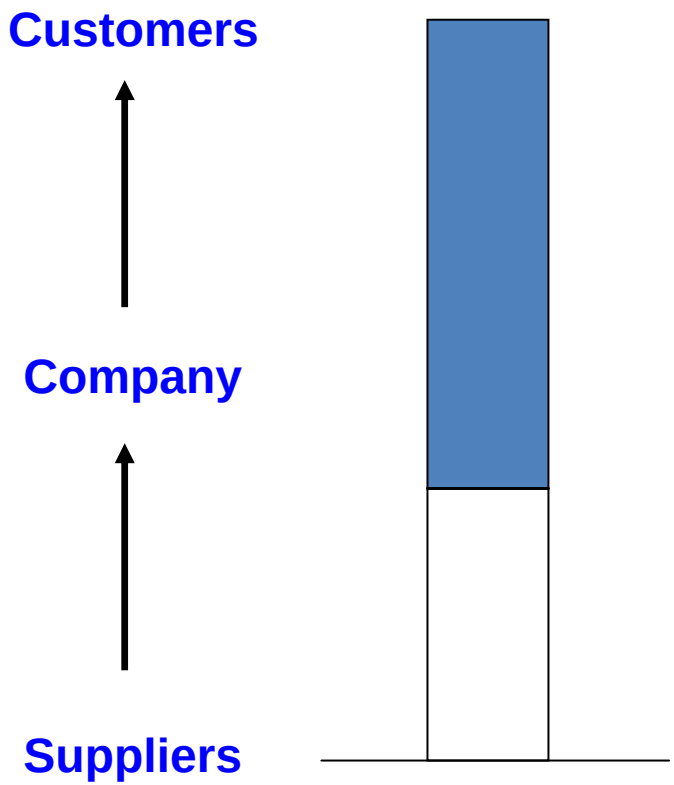


How to win?
(Competitive Advantage)



External Environment
Organizational Resources & Capabilities

What really is “value creation”?



Willingness to pay (WTP): **The value that the buyer attaches to the product or service, i.e., the most he/she could ever pay for it**

Cost to Deliver (CTD): Opportunity cost of all inputs (e.g., raw materials, capital and labor) required to produce one unit of the product.

More on “Willingness to Pay” (WTP)...



Two Approaches for Value Creation



vs.



- Moving towards the productivity frontier
- Achieving efficiency & industry best practice

- Looking for an uncrowded & viable position on the frontier
- Achieving unique value creation for some customers

Competitive Advantage: Key Questions

Where to play?

Is there an economically viable target customer segment for which WTP significantly exceeds CTD for your product?

How to win?

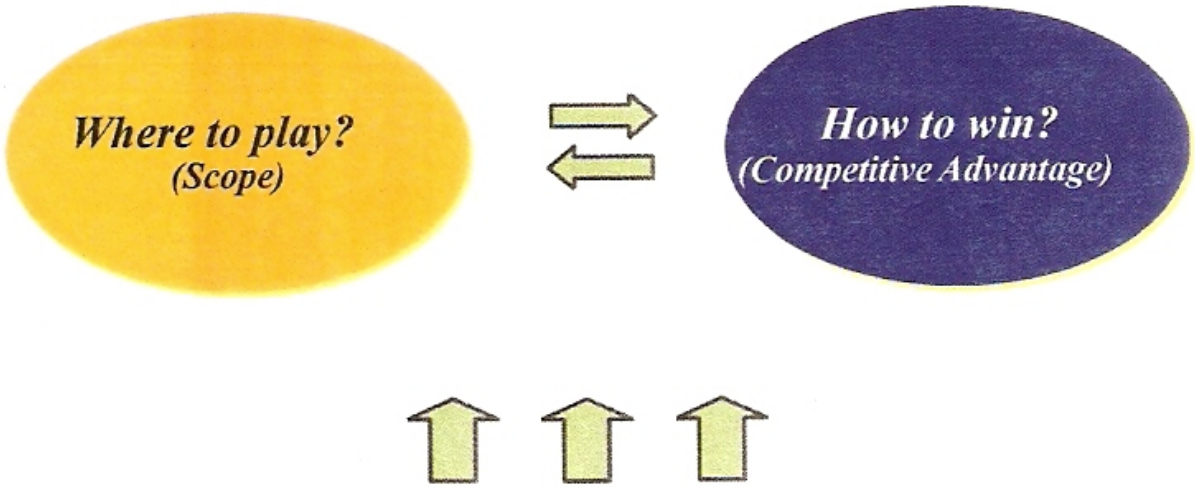
Are you competing just on the basis of operational effectiveness? Or do you have a unique strategic position supported by inherent trade-offs in activities?

Why you?

What distinct resources or capabilities support your strategy? Which new ones should you be investing in for the future?

Recap: What is Strategy?

An organization's approach towards long-term value creation (& capture).



The Circus Industry









How attractive is circus as a business?

Cirque du Soleil











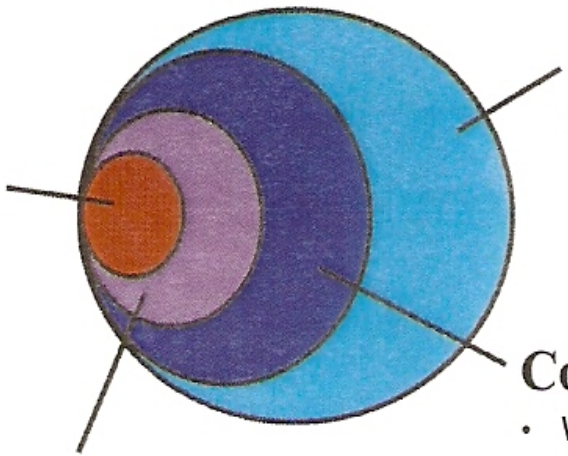








Taking a Broad View of Customers…



Core Customers

- Which customer are well-served by this industry?

Unknowing Non-customers

- Which customers have not even thought of the product as an option?

Conscious Non-customers

- Which customers knowingly reject the offering?

Reluctant Customers

- What kind of customer are at a risk of dropping out (of the industry)?

Southwest Airlines



Southwest Voted Best Airline in the World
Source: Financial Times, December, 2001

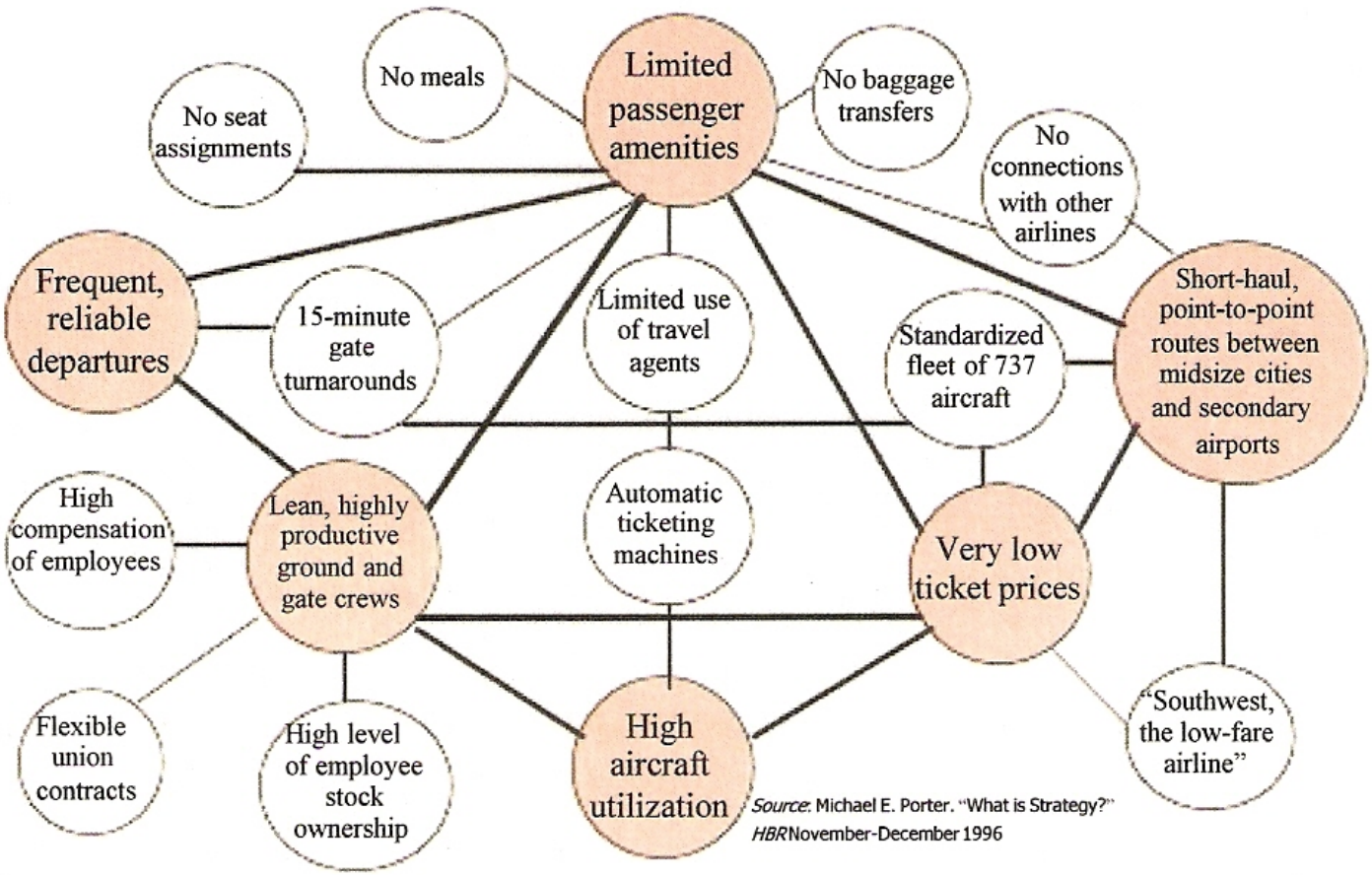
Southwest 2Q Profit Soars 41 Percent
Source: Wallstreet Journal, July 15, 2005

The Nation's Best Performing Stock From 1972 Through 2002
Source: Money, Fall, 2002

Southwest's Profits Beat the Rest of the Industry's Combined
Source: Fortune, August, 2004

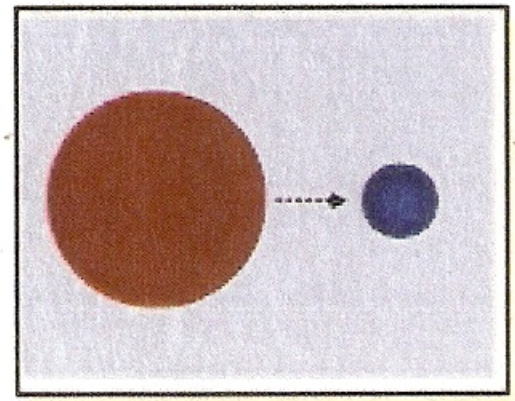
Southwest Tops List of 100 Best Companies to Work for
Source: Fortune, January, 1998

Southwest Airlines

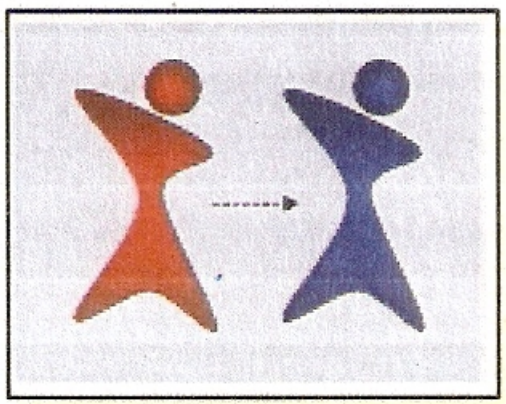


Source: Michael E. Porter. "What is Strategy?" *HBR* November-December 1996

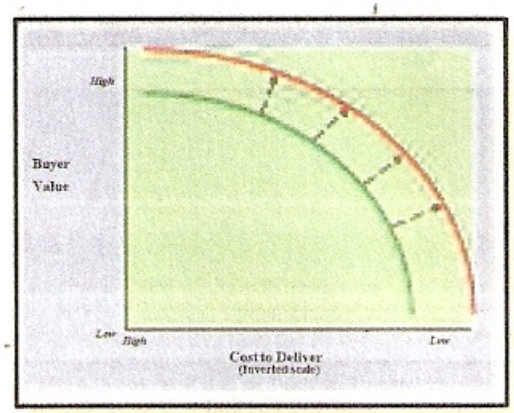
Blue Ocean Strategy: Key Principles



1. *Redefine assumed levers of customer value*

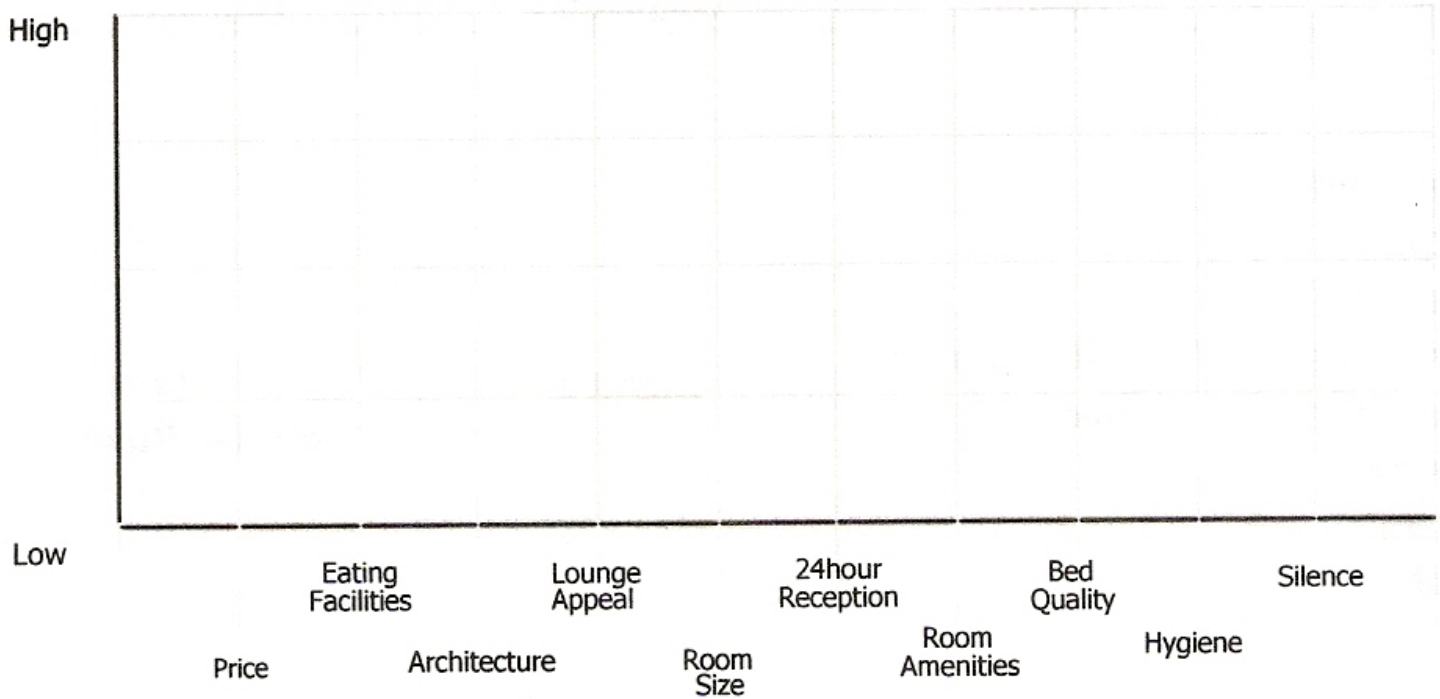


2. *Think beyond your industry's view of the customers*



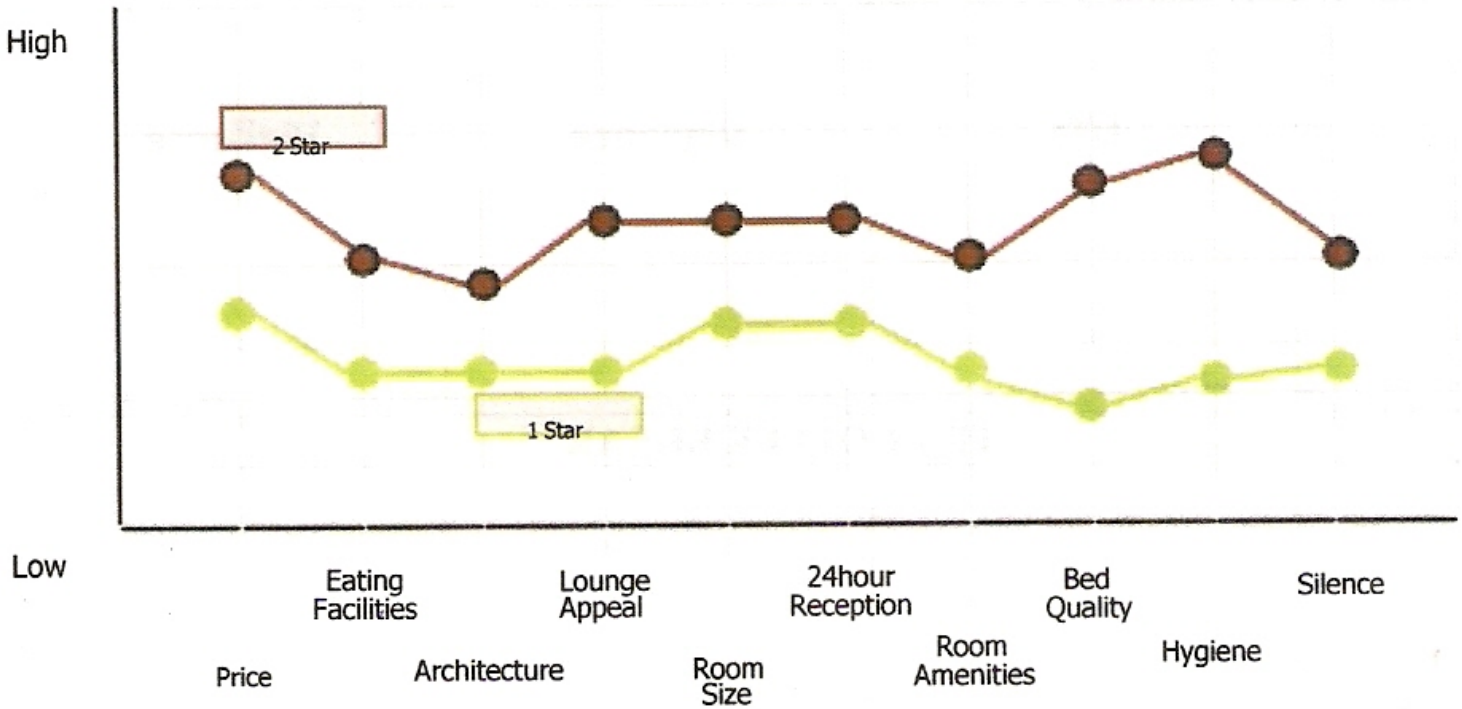
3. *Don't take the cost-value trade-off for granted*

Strategy Canvas: The Hotel Industry



Key Elements of Buyer Value

Value Curves ("As-Is")



Key Elements of Buyer Value

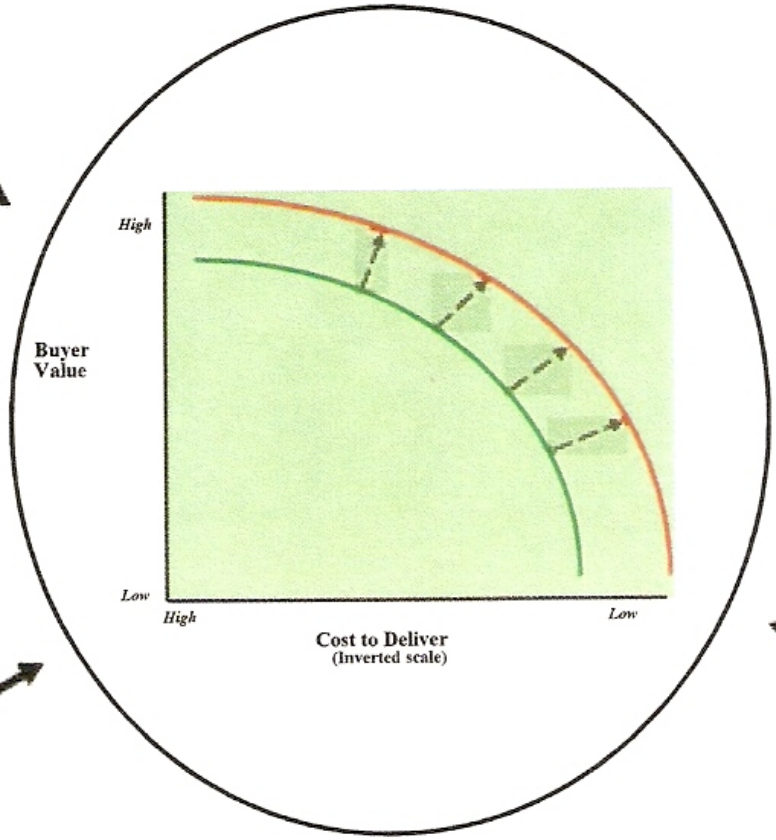
Four Simple Questions

Create

What factors should be *created* that the industry has never offered?

Raise

What factors should be raised *well* beyond the industry standard?



Eliminate

What factors should be *eliminated* that the industry has taken for granted?

Reduce

What factors should be reduced *well* below the industry standard?

Eliminate-Reduce-Raise-Create (ERRC) Grid

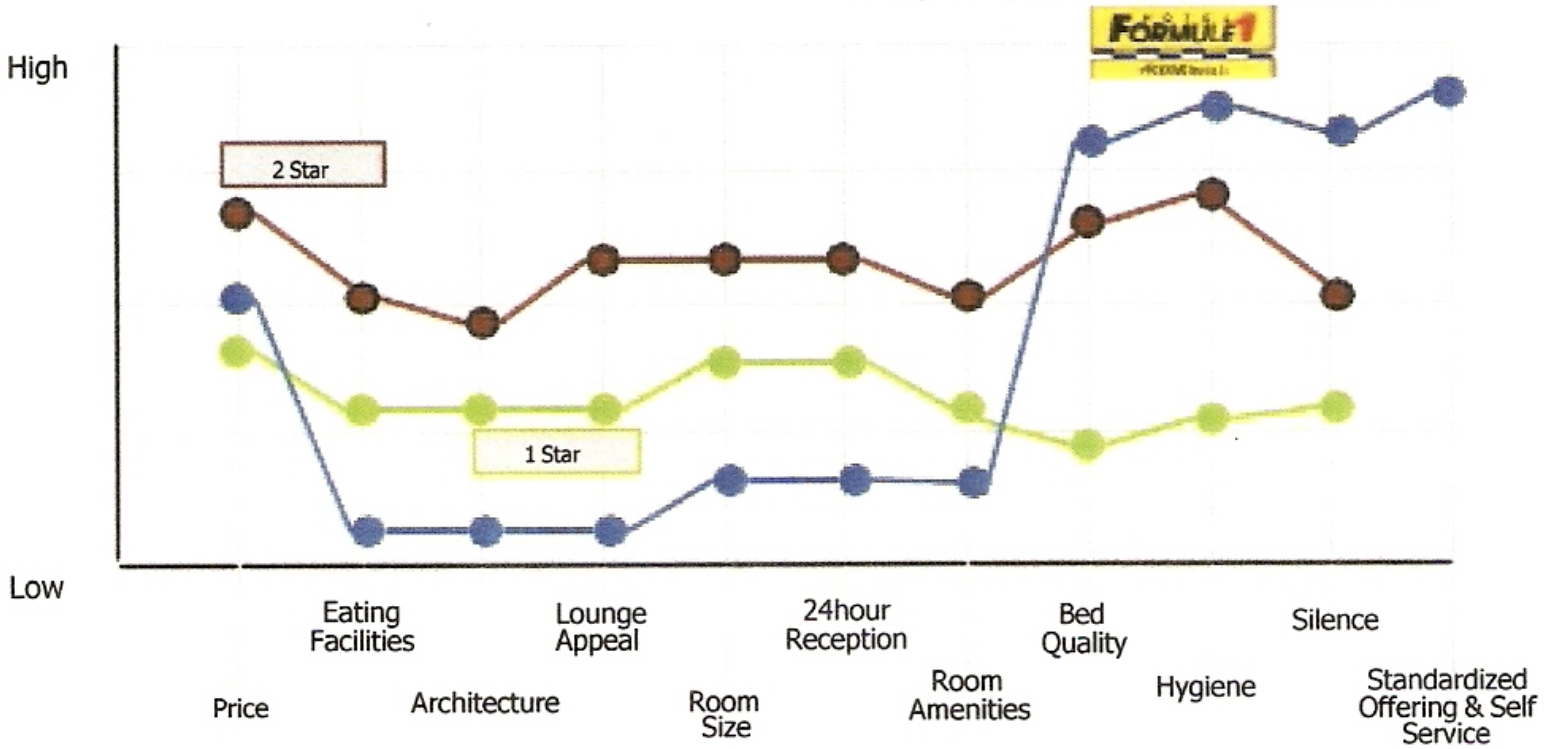
Eliminate	**Raise**
Eatingfacilities ArchitecturalAesthetics Lounges	Bedquality Hygiene Silence
Reduce	**Create**
Roomsize Reception Amenities	Standardizedoffering withautomatedcheck-in

Value Curves ("To-Be")





"A good night's sleep at an affordable price"



Key Elements of Buyer Value

Evaluating the Strategy

Focus

- Is there prioritization of elements to focus on based on the target customer?

Divergence

- How divergent is our value curve from existing options the target customer has?

Compelling Tag-Line

- How can we summarize the new value proposition as a single sentence?

Thank You