UNIT-11

Building Long-Term Customer Relationships

Learning Outcomes

By the end of this unit the learner will be able to:

- ✓ Analyse the importance of having long-term relations with customers
- ✓ Outline the Importance of CRM.

Unit 11

Building Long-term Customer Relationships

Introduction

Most companies make a sale and walk. They walk away without giving a second thought to how to continually engage with these ‘one-time’ customers. As a manager responsible for customer care, you might not directly have the power to implement incentives or loyalty schemes, which are usually set up by the sales department or corporately. But you certainly need to be aware of how they operate *and* of the pros and cons of using this method of promotion, to sustain a loyal customer base. In turn, as you will see in this chapter, there is much that you and your team can do to ensure that customers remain loyal to your organisation. It is easier and less expensive to retain existing customers and keep key customers, than to attract new ones. It is also generally agreed that loyal customers tend to spend more than those whose loyalty has to be constantly re-won. Why is this? It’s all about the way your organisation positions itself. You are what you are in the minds of your customers. Or, to put it another way, you are seen from the customer’s perspective. Of course, you have to attract customers in the first place, and one of the devices used to make this happen is some form of discount or incentive scheme.

Incentives and Loyalty Schemes

An incentive scheme – ‘Buy one, get one free,’ or ‘Have your car washed here three times and the fourth time is free’ – can seem genuinely enticing. But the ‘Fly to Berlin for £5 plus taxes’ can seem less enticing and frankly rather annoying to a customer, when they go on to the airline’s website and find that the additional taxes and surcharges wreck the low-price promise. The problem is that these recruitment efforts could merely load the pipeline with people who are inherently disloyal. Of course, suppliers cannot afford not to keep continually finding new customers, and such fairly non-arbitrary promotion tools play a useful role in raising awareness, interest and motivation among potential purchasers.

Satisfied customers feel good only as long as their current needs are met and only as long as they perceive that a supplier is giving them value. Committed customers want more than transient bait. They want to develop a long-term relationship with an organisation that understands and responds to their individual needs, and discriminates between customers who have been genuinely loyal over a period and newcomers who have yet to demonstrate such an allegiance. This raises the question of whether customer care schemes are designed to reward true loyalty, or to lure customers indiscriminately with an incentive. With this in mind, how about loyalty schemes such as pharmacy-style ‘advantage’ cards, supermarket club cards, and airline rewards cards? A loyalty scheme can be a highly-valuable addition to a customer-care initiative. However, setting up a scheme can have pros and cons, so care and thought are needed.

Pros	Cons
An incentive to the customer to purchase from you	Attracting customers who are not ideal
Chance to build long-term relationships	Set-up costs
Marketing opportunities	On-costs that must be covered by attracting increased sales
Competitive edge	Reward(s) that might not be sufficiently motivating to win long-term loyalty
Increased sales	Redemption processes that might be too complex for customers
Customer research data	The time and money it would take an average customer to accumulate sufficient points for a worthwhile reward
Foundation for tie-ins to additional offers	Loyalty can be to the incentive rather than the supplier, which could mean loss of business once the programme ceases

Table 7.1

While a loyalty scheme is not a substitute for such core values as product quality and customer service, it can attract customers who might be willing to test how well their needs are met. Air Miles schemes have been shown to retain customers' loyalty, due to the benefits of free flights available to family and friends, and many of the airlines' schemes move regular purchasers into different reward brackets as they increase their spend.

Of course, it is not only retail companies that can benefit from offering a loyalty scheme. Commercial and industrial suppliers, however, seem not to pay sufficient attention to developing loyalty among their key purchasers. As a customer care manager, how can you find out what is important to your key customers? A definition of key customers is those who purchase from you on a regular basis and through analysis have been proven to be profitable customers. The best way of finding out, of course, is to ask them.

This could be done as a research project or by one-on-one interviews, depending on the number of key customers that you might have. You could perform SWOT analysis to find out the strengths and weaknesses of what you offer in the marketplace, be it a product or service. During the analysis process, you could also explore the strengths and weaknesses in the service level of your department, where you can take immediate action.

Strengths

As a company, you need to ask: What do we do well with regard to the products or services we offer the marketplace? How about our department – what do we do well?

Weaknesses

Where is there room for improvement? Once again, start at the corporate level and then focus on your own department.

Opportunities

Could you suggest any other companies that might be interested in our products or services? With regard to the service that our department offers, are there any recommendations that you can make to improve the standard of care we offer them?

Threats

Are there any changes that might be occurring in our customers' environment that might have an impact on the budget they are currently spending with our company? Are there any new competitors we need to be aware of that might impact on our business?

How to Develop an Ongoing Business Relationship with Customers

Corporate loyalty schemes have their place, but what can you personally do to develop rapport with the customers and encourage them to continue doing business with you? Sales personnel and the Business Development department will have immediate and ongoing relationships with clients. However, a Customer Services department will engage with regular purchasers or customers on a service contract that the department is responsible for implementing, or it may simply deal with customers making a complaint. So if you are a Customer Care Manager, you can still play your part in enhancing the profile of the company and also flag new business opportunities to be passed through to the business development team.

A manager's roles in customer care can be very diverse. In one environment, you could have literally hundreds of customers that your team or department serves. In other circumstances, you could be looking after two or three main customers, who have been passed to you for after-sales service activity. Regardless of whether it is two or two hundred customers that you deal with, there are always going to be occasions when you want to develop or build the relationship with particular customers. So how do you do this without appearing to be a pushy sales person?

Building Relationships during a Service Contract

If your team is responsible for carrying out any type of service contract where continuous customer contact is required - like the installation of a product or service – you probably already have built into your project schedule regular review meetings with the customer, asking variations of the following questions:

- How are our recommendations working?

- Speaking now from experience, how does our solution to your problem measure up?
- Is there anything else we can do or arrange to improve your experience of our product or service?
- Are there any other issues that have arisen since we last met that you would like to discuss, where we might be able to help?

Referrals; the Active Reference Principle

Be proactive and ask your customer if they will be an 'active reference.' You could go about this by saying, 'We have worked together for some time now; are you able to introduce me to any other contacts in your organisation, or elsewhere, that we might talk to?' You might get a no, but there is also a good chance that you will get a yes - if they are happy with the product or service you offer and can see that their colleagues could benefit from working with you.The point here is that if you don't ask, you don't get.

It should be a win–win situation for both parties. If they believe in you and your company's offerings, they will get reflected glory by recommending you to others (obviously, subject to them also being happy with what you have to offer). Active references are different from passive references. When the customer agrees to be a reference for you, they will talk to others on your behalf. If you just use their name to get into other parts of an organisation without checking with them first, this is a passive reference. What is the advantage of an active reference? If your organisation makes a mistake and your customer is your active reference, they are more likely to defend you. Passive references will generally never do that.

Effectiveness of Corporate Activities in Building Long-Term Customer-Care Relationships

You will see that all the activities that are undertaken initially to attract business, such as advertising, non - selective ballroom-style seminars, cold calls by the sales team and so on, ultimately fade into the woodwork and are less effective when the business relationship develops with the customer.

Table 8.2 Activities to build longer-term relationships with customers

Most effective	➢ Research the customer's business ➢ One-to-one relationship building ➢ Seminars (small-scale) ➢ Articles in customer-orientated (sector) press ➢ Speeches at customer industry meetings

Less effective	➢ Community or civic activities ➢ Networking with potential referral sources ➢ Newsletters
Least effective	➢ Public relations ➢ Brochures ➢ Seminars (ballroom-scale) ➢ Direct mail ➢ Cold calls ➢ Sponsorship of cultural or sporting events ➢ Advertising ➢ Video brochures

Introduction

Customer relationship management, or CRM, means different things to different people. Even the meaning of the three-letter abbreviation CRM is contested. Most people use CRM to refer to customer relationship management - others use CRM to mean customer relationship marketing.

The principle of CRM is that the more information a company has about its customers, the better. According to Professor Adrian Payne of Cranfield University, CRM is 'the strategic process of identifying desirable customer segments, micro-segments or individual customers on a one-to-one basis and developing integrated programmes that maximize both value to the customer and the lifetime value of customers to the organisation through targeted customer acquisition, profit enhancing activities and retention.'

A report by KPMG Accounting shows that forty-three per cent of companies could not identify the principle causes of unsatisfied customers and almost half were unable to identify customers on the point of defection. The current trend is towards focusing on customer *retention* as a corporate strategy, rather than prospecting or winning new business. Research by Bain & Co, a top management consulting firm, shows that a five per cent increase in customer retention yields a profit in Net Present Value of between twenty and one hundred and twenty-five per cent. CRM is a system for a company's interactions with current and future customers. It involves managing the customer relationship across all its interfaces with the company as one entire process. Rather than seeing customer transactions on an *ad hoc* basis as, say, a contact from marketing or a request for customer service, it breaks down the 'silo' mentality of traditional businesses and shares information about the customer.

One of the problems that many businesses have is that data has been traditionally stored across various parts of the company. So, for example, one department in a bank may know whether a customer has a current account, but may not know whether he or she has a mortgage. A CRM system can help to identify sales prospects from existing or potential customer databases. It can assist with all aspects of the sale, e.g. offering online access to order status and a single view of the customer status when the sale is complete.

It can collect information about the customer and the queries that he/she has made. It can also be integrated with relevant databases and supply-chain management applications to help allocate resources, e.g. ensuring the highest level of service is given to the customers who generate the most profit. It can also monitor customer-usage patterns, so abnormal patterns or a reduction in use can be identified.

The financial services organisation Capital One, for example, practises 'predictive service and selling.' Intelligent technology prompts an agent to contact the customer at key points in the life cycle.

IT company Ernst and Young Cap Gemini defines four elements in a CRM framework:

- **Know your Markets and your Customers** Knowledge of the customer can be obtained via IT systems which carry out customer value management, data warehousing and data mining. At these points, companies are able to extract information about their customers from across the business, segment their customer base and predict individual customers' behaviour. This information can be shared across the organisation and updated automatically, every time the customer contacts any part of the organisation: at point of sale, by using loyalty cards, using contact centres or visiting the website.

- **Target Segments and Individuals** Examining the flow of information between an organisation's front and back office helps to determine specific customer needs and requirements, and how best to target the most profitable customers. Information from third party sources, such as 'lifestyle' data, can be used to help refine customer segments and a company's knowledge of customers' individual needs. Segmentation means placing customers in groups that respond to and interact with a business in similar ways. Volvo, for example, actively aims its products at the growing family by understanding relevant lifestyle issues. It created a company-wide customer database which allowed customers to be tracked and targeted.

- **Sell** This involves moving from *reactive* to *proactive* involvement with customers. In the United States, supermarket chain Wal-Mart discovered that sales of beer rose on Fridays if the stock was positioned next to disposable nappies. This was because fathers tended to do more shopping on Fridays than any other day of the week.

- **Service** Providing an after-sales service tailored to individual needs is important. Electronics distributor RS Components, for example, has developed a site where each customer has his or her own welcome page, displaying tailored editorial content, advertising, and new product alerts relevant to each customer. Customer knowledge and insight is the linchpin of successful CRM. However, without this knowledge being shared and used throughout the organisation, businesses will fail to meet constantly-changing customer needs. The implementation of a CRM strategy involves sales, marketing, IT, customer service, finance and integrating systems across all these different departments to centralise information. A potentially-high failure rate is attributed to cultural obstacles, such as internal departments being reluctant to share information.

We can think about CRM at three levels: strategic, operational and analytical.

Strategic CRM

Strategic CRM is focused on the development of a customer-centric business culture. This culture is dedicated to winning and keeping customers, by creating and delivering better value than competitors. The culture is reflected in leadership behaviours, the design of formal systems of the company, and the stories that are created within the firm. In a customer-centric culture, resources should be allocated where they will best-enhance customer value, reward systems put in place to promote employee behaviours that enhance customer satisfaction, and customer information collected, shared and applied across the business. The heroes of the business would be those who deliver outstanding value or service to customers. Many businesses claim to be customer-centric, customer-led, customer-focused or customer-oriented, but few are. However, there are very few companies of any size that do not claim to be on a mission to satisfy customer requirements profitably.

Operational CRM

Operational CRM is focused on the automation of the customer-facing parts of businesses. Various CRM software applications enable the marketing, selling and service functions to be automated.

Marketing Automation

Marketing automation (MA) applies technology to marketing processes. Marketing automation enables companies to develop, budget and execute communication campaigns. It automates the multi -person workflow that delivers the communication output. Typically, a print-based communication campaign will involve a number of people such as the marketing manager, market analyst, copywriters, artists, printers, salespeople and media buyers. Their contributions to the campaign can be co-ordinated with the help of the software. MA can also audit and analyse campaign performance, and direct leads from advertising campaigns to the most appropriate sales channels.

Sales-Force Automation

Sales-force automation (SFA) was the original form of CRM. It applies technology to the management of a company's selling activities. The selling process can be broken down into a number of stages such as lead generation, lead qualification, needs identification, development of specifications, proposal generation, proposal presentation, handling objections and closing the sale. Sales-force automation software can be configured so that It is modelled on the selling process of any industry or organisation.

Analytical CRM

Analytical CRM is concerned with exploiting customer data to enhance both customer and company value. Analytical CRM builds on the foundation of customer information. Customer data may be found in enterprise-wide repositories such as sales data (purchase history), financial data (payment history, credit score), marketing data (campaign response, loyalty scheme data) and service data. Analytical CRM has become an essential part of effective CRM implementation. Operational CRM struggles to reach full effectiveness without analytical information on the value of customers. Customer value drives many operational CRM decisions, such as:

- Which customers shall we target with this offer?
- What is the relative priority of customers waiting on the line, and what level of service should be offered?
- Where should I focus my sales effort?

What is a Relationship?

The 'R' in CRM stands for 'relationship'. But what does this expression really mean? What is a relationship between a customer and a supplier? Thinking in terms of a dyadic relationship, that is a relationship between two parties, we can define this relationship as follows:

A relationship is composed of a series of episodes between dyadic parties over time.

Each episode in turn is composed of a series of interactions. Episodes are time-bound (they have a beginning and an end) and nameable. Episodes such as making a purchase, enquiring about a product, putting together a quotation, making a sales call, dealing with a complaint and playing a round of golf make up a relationship. Business relationships are made up of task and social episodes. Task episodes are focused on the business side of the relationship, whereas social episodes are not. Within each episode, each participant will act towards, and interact with, the other. The content of each episode is a range of communicative behaviours including speech, deeds (actions) and body language.

Customer Relations

Customer relations are about more than just providing excellent service and care at the point of a transaction. Relationships, by the very meaning of the word, have a temporal span; they have a beginning, a middle and an end over a span of time. Relationships also need effort in establishing them and there are also vital maintenance functions. Relationship is a neutral word: relationships can be either good or bad, we can love or hate, but these extremes are still just relationships. It is a good relationship that every organisation should seek with its customers - not just *any* relationship per se. Equally, each internal supplier needs a good relationship with internal customers.

Customer Driven Versus Product Led

There are two extremes to a relationship with the customer and indeed to marketing as a whole. An organisation that adopts a *product led approach*, develops products and systems that are suited to the organisation, and then tries to sell them. Henry Ford expressed this approach well in the 1920s when he offered customers a Model T Ford in ''any colour as long as it's black.'' Such an approach can work in a situation where there is no competition and demand exceeds supply. A *customer driven approach* is one that considers the needs of the customer first, and then seeks to satisfy those needs.

Repeat Business

Good customer relationships greatly increase the potential for repeat business – one of the most important performance indicators for those involved with sales. Making an initial sale should not be the only indicator of success. Indeed, it is making the next sale to the same customer that is the acid test of customer satisfaction. High-pressure selling where gaining a sale is all -important may be counter-productive, if the customer has felt pressured into making the purchase. He or she may be unwilling to deal with the organisation again and may even tell colleagues and friends about the pressure, alienating them from the selling organisation.

Satisfaction and Delight

Many organisations can satisfy their customers, but it is only those organisations prepared to put the customer at the very centre of their operations that are able to *delight* the customer. Satisfaction is better than dissatisfaction, but even the use of the word in English suggests that there is far more that could be achieved. Satisfaction is only a partial step on the road to delight.

Loyalty

Yoram J. Wind (1982) examined customer loyalty and postulated that there are five classifications of customers or potential customers in respect of loyalty:

- Current loyal customers who will continue to use the product or service.
- Current customers who may switch to another brand.
- Occasional customers who would increase consumption of the brand if the incentive were right.
- Occasional customers who would decrease consumption of the brand if a competitor offered the right incentive.
- Non-users who could become customers.

Supplier Loyalty

Many customers are creatures of habit. Not only are they loyal to particular brands, there is also a loyalty to particular suppliers. Customer behaviour, which is covered later in this chapter, introduces a type of customer known as a hostage, i.e. somebody who has no choice *but* to be a customer of a particular brand or supplier. Such a situation could occur in a small community where there is only one shop selling perhaps just one brand of a particular item. A customer who is without transport could be forced to be loyal to that one brand and that one supplier. The term for this is ‘‘pseudo-loyalty.’’ A statistical analysis of the customer base would show considerable loyalty, but this would not necessarily be correct. Given the opportunity, the customer might well choose another brand from another supplier. The introduction of large supermarkets throughout the world has provided a dramatic illustration of pseudo-

Loyalty, as smaller shops see customers they had previously thought of as extremely loyal defecting to supermarkets in large numbers - lured by lower prices and increased choice.

Supra-Loyalty

Supra-loyalty is a term that can be used to describe people who are extremely loyal to an organisation, product or service. In the case of loyalty to an organisation, they have normally built up a personal relationship with it over a period of time, or in the case of a product/service, they identify themselves with it. It is as if they have internalised the relationship and consider themselves almost *part* of the organisation, instead of being a customer. Supra-loyalty can obviously be very beneficial to an organisation, as its customers actually perform a marketing function by telling their friends, relations and colleagues about it. However, if the customer becomes disillusioned, then he or she may well tell friends, family and colleagues about their dissatisfaction – the type of publicity no organisation needs.

De-Loyalty

A customer who makes a deliberate decision to move to another organisation because he or she has been let down can be described as being ‘‘de-loyal.’’ This is not the same as disloyalty, which suggests that it is the customer who is doing something wrong. In the case of de-loyalty, it is the organisation that has let the customer down. There is evidence that people are willing to forgive one mistake, or one case of poor service, provided that rectification of the situation (and an apology) is promptly offered. However, if a supra-loyal customer becomes dissatisfied, they may take their business elsewhere, in effect becoming de-loyal. Sales staff who have front-line contact with the customer need to be empowered to rectify problems as quickly and as easily as possible. The longer a customer has to wait, or the harder he or she has to fight for a resolution to a problem, the more de-loyal he or she is likely to become. Early resolution strengthens the bonds of loyalty as it shows that the organisation cares about the customer.

Why Companies Want Relationships With Customers

The fundamental reason for companies wanting to build relationships with customers is economic. Companies generate better results when they manage their customer base in order to identify, satisfy and retain their most profitable customers. This is a key objective of CRM strategies.

Benefits of Customer Retention

Managing customer retention and tenure intelligently generates two key benefits. Firstly, the company’s marketing costs are reduced. Fewer financial resources need to be spent replacing lost customers. Secondly, as tenure grows, suppliers better-understand customer requirements. Customers also come to understand what the company can do for them. Consequently, suppliers become better placed to identify and satisfy customer requirements profitably, selling more products and services to the customer. Over time, as relationships deepen, trust and commitment between the parties are likely to grow. Some companies use a model that is referred to as a ‘value ladder’ or ‘value staircase’ to help them understand where customers are

Positioned, in terms of their tenure with the company. Imagine a seven-stage customer journey from suspect status to advocate status, as follows:

1. **Suspect**: could the customer fit the target market profile?
2. **Prospect**: customer fits the profile and is being approached for the first time.
3. **First-time customer**: customer makes first purchase.
4. **Repeat customer**: customer makes additional purchases.
5. **Majority customer**: customer selects a certain company as supplier of choice.
6. **Loyal customer**: customer is resistant to switching suppliers; has a strong positive attitude to one company.
7. **Advocate**: customer generates additional referral revenues/business.

CRM software allows companies to trace where customers are on this journey and to allocate resources intelligently, in order to advance suitable customers along the value path. Costs and revenues vary from stage to stage. In the early stages, a company may invest significant sums in converting a prospect into a first-time customer. The investment in relationship building may not be recovered for some time.

Customer Satisfaction, Loyalty and Business Performance

The rationale for CRM is that it improves business performance by enhancing customer satisfaction and driving customer loyalty. There is a compelling logic to the model, which has been dubbed the 'satisfaction–profit chain.' Satisfaction increases because customer insight allows companies to understand their customers better, and create improved customer value propositions. As customer satisfaction rises, so does customer repurchase intention. This, in turn, influences actual purchasing behaviour, which has a significant impact on business performance.

Customer Satisfaction has been the subject of considerable research, and has been defined and measured in many ways. It could be defined as follows: Customer satisfaction is the customer's fulfilment response to a consumption experience, or some part of it. Customer satisfaction is a pleasurable fulfilment response, while dissatisfaction is an un-pleasurable fulfilment response. The 'experience, of some part of it' component of the definition allows the satisfaction evaluation to be directed at any or all elements of the customer's experience. This can include product, service, process and any other components of the experience.

Customer Loyalty has also been the subject of considerable research. There are two major approaches to defining and measuring loyalty - one based on behaviour, the other on attitude.

Behavioural loyalty is measured by reference to customer purchasing behaviour, where it is expressed in continued patronage and buying. There are two behavioural dimensions to loyalty. Firstly, is the customer still active? Secondly, have we maintained our share of customer spending? In portfolio purchasing environments, where customers buy products and services from a number of more-or-less equal suppliers, the question as to share of customer spending is more important. Many direct marketing companies use RFM measures of behavioural loyalty. This is a method used for analysing customer value. The most loyal are those who have high scores in all three variables: recentness of purchases (R), frequency of purchases (F) and monetary value of purchases (M). The variables are measured as follows:

R = time elapsed since last purchase
F = number of purchases in a given period
M= monetary value of purchases in a given period.

Attitudinal loyalty is measured by reference to components of attitude such as beliefs, feelings and purchasing intention. Those customers who have a stronger preference for, involvement in or commitment to a supplier are more loyal in attitudinal terms.

Do Customers Want Relationships With Companies?

Although it is clear that companies want relationships with customers, it is far less clear whether or not customers universally want relationships with their suppliers. There are a number of circumstances when a B2B (business-to-business) customer may want a long-term relationship with a supplier. This could be when:

- the product or its applications are complex - for example, networking infrastructure
- the product is strategically important or mission- critical, for example, core raw materials for a manufacturer
- there are downstream service requirements - for example, for machine tools
- financial risk is high - for example, when buying large pieces of important equipment
- reciprocity is expected. A financial audit practice may want a close relationship with a management consultancy, so that each party may benefit from referrals by the other.
- In a B2C (business-to-consumer) context, relationships may be sought when the customer seeks benefits over and above those directly derived from acquiring, consuming or using the product or service. For example:

➔ **Recognition** A customer may feel more valued when recognised and addressed by name.

➔ **Personalisation** For example, over time, a hairdresser may come to understand a customer's particular preferences or expectations.

➔ **Power** Some of the power asymmetry in relationships between banks and their customers may be reversed when customers feel that they have personal relationships with particular bank offices or branches.

➔ **Risk Reduction** Risk takes many forms: performance, physical, financial, social and psychological. High levels of perceived risk are uncomfortable for many customers. A relationship can reduce, or even perhaps eliminate perceived risk. For example, a customer may develop a relationship with a garage to reduce the perceived performance and physical risk attached to having a car serviced. The relationship provides the assurance that the job has been skilfully performed and that the car is safe to drive.

- **Status** Customers may feel that their status is enhanced by a relationship with an organisation, such as an elite health club, for example.
- **Affiliation** People's social needs can be met through commercially-based, or non-commercially-based, relationships. Many people are customers (members) of professional or community associations, for example.

Customers vary in their desire to have relationships with suppliers. In the banking industry, for example, large corporations have their own treasury departments and often obtain little value from a bank relationship. Small private account holders have no need for the additional services that this relationship provides. Small and medium-sized business and high net-worth individuals may have the most to gain from a closer relationship.

The Goal of CRM (Customer Relationship Management)

Broadly speaking, the general aim of any CRM strategy is to develop more profitable relationships with customers. Some companies do this by taking cost out of the relationship; for example, by shifting customers to web-based self-service. Others do this by increasing the revenue earned from a customer relationship; for example, by selling customers additional products and services. Most companies use both of these approaches. This core CRM objective is noted in the arrowhead at the right-end of the CRM value chain: customer profitability. In a not-for-profit context, one would work towards different CRM objectives, such as operational efficiency or increased client satisfaction. Measuring customer profitability implies that an organisation must be able to trace revenues and costs to customers, either at a segment level or at an individual level. Most business-to-business (B2B) companies can trace revenues to customers. Invoicing databases contain this data. Fewer B2B companies can trace costs to customers. For example, costs of customer acquisition and costs-to-serve.

The Primary Stages of the CRM Value Chain

The model identifies five key steps in the development and implementation of a CRM strategy. In brief, the five steps are as follows:

- **Customer Portfolio Analysis** This involves an analysis of the actual and potential customer base, to identify which customers you want to serve in the future. Top of the list will be strategically significant customers, including those that will generate profit (value) in the future.
- **Customer Intimacy** You will get to know the identity, profile, history, requirements, expectations and preferences of the customers that you have chosen to serve.
- **Network Development** You will identify, brief and manage relationships with your company's network members. These are the organisations and people that contribute to the creation and delivery of the value proposition(s) for the chosen customers. The network can include external

members such as suppliers, partners and owners/investors, as well as an important internal party – the employees.

- **Value Proposition Development** This involves identifying sources of value for customers and creating a proposition and experience that meets their requirements, expectations and preferences.
- **Manage the Customer Lifecycle** The customer lifecycle is the customer's journey from 'suspect' towards 'advocate status.' Managing the lifecycle requires attention to both process and structure.

  i. **Process** How will the company go about the important processes of customer acquisition, customer retention and customer development, and how will it measure the performance of its CRM strategy?
  ii. **Structure**: How will the company organise itself to manage customer relationships?

These five primary stages of the CRM value chain represent three main sequential phases of CRM strategy: analysis, resource development and implementation. Customer portfolio analysis (CPA) and customer intimacy (CI) are primarily analytical activities. CPA involves using customer and market data to decide which customers to serve. CI involves understanding customers and their requirements. Network development and value proposition development are focused on building or acquiring resources to create and deliver value to customers. Managing the customer lifecycle is about implementing CRM by acquiring and retaining customers, and developing their value.

Further Reading:

- ✓ ***Managing Customer Relationships: A Strategic Framework, (2011), By Don Peppers, Martha Rogers***
- ✓ ***Customer Relationship Management and Customer Service, (2008 Third Edition), By Adele Berndt, Annekie Brink***
- ✓ ***Transcultural Marketing: Building Customer Relationships in Multicultural, (2014),By Marye Tharp***