

The R in CRM Stands for Risk & Respect from Customers, not Relationships

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A statement on CRM

The Boundaries of CRM

- It is not about just calling your marketing database - “a customer relationship database”
- It is not about just re-badging your Direct Marketing Department - Customer Relationship Department
- It is not about customer rather than product profitability
- It is not about loyalty schemes, cards and magazines

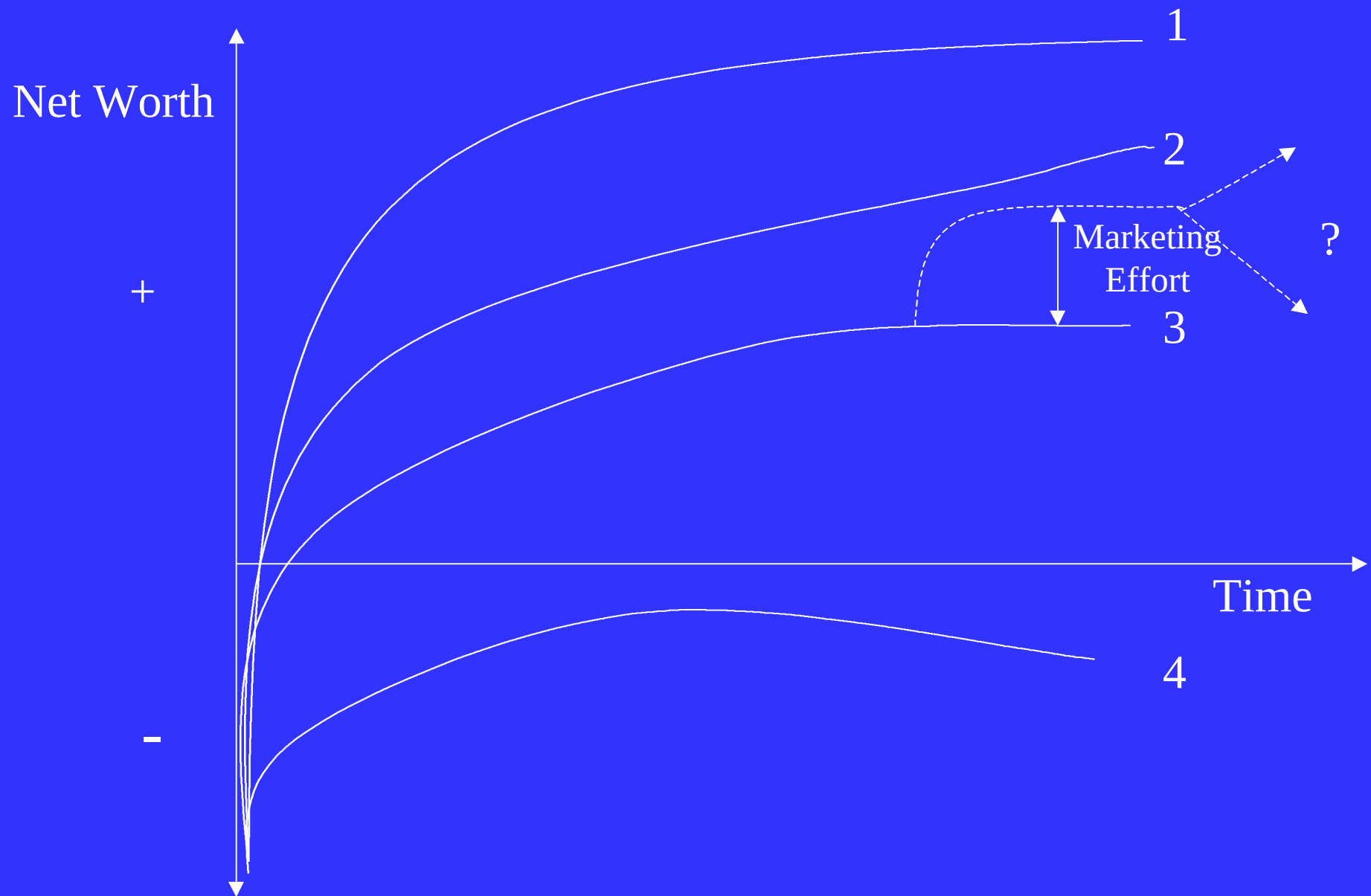
The Boundaries of CRM

- Its about
 - you understanding the type of relationships your customers want with you
 - knowing when to invest in the relationship
 - knowing when to reap the benefits of the relationship

It's about customer Risk and Respect

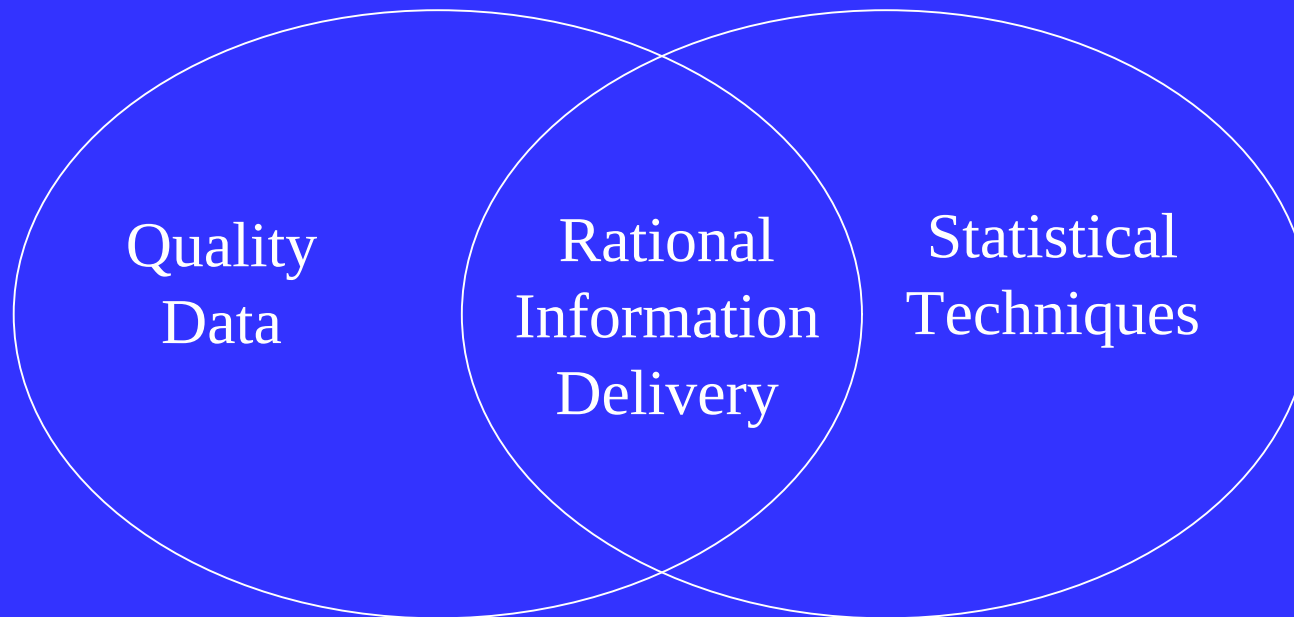
Customer Risk Management

- Risk with respect to;
 - financial loss
 - consumer perception
 - brand image
 - competitors
 - missed opportunities to invest in the customer
 - missed opportunities to offer more product
 - knowing how the customer will react to the signals your company sends out



How to Manage this Risk and Respect Through Information

Two Prerequisite for a Marketing Data Strategy



Two Views of the World

Yours and Your Customer's

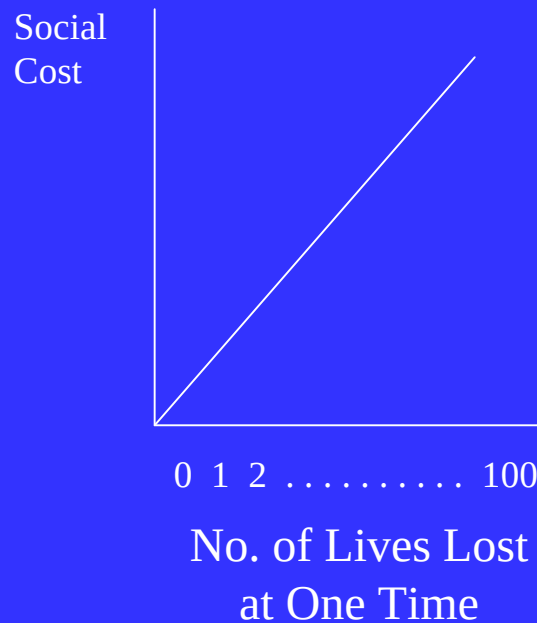
The Customer's Viewpoint

This Room is on Fire and There 100 People in the Room!

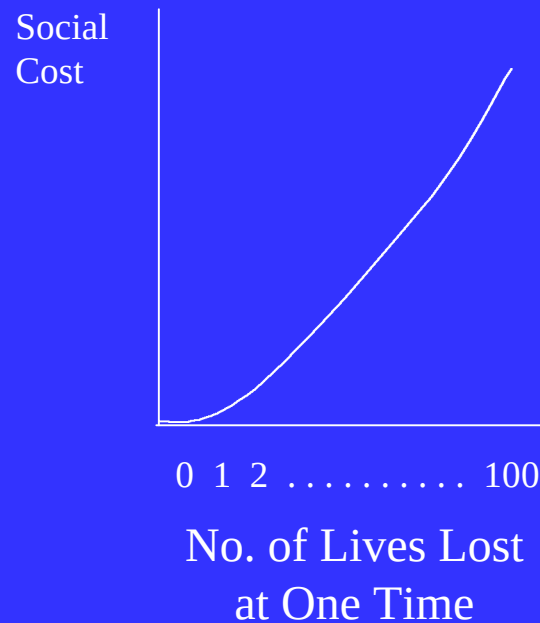
- Option A has 50% chance of saving 95 people and a 50% chance of saving 5 people
- Option B has 50% chance of saving 60 people and a 50% chance of saving 40 people

Which do you Choose?

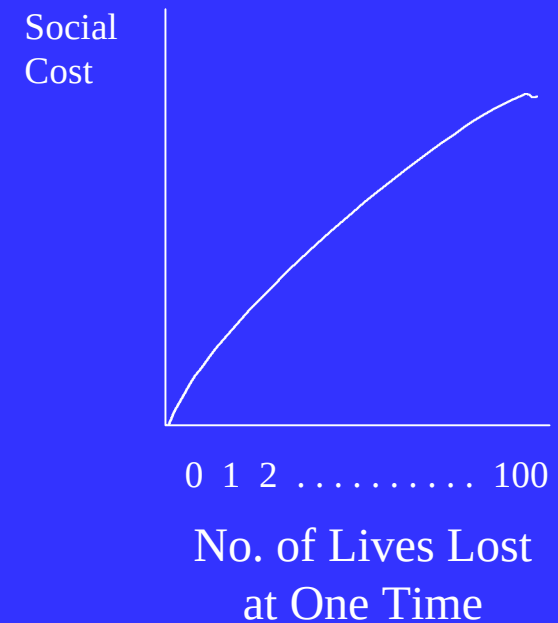
Customer Decision Making



Curve 1



Curve 2



Curve 3

Customer Decision Making

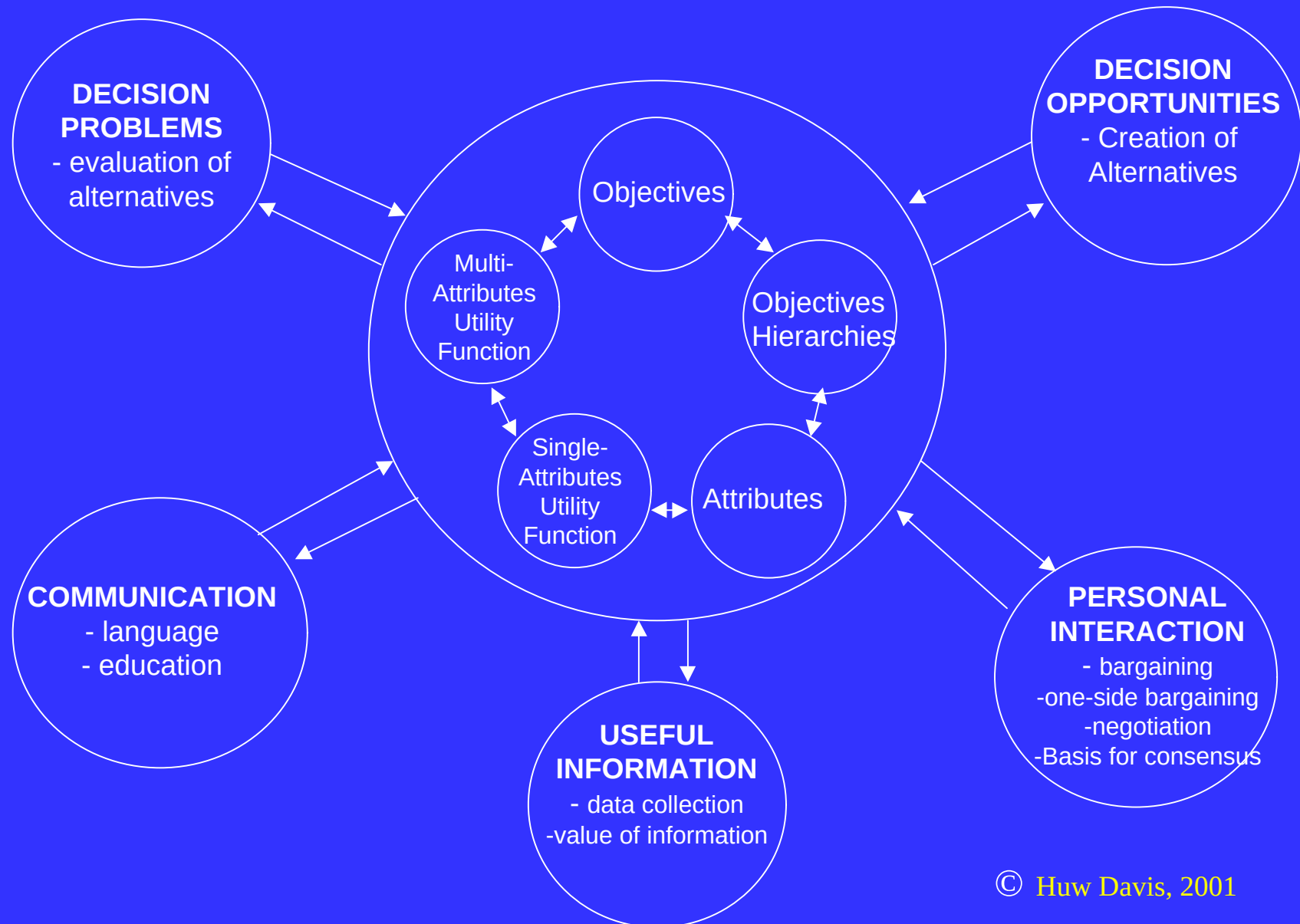
Choice 1	Cash	Coupons Book Worth	
Gift Package A	£20	-	← 76%
Gift Package B	£10	£18	

Choice 2	Cash	Coupons Book Worth	
Gift Package A	£14	-	
Gift Package B	£10	£18	← 52%

Customer Decision Making

- Justification and Choice
- Framing
- Information Processing
- Anchoring and Adjustment
- Value-focused Thinking

Value-focused Thinking



Incorporating these Factors into a Data Strategy

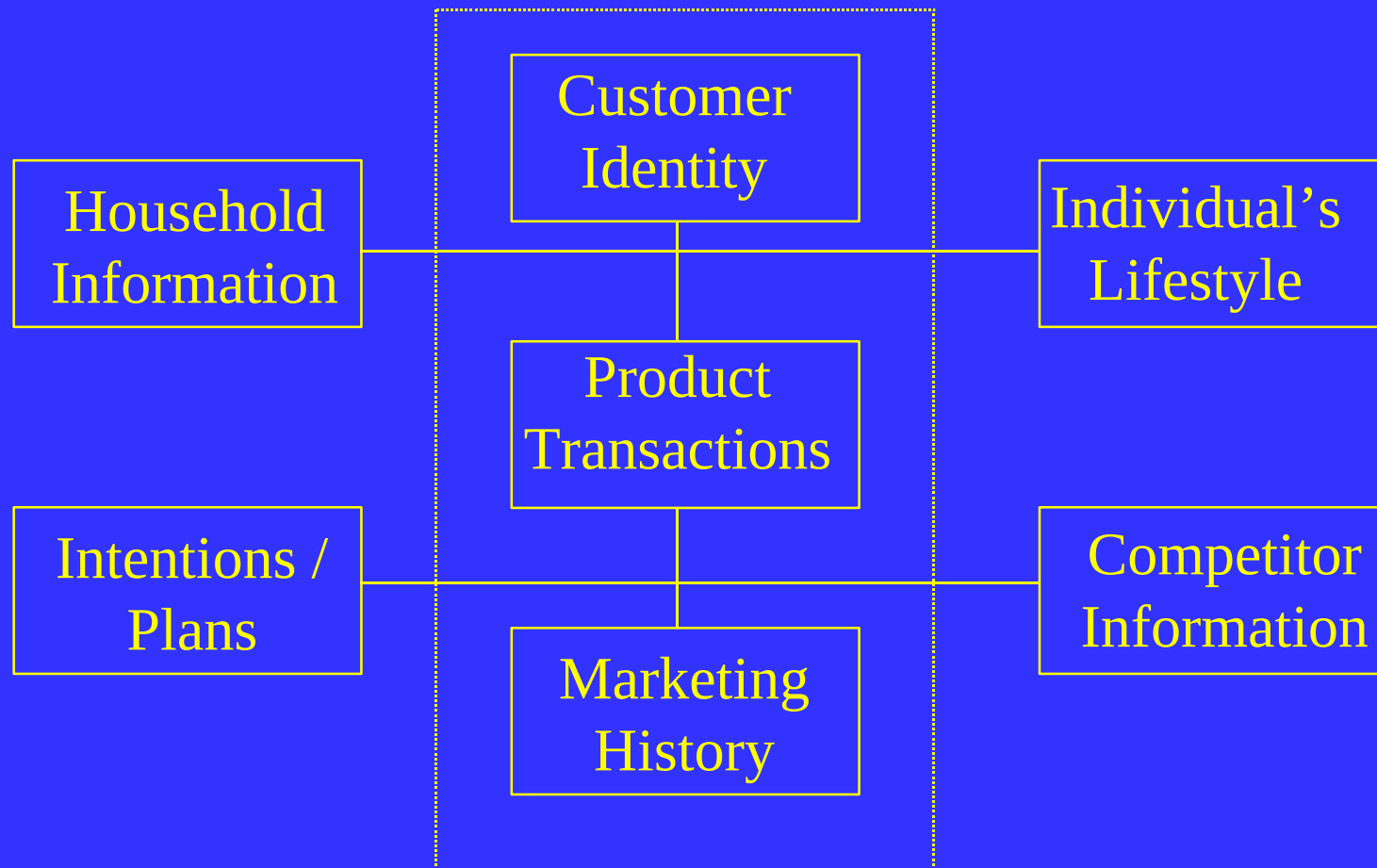
- What factors of value-focused thinking can be encapsulated - hard vs. soft data
- Identifying the moments of truth that allow you to influence the utility functions of decision
- What points in the customer contact cycle can these attributes and factors be collected and monitored

Your Viewpoint

The Internal Data Model



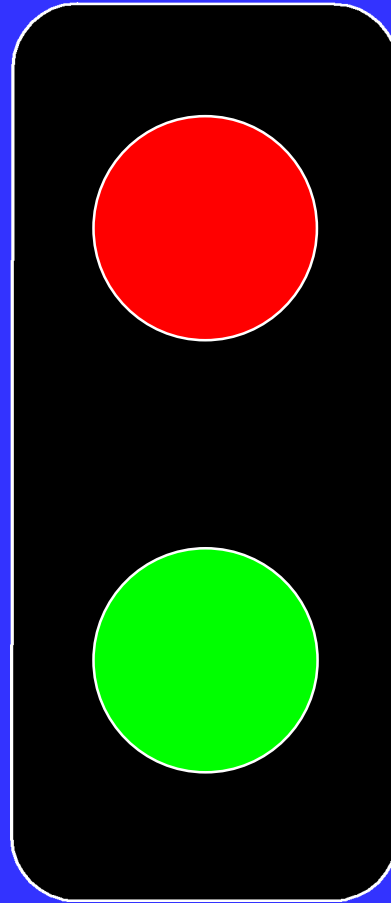
The Total Data Model



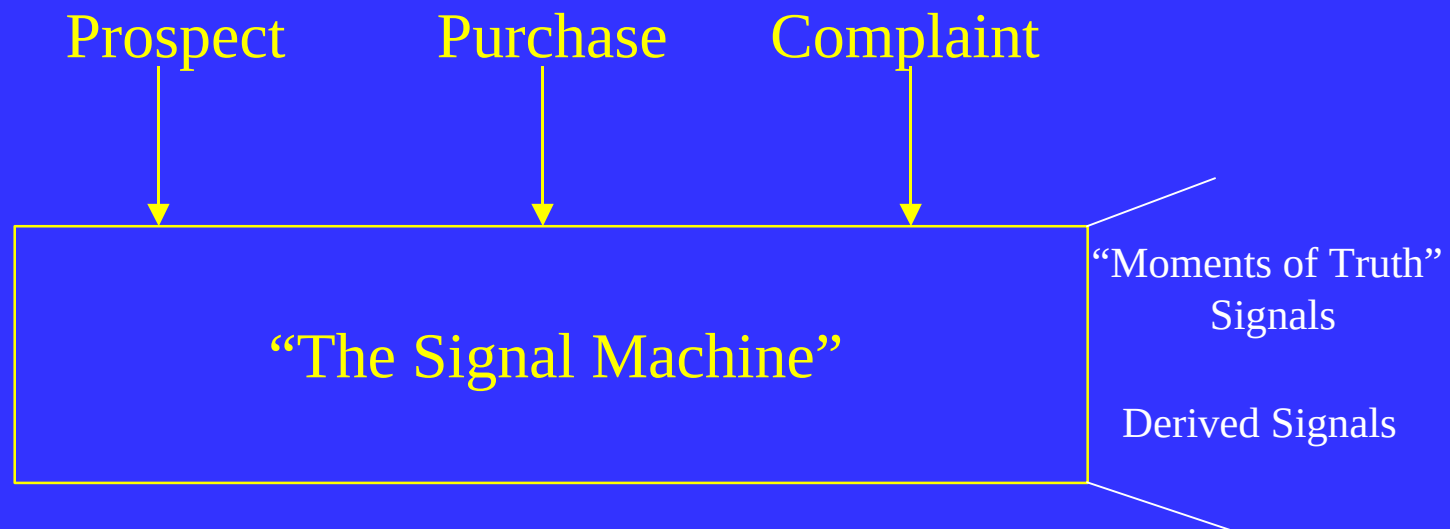
The Total Data Model



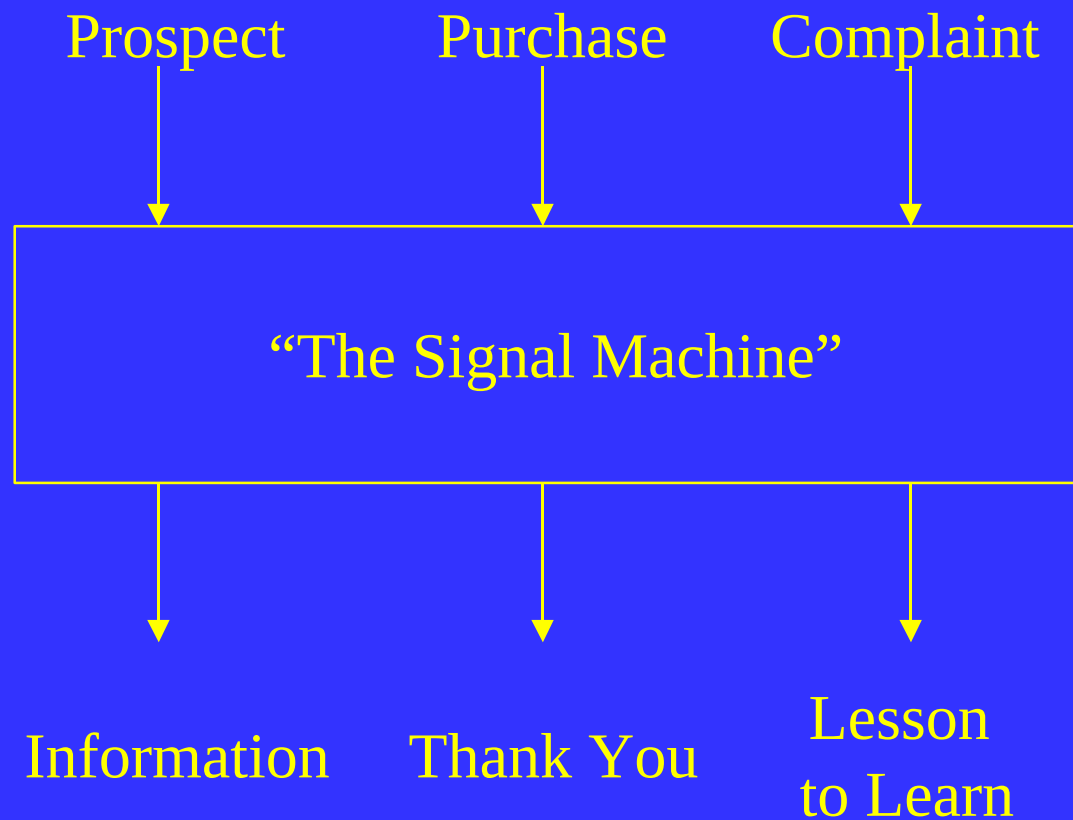
Looking for Signals



Creating Customer Relationships



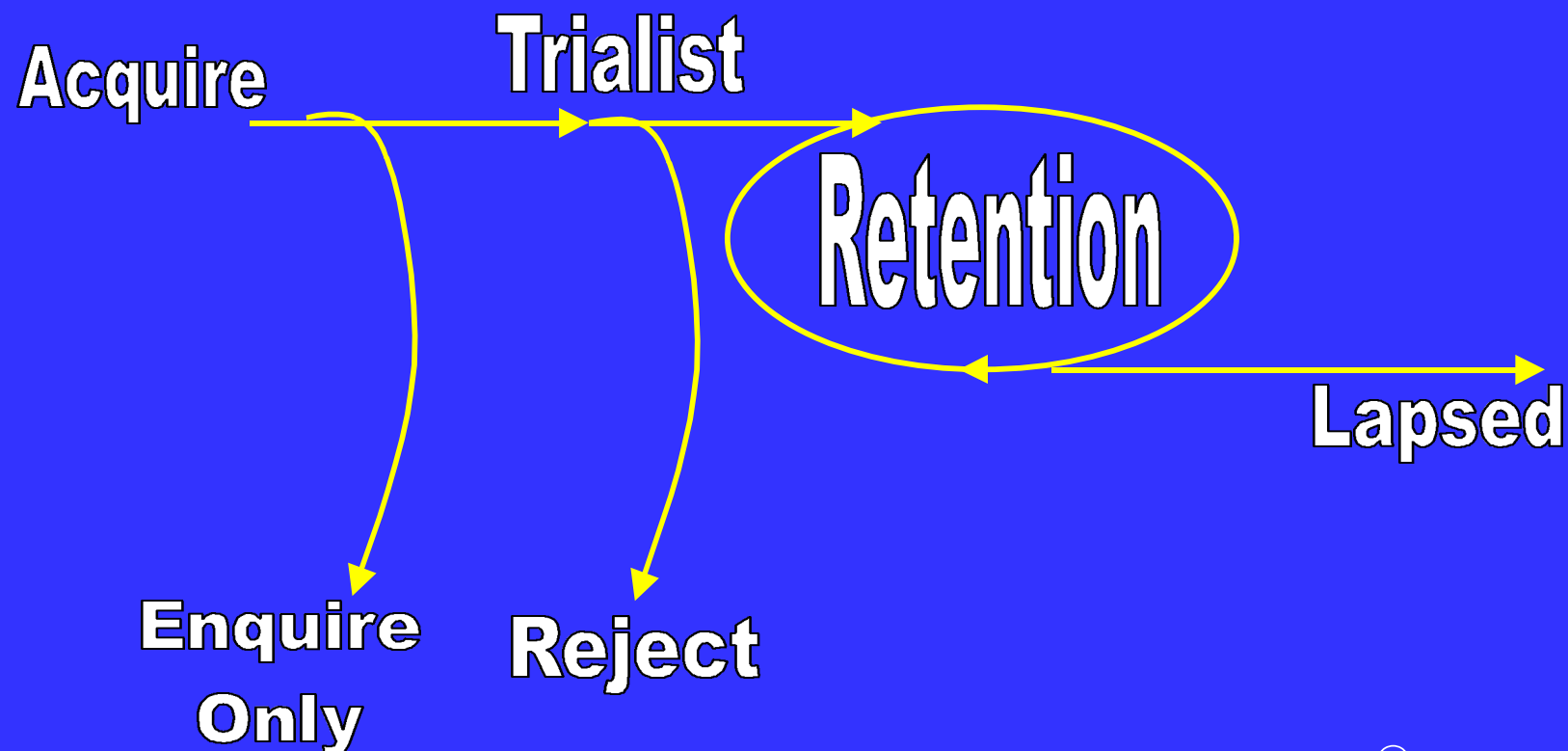
Creating Customer Relationships



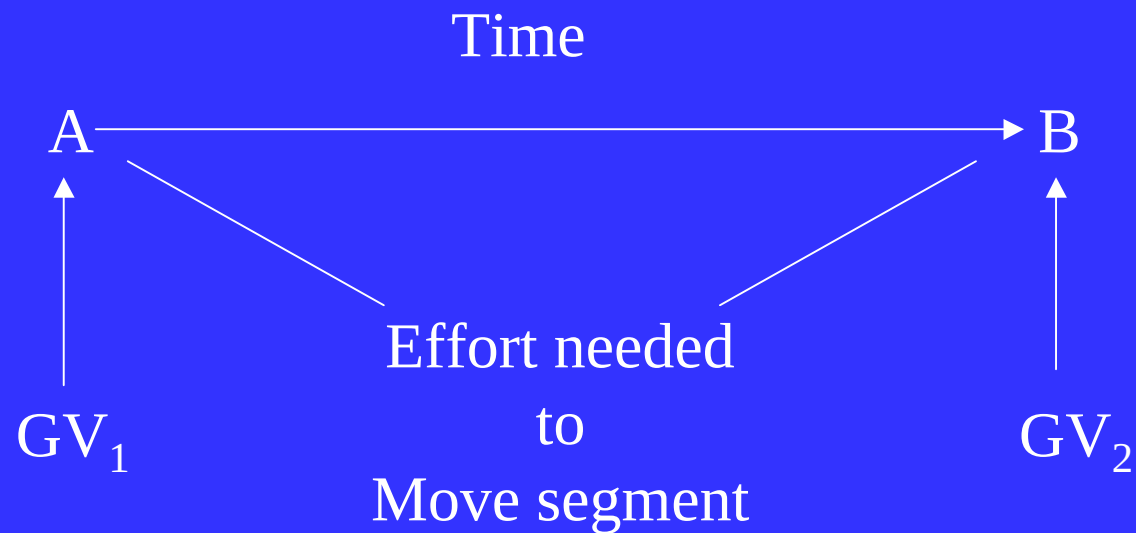
Financial Evaluation of the Segmentation

Initial ROI and LTV Modelling
Concept

Acquisition, Trialist and Retention



Calculating Value of Customer Segments



Developing the Value Model

$$GV = N \sum_{t=1}^n (Q_t p_t) - N \sum_{t=1}^n (A_t + T_t + R_t)$$

GV = a given segments Group Value for a given time period

Q= Average volume of purchases per period

A,T,R= Average cost of acquisition, trialist and retention

π = Margin per average purchase

N = Number of consumers in group / segment

Adapted from original source - Customer Connections - Robert Wayland
& Paul Cole - HBS Press

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Developing the Value Model

$$G = [aC_n N - A(C_n)] + [drC_e E - T(C_e)] - [(1-r)C_e E + R(C_e)]$$

G= total growth in segment portfolio value

a= attraction rate of new customers, expressed as new divided by potential customers

C_n = number of potential new customers to the company

$A(C_n)$ = acquisition cost function

N= value of each new customer

d= development rate(increase of value) of remaining customers

E= value of an existing customer

C_e = number of existing customer at beginning of the period

$T(C_e)$ = trialist cost function

r= retention rate of existing customers

(1-r)= switching rate

$R(C_e)$ = retention cost function

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Modelling Factors

- Demographics
- Regionality
- Activity Types
- Budget allocation
- Proximity of competitor brands / pricing
- Existing market share
- Continuous evaluation and adaptation due to success levels of campaigns

Summary

- The need to identify where best to spend your marketing effort
- Understand the relationship the customer wants with you
- Appreciate the effect your marketing effort has on the customer
- No when to stop

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