MANAGING CUSTOMER RELATIONSHIP

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Abstract: *The paper points out the key market changes in the first decades of the twenty-first century and their implications on business philosophy, concepts, principles and techniques of relationship marketing from the point of making strategic marketing decisions. In that context points are made to the important role of developing customer relationship management (CRM), highlighting the effectiveness of a combination of the CRM and the customer experience management (CEM) models. One of the important aspects of that relationship is reflected in the fact that CRM tells us what the customer has done, whereas CEM can tell us why he/she has done it. Consequently, CEM can vastly improve the power of CRM to predict future customer behaviour. Successful implementation of CRM concepts implies: excellent understanding of the field of activity and competition; knowledge of customers; market-oriented thinking; an integrated approach to managing channels of communication and sales; and finally, a database development. In this paper we have also presented the CRM value chain as a model which businesses can follow when developing and implementing their CRM strategies and the related CRM diamond model, based on strong theoretical principles and practical requirements of business.*

Keywords: *marketing, customer, relationship, management, CRM, organization, profit*

1. INTRODUCTION

In the last decades of past and the first years of this century there have been dramatic changes in the relevant (micro and macro - local, national and international) market environment of organizations (enterprise/company/corporation), which imposed the need to review existing business practices, business management philosophy, concepts, principles and techniques of marketing management.

Instead of organizing as per product and/or sales territories, successful organizations are organized in compliance with market segments. Successful organizations have adopted the maxim that they should retain the basic activities that constitute their core business, while some minor activities, which other individuals/organizations can perform better and cheaper, shall be procured from third parties (outsourcing). Successful organizations have also learned a valuable message by David Packard from Hewlett-Packard, who once said that marketing is too important to be left to the organizational unit for marketing. Consequently, these organizations have accepted the thesis that creating, communicating and delivering value to consumers, is not the responsibility of the personnel of the marketing organizational unit only, but of all other employees as well (organizational units of production, R&D, Accounting, Finance, HR Human Resource, IT Information Technologies, etc..). In particular, those from other organizational units who have more intense contact with customers /consumers/users.

Instead of an exclusive or excessive reliance on just one channel of communication/promotion - advertising in branding projects (product/service and/or corporate brand), advanced organizations use a combination of integrated marketing communications - a combination of communication channels (advertising, personal selling, sales promotion, etc.) in order to convey a consistent message to existing and potential customers and thus more effectively position brand image of product/corporation. Being aware of the fact that gaining a new customer can cost five times more than retaining existing customer on average, advanced organizations are not only calculating the profit from each transaction, but taking into account the expected lifetime customer value and, consequently, their market offer is shaped in order to achieve the maximum possible profit from the amount of repeated customers' purchases.

Instead of relying solely on financial results such as total revenue, expenses and profits, successful organizations are increasingly taking into account all other indicators of marketing/business performance - the amount and the change of market share, the level and change of the index of customer satisfaction, the rate of customer loyalty, lost rate and the rate of new customers and so forth - which significantly affect the present and expected financial results.

In organizations that have truly understood that the philosophy of marketing is so important in terms of hyper-competitive economy, the top management is not on top of the pyramid, and the clients are not on its bottom, rather than vice versa - at the highest hierarchical level – on top of the pyramid are the customers, in the central part are the employees who are in "contact" with clients, behind and below them are the middle managers to support employees' on the front line, while at the bottom of the pyramid are "the generals" or "top managers", who provide support to managers of intermediate level. Such a modified approach to management has caused the development of a new concept based on the customer, and managing of long-term relationships with customers.

2. RELATIONSHIP MARKETING AND CRM

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Philip Kotler in his recent work in the field of marketing management emphasizes that the art of marketing management and the ability of acquiring new and retaining existing customers. Organizations that start from the postulates of classical/traditional marketing theories focus on art for attracting new rather than to retain existing customers. Such organizations, which operate on the principle of "drills buckets" or "adding water to the bucket drills," assume that they will always be able to provide a sufficient number of new customers who will be able to replace outflow of the lost customers. Such organizations put more emphasis on the exercise of the transaction rather than on creating, nurturing and developing stronger relationships with the (profitable) customers. Consequently, these organizations focus their efforts placed on the resale and sales activities, neglecting the importance of after-sales activities focused on fostering relationships with customers.

Being aware of the empirical facts that "to get new customers can cost on average five times more than retaining existing customers" and "to reduce the rate of outflow of customers by 5% can increase profits by 25 - 85%, depending on the branches of activity," smart organizations recognize the importance of delivering superior value of satisfaction and retention of existing (profitable) customers.

In every organization there is abundance of customer data. Frequently, however, those data are scattered throughout the organization and deeply buried in the "partial" databases, documents "stored" in various organizational units of the company and retined within “minds” of employees who are, in different ways, in touch with customers. When, however, information about customers integrate properly, then they become a real "mine" from which then, the information "worth in gold" could be drawn to build strong relationships with customers and their loyalty makismiziranje.

CRM is a marketing concept/model/system/process that helps the organization to manage detailed information about individual customers and therefore carefully manage with all organization's "touch points" with customers (such as the consumer purchases, contact with vendors, visit the website, etc..) in order to maximize their loyalty. The financial services sector, including banks, incurence companies etc., has developed the concept of KAM (Key Account Management) to manage relationships with key (most valuable) customers of banks, insurance and other financial institutions.

By combining the right software and analytical tools, CRM helps organizations to integrate customers data from various sources, to conduct "deep" analysis and gain a comprehensive view of the organization's relationships with consumers. Using sophisticated analytical techniques of data mining (DM - Data Mining) from data organized in the form of so-called data warehouse (DW - Data Warehouse) CRM helps the organization to discover "real jewels" - the knowledge hidden in the raw data about customers and discover the most valuable/profitable customers to more effectively target and "cut out" offer "tailored" for customer special requirements. The basic structure of CRM, in fact, consists of three parts:

- Operational CRM - refers to supporting the business processes of “the first-line business operation of the company”, such as marketing, sales, order management. The basic characteristic of operational CRM is the existence of a single, integrated database that contains information about each client.
- Analytical CRM - refers to supporting the analysis of customer data, including the activities of collection, storage, selection, processing, analysis and interpretation of that data. Goals may be different: modelling the behaviour of the client, design and implementation of specific campaigns (customer acquisition, retention of clients, cross-selling, up-selling, etc.) analysis of service quality, assessment of clients, the

division into segments and making customer profile, risk analysis, demand analysis, sales analysis, analysis of clients' departure and the like.

- Collaborative CRM - enables complete communication, coordination and cooperation with clients via phone, fax, Internet, mail, in person and so on.

Organizations that have experience in this system applyement understood that CRM is not only the (or primarily) technology and software solution but also an integral part of the overall customer relationship strategy. CRM is all about the relationship and therefore, as pointed out by experts in this area, and focus then should on R (Relationship).

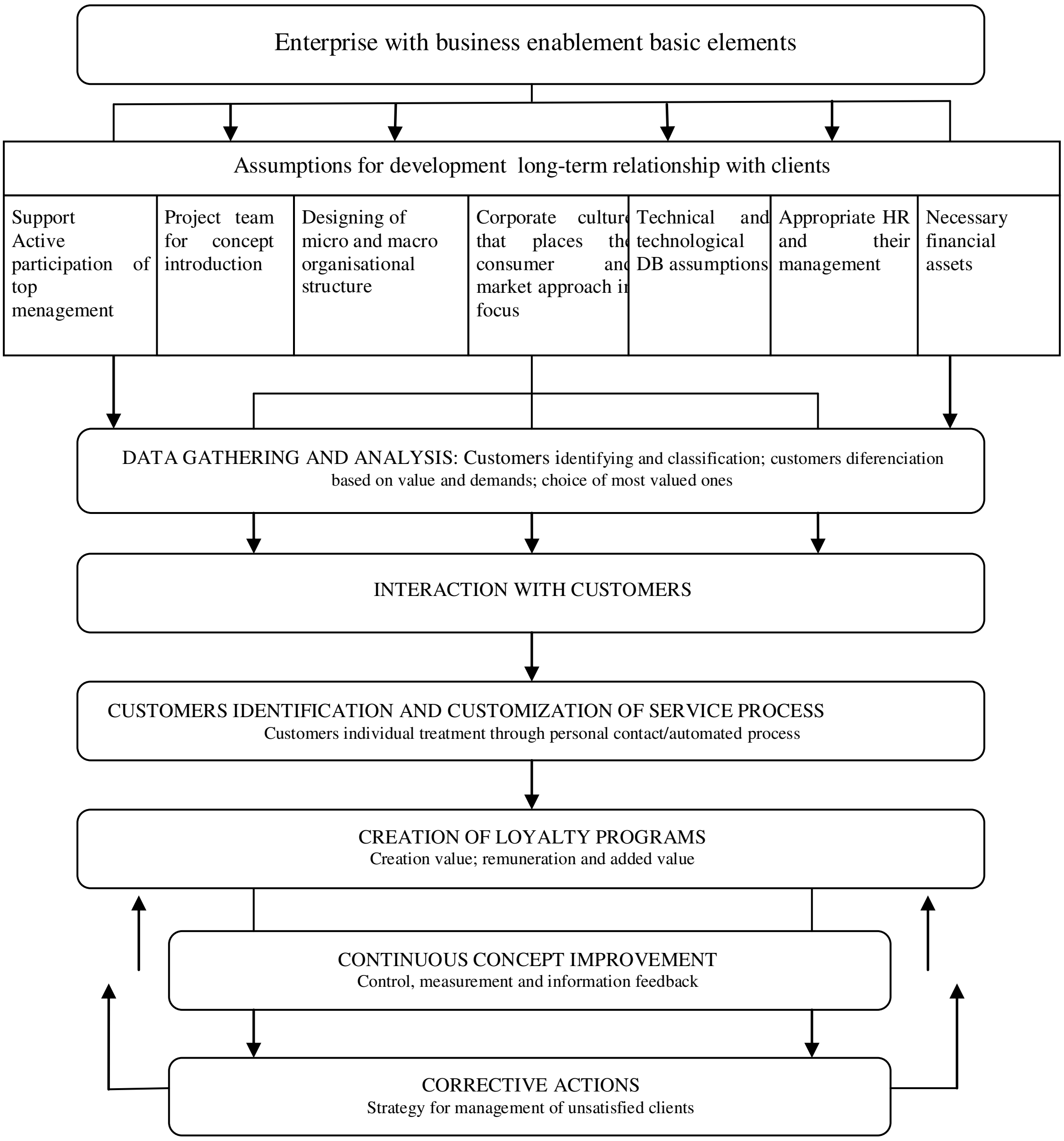

Figure 1: The conceptual framework of CRM

The key factor for success of company CRM concept is the anticipation of client's needs and expectations. It is therefore necessary to build a platform for communication with clients and analytics of relevant information collected from them. In the web site specialized statistical software packages allow monitoring and collecting responses to various questions, which may be stored in the appropriate database. In this way we can keep records of client habits and clients special interest.

Strategic Framework for CRM is the interaction of four inter-related functional business processes that are related to:

- Framing the company strategy (a development strategy is to be analyzed from two aspects: business strategy and customer);
- Creation of value/supply through customer perception and awareness of the value;
- Integration through multiple channels (so called multi-channel management, which includes sales force, output information, telephone, direct marketing, e-commerce, mobile commerce, etc.);
- Evaluating the success of the campaign with the analysis of the results after performed monitoring.

Prerequisites of successful implementation of CRM concepts are: excellent understanding of field of activity and competition; knowledge of customers, market way of thinking, operation of the company as a whole - an integrated approach to managing the channels of communication and sales, as well as database development. These assumptions form the basis of a conceptual framework for developing CRM strategy shown in Figure 1.

3. CRM VALUE CHAIN AND CRM DIAMOND MODEL

The main effects of introducing the concept of CRM are: more effective segmentation of target groups, faster response to market changes, longer customer retention. Other effect could be:

- Analytical forecast of market trends
- Analysis of the profitability of individual customers
- Ability to direct offer to highly profitable customers
- Improving the quality of service and sales opportunities
- Shorter sales cycle and higher profitability of the sale process
- Synchronization and analytical processing of information gathered from various sources
- More intensive development of competitive advantage and company reputation as a strong business partner.

Customer relationships management as a process includes: defining bid value, segmentation, targeting and positioning, operations and delivery systems, measurement and feedback, external and internal market which is shown in figure 2.

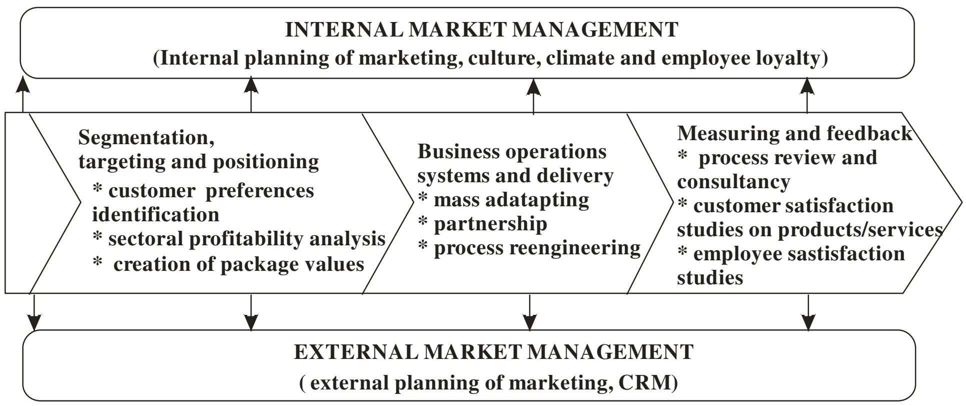

Figure 2: CRM chain (Adapted on Lovreta *at al.,* 2010).

Such a process requires strategic approach in its implementation. One of the most adequate strategic approach to organizational design is given into a Diamond framework, presented on figure 3, in which are organized the basic elements of a successful CRM strategy. It focuses on vision, activities and basic business activities as key factors of successful implementation of CRM in a business environment.

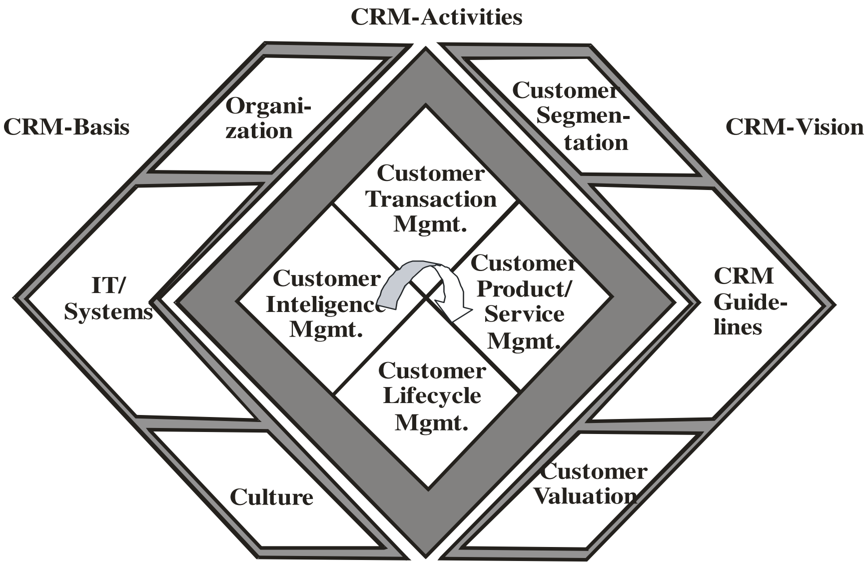

Figure 3: CRM diamond (Mack et al., 2005).

The CRM value chain as a model which businesses can follow when developing and implementing their CRM strategies and related CRM diamond model are grounded on strong theoretical principles and the practical requirements of business.

The main purpose of the CRM value chain process is to ensure that the company builds long-term mutually-beneficial relationships with its strategically-significant customers. Not all customers are strategically significant. Indeed some customers are simply too expensive to acquire and service: they buy little and infrequently; they pay late or default; they make extraordinary demands on customer service and sales resources; they demand expensive, short-run, customized output.

CRM value chain indicates to primary and secondary activities in building long term relationships with customers, in order to achieve higher level of their satisfaction as the basis for long-term loyalty.

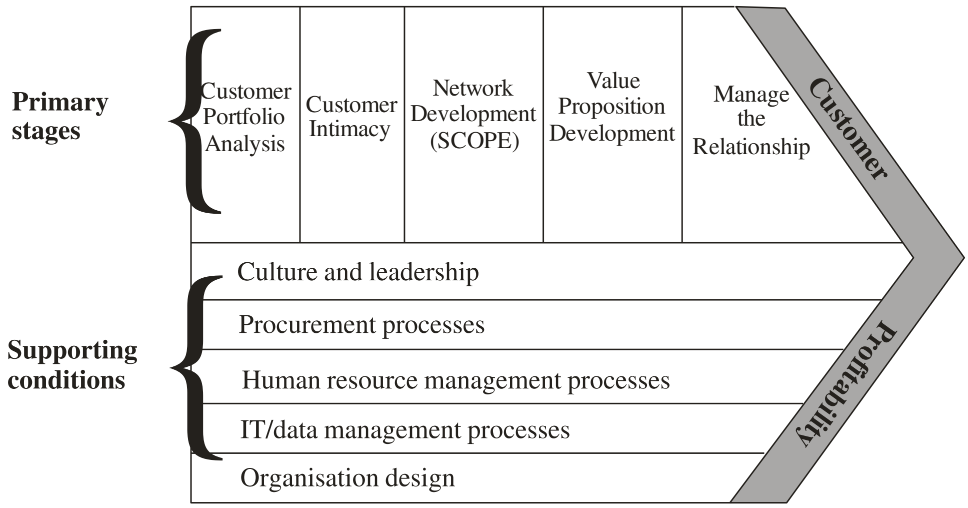

Figure 4: CRM value chain

CRM value chain includes five primary activities:

1. Consumer Portfolio analysis: an analysis of the customer database aiming to offer different products to them.

2. Understanding the consumer: activities on understanding individual or groups of consumers and building database accessible to all stakeholders whose decisions and activities may affect the attitudes and behaviour of consumers.
3. Networking: building a strong network of relationships with employees, suppliers, partners and investors who understand the requirements of target consumers. Central role in the model is given to consumers, which is surrounded by other elements: suppliers, owners, investors, employees, and other partners. Management and coordination, according to these elements, can ensure the structuring, communication and delivery of preferred products to consumers.
4. Development of products/services value: development of proposals which create value for both consumers and the company.
5. Managing relationships with customers: with a focus on structures and processes.

Supporting activities are aiming at: culture and leadership, procurement processes, Human Resources, data management process and company organizational design.

4. CUSTOMER CRM TO CEM

To overcome the perceived problems managing relationships with customers, a growing number of companies employ managers who follow the experience and customer satisfaction. Therefore, some authors suggest that instead of "relation" the usage of the term "experience". They identified three levels of customer experience: experience of the brand, the experience related to transaction and experience of the relationship. The more represented opinion in the recent years is that the understanding of the broader concept of customer experience becomes crucial for understanding the reasons why are customers withdrawing from certain relationships.

Several authors underscored the importance of personality brands that will allow customers to "live the brand" and to "experience the brand." Therefore, interpersonal relationships and relating to brands contribute to the experience of customer-related product. Hypothetically, these two elements can be mutually complemented by deficiencies of interpersonal relationships and for that reason to be offset by benefits from for the use of attitude towards the brand. Customer experience can be an intellectual integrator within which you can find compromises (trade-off). One consequence of focusing on experience rather than on relationships is that a good experience can strengthen the emotional aspects of relationships that are traditionally associated with the brand personality, but can reduce the need for interpersonal relationships that are associated with customer relationship management.

An explicit connection between brands and relationships has been recognized only recently. In the initial stages of theory of customer relationship management, proponents of this theory have often argued that brands and relationships (relationship) are separated by two conceptual domains. Since then, many authors have conceived brands such relationships, where the brand infused personality, which allows it to form a relationship with the customer. This relationship can be developed from the similarity between the brand value and customer’s image about itself, and takes place when there is a good balance between physical and psychological needs and the functional and symbolic brand value. The link between emotions related to interpersonal relations and brand is strongest in the context of service brands. In this case, customers have the opportunity to experience the brand through interaction with him and the services of employees in direct contact.

Initially, managers who dealt with the customer experience have emerged in sectors with high levels of emotional involvement of the customer. However, this concept was later expanded massively and to sectors with low levels of customer involvement. Managers who follow the experience and customer satisfaction should have developed skills mediation function and authority, to bring value to customers in the form of experience that meets their needs and expectations.

One comprising CRM and CEM discover following. Centre? In contrast, CEM deals with customer attitudes. How satisfied was the customer? How likely would he or she be to buy again? How willing would he be to recommend us to a friend or colleague? Consequently, CRM’s focus is the past and the present. CEM’s focus is the present and the future.

Gathering CRM data is relatively easy. We get it by monitoring and recording customer behaviour. Gathering CEM data is much harder because we have to elicit opinions, perceptions and other attitudes consistently across customers, which not all customers will provide. That usually implies conducting surveys. Many researchers in this area pointed out that the combination of CRM and CEM can be extremely powerful. CRM tells us what the customer did. On the other hand, CEM can tell us why. If a customer switches to a competitor, only attitudinal feedback will tell us that it was because of dissatisfaction with product features, or speed of service, or ease-of-use, or courtesy. In particular, CEM can vastly improve the power of CRM to predict future customer behaviour.

As american author John Chisholm says, in large organizations, CEM systems act as corporate eyes and ears. They:

- Gather timely feedback from key stakeholders – including customers, prospects, partners, and employees on their satisfaction, intentions, and other attitudes towards, and about their experiences with, an enterprise;
- Make actionable that feedback through powerful analytics and reports, and instantly accessible to the right people at all levels of the enterprise through interactive dashboards, pushed reports, emailed alerts, and other means; and
- Enable enterprises to efficiently manage actions responding to feedback.

Optimal design of CEM systems involves considerations not just of IT and corporate strategy, but also of statistics, sampling, market research, and human behaviour. Well-designed CEM systems are especially important to large organizations, where the many divisions and departments could easily inundate customers with survey requests.

The benefits of such CEM systems have been firmly established. They inform the right individuals and teams when customers are dissatisfied and why, enabling those individuals and teams to respond immediately. CEM enables more effective rewards and recognition, thereby enhancing employee satisfaction and commitment. As a consequence of all of the above, CEM systems put organizations on paths of faster learning, faster process improvements, and faster gains in competitive advantage.

5. CONCLUSION

CRM is a set of activities which provide company growth through: more effective segmentation of target groups, analytical forecasting of market trends, faster response to market changes, profitability analysis of individual customers, ability to direct sales to highly profitable customers, improved quality of services and sales opportunities, longer customer retention, shorter sales cycles and higher profitability of the sale process, synchronization and analysis of information gathered from various sources, improved efficiency and flexibility of operations, intensive development of competitive advantage and company reputation as a strong business partner.

Requirements for creation of high quality CRM models are: customers satisfaction and loyalty; data protection, business intelligence tools, enterprise resource planning and creation of integrated business systems. CRM's focus is the past and the present. CEM's focus is the present and the future. CRM tells us what the customer did. CEM can tell us why. But, combination of CRM and CEM can be extremely powerful.

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