

## Principles of Managing Customer Relationships



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### **Introduction**

Customer Relationship Management (CRM) focuses on how businesses are undergoing transformation from the traditional mass marketing product centric approach of the industrial age to a customer centric approach of the industrial age. The main objective is to enhance relationships with profitable customers. The basic concept of CRM focuses on how businesses are undergoing a huge cultural shift-transforming from the mass marketing, product centric approach of the industrial age to the customer centric culture of the information era where the main objective is to build relationship with more profitable individual customers. In this new business era managing individual relationships means an organization which will use the knowledge gained from these relationships to improve the overall quality of the customer experience and give value to customers. So it becomes important for an organization to understand how these relationships are formed and what constitutes the relationships. Relationship is a state of affair existing between those having relations or dealings. It could also be defined as state involving mutual dealings between people or parties. Jim Barnes says that relationship between an organization and their customers can exist at four different levels:

- Intimate relationship is characterized as personal and friendly and generally involves the disclosure of personal information.
- Face to face customer relationship may or may not require the customer to reveal personal information. Such relationships occur in retail store.
- Distant relationships involve less frequent interactions and might occur over the telephone, online or through videoconferencing.
- No contact relationships rarely or never require a customer to interact with the organization directly. Customers typically interact with the distributor or agent.

Any meaningful relationship between a customer and a business enterprise begins with the expectations of mutual benefits. Through such a relationship the customers expect to:

- Realize cost savings
- Improve their decision making ability
- Reduce their risk by developing relationships with trusted companies, services and products
- Acquire a solution that is tailored for their specific needs and budgets
- Realize the social and other value added benefits such as simplifying their choice process.

And the motives of the business enterprise include:

- Gaining an advantage that cannot be easily be copied by the competitors
- Reducing the high costs of acquiring new customers
- Improving the forecasting and efficiency of their operations
- Reducing their exposure to risk

### **IDIC Model for building relationship**

For an organization to build and manage relationships with their valuable customers, it must engage in a four step process called as IDIC. The foundation of effective Customer Relationship management is to built on an iterative process of learning and customization. Peppers and Rogers (1993), the proponents of one-to-one marketing proposed the Identify Differentiate Interact Customize (IDIC) framework to explain the process of converting existing customers into loyal customers. The four key steps in IDIC are:

1. Identity: This step requires the company to locate and contact a large number of its customers directly and ascertain as much detail about them as possible name, address, contact details, account details etc. Now this kind of information cannot be collected easily or through a one- time questionnaire based activity. Every interaction with the customer through any channel should be seen as an opportunity to learn about them and this knowledge has to be used to serve them better.
2. Differentiate: Customers need to differentiate on the basis of their value as well as their needs. The value represents customer's worth to the company-higher the value, more the company would be interested in retaining them. Though the best way to estimate the value of the customer is in terms of revenue but this can become risky if the cost to serve these customers is higher than their revenue. Thus the ideal measure of customer value would be their contribution towards profit which might be difficult to measure in many cases. Some customers are satisfied with very standard products and services while

others have very specific needs to be fulfilled. Such customers with specialized needs can create opportunities for customization. Differentiation should help the company tailor its offerings to each customer to reflect their values and needs.

3. Interact: The purpose of interaction or customer interface is to gather as much information as possible about the customers focusing more on the valuable customers. These interactions can take place when the customer is making a transaction, using any service or even while he is making a complaint. The learning relationship gets smarter with each customer interface.
4. Customize: The last step is the most important as it is based upon all the information that has been gathered about the customers to offer real value to them by customizing some aspect of the service related to a product or even mass customizing the product if required. If the customer is offered a product or service on the basis of what he has indicated during his interactions, It helps in improving the ability to fit the product and service to satisfy the needs of this customer

This IDIC framework is useful in understanding the process to be adopted for building relationship with existing customers. But it is also equally important to know the stages through which a prospect becomes a customer and then a loyal customer.

### **Using interactive technology to build relationship**

Managing individual customer relationships is a difficult, ongoing process that evolves as the customer and the organization deepen their awareness and involvement with each other. Relationship by its very definition is characterised by two way communication between the two parties. So interacting with the customers acquires a new importance for a customer centric organization aimed at creating and cultivating relationship with individual customers. This becomes a mutually beneficial experience. The interaction in essence becomes collaboration in which an organization and the customer work together to make the transactions more beneficial to both. The focus shifts from one way communication or a onetime sale to a continuous, iterative process the goal of which is to increase the customer satisfaction and in return developing the relationship with the organization.

Interaction techniques for a customer centric organization:

#### *Dialogue requirements*

This two way communication can be referred to as a dialogue. Before an organization can be considered to be engaged in a genuine dialogue with the customer there are

six criteria's that needs to be met:

- Customers and organization have been identified and both are aware of each other's existence.
- Both of them are able to participate in the dialogue
- Both of them should intention to participate
- Dialogues can be controlled by anyone rather than only one party being dominated
- A dialogue with an individual customer should be able to change an organization's behaviour towards that individual, and vice versa.
- A dialogue should be able to picked up where it last left off

### *Implicit and explicit bargains*

Conducting a dialogue with the customers is a form of mental collaboration. For an organization to engage a customer in a productive, mutually beneficial dialogue, it must conduct interesting conversations with an individual customer, on his terms, learning a little at a time, instead of trying to dell more products every time it converses with the organization. A customer centric organization need not adopt a self oriented attitude, instead they would use interactive technologies to provide value to the customers who would help the organizations in sustaining the dialogue with their active customers. When advertisers sponsor a television program, they are in effect making an implicit bargain with viewers. Since they did not have any option to choose from they used to watch the TV commercials but today the scenario is much different, today's viewers are living in a vastly different environment, they have the power to tune out commercials at their will. Since the media used here is non interactive there is no such way which will help the organization review the feedback of the customer and whether to the first place has he actually viewed it. So now with these interactive communications technologies the companies can make explicit bargains with the customers.

Not so long ago it was pretty straightforward companies had the option of interacting with their customers in various interfaces like retail outlets, by telemarketing, or by mail. There weren't any other options available. Any communication from customers was possible only through a person who had the capabilities and training to provide effective service. Today, we still have those choices available but there are a number of new ways of communicating with customers which have sprung up.

### *Integrating across touch points*

All the human relationships, including business relationship, are founded on communication. It is through such communications that people establish commonness of meaning and understanding. Marketing communications are

collectively understood as those communication activities that are used in the context of marketing a product. The purpose of marketing communication is to add value to the product that benefits both the customers and the brand.

The essence of IMC is generally to create communication synergies and message amplification by integrating elements of the marketing communication mix. Many organisations have created IMC departments in strategic response to a stronger need for communication effectiveness in a world of increased fragmentation of media and the tendency for a thinner segmentation of customer base. The development of IMC has been encouraged by increased accessibility of IT resources and the need for reinforced loyalty through relationship marketing. The importance of creating and feeding brand equity through image has also boosted IMC. The overall need for a better management of customer interfaces has encouraged marketers to develop CRM practice and the theory of customer equity, which is based on concepts of trust and lifetime value. This led to reciprocal and in some ways equivalent concepts of brand equity which is the focus area of advertising and marketing communications specialists and customer equity which is the focus area of sales, service and CRM specialists.

So a customer centric organization concentrates not just on the efficiency of the communication channel used with the customer, but also on the effectiveness of the customer dialogue. The more the company is aware and remembers about the customers the more unrewarding it becomes for the customers to defect. The customer strategic organization ensures that its broadcast and print messages are not just laterally coordinated across all media but also every customer is longitudinally coordinated.

#### *Customer interaction and dialogue management*

Every customer is unique, their wants and needs differ from each other. In the same way they would even have their preferences for the interaction methods. Some would prefer email, others might prefer phone or they would prefer combination of technologies. The level of personalization that the web affords to a customer should also be available in more traditional customer facing venues. Ideally the company should be able to learn from each customer what his own preferred Media package will be, so accordingly the company can design their strategies in order to enhance the value proposition for the customers.

#### *CRM software solution*

Many relationship oriented technologies help the company to understand their key

customer groups and customize their products and services for customers. Companies deploy customer focused technologies like call centre software, self service web sites to streamline their business processes. A complete customer focused solution would require many software categories like: Sales Force automation, campaign management, personalization engines, customer service and support solutions, reporting and analytical tools, contact centre management etc in order to help the company develop personalized relationship and connectivity with the customers.

#### *Case : Me and Meri Maggie Interactive Campaign*

Maggi had been in our country since 25 years. The kids who had grown up with maggi have now become young adults. Nestle wanted to capitalize on the enormous bank of "maggi memories" by giving customers a chance to have a conversation about the brand and allowing them to relive and refresh their fond memories, they wanted to create a better emotion bond between the brand and the consumers. With this objective in mind Nestle launched an integrated campaign Maggie is not only a good value proposition but is also strong on the taste front. Nestle wanted to acknowledge their consumers and their Maggi experiences. The vast reach of digital media was used as interactive website for the consumers, [www.meandmeri.in](http://www.meandmeri.in).

To incorporate its health and wellness slogan — 'Taste bhi, health bhi' — in the noodles brand, Nestle renovated the two-minute noodles to ensure more calcium and protein content in the product. The packaging has been tweaked to accommodate the pictures of consumers whose entries the company chooses. If a consumer has a story to tell about Maggi, they would put him or her on the packaging, TV or print. Nestle would continue to innovate and renovate products under the Maggi umbrella. In 2008, two brand extensions — Maggi Bhuna Masala and Maggi Cuppa Mania Instant Noodles — were added to the portfolio. The Meri Maggi campaign is a step in the direction of personalizing the Maggi experience for anyone and everyone who has tasted the snack. Meri Maggi Facebook campaign, was also launched parallel which was using photos and posts strategically to involve and engage with their fans

### **Using mass customization to build relationships**

Building a relationship with each individual customer is seldom possible for most businesses. A targeted approach towards various customer groups aims to automate the maximum personalisation possible between the company and their customers. For the past years the companies have standardized their products and services to take advantage of economies of scale. Not only the product the companies have also standardized their communication about the product, processes and in the process

they have also standardized their customers. Technology acts as facilitator for the customer centric organization to identify its most valuable customers, helps in remembering everything it learns about each customers and act accordingly based on the information collected. They improve and streamline the manufacturing and service delivery processes, so that an organization can deliver individually different products or services to different individual customers cost efficiently. This is called Mass customization.

Mass customization goes around the concept "build to order". Build to order is the concept when the company does not know demands , there is no forecasting until orders are placed in hands. The concept of "build to forecast" or "build to stock" was based on demand forecast. The drawback of this concept was that forecasted information was not accurate as it depended on past numbers and many assumptions, thus the outputs of production could not be match with the highly different demands of mass customization. The gap between production on forecasted information and real demands increases large costs such as high inventory cost (components and finished products), material and other resource waste, cash flow decline, etc. on operating results. In mass customization approach, products are just built after the company has the orders in hand with the exact quantity and quality required. In addition, the slight variations in many products require additional sophistication relative to a more educated and demanding current consumer.

#### Advantages of mass customization

- It helps in increasing market share and profitability due to increased customers satisfaction and reduction in inventory cost
- Personalized and tailor made offers to customers helps in increasing the customer satisfaction ratio
- Increase in loyalty of the customers
- Increase cash flow: Lower inventories, prepayment (thus lower receivables)
- Shorten time of responsiveness (accumulative time from receiving orders to delivering): organization structure and flexible manufacturing in mass customization allows the company to adapt to different demands rapidly.
- It has an ability to supply a full line of products or service with lower costs

#### **Approaches to Mass Customization**

Joseph Pine, II identifies four approaches to apply mass customization:

- Collaborative customizers: these organizations establish a dialogue to help customers articulate their needs and then develop customized outputs to meet these needs. Levi's is an example of this approach. The company uses a

computer system in its shops with plants. Customer wants (size, model, color...) will be measured at Levi's shops, and then this information will be computerized and sent to Levi's plant to produce a custom-fitted pair of jeans. Nike and Dell are two other examples of this approach.

- Adaptive customizers: customers buy a standard product but they can modify it by themselves based on their needs. For example, Microsoft offers a package of software designed to run all activities of small businesses. But if a buyer (a small business) wants, for instance, to add more accounting functions into the package. it allows doing that because it uses a popular programming language that can be used by other programmers.
- Cosmetic customizers: these companies produce a standard product but present it differently to different customers. For example, Planters packages its peanuts and mixed nuts in a variety of containers on the basis of specific needs of its retailing customers such as Wal-Mart, 7-Eleven, and Safeway.
- Transparent customizers: These companies provide custom products without the customers' knowing that a product has been customized for them. For example, an online computer might track how each customer uses its service and then suggest additional features that the customer may find useful. In a similar fashion, Amazon.com provides book recommendations based on information about past purchase.

### **How Mass Customization Works**

Companies that specialize in mass customization should have all the resource units within such a company Paired loosely and set up as network structures. These units can be comprised of company personnel, teams, industry-specific software, back office processes and/or manufacturing equipment, depending upon the company, its resources and its industry sector. In the customization model, all material and information flows have to be flexible, and organized in modular units. Network structures are very flexible by nature. They permit the flow of materials and services, as needed, between company units, making it possible to produce a wide variety of end products for customers at efficient, cost-effective levels. By changing internal processes, mass customization is possible. By partnering with great resource providers in the supply chain, and setting up a generalized production line, reconfiguration should be flexible and fast in response to changing customer needs, by only making slight modifications to the basic line. It should be cost effective and it will be if company resources are set up to be continually reconfigured.

Key for companies is the capability of customizing products for each customer by utilizing mass components that can be configured into numerous finished products, and tailoring the end products with efficiencies that approximate mass production.

The way to accomplish this is through modularity. By keeping an inventory of interchangeable, modular elements on hand, customers can select the specific options they need or prefer and companies can assemble them quite efficiently. A high level of customer interaction is critical in the mass customization model. Companies have to be prepared to engage in ongoing communication and customer service. While this is important for every company, it is even more crucial for mass customizers.

*Case: Time Swiss Watches using mass customization*

Time Swiss Watches with a well-designed Internet site, [www.121time.com](http://www.121time.com) uses mass customization to build relationship with their customers. Consumers can go to the web site and select very casual, business and elegant watch styles and then customize every component of the basic style they choose: movement, case, bezel, dial and hands, crown and strap. Customers can also build watches from scratch rather than pre-selecting and customizing a specific model. 121Time also invites customers to further personalize their timepieces with symbol and text engraving and upgrades; all easily selected from menus. Lastly, wrist sizes can be noted so that the customer's watch is truly customized in every respect.

*Case: Nike using mass customization*

Recent trends in technology, innovation, fashion demands in fragmented marketplace has forced the engineers and designers to respond to new modular components that are compatible. New design software, network teams and strong supply chain relationships make it possible to continue to update and upgrade components to give customers the features they truly want. Apparel, as well as functional, high-end athletic footwear also responds to fashion trends, new design and innovation. Nike furnishes a great example of mass customized products that are subject to these changes. The web site, [www.nikeid.com](http://www.nikeid.com), offers customers an interesting, easily navigable experience. Consumers have an option of selecting a basic athletic shoe in plain white or in one of the pre-set color palettes, and customize their selection by making their own color choices and names, favorite icons, or player numbers if they wear them as members of sports teams. While costing about the same or a bit more than athletic shoes purchased in a store, the consumers feel quite gratified on getting an athletic footwear designed based on their specific requirement.

*Case: Mass customization at service Industry: Citibank*

Citibank has enhanced its Internet site in 2002 in order to provide easy navigation and access for consumers, as well as small business and corporate customers. Citibank provides information and access to its numerous retail banking and financial services, enabling all of its customers to set up a customized home page, dubbed My

Citi, based on their personal preferences and needs. In this way, consumers, private and business customers both, can set up their "home pages" with the content they really need, and in a layout that works best for them. At Citibank's Internet site, customers can review their Citi card and bank account activity and see their balances, make express payments, pay bills, transfer funds, view online statements, receive wireless and e-mail alerts, and receive information about exclusive offers for Internet customers. They can also apply for lines of credits and loans and access Cititrade services, where they can review their brokerage accounts, buy and sell securities, screen stocks, conduct research and do financial planning. The ability for private and business customers to have access to up-to-date information on their credit card and bank accounts, as well as their portfolios is a great service. While a staggering breadth and depth of services are available at a large financial institution like Citi, they have been humanized, made more accessible and more personalized by the corporate giant's Internet site. With individual home pages set up to access only the information and services they truly want and need, Citibank has succeeded in offering mass customization services to its customers on a very large scale.

### **Concluding Remarks**

The single most powerful position in any customer's mind is a position of trust. Thus earning the customer's trust almost always becomes one of the earliest goals in effort to build a long term relationship with a customer. The way to achieve is through IDIC model. The organization that creates a sustaining dialogue with each customer can learn more about that customer and begin to develop ways to add value that springs from leveraging customer information and creating a product/service as per his requirements. An organization cannot simply interact with individual customer and expect them to be loyal customers. They need to customize the relationship by modifying the behaviour, communication customizing the products manufactured and services delivered. A relationship cannot exist without customization.

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