Editorial

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‘Panta rhei’. Everything flows.

It is some two and a half thousand years since Greek philosopher Heraclitus, of Ephesus, is alleged to have uttered these words, summing in one short, gnomic phrase almost all there is to say on the subject of change and impermanence. Except, according to later writers, these words may not have belonged to him; he is more reliably thought to have written that ‘everything changes’ and ‘no man steps twice in the same river’.

Times change. Life moves on. That which once we took to be real, permanent, is but an illusion. So it is with CRM – customer relationship management – and if some think it slightly extravagant, this grounding of pragmatic business practice in philosophical theory, I’d counter: no. For CRM now, as ever, is about people, and perception and reality, and while business may prefer to distance itself from all that highfalutin philosophy stuff, when it comes to basics, there is no escaping the simple fact that they are related.

CRM has its beginnings, as this journal has stated on more than one occasion, in the old and slightly cold discipline of direct (response) marketing. Cold, that is, in the sense of detached and impersonal: driven pretty much entirely by results.

If a list, proposition, creative platform or other variant works and, critically, if it ‘pulls’ more, statistically, than a different list, proposition or creative platform, then it is to be preferred. More sophisticated variants of the discipline also introduced considerations such as value. Not simply

raw response figures, but the average value of response, since early on it was understood that some audiences, particularly, would pull better than others. By which was meant not just probability of response, but also the expected value of the spend that followed.

Two further variants of direct response marketing followed, database marketing and relationship marketing, each, depending on your point of view, either a *cul-de-sac* or a transitional stage. Database marketing was in one sense just direct response writ large, with the focus switched very definitely to the audience. For with a database it became possible to evaluate to the *n*th degree the personal characteristics of the individuals who responded.

Organisations that succumbed to database marketing were keen to collect customer details, and analysis for a while became detached from questions or issues relating to any other factors. While it was never stated explicitly, a key component of database marketing, though perhaps not recognised as such at the time, was the idea that individual customers and individual customer types had a value.

This also meant a shift from the original focus of direct marketing, which tended to be on the moment and the interaction in that moment with a decidedly different conception of customer value. Models of lifetime value began to emerge: the idea that some customers were intrinsically more valuable than others. Implicit in that view, if rarely stated, was an idea that did not sit entirely comfortably alongside direct response techniques.

For if customers have a typical lifetime value and, once known, must either be cherished as the source of future profit or rejected, perhaps subtly, as the cause of organisational overhead, then what is the point in focusing on clever promotions that can do little except bring some of that value forward in time? In fact, the distinction is made here too starkly. Some products, commodities for instance, will likely prove relatively insensitive to the blandishments of product managers, so the task here is without doubt to identify and capture the likely high users and big spenders. Other products, whatever the statistical modelling says, remain subject to momentary decisions.

It's Christmas, and whether a potential customer buys your brand of whisky or a rival one as a gift is likely to depend on a wealth of factors – some very much 'in the moment'. And if the question is 'What present to buy?' then we are straight back to the old direct response conundrum: of how to influence a potential purchaser in the direction of your company's products and away from another's within the constraints of a short attention span and maybe ten seconds to capture the prospect's interest.

From direct response to database marketing to CRM, under which the focus of activity is managing the customer, or rather, managing the customer's relationship with an organisation. *En route* was the distraction of relationship marketing, which by virtue of a similar name, might be thought to be part of the journey. It is argued here that it was not; rather, like *Homo neanderthalensis*, RM was side-step and diversion from the broad onward sweep of marketing progress.

For RM, unless organisations actually meant CRM, was about a focus on the customer relationship, largely free from considerations of response or value. The underlying theory, which was sound, was that customers relate to organisations, and

where that relationship is positive, they will interact with, transact with, an organisation more; where it is negative, they will interact less. Literature on RM talks about maintaining a continuous level of engagement between organisation and customers, and about developing a partnership between the two.

The essential issue with this approach is that it lacked precision or, indeed, bottom line integrity. Clearly there is much to be recommended in such an approach, but unless you have a reasonably good idea of how much you can cost-effectively spend in maintaining that relationship, or of which relationships to foster, which to divest yourself of, the entire philosophy boils down to a correct but unbusiness-like assertion that the more you spend on your customers, the more they will like you.

Sound, perhaps, if one is in a high-end luxury business and the value of each purchase significantly outweighs the entire year's hospitality budget. Far less so in the arena of FMCG or, indeed, any product with an inherently low margin.

So the main evolutionary trail leads from direct response to database marketing to CRM, with the last two on occasion co-existing in business sectors or even within the same organisation. The essence of the latter, now fully implanted in marketing business models, is the idea that customers have an intrinsic value, and that the business of business is to capture those customers and customer segments possessing the greatest intrinsic value. Alongside this sits a parallel proposition: that such value can be managed up or down to some degree, or, adopting the 'share-of-wallet' perspective, that customers will spend a finite amount on product that performs the same function as your offering – and therefore the task of marketing is to ensure that your business' share of the individual customer wallet is greater than it might otherwise have been.

Somewhere along the journey, it is very clear that (direct) marketing has shifted from being a discipline focused on selling things to a discipline that is about managing things. Specifically, about managing customer demand in particular circumstances.

This evolution has recently taken a further turn with the emergence of ideas such as demand response and demand sensing. Both take the idea of customer management just a bit further, deeper into the organisational Web.

Demand response has emerged in respect of energy management. In most Western nations, energy suppliers have little scope for increasing their direct margin from sales of electricity and other energy sources. Prices are strictly controlled, which means that the classic CRM approach of 'rewarding' good customers and penalising bad ones (or those who are less valuable) is limited in its application.

This picture is not universal: some jurisdictions and states allow for some degree of price flexing. Others allow none. This is increasingly problematic against the backdrop of smart grid, which is a new technological approach allowing for the collection of significant new information about the working of energy grids and particularly the usage patterns of individual customers.

In theory, this collection of information will over the next couple of decades allow significant micro-management of customer energy use: a variety of approaches, grouped under headings such as demand response and demand response management, have been proposed. This involves inducing electricity customers to reduce their consumption at critical times or in response to market price signals.

The debate is focused on questions of what is permissible within the existing legal and regulatory framework. The key take-away from this approach is an understanding that managing customer

demand can impact upon a business in ways that are more subtle than simply selling more product. Because managing demand means also managing the cost base, and managing customers in such a way as to reduce cost is as effective in terms of improving profitability as increasing sales.

Closely related, and a topic that is to be dealt with in this journal, is the issue of demand sensing. A range of collaborative demand planning approaches, such as Collaborative Planning Forecasting and Replenishment, Demand Driven Value Networks and Demand Sensing, are increasingly demonstrating real benefits for Consumer Goods Organisations.

Again, the benefit is the reverse of the direct benefit from sales. By managing the cost base more closely – in this case by managing the demand from customers – it is possible to impact directly and positively on the bottom line.

Is this 'marketing'? Not in the classic sense, no. But since the overall effect of these approaches is a net improvement to the bottom line of an organisation by influencing the way in which customers behave, by persuading them to act differently from how they might otherwise have done, it is still hanging on inside marketing.

Or rather, in the ongoing debate about how to turn organisations into truly marketing oriented organisations, such developments pose larger questions. If marketing includes a sense of influencing customers to act in ways that are ultimately more profitable to the organisation, then demand response and demand sensing are indeed marketing techniques. Alternatively, as the focus shifts more and more towards managing customer for profit, one could argue that the exclusive domain of marketing is shrinking year on year as the entirety of an organisation's efforts gradually shifts to the profitable management of customer relationships.

Evolution. Change. None of which negates the continuing importance of CRM, but still, it adds new perspective.

As does social networking and the rise and rise of the connected society. Initially, the Internet and online technologies were the catalyst for this shift, with early conceptualisations of the Internet viewing it as though it were just one more communication channel. This is changing. Social networking and interconnection is now multi-media, multi-channel. The Internet, on its own, remains a potential channel for the directing of sales messages.

As does e-mail, SMS and all the multifarious new communications mechanisms with which the younger generation are growing up. Again, though, to focus on the sales channel aspect of this technology is to miss much. Key to understanding the impact of social networking is to understand how this is not just the addition of a new channel to a set of existing ones, but a cultural revolution in which conversation is constant, opinion is ubiquitous and public opinion is always evolving.

Exponents of CRM have attempted, so far with limited success, to incorporate theories of social media into a marketing view. There are two issues with such an approach. The first, noted in previous editions of the *Journal of Database Marketing*, is that the differences between the new networking channels and traditional channels of communication are far greater than the similarities.

To begin with, these new channels are ongoing conversations, as opposed to uni-directional message delivery. The audience can answer back. Worse, there is no simply defined 'target audience'. Anyone can join in, and frequently anyone, everyone, does. The simplest of sales claims, it transpires, may be subject to analysis, dissection and backchat from interested bystanders. Individuals who are not customers, not prospects for a given product and, in all likelihood, never will be.

As discipline goes, social media management is far closer to wider theories of PR and reputation management, both areas where there has been substantial research carried out in respect of what may or may not work, yet in the end, areas that are as much art as science.

Everything flows. Everything changes. For CRM and, in consequence, for academic study of CRM. Database marketing, customer relationship management: both are as necessary, in the right circumstances, as they once were. But what once was new, cutting edge, revolutionary is now, in its turn, commonplace.

When this journal first launched, nearly 20 years ago, database technology was in its infancy. The idea that technology and marketing should combine in any meaningful way was still one that needed to be argued for as opposed to being accepted naturally.

CRM, in its turn, was equally startling. Managing customers as opposed to marketing to them – which read, in most organisations, 'sell' – was not something that most marketing managers had considered part of their remit. Pundits, back then, were keen to talk of the coming 'marketing organisation'. Such ideas still carry weight. But alongside this has arisen the idea of the information organisation – as database has extended beyond the confines of marketing – and the managed customer, no longer the sole preserve of the marketing department.

Change is on its way once more. Change in marketing, change in management and change to this journal. An adaptation – a necessary adaptation – to change that has already taken place in the world outside. It is a topic to which we will return in the next issue, with news of changes to this and other journals designed to keep pace with what is happening in the real world.

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