Editorial

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There is, as one article so perceptively puts it in this issue, a dark side to CRM. It is this: that the ‘M’ in the acronym is all about ‘management’. Therefore, although one’s first impression of CRM is that it is about relationships with customers – and thereby be lulled into the mistake that early adopters of CRM often made, in trying to have an equal and equally valuable relationship with EVERY customer in their portfolio – the truth is that CRM is about managing customers.

The relationship is the means whereby that management takes place: establish a relationship with your customers in order to target them with happy, positive messages about the benefits of your products and services. Only – the real issue – one customer’s value may be 10 times that of the next, which means that once you start to do the management of customers and customer groups in earnest, you quickly find that somewhere in there are customers you really would rather not keep.

The process of establishing that is straightforward, even if, in the early stages, it sometimes takes a great deal of work in order to come up with a figure for value. That is an accounting exercise that requires a fair degree of close co-operation between marketing and finance. It means writing down a reasonable value for every product that a customer purchases.

Hopefully, that will be some form of net value, the value to your business after overhead and production costs have been subtracted. Apportion that value over time

and, assuming no surprises in there, then that is the customer value.

Once you have the value for individual customers in place, you can begin to analyse what is going on in your customer base. You can allocate customers to deciles; that is, split your base into 10 groups on the basis of their value ranking. Therefore, the first decile is the top 10 per cent of your customer base, in value terms. The second decile is the next most valuable and so on.

You can profile the deciles, finding perhaps that the highest value ones are more mature, or have higher income, or tend to live in the north-west of the country: whatever happens to be key when it comes to determining a high value customer, that is worth knowing. You can project value forward and backward, looking, especially, for stability between deciles.

For some product, some businesses, high spend tends to be focussed in one or two tightly defined time periods; a good example of this phenomenon is the purchase of items for a newborn baby. Clearly, first-time parents are likely to have the greatest need for new things, from cots and prams, through to feeding bottles and changing mats.

In the case of baby care products, it is almost inevitable that value will be tightly concentrated – and there will not be much that can be done to extend it – beyond investing in a series of ever more creative product extensions, designed specifically for the purpose of giving your best customers something to spend their money on.

That, of course, is one extreme, and the sort of situation that cannot easily be changed. The customer's need for product is short-lived and specific. At the other extreme are those who 'invest' over the years in collectibles, from fine china to stamps. Such individuals, unless something happens to change their collecting habits (either a change of circumstance or a switch in loyalty to the collecting of something completely different), will tend to spend at a similar level again and again, month after month and year after year.

There are plenty of other analytical 'games' to be played with customer value data. It is possible to refine value by looking at long-term costs against a given customer (most relevant for products such as insurance, where some of the highest spending customers can turn out to be very low net worth, because they make frequent claims throughout their lifetime as a customer). In any case, it is always worth adding back in 'cost to serve', as some customer groups are definitely more time consuming, and therefore more costly just to maintain, than others.

Last, but by no means least, it is worth identifying just how much is spent on promoting to each group of customers. The results can be surprising – shocking even. The Pareto principle holds sway, massively, in almost every decile analysis that I have ever seen. The top 20 per cent of customers (by value) almost invariably contribute approximately 80 per cent to 90 per cent of the value of a business.

So valuable are they that, in most cases, a business could massively increase its bottom line position at a stroke, by the simple expedient of getting rid of the remaining 80 per cent, or at least by not promoting to them any more.

So why don't they? In some cases, because of the natural evolution of customers – the customer lifecycle – alluded to above. Although it is true that at any given moment in time some customer

groups may be massively more valuable than others, these are not always and forever stable. Before they became valuable to your business, some customers may have been break even at best. They may even have contributed a small loss in respect of every transaction.

Over time, and through repeated promotion, these customers become gradually more confident about buying your products. They may decide, eventually, that they should shift from an existing supplier to your company. They will also become more valuable.

At the same time as this gradual increase is going on, some of your best, your better customers are going the opposite direction; no matter what message you send or how often you promote to them, they seem to be buying less and less. You face a difficult decision: stop promoting, perhaps because they have become desensitised to your message, pause and get back to them later, or increase the frequency of message or value of offer you make to them.

All these are the natural consequences of carrying out analysis, which provides you with both snapshot – who are your best and worst customers now, and by how big a margin – and prophesy – who are capable of moving upward to take the place of those customers who are beginning to flag. Good analysis will give you some idea as well of the time course over which these things will happen, and the effect of your own actions on speeding up positive outcomes, slowing down negatives.

The same analysis will also reveal how some customers are not very valuable now: worse, it may show that, on average, some groups of customers will never amount to much, will always be a drain on the resources of your enterprise. Every promotion sent out to them is a cost, with little expectation of balancing revenue. Simply holding their details on your system represents some minor degree of overhead for you.

That is the management bit. However, there, also, is the dark side, which is touched on to greater or lesser degree by at least three articles in the current issue. The first, by Harsha Aeron, looks at methods for calculating customer (lifetime) value. That is akin to the process discussed above – though provided here in rather greater detail.

Second – and the originator of the ‘dark side’ theme of this editorial – is a paper by Bang Nguyen, which does precisely that – takes a hard look at the dark side of CRM. It begins with an introduction that highlights the problem. He writes: ‘few things stir up a consumer revolt quicker than the notion that someone is getting a better deal’.

The article then goes on to cite Amazon .com – recently revealed to be selling the same DVD movies for different prices to different customers – as both prime offender and a victim of customer backlash in respect of this practice. However, as supporting literature points out, Amazon is far from alone in this practice.

Working for one of the UK’s largest financial service providers, a few years back, this was a constant issue for us. First, where one member of a household was a teacher, the other was not. The primary product being sold was insurance, and all the actuarial evidence pointed to that group as being significantly less costly (in terms of claims) than almost any other profession in the United Kingdom.

Therefore, teachers were more likely to receive promotions, and when they received offers the offers were likely to be for a better priced, more highly discounted product. The issue? Where an individual household contained one teacher and one non-teacher, where they insured their motor vehicles separately, they were able to compare and contrast the different quotes received. Or, as it is sometimes difficult for the ordinary customer to work out how insurance rates are being applied

when insuring different vehicles, one individual would receive a reduced price promotion – the other would not.

Managing customer value, in this instance, creates a further difficult situation in which it is necessary to manage customer expectations. Sometimes, the simplest way to defuse such a situation is by providing equivalent discount or promotional advantage to the individual who did not receive it in the first place.

Nevertheless, CRM, operating as it is intended to operate, can create difficulties. In theory, with direct communications – mail, e-mail, phone – a customer relationship can be managed personally, privately and with some degree of confidentiality.

As the example above reveals, however, that is not always the case, nor is it just in respect of the specific instance where two individuals happen to be sharing a household that the issue arises. Friends talk and compare notes; if an offer is a good one, then it is highly likely that it will be discussed.

Different channels can make different offers; it is far from uncommon for businesses to offer differential rates according to whether or not an order is placed on the Internet. That is not news to most customers, but it has, in recent years, attracted a degree of criticism from the press, politicians and social activists, who regard the segregation of the country into net-enabled and net-unabled as not altogether a good thing.

At the same time, this gives rise to two further issues that impact on the customer management process. First off is the view that many customers have of the sort of concern they would like to do business with. From a customer perspective, ‘fairness’ and ‘trust’ are both important concepts and the idea that a service provider is charging differential rates to different groups of customers is neither fair nor trustworthy.

In part, that is 'an altruism thing'; in part, it is also likely to be base suspicion. Even if a customer knows that he or she is getting a better deal than their next door neighbour, the very fact that they are being better treated raises the inevitable suspicion that someone somewhere is being treated even better than they are.

In other words, once a business ceases to be viewed as fair, that impression permeates the rest of a customer's dealings with that business, a form of essentially negative halo effect.

Cultural issues may be at work here too; in Germany; for instance, 'targeting' of direct offers has long been more difficult than in countries such as the United States or the United Kingdom, because targeting implies the collation of data – and for historic reasons, the German zeitgeist is not comfortable with large organisations, even wholly commercial ones, collecting data in that way.

If customers resist perceived unfairness, the 'double whammy' occurs when a reputation for unfairness becomes more widespread. This is not the place to broaden the discussion into issues of social capital. However, reputation affects a company in many ways and, in the worst instances, it can work to reduce the perceived value of its product, which brings us to the ultimate irony and a closing of the circle. Unfairness is anathema to many customers; a perception of unfairness may be first discovered – and then broadcast – by press and other media.

The object of managing customers – of CRM – is to maximise the value to a company of its customer base. Yet, by contrast, the more effectively a company manages its customers through differential promotion, the more open it is to the risk

that very process of differentiation will reduce its overall value.

In other words, the classic CRM model, which sees a company and its interactions with the individual as though they exist in a vacuum, is flawed and incomplete. Companies need to look at the wider context as well.

This, in turn, closes the circle – almost – with the third article that is relevant to this issue, on the subject of 'demarketing' by Munshik Suh. This starts the process by looking at approaches that can be used to 'demarket' customers – essentially, either to shed unwanted customers or to reduce the demand for service from them.

Good CRM needs the ability to demarket as well as market, to manage customers out and bring them in, or optimise their interactions once they are customers. This needs to be done tactfully – sensitively – and in a way that does not, in the end, decrease the fundamental value of the business.

Sometimes that happens, sometimes not. The risk, of course, is that in an Internet age the chances of different customers first discovering that they are being treated differently and then, worse, talking to one another or communicating that fact on to others is greatly increased.

That is the dark side of CRM. Articles in this issue should start to shine a light onto that aspect of the discipline, but there is much more to do. Is it possible to balance the business need to manage customers with the customer desire to trade with businesses that they consider to be 'fair'?

The question remains an open one.

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