

CUSTOMER RETENTION – CRM APPLICATION

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ABSTRACT

Customer retention is an important customer relationship management (CRM) strategy. To be effective, retention programs must embrace a customer-centric management approach to identify customer needs, segment profitable customers and facilitate satisfaction and loyalty. In cyclical business environments, firms often make adjustments to address changing markets and economic environments. Firms will adapt and modify previous practices to meet contemporary needs. This trend has occurred with customer relationships as many firms use relationship strategies to build stronger consumer-business bonds. CRM-retention also has significant advantages for consumers by providing information which helps them become more informed. Yet, CRM-retention programs are frequently misunderstood, and firms often rely on IT solutions that often fail. CRM-retention programs must include a customer-centric management approach which identifies and segments profitable customers, while fostering satisfaction and loyalty. This is mutually beneficial for the business and customers, and it facilitates the efficient use of labor and technical resources to meet even more consumer needs.

Keywords: Customer Retention, Customer Relationship Management, CRM, Customer Retention Management, e-CRM

INTRODUCTION

There was a time when consumers were familiar with the merchant's products, and storekeepers knew their consumers and their needs. However, 19th and 20th century technological developments provided buyers with greater market opportunities and merchants slowly began to lose their local monopoly on commerce. The personal merchant-consumer relationship gradually diminished when technology provided shoppers with other options.

Customer relationship management (CRM) evolved when businesses began to recognize the need to retain lost consumer knowledge. The goal is to improve service and regain lost market share.

Customer retention is a primary objective of CRM. Although most firms use CRM for new customer acquisition, many believe the real value of CRM is customer retention. This emphasis allows firms to learn meaningful information about the customer, learn how to satisfy them, and determine how and why customers interact with the company [16]. CRM also builds technical and non-technical communication networks which strengthens the relationship between business and consumers [25].

Satisfaction, loyalty and commitment are three primary components of an effective CRM-retention program [27]. Each customer's needs are different, and CRM-retention would not be necessary if all customers were homogeneous. CRM-retention identifies and helps retain valued customers, it helps increase the customer base, and it utilizes pricing signals to encourage less profitable consumers to become loyal and more profitable [16]. Higher retention leads to lower customer defection and higher profits [26]. Lengthy customer relationships reduce acquisition and business activity costs. This can be significant when new customer acquisition costs are high [29]. Moreover business relationships that foster customer tenure can improve the firm's efficiency as purchase volume increases and relationship cost decrease [1].

While retention based CRM programs can provide intangible benefits, organizations can enjoy economic benefits as well. CRM-retention's return on investment is greater than ROI for CRM-new acquisition [16]. There is a direct relationship between retention and profitability [14]. A one percent increase in retention can have almost five times more impact on a firm's financial wellbeing than a one percent decrease in the cost of capital or discount rate [8]. Research also indicates a firm can gain a 25 percent net present value increase with just a five percent increase in customer retention [8] and boost profits from 25 to 85 percent [22].

CRM-RETENTION AND TQM

CRM-retention can help by providing customer centric information which improves the value chain between the businesses and consumers [7]. Total Quality Management (TQM) is a similar customer centric management approach which is harmonious with CRM-retention. The TQM initiative has prompted firms to use CRM-retention to develop greater value-chain relationships, or stronger customers-suppliers alliances [19]. Supplier-customer relationships are critical for the success of the organization's profitability by improving quality, cutting cost to improve customer satisfaction [18].

Milakovich [17] validates the role of CRM-retention by stating TQM's quality service goals cannot be effective unless the firm collects consumer data and feedback. For example, firms should ask what the customer actually wants, what products they will need in the future, and what do customers like about the firm's competitors [5]. Moreover, these questions could also help firms identify potential product or service defects [4]. CRM-retention is an essential part of any quality movement to not only satisfy, but exceed customer expectations.

CRM-RETENTION AND SATISFIED CUSTOMERS

While repeat or high-volume customers may indicate some level of satisfaction, purchasing behavior is just one component of customer loyalty as it may reflect circumstances other than customer satisfaction [13]. Work ethic pride also affects customer satisfaction as it usually motivates employees to meet customer needs and expectation. Yet employee failures, product/ service delays, or other malfunctions may affect the customer's future relationship with the business [6]. CRM identification and resolution of these issues can increase the customer efficiency ratios as satisfied customers normally have greater purchase volume than non-satisfied customers, and the relative cost per-customer drops. Moreover, there seems to be more price elasticity with seasoned customers since price does not seem to be a determining factor with purchasing decision [1] [13]. Although satisfied or loyal customers may exhibit some price insensitive, issues such as convenience, trust, security, and service quality may be critical [15]. In business to business CRM relationships, some consumers may be committed rather than loyal, and this provides opportunities for competitors to exploit a firm's weaknesses [4]. Likewise, some satisfied customers may not always be loyal

customers, as "Loyalty requires a commitment from the customer that mere satisfaction cannot always bring" [27]. Likewise, loyal customer may not always be satisfied consumers, as the cost of switching may exceed the benefit of loyalty. This can occur with some proprietary IT software systems. Businesses may feel embedded rather than completely satisfied with their current software vendor, but the conversion cost may exceed the benefit of switching. Consequently, CRM-retention can help identify the incongruence between customer satisfaction and loyalty.

Although academic literature advocates formal planning, budgeting and accountability for customer satisfaction, research by Ang and Buttle [1] could not identify statistical relevance between these factors and high customer satisfaction. However, they did find statistical evidence that predicts favorable customer satisfaction levels when CRM-retention is implemented with a formal and documented complaint handling process. Many firms are using resources such as the International Organization for Standards (ISO) which developed a formal complaint handling guide book and standards. ISO believes this will improve customer loyalty and satisfaction [1]. Ang and Buttle [1] further believe a formal complaint process is critical for excellent CRM-retention.

CRM-RETENTION IMPLEMENTATION

Although CRM is much more than an information system, the proliferation of computer technology enabled businesses to retain and distribute detailed customer information throughout the organization. Yet, effective CRM-retention is not simply an IT solution. IT can improve the value chain, but it is only a means to an end. Unfortunately, software systems often create information silos because valuable intelligence may not be accessible across and enterprise system. This often results from a lack of integration within the IT system [7]. This is easier said than done as firms face a hurdle when developing a CRM platform to ensure it collects relevant data that identify high-value customers who may need additional products [19].

Although IT provides economic and efficiency advantages for firms many CRM projects fail because companies regard CRM as an IT project, rather than a system-wide business process [6]. These projects often fail because managers do not understand what they are implementing and only three of five senior

managers routinely monitor retention levels [4]. This lack of understanding can be a very “dangerous pitfall” [23]. Moreover, it is dangerous to assume a simplistic perspective of CRM-retention, rather than emphasizing an approach of developing and implementing meaningful strategy [2].

As a result of this misunderstanding, mounting evidence indicates IT does little to improve customer relationships itself, but the business orientation, the CRM configuration and use of information do significantly improve customer relationships [10]. Specifically, the firm should ask if it embraces a customer-centric approach, and if it prioritizes customer retention. While IT can improve CRM-retention efficiencies by providing customer information to employees throughout an organization, the effective use of the information must become a customer centric management strategy.

Firms can gain a competitive advantage by recognizing the economic advantages of segmenting customers and focusing on the most profitable market share [22].

Duboff and Sherer, 1997, 21-22 believe building loyalty of all customers, regardless of their profitability can be detrimental to the organization. Furthermore, a firm’s portfolio must be managed to attract and retain their most profitable customers [1]. CRM-retention attempts to please the least profitable may reallocate valuable resources away from more profitable customers who need greater attention. And many firms are realizing that the customer has a lifecycle, similar to a product lifecycle. Unfortunately, a firm’s lifecycle may not coincide with the customer’s lifecycle. The firm’s growth may occur when a customer’s purchasing patterns are declining, and the firm may not have adequate resources to meet the consumer’s diminished demand.

Firms also need to identify consumers it wants to retain, customers who should be served well; and customers who should not be aggressively retained due to their marginal profitability [12]. To evaluate this, Bolton [6] advocated customer value management (CVM) to measure the profitability of a

customer, and exploit opportunities to maximize the relationship with preferred customers. This can be accomplished with metrics to determine the amount of CRM-retention time and expense that is needed with each customer. For example, CRM systems which use call centers can measure the call volume of different customer bases. The aggregate cost per customer can be correlated with the incremental present and future value which is projected from these retention calls. Those who fall below an established threshold may not be good retention candidates.

CONCLUSION

Customer relationship management strategies that promote business retention can provide significant advantages for an organization. Empirical evidence indicates it can contribute to the financial wellbeing of an organization. This helps identify how and why customers are satisfied with an organization. CRM-retention also has significant advantages for consumers by providing information which helps them become more informed. Yet, CRM-retention programs are frequently misunderstood, and firms often rely on IT solutions that often fail. CRM-retention programs must include a customer-centric management approach which identifies and segments profitable customers, while fostering satisfaction and loyalty. This is mutually beneficial for the business and customers, and it facilitates the efficient use of labor and technical resources to meet even more consumer needs.

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