Our group is responsible for analyzing the purchasing data we have on our customers and developing programs and promotions that increase CVS’s share of wallet. These customer relationship management activities drive off the data we collect from the 40 million active customers enrolled in our ExtraCare® program. Customers in the program earn ExtraBucks®—2 percent on most in-store and online purchases and $1 for every two prescriptions purchased—that can be used when shopping in our stores or online. ExtraCare® customers also receive e-mails and direct mailings with helpful health and beauty insights, new product information, and valuable coupons in addition to free merchandise when we have special vendor promotions.

By analyzing the buying behavior of our ExtraCare® customers, we discover some interesting opportunities for cross-promotions. For example, about two-thirds of our customers buying toothpaste did not buy toothbrushes from us. To encourage these customers to buy toothbrushes as well as toothpaste, we target these customers for a special tooth brush promotion.

We also use targeted special promotions to increase the average size of a customer’s market basket. For example, we offer $4 coupons when customers with an average market basket of $15 buy $25. Customers who normally purchase $25 of merchandise get a $10 coupon if they make a $50 purchase.

Each quarter we distribute over five million messages to our customers. These messages contain information and offers tailored to the customers’ buying behavior. Like most drugstore chains, over 20 percent of our sales involve some form of promotion. These promotions increase sales but can lower our gross margin. We experiment with different messaging and offerings and then analyze customer buying behavior to determine which promotions are more profitable.

We are very concerned about our customers’ privacy. Our program is an opt-in one and therefore we only send
mailings to customers who give us permission to do so. At times, we use outside processing companies as our agents to help print and send mailings. But these agents never receive any personal customer information beyond name and address. We value our customers’ privacy and never give or sell any specific information about them to any manufacturer or direct marketers.

Ms. Harlam earned a Ph.D. in marketing from the Wharton School at the University of Pennsylvania. Prior to joining CVS, she was a marketing professor at the University of Rhode Island and Columbia University’s Graduate School of Business.

The business press and companies are talking a lot about the importance of managing customer relationships. Companies are spending billions of dollars on computer systems to help them collect and analyze data about their customers. With all of this buzz, you’d think that the customer is a popular new kid in the neighborhood. However, the customer is more like an old friend who’s been taken for granted—until now.

Consider the following example. Shari Ast is on her third business trip this month. She takes a cab from Boston Logan airport to the Ritz-Carlton, her favorite hotel. As the doorman opens the car door for her, he greets her with, “Welcome back to the Ritz-Carlton, Ms. Ast.” When she goes to the registration desk, the receptionist gives her a room key and asks if she would like to have her stay charged to her American Express card. Then she goes to her room and finds just what she prefers—a room with a view of the Boston Commons, a single queen-size bed, an extra pillow and blanket, a fax machine connected to her telephone, and a basket with her favorite fruits and snacks.

Shari Ast’s experience is an example of the Ritz-Carlton’s customer relationship management program. **Customer relationship management (CRM)** is a business philosophy and set of strategies, programs, and systems that focuses on identifying and building loyalty with a retailer’s most valued customers. Based on the philosophy that retailers can increase their profitability by building relationships with their better customers, the goal of CRM is to develop a base of loyal customers who patronize the retailer frequently. In the following sections of this chapter, we discuss in more depth the objective of CRM programs and the elements of the CRM process.
THE CRM PROCESS

Traditionally, retailers have focused their attention on encouraging customers to visit their stores, look through their catalogs, and visit their Web sites. To accomplish this objective, they have used mass media advertising and sales promotions, treating all of their customers the same. Now retailers are beginning to concentrate on providing more value to their best customers using targeted promotions and services to increase their share of wallet—the percentage of the customers’ purchases made from the retailer—from these customers. This change in perspective is supported by research indicating that it costs three to six times more to sell products and services to new customers than to existing customers and that small increases in customer retention can lead to dramatic increases in profits. For instance, at the furniture retailer Domain, the typical first-time purchase by a customer is about $1,500. Repeat purchasers with Domain spend 3.5 times what a one-time-only customer purchases. Their “most valuable” customers have spent over $140,000.

What Is Loyalty?

Customer loyalty, the objective of CRM, is more than having customers make repeat visits to a retailer and being satisfied with their experiences. Customer loyalty to a retailer means that customers are committed to purchasing merchandise and services from the retailer and will resist the activities of competitors attempting to attract their patronage. They have a bond with the retailer, and the bond is based on more than a positive feeling about the retailer. Retailing View 11.1 describes how Neiman Marcus builds loyalty with its best customers.

Loyal customers have an emotional connection with the retailer. Their reasons for continuing to patronize a retailer go beyond the convenience of the retailer’s store or the low prices and specific brands offered by the retailer. They feel such goodwill toward the retailer that they will encourage their friends and family to buy from it.

Programs that encourage repeat buying by simply offering price discounts can be easily copied by competitors. In addition, these types of price-promotion programs encourage customers to always look for the best deal rather than develop a relationship with one retailer. However, when a retailer develops an emotional connection with a customer, it is difficult for a competitor to attract that customer.

Emotional connections develop when customers receive personal attention. For example, many small, independent restaurants build loyalty by functioning as neighborhood cafés, where waiters and waitresses recognize customers by name and know their preferences. Dorothy Lane Market in Dayton, Ohio, for example, uses a sophisticated customer database management system to lavish attention on its customers. Loyalty club members who spent the most over the previous year receive a handwritten note from the CEO. When a major roadway slowed business from customers living in a particular area, Dorothy Lane mailed out maps to affected residents detailing a detour to help encourage customers to return.

Unusual positive experiences also build emotional connections. For example, a family was shopping for shoes for their teenage daughter who was going through a growth spurt. One of her feet was a size 10, and the other was a 10½. The salesperson broke up two pairs of shoes to make the sale and ensure a satisfied customer. The gesture paid off—that day the family purchased five pairs of shoes and have remained loyal customers ever since. Providing such memorable experiences is an important avenue for building customer loyalty.
Neiman Marcus’s InCircle program provides special benefits to build its share of wallet with its best customers.

One of the best examples of a CRM activity designed to build customer loyalty is Neiman Marcus’s InCircle program. The program is designed to develop more customers like Brandi Bloodworth, a 24-year-old Dallas resident, who said while shopping at the downtown Dallas store for a new hat to wear to the Kentucky Derby, “Since I was an infant, I have been wearing Neiman’s.”

Customers spending more than $5,000 annually are enrolled in the program and get special gifts, awards, and services. Customers whose higher spending levels place them in the “Passport” and “Platinum” categories generate additional rewards and services for themselves. There are currently 100,000 InCircle members, whose median household income is $255,000 and who spend an average of $11,000 per year.

Customers earn one point per each dollar charged on a Neiman Marcus credit card. The points can be redeemed for prizes ranging from a limited-edition Emilio Pucci silk scarf to an eight-night excursion through India to a complete Sony home movie theater. Reward options are refined and expanded annually, but the options are designed to enhance Neiman’s exclusive image and reputation for uniqueness.

InCircle members receive frequent communications from Neiman Marcus throughout the year, including the quarterly InCircle newsletter and the semiannual InCircle Entrée magazine, a quality publication produced by the creators of Southern Living and Southern Accents.

Customer relationships are also nurtured at the store level. Neiman’s sales associates can tap into information about customers’ past purchases and shopping behaviors and are encouraged to contact these customers personally. Sales associates have the freedom to be creative in helping InCircle customers shop in multiple departments and use the various services Neiman Marcus offers, from gift wrapping to travel services. Store managers invite InCircle members to free luncheons on their birthdays.

Recognizing the value of these preferred customers, Neiman invites InCircle members to sit on a board that provides feedback and suggestions as to how Neiman can improve its customers’ shopping experience and enhance and broaden its role in the community. These board meetings help Neiman Marcus maintain a genuine, ongoing dialogue with its best customers and make these customers feel that the company respects them and values their opinions.

Overview of the CRM Process
Exhibit 11-1 illustrates that CRM is an iterative process that turns customer data into customer loyalty through four activities: (1) collecting customer data, (2) analyzing the customer data and identifying target customers, (3) developing CRM programs, and (4) implementing CRM programs. The process begins with the collection and analysis of data about a retailer’s customers and the identification of target customers. The analysis translates the customer information into activities that offer value to the targeted customers. Then these activities are executed through communication programs undertaken by the marketing department and customer service programs implemented by customer contact employees, typically sales associates. Each of the four activities in the CRM process is discussed in the following sections.

COLLECTING CUSTOMER DATA

The first step in the CRM process is to construct a customer database. This database is part of the data warehouse described in Chapter 10. It contains all of the data the firm has collected about its customers and is the foundation for subsequent CRM activities.

Customer Database
Ideally, the database should contain the following information:

- **Transactions**—a complete history of the purchases made by the customer, including the purchase date, the price paid, the SKU’s purchased, and whether the merchandise was purchased in response to a special promotion or marketing activity.

- **Customer contacts**—a record of the interactions that the customer has had with the retailer, including visits to the retailer’s Web site, inquiries made through in-store kiosks, and telephone calls made to the retailer’s call center, plus information about contacts initiated by the retailer, such as catalogs and direct mail sent to the customer.

- **Customer preferences**—what the customer likes, such as favorite colors, brands, fabrics, and flavors, as well as apparel sizes. As the beginning of this chapter, we described Shari Ast’s experience checking into the Boston Ritz-Carlton. The Ritz-Carlton did not learn about Shari’s preferences by asking her to complete a questionnaire; instead, it collected this information by recording each
request she made during her previous stays at Ritz-Carlton hotels into her customer file.

- **Descriptive information**—demographic and psychographic data describing the customer that can be used in developing market segments.

- **Responses to marketing activities**—the analysis of transaction and contact data provides information about the customer's responsiveness to marketing activities.

Different members of the same household also might also have interactions with a retailer. Thus, to get a complete view of the customer, retailers need to be able to combine individual customer data from each member of a household. For example, at Mitchells/Richards, a family-owned apparel chain in Westport and Greenwich, Connecticut, husbands and wives buy things for each other. The chain's database keeps track of both household-level purchases and individual purchases so sales associates can help one spouse buy a gift for the other. The database also keeps track of spending changes and habits. Anniversaries, birthdays, and even divorces and second marriages are tracked along with style, brand, size, and color preferences; hobbies; and sometimes pets' names and golf handicaps. Retailing View 11.2 describes how Harrah's uses its customer database for its loyalty program.

With today's technology, independent companies are able to network with their larger suppliers to increase sales. For example, George Matiek Chevrolet in Redford, Michigan, doubled its sales when it installed a CRM program that helped it keep track of potential sales leads. The leads originate both from its own and General Motors' Web site.

Many retailers and service providers alike maintain loyalty programs, but Harrah's leads the pack with its profitable Total Rewards loyalty card program. With 26 casinos in 13 states, customers have many chances to accumulate points. When a gamer—casino lingo for a customer—gambles, he or she swipes the card through the slot machine or a pit boss estimates his or her bets at a table. As the points total, card holders earn new status titles: 3,000 points earns a gamer platinum status and a few privileges such as having to wait in shorter lines. With 10,000 points, a gamer earns the diamond card, which entitles him or her to benefits such as free valet parking, room upgrades, and free weekend reservations. Harrah's is unapologetic for their customer discrimination policy based on how much customers spend. Gamers are rewarded on the basis of their value to the hotel chain and encouraged to earn the next loyalty card status level. Harrah's Total Rewards program, which began in 1997, now has six million active members and accounts for 76 percent of the chain's gaming revenues.

Before its CRM program was implemented, Harrah's would base the perks given to customers on the amount they spent on a particular visit. So, if they spent $100, they might get a free parking pass. Now Harrah's uses decision science models that analyze demographic and behavioral data gathered from customers and project the potential value of a customer. If a customer spends $10 on one visit but the models predict he or she could be a "high roller," Harrah's markets to that person aggressively.

Each reservation and CRM system in each hotel is integrated to store and share all information among its casinos. Loyalty card data are blended with information from the hotel reservation system, giving associates the tools to determine whether a room upgrade or discount is in order. Marketing executives use the data to develop one-to-one marketing programs. Customer service representatives use the system to reward valued customers with on-the-spot perks, such as complimentary meals or event tickets.

Identifying Information

Constructing a database for catalog and Internet shoppers and customers who use the retailer's credit card when buying merchandise in stores is relatively easy. Customers buying merchandise through nonstore channels must provide their contact information, name, and address so that the purchases can be sent to them. When retailers issue their own credit cards, they can collect the contact information for billing when customers apply for the card. In these cases, the identification of the customer is linked to the transaction. However, identifying most customers who are making in-store transactions is more difficult because they often pay for the merchandise with a check, cash, or a third-party credit card such as Visa and MasterCard.

Three approaches that store-based retailers use to overcome this problem are (1) asking customers for their identifying information, (2) offering frequent shopper cards, and (3) connecting Internet purchasing data with the stores.

Asking for Identifying Information Some retailers such as M.A.C, New England's Christmas Tree Shops, and The Container Store have their sales associates ask customers for identifying information, such as their phone number or name and address, when they ring up a sale. This information is then used to create a transaction database for the customer. However, this approach has two limitations. First, some customers may be reluctant to provide the information and feel that the sales associates are violating their privacy. Second, sales associates might forget to ask for the information or decide not to spend the time getting and recording it during a busy period.

Offering a Frequent Shopper Card Frequent shopper programs, also called loyalty programs, are programs that identify and provide rewards to customers who patronize a retailer. When customers enroll in one of these programs, they provide some descriptive information about themselves or their household and are issued a card with an identifying number. The customers then are offered an incentive to use the card when they make purchases from the retailer. As we saw in Retailing Views 11.1 and 11.2, Neiman Marcus and Harrah's both give points for every dollar spent or gambled. At Neiman Marcus, the points are redeemed for special gifts, whereas Harrah's customers get special privileges and complementary food, drinks, and even rooms.

From the retailer's perspective, frequent shopper programs offer two benefits: (1) customers provide demographic and other information when they sign up for the program and then are motivated to identify themselves at each transaction and (2) customers are motivated by the rewards offered to increase the number of visits and the amount purchased on each visit to the retailer.

The major problems with using frequent shopper cards for identification are that the card is often squeezed out of the customer's wallet by other cards, the customer might forget to bring it to the store when shopping, or the customer might decide not to show it if he or she is in a hurry. Retailers overcome this problem by informing customers that if they forget their membership card, their phone number will suffice.

Other retailers are experimenting with technology to increase customer loyalty and spending but eliminate cards. The Interactive Loyalty Card (ILC) is a miniature optical scanner with two-way communication ability that stores and transmits data. This small piece of equipment attaches to a key chain and integrates current store loyalty programs with...
the retailer's and manufacturers' promotions. Customers can simply scan print coupons or download Internet discounts. The eligible coupon codes are integrated with the customer's personal loyalty account, and deductions are taken from the total. Kiosks can allow customers to view and sort their coupons. This technology has been piloted at Green Hills Farms in Syracuse, New York, with promising success. The store saw an increase across the board in year-to-year sales, frequency of visits, and manufacturer coupon redemption.\textsuperscript{15}

Rather than asking for identifying information or requiring a frequent shopper card, some retailers, especially those in the services sector, use a cardless, cashless payment and loyalty system. Using a preregistered fingerprint, a customer can pay efficiently, and the company can store the customer information quickly and accurately.

The Piggly Wiggly grocery chain has implemented this biometric technology in over 100 grocery stores in South Carolina. Once the fingerprint is recognized and the customer enters a "search" number (usually a phone number), the customer's loyalty account is opened, and a list of payment options appears such as checking, debit, or credit. This system eliminates all cards, completely and fully integrates loyalty programs and customer data, and makes rewards easily available with the simple act of a fingerprint scan.\textsuperscript{16}

**Connecting Internet Purchasing Data with the Stores**  If a customer has used a credit card while shopping on a multichannel retailer's Internet site or from its catalog, and then uses the same card to make a purchase in the retailer's store, the retailer can update the customer's purchase record and capture information about where the customer lives or works from the shipping information. For instance, if a customer purchases a computer at staples.com using a credit card and then uses the same credit card to purchase supplies at a store, Staples can capture the customer's name and shipping address and update the purchase record.

**Privacy and CRM Programs**

While detailed information about individual customers helps retailers provide more benefits to their better customers, consumers are concerned about retailers violating their privacy when they collect this information. For example, Amazon caused considerable concern among its customers when it e-mailed them to say it was changing its privacy rules. The new rules indicated that Amazon would no longer allow its customers to preclude Amazon from sharing the information about the customers' purchases with third parties. The adverse public reaction spurred on by two online privacy organizations—Junkbusters (www.junkbusters.com) and the Electronic Privacy Information Center (www.epic.org)—created such an uproar that Amazon altered its policy.

Since that time, other retailers have been criticized for failing to respect consumers' privacy. For instance, the Federal Trade Commission (FTC) charged BJ's Wholesale Club with failing to encrypt consumer information when transmitting or storing data at its outlets and taking "unnecessary risks" by storing data for more than 30 days. The FTC also charged that BJ's stored data in files that could be accessed "using commonly known default user IDs and passwords." As a result, BJ's settled a consent agreement with the FTC that requires much tighter security at BJ's, as well as an independent audit of the chain's computer security system every two years for the next 20 years.\textsuperscript{17}

**Privacy Concerns**  The degree to which consumers feel their privacy has been violated depends on

- Their control over their personal information when engaging in marketplace transactions. Do they feel they can decide on the amount and type of information collected by the retailer?
Their knowledge about the collection and use of personal information. Do they know what information is being collected and how the retailer will be using it? Will the retailer be sharing the information with other parties?²⁰

These concerns are particularly acute for customers using an electronic channel because many of them do not realize the extensive amount of information that can be collected without their knowledge. In addition to collecting transaction data, electronic retailers can collect information by placing cookies on visitor's hard drives. Cookies are text files that identify visitors when they return to a Web site. Due to the data in the cookies, customers do not have to identify themselves or use passwords every time they visit a site. However, the cookies also collect information about other sites the person has visited and what pages they have downloaded.

Protecting Customer Privacy What is personal information? The definition is debatable. Some people define personal information as all information that is not publicly available; others include both public (e.g., driver's license, mortgage data) and private (hobbies, income) information.

Who is responsible for ensuring consumer privacy? In the United States, legal protection for individual privacy is limited.²¹ Existing legislation is restricted to the protection of information in a few specific contexts, including government functions and practices in credit reporting, video rentals, banking, and health care.²² However, the European Union (EU) and Canada²³ are much more aggressive in protecting consumer privacy. Some of the provisions of the EU directive on consumer privacy include the following:

- Businesses can collect consumer information only if they have clearly defined the purpose, such as completing the transaction.
- The purpose must be disclosed to the consumer from whom the information is being collected.
- The information can only be used for that specific purpose.
- The business can only keep the information for the stated purpose. If the business wants to use the information for another purpose, it must initiate a new collection process.
- Businesses operating in Europe can only export information from the 25 EU countries to importing countries with similar privacy policies. Thus, U.S. retailers, hotel chains, airlines, and banks cannot transfer information from Europe to the United States because the United States does not have similar privacy policies.

Basically, the EU perspective is that consumers own their personal information and retailers must get consumers to explicitly agree to share this personal information. This agreement is referred to as an opt in. In contrast, personal information in the United States is generally viewed as being in the public domain, and retailers can use it in any way they desire. American consumers must explicitly tell retailers not to use their personal information—they must opt out.²⁴

The EU has delayed enforcement of its directive. The United States is currently negotiating a safe harbor program that would enable U.S. companies abiding by the EU directives to export information. However, due to increasing concerns about consumer privacy, Congress is considering new legislation on consumer privacy. The Federal Trade Commission has developed the following set of principles for fair information practices:

- Notice and awareness—covers the disclosure of information practices, including a comprehensive statement of information use such as information storage, manipulation, and dissemination.
- Choice/consent—includes both opt out and opt in options and allows consumers the opportunity to trade information for benefits.
• Access/participation—allows for the confirmation of information accuracy by consumers.
• Integrity/security—controls for the theft of and tampering with personal information.
• Enforcement/redress—provides a mechanism to ensure compliance by participating companies.

In summary, there is growing consensus that personal information must be fairly collected, that the collection must be purposeful, and that the data should be relevant, maintained as accurate, essential to the business, subject to the rights of the owning individual, kept reasonably secure, and transferred only with the permission of the consumer. To address these concerns, many retailers that collect customer information have privacy policies. The Electronic Privacy Information Center (www.epic.org) recommends that privacy policies clearly state what information is collected from each visitor and how it will be used, give consumers a choice as to whether they give information, and allow them to view and correct any personal information held by an online retail site. Retailers need to ensure their customers that information about them is held securely and not passed on to other companies without the customer’s permission.25

ANALYZING CUSTOMER DATA AND IDENTIFYING TARGET CUSTOMERS

The next step in the CRM process is to analyze the customer database and convert the data into information that will help retailers develop programs for building customer loyalty. Data mining, one approach commonly used to develop this information, identifies patterns in data, typically those that the analyst is unaware of prior to searching through the data. For example, an electronic retailer in London discovered that customers who had bought portable DVD players typically commuted to work by train. Using this information, the retailer experienced a 43 percent increase in portable DVD player sales when it redirected most of its communication budget from daytime television commercials to newspapers and billboards along the train tracks.26

Market basket analysis is a specific type of data analysis that focuses on the composition of the basket, or bundle, of products purchased by a household during a single shopping occasion. This analysis is often useful for suggesting where to place merchandise in a store. For example, on the basis of market basket analyses, Wal-Mart changed the traditional location of several items:
• Because bananas are the most common item in Americans’ grocery carts, Wal-Mart Supercenters sell bananas next to the corn flakes, as well as in the produce section.
• Kleenex tissues are in the paper goods aisle and also mixed in with cold medicine.
• Measuring spoons appear in housewares and also hang next to Crisco shortening.
• Flashlights are in the hardware aisle and with the Halloween costumes.
• Little Debbie snack cakes are next to the coffee.
• Bug spray is merchandised with the hunting gear.

Identifying Market Segments

Traditionally, customer data analysis has focused on identifying market segments—groups of customers who have similar needs, purchase similar merchandise, and respond in a similar manner to marketing activities.
For example, when Eddie Bauer analyzed its customer database, it discovered two types of shoppers. One group it calls “professional shoppers”—people who love fashion and value good customer service. The other group it calls “too busy to shop people”—people who want the shopping experience over as quickly as possible. The professional shoppers tended to use the alteration service, call the customer service desk, and seek out the same salesperson when they make purchases in the stores. In contrast, the people too busy to shop typically shop from the catalog and Web site. Eddie Bauer uses this information to develop unique advertising programs targeting each of these segments.

Eddie Bauer also discovered that morning shoppers are more price sensitive and like to buy products on sale more than do evening shoppers, who tended to be in the professional shopper segment. Using this information, Eddie Bauer installed electronic window posters in some test stores that allowed different images to be displayed at different times of the day. In the morning, the displays featured lower-priced merchandise and items on sale, whereas in the evening, the more expensive and fashionable merchandise was displayed.27

Identifying Best Customers

Using information in the customer database, retailers can develop a score or number indicating how valuable customers are to the firm. This score can then be used to determine which customers to target.

**Lifetime Value**  A commonly used measure to score each customer is called lifetime customer value. **Lifetime customer value (LTV)** is the expected contribution from the customer to the retailer’s profits over his or her entire relationship with the retailer.

To estimate LTV, retailers use past behaviors to forecast future purchases, the gross margin from these purchases, and the costs associated with servicing the customers. Some of the costs associated with a customer include the costs of advertising, promotions used to acquire the customer, and processing merchandise that the customer has returned. Thus, a customer who purchases $200 of groceries from a supermarket every other month would have a lower LTV for the supermarket than a customer who buys $30 on each visit and shops at the store three times a week. Similarly, a customer who buys apparel only when it is on sale in a department store would have a lower LTV than a customer who typically pays full price and buys the same amount of merchandise.

These assessments of LTV are based on the assumption that the customer’s future purchase behaviors will be the same as they have been in the past. Sophisticated statistical methods are typically used to estimate the future contributions from past purchases. For example, these methods might consider how recent purchases have occurred. The expected LTV of a customer who purchased $600 on one visit six months ago is probably less than the LTV of a customer who has been purchasing $100 of merchandise every month for the last six months.

**Customer Pyramid**  Most retailers realize that their customers differ in terms of their profitability or LTV. In particular, they know that a relatively small number of customers account for the majority of their profits. This realization is often called the **80–20 rule**—80 percent of the sales or profits come from 20 percent of the customers. Thus, retailers could group their customers into two groups on the basis of the LTV scores. One group would be the 20 percent of the customers with the highest LTV scores, and the other group would be the rest. However, this two-segment scheme, “best” and “rest,” does not consider important differences among the 80 percent of customers in the “rest” segment.29 A commonly used segmentation scheme divides customers into four segments, as illustrated in Exhibit 11-2. This scheme allows retailers to
develop more appropriate strategies for each of the segments. Each of the four segments is described below.

- **Platinum segment** This segment is composed of the retailer's customers with the top 25 percent LTVs. Typically, these are the most loyal customers who are not overly concerned about merchandise price and place more value on customer service.

- **Gold segment** The next 25 percent of customers in terms of their LTV make up the gold segment. These customers have a lower LTV than platinum customers because they are more price sensitive. Even though they buy a significant amount of merchandise from the retailer, they are not as loyal as platinum customers and probably patronize some of the retailer’s competitors.

- **Iron segment** Customers in this third tier probably do not deserve much special attention from the retailer due to their modest LTV.

- **Lead segment** Customers in the lowest segment can cost the company money. They often demand a lot of attention but do not buy much from the retailer. For example, real estate agents often encounter people who want to spend their weekends looking at houses but are really not interested in buying one.

This segmentation scheme differs, for example, from the segments of passengers in airline frequent flier programs because it is based on LTV rather than miles flown. Thus, it recognizes that some customers who fly a lot of miles might be taking low-cost flights, whereas other customers, though flying the same number of miles, might be much more profitable because they fly first class and don’t seek discount fares.

**RFM Analysis** An RFM (recency, frequency, monetary) analysis, often used by catalog retailers and direct marketers, is a scheme for segmenting customers according to how recently they have made a purchase, how frequently they make purchases, and how much they have bought. Exhibit 11-3 is an example of an RFM analysis done by a catalog apparel retailer that mails a catalog each month to its customers.

The catalog retailer divides its customers into 32 groups or segments on the basis of how many orders the customer has placed during the last year, how much merchandise the customer has purchased, and the last time the customer placed an order. Each segment is represented by one cell in Exhibit 11-3. For example, the customers...
**EXHIBIT 11-3**
RFM Analysis for a Catalog Retailer

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Monetary</th>
<th>0-2 months</th>
<th>3-4 months</th>
<th>5-6 months</th>
<th>Over 6 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-2</td>
<td>&lt;$50</td>
<td>0.050*</td>
<td>0.050</td>
<td>0.010</td>
<td>0.001</td>
</tr>
<tr>
<td>1-2</td>
<td>Over $50</td>
<td>0.050</td>
<td>0.036</td>
<td>0.011</td>
<td>0.001</td>
</tr>
<tr>
<td>3-4</td>
<td>&lt;$50</td>
<td>0.080</td>
<td>0.050</td>
<td>0.015</td>
<td>0.006</td>
</tr>
<tr>
<td>3-4</td>
<td>Over $150</td>
<td>0.090</td>
<td>0.050</td>
<td>0.017</td>
<td>0.009</td>
</tr>
<tr>
<td>5-6</td>
<td>&lt;$300</td>
<td>0.100</td>
<td>0.060</td>
<td>0.025</td>
<td>0.010</td>
</tr>
<tr>
<td>5-6</td>
<td>Over $300</td>
<td>0.120</td>
<td>0.080</td>
<td>0.027</td>
<td>0.012</td>
</tr>
<tr>
<td>Over 6</td>
<td>&lt;$450</td>
<td>0.150</td>
<td>0.100</td>
<td>0.035</td>
<td>0.018</td>
</tr>
<tr>
<td>Over 6</td>
<td>Over $450</td>
<td>0.160</td>
<td>0.110</td>
<td>0.040</td>
<td>0.020</td>
</tr>
</tbody>
</table>

*Percent of customers in the cell who made a purchase from the last catalog mailed to them.


Exhibit 11-3 illustrates how RFM can be used for developing customer target strategies. Customers who have made infrequent, small purchases recently are considered first-time customers. The objective of CRM programs directed toward this segment of customers is to convert them into early repeat customers and eventually

**EXHIBIT 11-4**
RFM Target Strategies

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Monetary</th>
<th>0-2 months</th>
<th>3-4 months</th>
<th>5-6 months</th>
<th>Over 6 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-2</td>
<td>&lt;$50</td>
<td>First-time customers</td>
<td>Low-value customers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1-2</td>
<td>Over $50</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3-4</td>
<td>&lt;$150</td>
<td>Early repeat customers</td>
<td>Defectors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3-4</td>
<td>Over $150</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5-6</td>
<td>&lt;$300</td>
<td>High-value customers</td>
<td>Core defectors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5-6</td>
<td>Over $300</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Over 6</td>
<td>&lt;$450</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Over 6</td>
<td>Over $450</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


in the upper-left cell have made one or two purchases in the last year, made a purchase within the last two months, and purchased less than $50 of merchandise.
high-value customers. Customer relationship management programs directed toward customers in the high-value segment (high RFM value) attempt to maintain loyalty, increase retention, and gain a greater share of wallet by selling more merchandise to them. However, customers who have not purchased recently either have a low lifetime value and therefore are not worth pursuing or are committed to another retailer and may be difficult to recapture. The CRM programs designed to realize objectives related to these different segments are discussed in the following section.

DEVELOPING CRM PROGRAMS

Having segmented customers according to their future profit potential, the next step in the CRM process (see Exhibit 11–1) is to develop programs for the different customer segments. In the following sections, we discuss programs retailers use for (1) retaining their best customers, (2) converting good customers into high-LTV customers, and (3) getting rid of unprofitable customers.

Customer Retention

Four approaches that retailers use to retain their best customers are (1) frequent shopper programs, (2) special customer services, (3) personalization, and (4) community.

Frequent Shopper Programs As mentioned previously, frequent shopper programs are used to both build a customer database by identifying customers by their transactions and encourage repeat purchase behavior and retailer loyalty.30 Retailers provide incentives to encourage customers to enroll in the program and use the card. These incentives are either discounts on purchases made from the retailer or points for every dollar of merchandise purchased. The points are then redeemable for special rewards. Some recommendations concerning the nature of the rewards offered are as follows:

- **Tiered** Rewards should be tiered according to the volume of purchase to motivate customers to increase the level of their purchases. These tiers can be based on individual or cumulative transactions. Some programs combine both approaches by offering a $5 discount on purchases between $100 and $149.99, a $10 discount on purchases from $150 to $249.99, and a $15 discount on purchases of $250 or more. In addition, for every $100 of cumulative discounts, customers earn an additional $10 of savings. Customers generally accept the idea that people who spend more should receive greater rewards.
- **Offer choices** Not all customers value the same rewards. Thus, the most effective frequent shopper programs offer customers choices. For example, Coles Myer, a leading Australian retailer, originally offered customers air miles but shifted to a menu of rewards when it discovered that many customers did not value air miles. Tesco, a U.K. supermarket chain, lets customers cash in points for special discounts on entertainment, vacation packages, or sporting events. Sainsbury, a competitor, allows customers to use their points for vouchers at a variety of retail partners such as Blockbuster and British Gas. Nonmonetary incentives also are very attractive to some customers. For example, Neiman Marcus’s InCircle program offers customers the opportunity to redeem points for an invitation to a cocktail party and Sotheby’s auction or an underwater expedition to see the Titanic.

Some retailers link their frequent shopper programs to charitable causes. For example, Target donates 1 percent of all purchases charged to Target’s Guest Card to a program that benefits local schools. Although these altruistic rewards can be an effective part of a frequent shopper program, such incentives probably should not be the focal point of the program. Research indicates that the most effective incentives benefit the recipient directly, not indirectly, as is the case with charitable contributions.
• **Reward all transactions** To ensure the collection of all customer transaction data and encourage repeat purchases, programs need to reward all purchases, not just purchases of selected merchandise.

• **Transparency and simplicity** Customers need to be able to quickly and easily understand when they will receive rewards, what the rewards are, how much they have earned, and how they can redeem the points they have accumulated. The ground rules need to be clearly stated. There should be no surprises or confusion.31

Four factors limit the effectiveness of frequent shopping programs. First, they can be expensive. For example, a 1 percent price discount can cost large retailers over $100 million a year. In addition, for a large retailer, the initial launch and maintenance investments (store training, marketing, fulfillment support, and information technology and systems costs) can be as high as $30 million. Annual maintenance costs can reach $5–$10 million when marketing, program support, offer fulfillment, customer service, and IT infrastructure costs are included. Then there are the marketing support costs needed to maintain awareness of the program.33

Second, it is difficult to make corrections in programs when problems arise. Programs become part of the customer’s shopping experience, so customers must be informed about even the smallest changes in programs. They react negatively to any perceived “take away” once a program is in place, even if they are not actively involved in it. The more successful the program is, the greater the customer reaction to changes are, and these negative reactions can reduce customer trust in and loyalty toward the retailer.

Third, it is not clear that these programs increase customer spending behavior and loyalty toward the retailer.44 For example, the Wisconsin-based Sun Prairie grocery store polled shoppers throughout its 39 stores regarding its frequent shopper program. Over 80 percent of those surveyed would rather not use a card to receive the discounts on their purchases.35

Fourth, and perhaps most important, it is difficult to gain a competitive advantage based on frequent shopper programs. Because the programs are visible, they can be easily duplicated by competitors. Between 50 and 70 percent of all grocery retailers offer a loyalty card to their customers, and 80 percent of households have at least one of these grocery stores’ cards in their wallets. Yet the perceived value of the cards is low. Supermarkets’ loyalty cards allow customers access to price discounts, which encourages the low-price shopper but not the loyal customer. Consumers see little difference between the programs when they all provide a discount of $.50 on detergent.36

To avoid this problem, retailers are offering more personalized benefits to their best customers based on their unique knowledge of the customer; these benefits thus are more “invisible” to competitors.

**Special Customer Services** Retailers provide unusually high-quality customer service to build and maintain the loyalty of their best customers. At Mitchells/Richards in Connecticut, it is not unusual for a salesperson to open the store after hours or bring an item to a customer’s home. It is this type of special attention that facilitates success in a retail sector that has seen difficult times in recent years.37

**Personalization** An important limitation of CRM strategies developed for market segments, such as a platinum segment in the customer pyramid (Exhibit 11–2) or early repeat customers in the RFM analysis (Exhibit 11–3), is that each segment is composed of a large number of customers who are not identical. Thus, any strategy will be most appealing for only the typical customer and not as appealing to the majority of customers in the segment. For example, customers in the platinum segment with the highest LIVs might include a 25-year-old single woman who has quite different needs than a 49-year-old working mother with two children.
With the availability of customer-level data and analysis tools, retailers can now economically offer unique benefits and target messages to individual customers. They have the ability to develop programs for small groups of customers and even specific individuals. For example, at Harry Rosen, a Canadian men’s apparel specialty retailer, customers are occasionally contacted by the salesperson with whom they have developed a personal relationship. If Harry Rosen receives a new shipment of Armani suits, the sales clerk will contact customers who have purchased Armani in the past. If a customer has been relatively inactive, the retailer might send him a $100 certificate on something he has not bought in a while.18

Developing retail programs for small groups or individual customers is referred to as 1-to-1 retailing. Many small, local retailers have always practiced 1-to-1 retailing. They know each of their customers, greet them by name when they walk in the store, and then recommend merchandise they know the customers will like. These local store owners do not need customer databases and data mining tools; they have the information in their heads. But most large retail chains and their employees do not have this intimate knowledge of their customers. Thus, the CRM process enables larger retailers to efficiently develop relationships similar to those that many small local retailers have with customers.

The Internet channel provides an opportunity for retailers to automate the practice of 1-to-1 retailing. When registered customers log on to Amazon.com, the first page they see is personalized for them. Their name is displayed in a greeting, and the products displayed are based on an analysis of their past purchase behavior. For example, if a customer has bought mystery novels from Amazon.com in the past, the latest books from mystery book authors whose novels he or she has bought are presented. Some privacy experts believe that some personalization efforts have crossed the line, however. For instance, Amazon has launched a Web search engine, called A9, that can remember everything the customer has ever searched for, and the site reserves the right to share the information with its retailing arm. Amazon also funds a Web site called 43 Things that seeks to link people with similar goals, such as getting out of debt.39

The personalized rewards or benefits that customers receive are based on unique information possessed by the retailer and its sales associates. This information, in the retailer’s customer database, cannot be accessed or used by competitors. Thus, it provides an opportunity to develop a sustainable competitive advantage.

The effective use of this information creates the positive feedback cycle in the CRM process (see Exhibit 11–1). Increasing repeat purchases from a retailer increases the amount of data collected from the customer, which enables the retailer to provide more personalized benefits, which in turn increases the customer’s purchases from the retailer.

Community A fourth approach for building customer retention and loyalty is to develop a sense of community among customers. The Internet channel offers an opportunity for customers to exchange information using bulletin boards and develop more personal relationships with one another and the retailer. By participating in such a community, customers are more reluctant to leave the “family” of other people patronizing the retailer.

For example, in addition to offering merchandise for sale, a sporting goods retailer could provide an opportunity for organizers of local sporting events to post information about these events on its Web site. The volunteers organizing youth
soccer and little league baseball teams and tennis and golf tournaments could provide information about meetings and game dates, times, and places. Then the retailer could collect information about the participants in local leagues and offer discounts to encourage teams to buy their uniforms and equipment from its store and facilitate these transactions. Retailing View 11.3 describes a retailer that has built a community of boaters.

**Converting Good Customers into Best Customers**

In the context of the customer pyramid (Exhibit 11–2), increasing the sales made to good customers is referred to as *customer alchemy*—converting iron and gold customers into platinum customers. Customer alchemy involves offering and selling more products and services to existing customers and increasing the retailer’s share of wallet with these customers.

Tesco, the U.K. supermarket chain, added a second tier to its frequent shopper program to increase its share of wallet. The first tier has a traditional design to gather customer data. The second tier, targeted at its better customers, is more innovative. Customers earn a “key” when they spend $38 or more in a single transaction. Fifty keys make the customer a “keyholder,” 100 keys a “premium keyholder.” When customers achieve these higher levels, they get discounts on popular entertainment events, theater tickets, sporting events, and hotel vacations. The key program seeks to convert iron and gold customers into platinum customers. In the four years since starting its key program, Tesco has raised its market share from 13 percent to more than 17 percent.

The retailer’s customer database also reveals opportunities for cross selling and add-on selling. Cross selling refers to selling a complementary product or service in a specific transaction, such as selling a customer a printer when he or she has decided to buy a computer. For example, Stop & Shop Co. equipped some of its grocery stores in the Boston area with a “shopping buddy,” a wireless computer device attached to shopping carts. It utilizes the retailer’s loyalty card and the shopping history it collects to alert customers of sale items that they previously

**MarineMax, the world’s largest recreational boat retailer, based in Clearwater, Florida, offers a number of programs to help its customers reject the cliché that the two best days in boating are the day you buy your boat and the day you sell it. The company organizes hundreds of “Getaways” annually that give their customers an opportunity to take trips with other boaters. The trips range from weekend runs to two-week voyages to the Bahamas. Each of the Getaways is led by a MarineMax pilot. Thus, the boat owners can feel comfortable doing something more adventuresome than they might normally do. In addition to enjoying an exciting boating experience, boaters can meet and share experiences with others on the trip.

Beyond sponsoring the Getaways, MarineMax provides other services that ensure its customers have good boating experiences and are motivated to trade up to larger and more

**Building a Community of Boaters**

MarineMax organizes boat outings for its customers to develop their sense of community, enhance the boating experience, and build customer loyalty.

MarineMax organizes boat outings for its customers to develop their sense of community, enhance the boating experience, and build customer loyalty.

expensive crafts. For example, the retailer provides hands-on training for all new “Captains,” including the fundamentals of boat operations, safety, and docking, right down to tying to the cleat.

MarineMax takes on all other aspects of the boating life including financing, insurance, and operating a brokerage for used boats when someone decides to sell or upgrade. “Our focus is on the boating experience, not just selling boats,” says Dawn Stone, chief marketing officer. “When we get a customer, we tend to keep that customer for as long as they’re in boating.” Moreover, she adds, “One of our most powerful selling tools is word of mouth. We count our existing customers among our best salespeople.”

purchased and might want to buy again while they are on sale. If the customer's history shows she frequently purchases hamburgers but not ketchup, the shopping buddy might provide her with a special coupon for each. Add-on selling involves selling additional new products and services to existing customers, such as a bank encouraging a customer with a checking account to apply for a home improvement loan.

Oprah Winfrey is a master of add-on selling. She has capitalized on her popularity by building on her daytime television show (The Oprah Winfrey Show) to sell and promote books, movies, and television specials (Harpo Productions), a cable channel (Oxygen Media), a Web site (www.oprah.com), and a widely read magazine (O) to her target audience—women interested in self-improvement and empowerment. For viewers of the television show, each of these products provides additional value. For example, when a respected celebrity appears on her television show, an article with more detailed information about the celebrity will be published in O. Winfrey builds community by using her television show and magazine to encourage her customers to exchange experiences with her and others through her Web site. For example, a customer reading an article on volunteering with a nonprofit organization can go online and share her interests and experiences with others interested in volunteering.

Dealing with Unprofitable Customers

In many cases, the bottom tier of customers actually has a negative LTV. Retailers lose money on every sale they make to these customers. For example, catalog retailers have customers who repeatedly buy three or four items and return all but one of them. The cost of processing two or three returned items is much greater than the profits coming from the one item that the customer keeps. Customers in the bottom tier may also be there as a result of vanishing and reappearing. For example, customers may vanish because a competitor is offering a more attractive offer or they are dissatisfied, and then return months or years later as a new customer. The costs of their (re)acquisition make them unprofitable. The process of no longer selling to these unprofitable customers can be referred to as "getting the lead out," in terms of the customer pyramid. Retailing View 11.4 describes how Limited Express and Best Buy are dealing with undesirable customers.

Other approaches for getting the lead out are (1) offering less costly approaches for satisfying the needs of lead customers and (2) charging customers for the services they are abusing. Fidelity Investments has about 550,000 Web site visits a day and more than 700,000 daily calls, about three-quarters of which go to automated systems that cost the company less than a $1 each. The remaining calls are handled by call center agents, who cost $13 per call. Fidelity contacted 25,000 lower-tiers customers who placed a lot of calls to agents and told them they must use the Web site or automated calls for simple account and price information. Each name was flagged and routed to a special representative who would direct callers back to
automated services and tell them how to use it. “If all our customers chose to go through live reps, it would be cost prohibitive,” said a Fidelity spokeswoman.

IMPLEMENTING CRM PROGRAMS

Increasing sales and profits through CRM programs is a challenge. For example, according to a study, 52 percent of retailers indicated that they were engaged in some type of data mining, but 76 percent of those retailers undertaking data mining indicated that the activity had made no contribution to their bottom line.44

This experience of retailers emphasizes that effective CRM requires more than appointing a CRM manager, installing a computer system to manage and analyze a customer database, and making speeches about the importance of customers. The effective implementation of CRM programs requires the close coordination of activities by different functions in a retailer’s organization. The MIS department needs to collect, analyze, and make the relevant information readily accessible to the employees implementing the programs—the frontline service providers and sales associates and the marketers responsible for communicating with customers through impersonal channels (mass advertising, direct mail, e-mail). Store operations and human resource management needs to hire, train, and motivate the employees who will be using the information to deliver personalized services.

Most retailers are product-centric, not customer-centric; as shown in Chapter 9, buyers in a retail firm are organized by type of product. Typically, there is no area of a retail firm organized by customer type and responsible for delivering products and services to different types of customers. Perhaps in the future, retailers will have market managers to perform this coordinating function.

Return fraud costs retailers over $15 billion each year. Some examples of these costly returns are people buying a large-screen television for a Super Bowl party and then returning it after the game. The customer is also charged a $5.00 fee to ship it back. The store has no way of knowing if the returned item is the same one that was purchased or if it was broken and then repackaged. A few days later, the same customer returns a second TV, claiming it was also purchased during the Super Bowl party. The store has no way of knowing if the second item has been returned before or if the customer is actually purchasing multiple items to return later. The store also has no way of knowing if the customer is actually returning the same item or if it is a different one.

Best Buy's campaign against undesirable customers is simple but effective. Best Buy's campaign against undesirable customers is simple but effective. Best Buy's campaign against undesirable customers is simple but effective. Best Buy's campaign against undesirable customers is simple but effective. Best Buy's campaign against undesirable customers is simple but effective.
SUMMARY

To develop a strategic advantage, retailers must effectively manage their critical resources—their finances (Chapter 6), human resources (Chapter 9), real estate and locations (Chapters 7 and 8), inventory and information (Chapter 10), and customers (Chapter 11). This chapter focuses on activities that retailers are undertaking now and will undertake in the future to increase the sales and profits they get from their better customers. Customer relationship management is a business philosophy and set of strategies, programs, and systems that focuses on identifying and building loyalty with a retailer's most valued customers. Loyal customers are committed to patronizing a retailer and are not prone to switch to a competitor. In addition to building loyalty, CRM programs are designed to increase the share of wallet from the retailer's best customers.

Customer relationship management is an iterative process that turns customer data into customer loyalty through four activities: (1) collecting customer data, (2) analyzing the customer data and identifying target customers, (3) developing CRM programs, and (4) implementing CRM programs. The first step of the process is to collect and store data about customers. One of the challenges in collecting customer data is identifying the customer in connection with each transaction and contact.

Retailers use a variety of approaches to overcome this challenge.

The second step is to analyze the data to identify the most profitable customers. Two approaches used to rank customers according to their profitability are calculating the customer's lifetime value and categorizing customers on the basis of characteristics of their buying behavior— their recency, frequency, and monetary value.

Using this information about customers, retailers can develop programs to build loyalty in their best customers, increase their share of wallet with better customers (e.g., converting gold customers into platinum customers), and deal with unprofitable customers (getting the lead out). Four approaches that retailers use to build loyalty and retain their best customers are (1) launching frequent shopper programs, (2) offering special customer services, (3) personalizing the services they provide, and (4) building a sense of community. Retailers also increase share of wallet through cross-selling and add-on selling. Unprofitable customers are dealt with by developing lower-cost approaches for servicing them. Effectively implementing CRM programs is difficult because it requires coordinating a number of different areas in a retailer's organization.

KEY TERMS

| add-on selling, 309 | data mining, 301 |
| cookies, 300 | 1-to-1 retailing, 307 |
| cross selling, 308 | opt in, 300 |
| customer database, 296 | opt out, 300 |
| customer loyalty, 294 | RFM analysis, 303 |
| customer relationship management (CRM), 293 | share of wallet, 294 |

GET OUT AND DO IT!

1. CONTINUING ASSIGNMENT Interview the store manager working for the retailer you have selected for the continuing assignment. Ask the manager if the store offers a frequent shopper program and how effective it is in terms of increasing the store's sales and profits. Find out why the manager has these views and what could be done to increase the effectiveness of the program. Then talk to some customers in the store. Ask them why they are members or not. Find out how membership in the program affects their shopping behavior and loyalty toward the retailer.

2. INTERNET EXERCISE Go to some of the retail sites that you frequent and compare their privacy policies. Which policies make you less concerned about violations of your privacy? Why? Which policies, or lack of policies, raise your concern? Why?

3. INTERNET EXERCISE Go to the Web site for the Electronic Privacy Information Center (www.epic.org) and review the issues raised by the organization. What does this watchdog organization feel are the most important issues? How will these issues affect retailers and their customers?

4. INTERNET EXERCISE Go to Pier 1 Imports' home page at http://www.pier1.com/ and click on the link for Credit Cards. Read about the different levels of membership for this customer card program and describe how Pier 1 Imports is using the customer pyramid (Exhibit 11-2) in their CRM program to target and classify customers.

5. INTERNET EXERCISE Go to the home page for the Peppers & Rodgers Consulting Group at http://www.1to1.com/home.aspx. Take a few minutes to see what this site has to offer. What is 1-to-1 marketing? How can retailers use 1-to-1 marketing? How does this concept tie into CRM?
DISCUSSION QUESTIONS AND PROBLEMS

1. What is CRM?
2. Why do retailers want to determine the lifetime value of their customers?
3. Why do customers have privacy concerns about the frequent shopper programs that supermarkets offer, and what can supermarkets do to minimize these concerns?
4. What are examples of opportunities for add-on selling that might be pursued by (a) travel agents, (b) jewelry stores, and (c) dry cleaners?
5. Which of the following types of retailers do you think would benefit most from instituting CRM: (a) supermarkets, (b) banks, (c) automobile dealers, or (d) consumer electronic retailers? Why?
6. Develop a CRM program for a local store that sells apparel with your college's or university's logo. What type of information would you collect about your customers, and how would you use this information to increase the sales and profits of the store?
7. What are the different approaches retailers can use to identify customers with their transactions? What are the advantages and disadvantages of each approach?
8. A CRM program focuses on building relationships with a retailer's best customers. Some customers who do not receive the same benefits as the retailer's best customers may be upset because they are treated differently. What can retailers do to minimize this negative reaction?
9. Think of one of your favorite places to shop. How does this retailer create customer loyalty and satisfaction, encourage repeat visits, establish an emotional bond between the customer and the retailer, know the customer's preferences, and provide personal attention and memorable experiences to their "best customers"?
10. How would a retailer use transactions, customer contacts, customer preferences, descriptive information, and responses to marketing activities in its customer database?

SUGGESTED READINGS


