

Entrepreneurial Management

Chapter 10

Building Customer Relationships

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*After studying this chapter,
you should be able to...*



1. Define *customer relationship management (CRM)*, and explain its importance to a small business.
2. Discuss the significance of providing extraordinary customer service.
3. Understand how technology can be used to improve customer relationships and the techniques used to create a customer database.
4. Explain how consumers are decision makers and why this is important in understanding customer relationships.

*After studying this chapter,
you should be able to...*

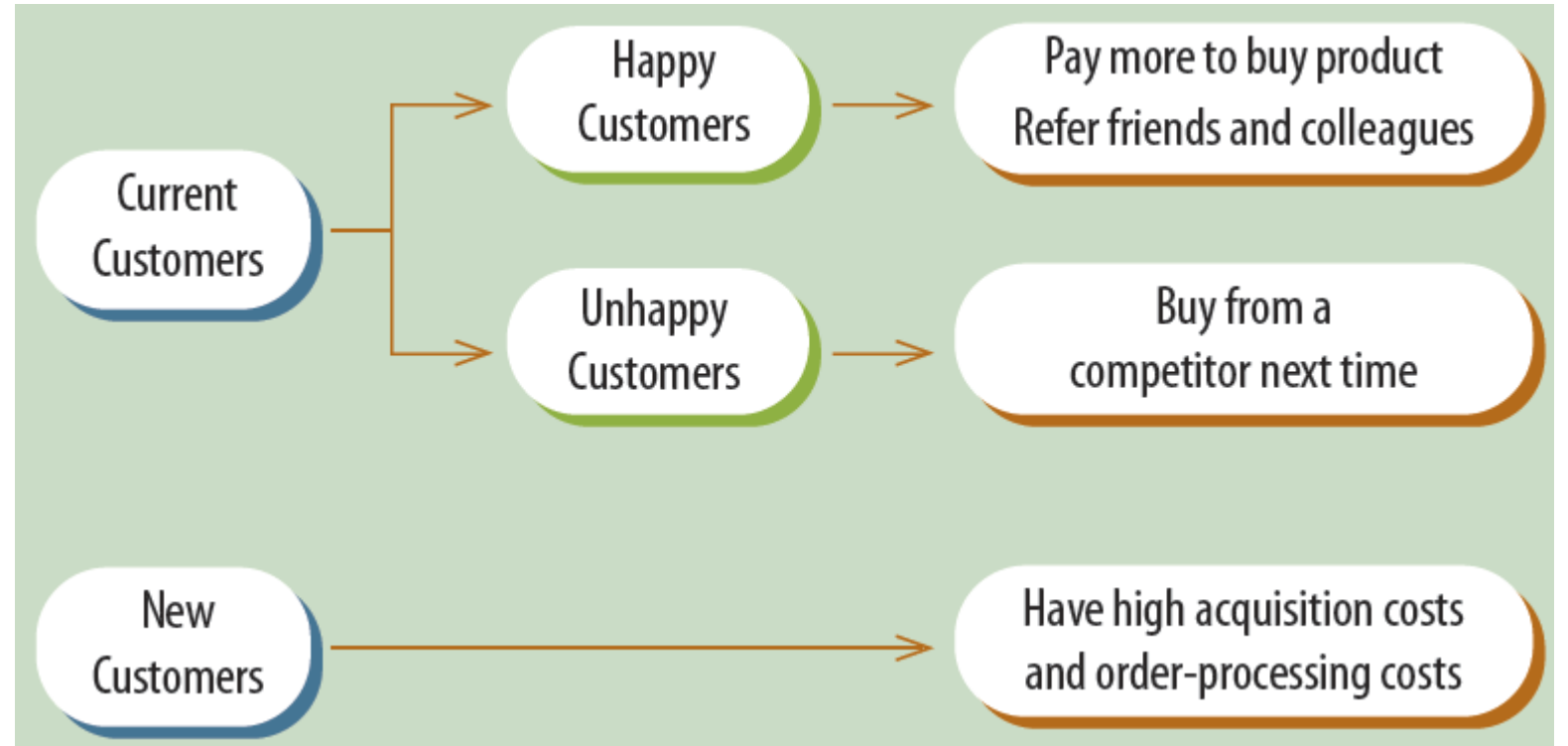
5. Identify certain psychological influences on consumer behavior.
6. Recognize certain sociological influences on consumer behavior.



What is Customer Relationship Management?

- Customer Relationship Management (CRM)
 - A company-wide business strategy designed to optimize profitability and customer satisfaction by focusing on highly defined and precise customer groups.
- Focus of CRM:
 - Customers rather than products
 - Changes in processes, systems, and culture
 - All channels and media involved in the marketing effort, from the Internet to field sales.

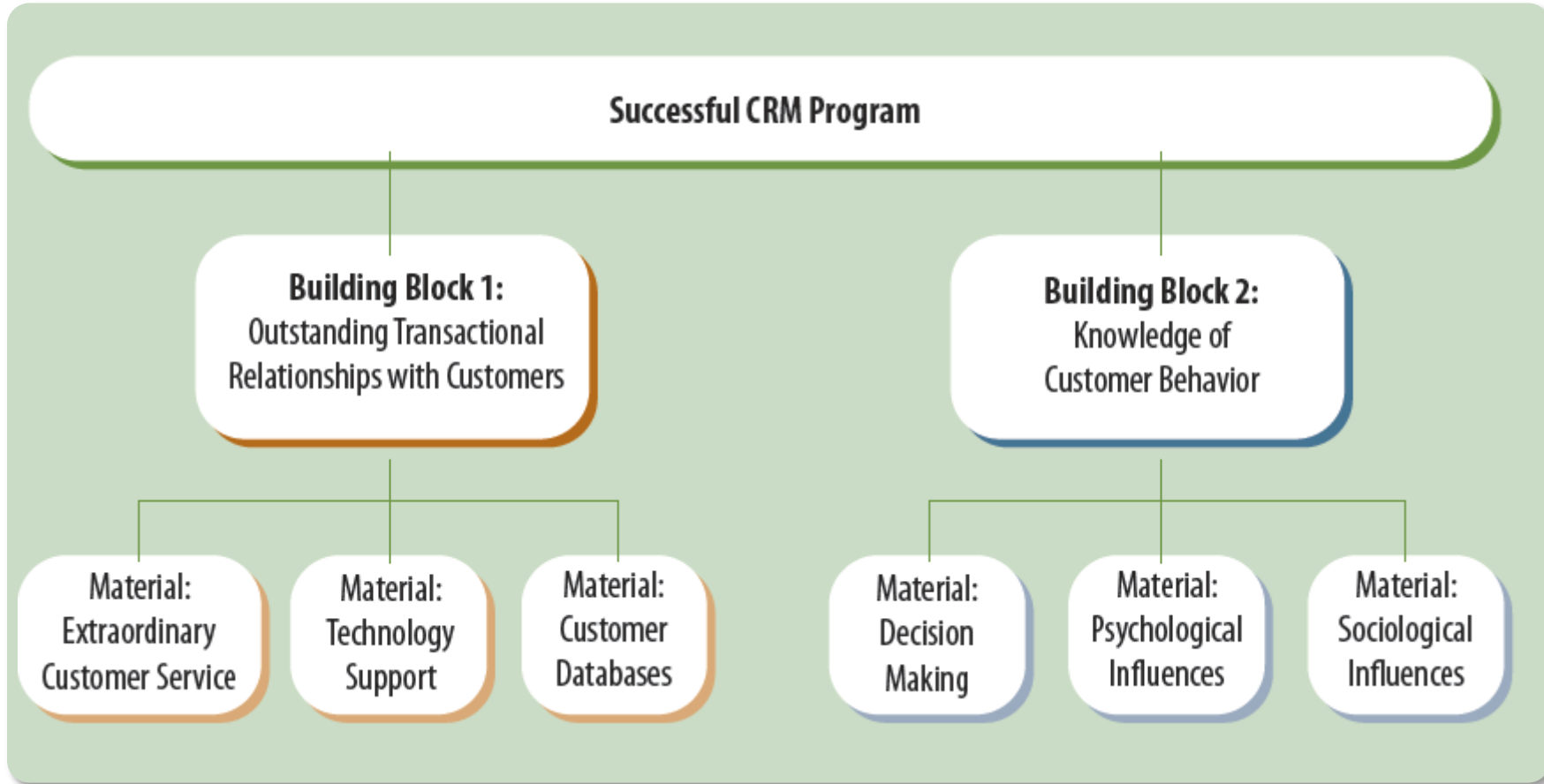
Sources of the Next Sale



Benefits of CRM to the Small Firm

- Economic benefits of maintaining relationships with current customers:
 - Acquisition costs for new customers are high.
 - Long-time customers spend more money than new ones.
 - Happy customers refer their friends and colleagues.
 - Order-processing costs are lower for established customers.
 - Current customers are willing to pay more for products.

Essential Materials of a Successful CRM Program



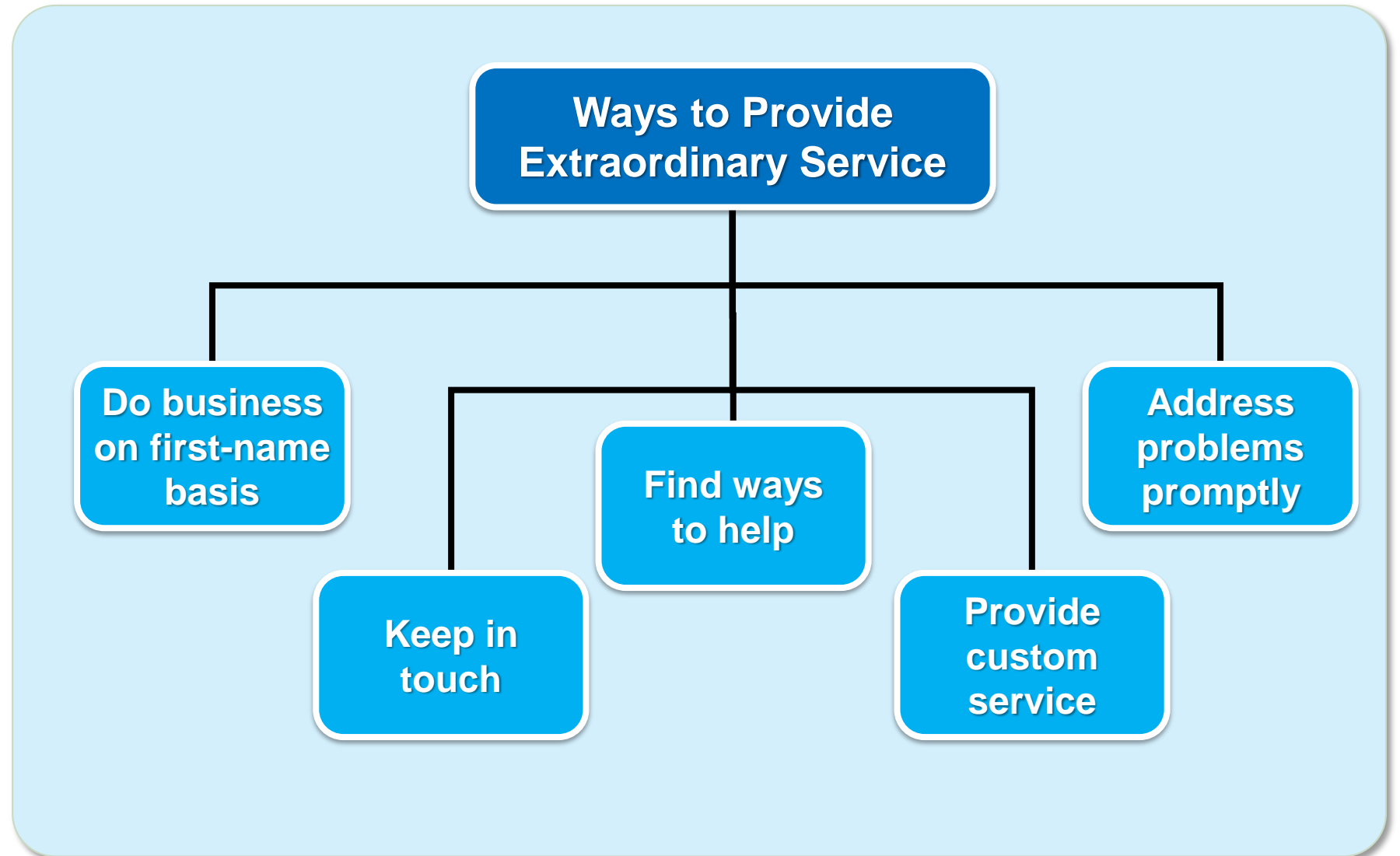
Outstanding Customer Relationships through Extraordinary Service

- **Transactional Relationship**
 - An association between a business and a customer that relates to a purchase or a business deal
- **Beliefs about Exceptional Customer Service**
 - Small firms possess greater potential for providing superior customer service than do large firms.
 - Superior service creates customer satisfaction.
 - Customer satisfaction results in a positive transactional relationship.
 - Positive relationships lead to increased firm profits.

Managing Customer Satisfaction

- Key Elements of Customer Satisfaction:
 - Providing the most basic benefits of the product or service.
 - Offering general support services, such as customer assistance.
 - Setting up a system to counteract customers' bad experiences.
 - Delivering extraordinary services that excel in meeting customers' preferences and make the product and/or service seem customized.

Extraordinary Service: Personal Attention



Managing Customer Satisfaction

- Customer Experience Management (CEM)
 - An approach that recognizes that with every interaction, customers learn something about a firm that will affect their desire to do business there in the future.
 - Having a positive experience with a business becomes part of the firm's value equation.

Evaluating a Firm's Customer Service Health

- Customer Service Strategies
 - Provide an exceptional experience throughout every transaction
 - Provide sales materials that are clear and easy to understand
 - Respond promptly to customers' requests and concerns
 - Listen to customers and respond accordingly
 - Stand behind products/services
 - Treat customers as family members and best friends
 - Stay in the hearts and minds of customers



Customer Service Strategies

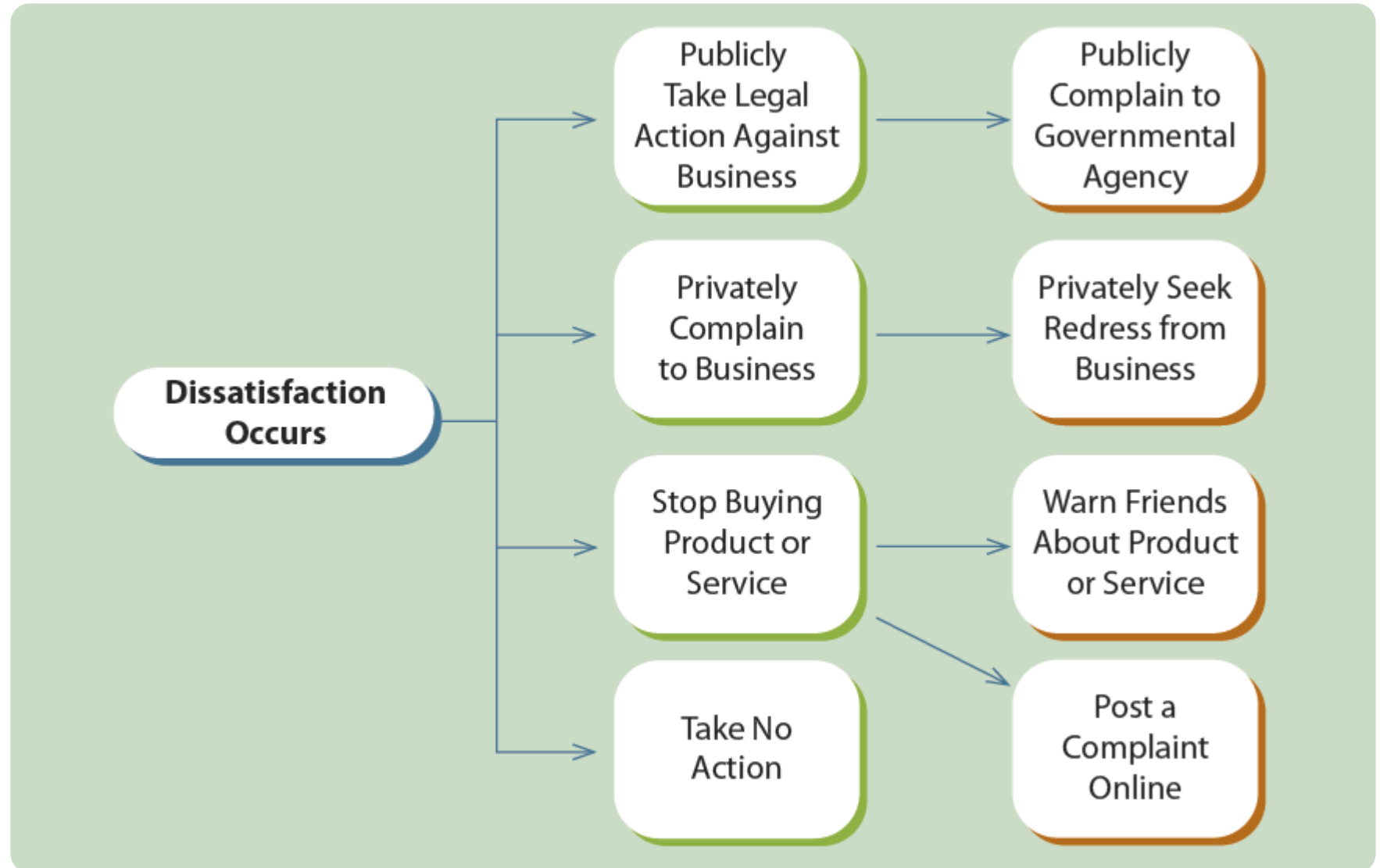
Which of the following can be used to support your marketing objectives?	For each strategy, comment below on: 1. how well your company is doing. 2. improvements to pursue further.
<p>Provide an exceptional experience throughout every transaction by ensuring that customers are acknowledged, appreciated, and find it easy to do business with you. Note that this requires you to (1) make a list of the typical chain of contacts between you and your customers—from when they first see your advertisement until you send them a customer survey after the sale—and (2) evaluate your company's performance on each contact point.</p>	
<p>Provide sales materials that are clear and easy to understand, including website, marketing materials, retail displays, and sales conversations.</p>	
<p>Respond promptly to customers' requests and concerns by acting with urgency and responsibility in customer inquiries, transactions, and complaints. Have a service recovery plan in place.</p>	



Customer Service Strategies

<p>Respond promptly to customers' requests and concerns by acting with urgency and responsibility in customer inquiries, transactions, and complaints. Have a service recovery plan in place.</p>	
<p>Listen to customers and respond accordingly by soliciting feedback, encouraging interaction, staying engaged throughout transactions, and taking the appropriate action necessary to please the customer.</p>	
<p>Stand behind products/services by providing guarantees and warranties and ensuring customers that you deliver on your promises. Also, create products and deliver services that exceed expectations.</p>	
<p>Treat customers as family members and best friends by valuing them the same way you honor those you care most about.</p>	
<p>Stay in the hearts and minds of customers by not taking customers for granted and finding ways to let them know you have their best interests in mind.</p>	
<p>Other initiatives? List them here.</p>	

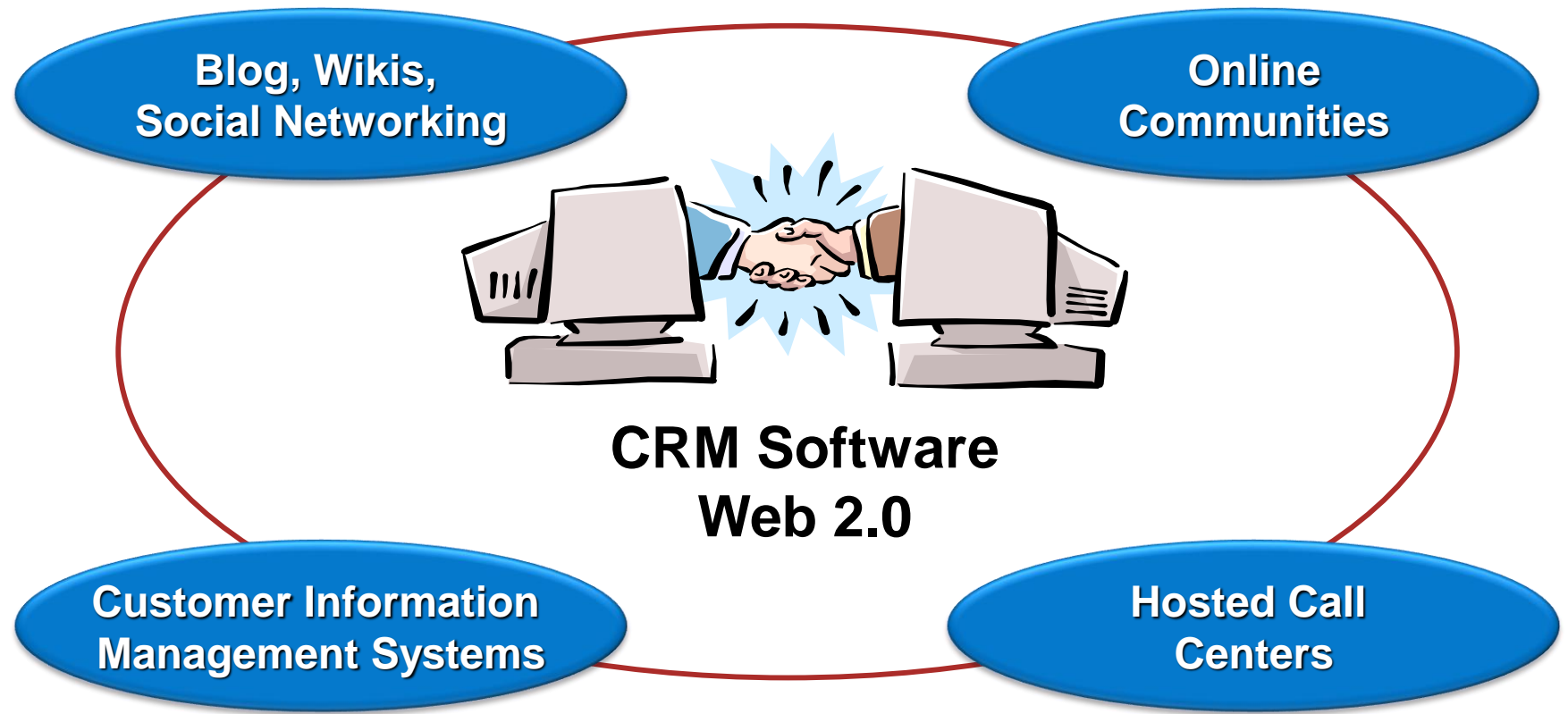
Consumer Options for Dealing with Product or Service Dissatisfaction



Handling Customer Complaints

- Advantages of Small Firms in Dealing with Customer Complaints
 - Deal directly with issues as they arise
 - Easier to give customers attention and respect
 - Employees are more empowered to resolve complaints
- Learning about Customer Service Concerns
 - Direct personal observation
 - Feedback forms from customers
 - Monitoring customer service communications

Using Technology to Support Customer Relationship Management



Creating a CRM Database

Categories for Building a Customer Database

Personal information

Demographics

Internet information

Transaction data

Lifestyle and
psychographic data

Profile of past
responses

Complaints

Using a CRM Database

Creating An Effective CRM Program

1. Capture relevant customer data on interactions across important touch points
2. Analyze those data to better understand customers
3. Use those insights to improve relationships with customers

Using a CRM Database (cont'd)

- **Customer Segmentation Strategy**
 - A process of identifying customers that fit into smaller, more homogeneous groups.
- **80/20 Principle**
 - A principle that maintains that 80 percent of a firm's sales will come from 20 percent of its customers.

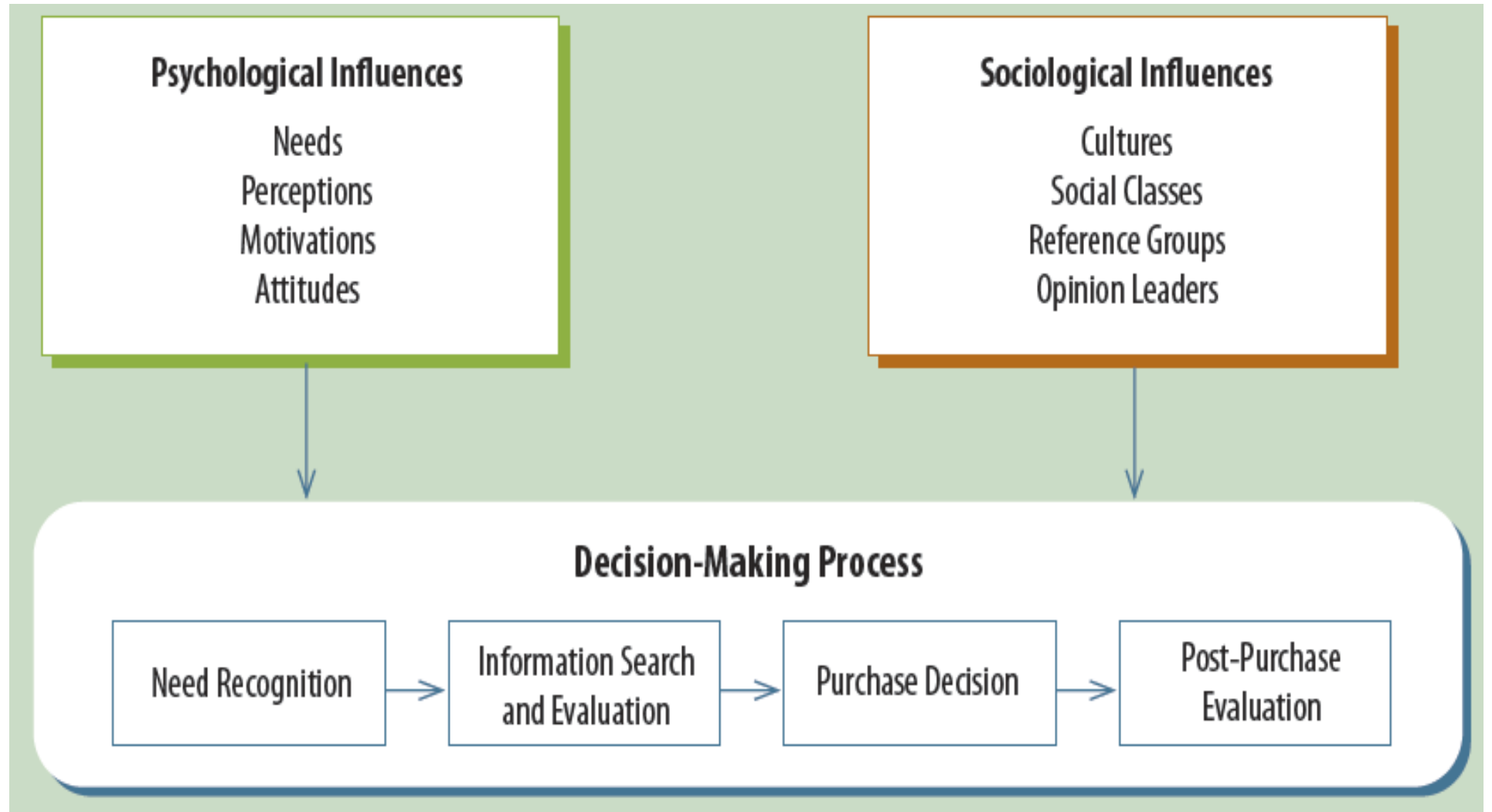
Using a CRM Database (cont'd)

- Recency-Frequency Monetary Analysis
 - An analysis that reveals customers most likely to buy from a firm in the future because they have made purchases recently, frequently, and in amounts exceeding an established minimum.
- Customer Lifetime Value (CLV)
 - The total profit expected from all future sales to a long-term customer.

Highly Recommended CRM Software Packages for Small Businesses

CRM Package	Summary Description
Zoho CRM	Web-based, simple to set up and use, free for up to three users (small monthly charge for additional users), no long-term contracts, expandable to accommodate business growth, integrates seamlessly with Google applications and other Zoho programs.
Microsoft Dynamics	Very well supported, popular because of its overall functionality, hosted ("in the cloud") and on-premise options, interfaces with Microsoft Outlook and Web browser, monthly fee based on number of users.
NetSuite CRM+	Best for larger small businesses, excellent built-in e-commerce applications, more expensive than other options, additional charges for various add-ons.
Salesforce.com	A very popular package, considered a top innovator by CRM experts, many features and functions, expandable to accommodate business growth, some find it to be complicated to use.
SugarCRM	Good first CRM package, easy to set up and configure, tutorials available for assistance, basic package is free, charge for Professional Edition that offers access to many additional tools.

Simplified Model of Consumer Behavior (Customers as Decision Makers)



Stage 1: Need Recognition

- Need Recognition

- Occurs when a consumer realizes that her or his current state of affairs differs significantly from some ideal state.
- A consumer must recognize a need before purchase behavior can begin.
- Many factors can influence recognition of a need.
- Marketing strategy can be used to influence need recognition.

Stage 2: Information Search and Evaluation

- Evaluative Criteria
 - The features or characteristics of a product or service that customers use to compare brands
- Evoked Set
 - A group of brands that a consumer is both aware of and willing to consider as a solution to a purchase need.
 - Gaining inclusion into an evoked set requires creating market awareness of a product or service.

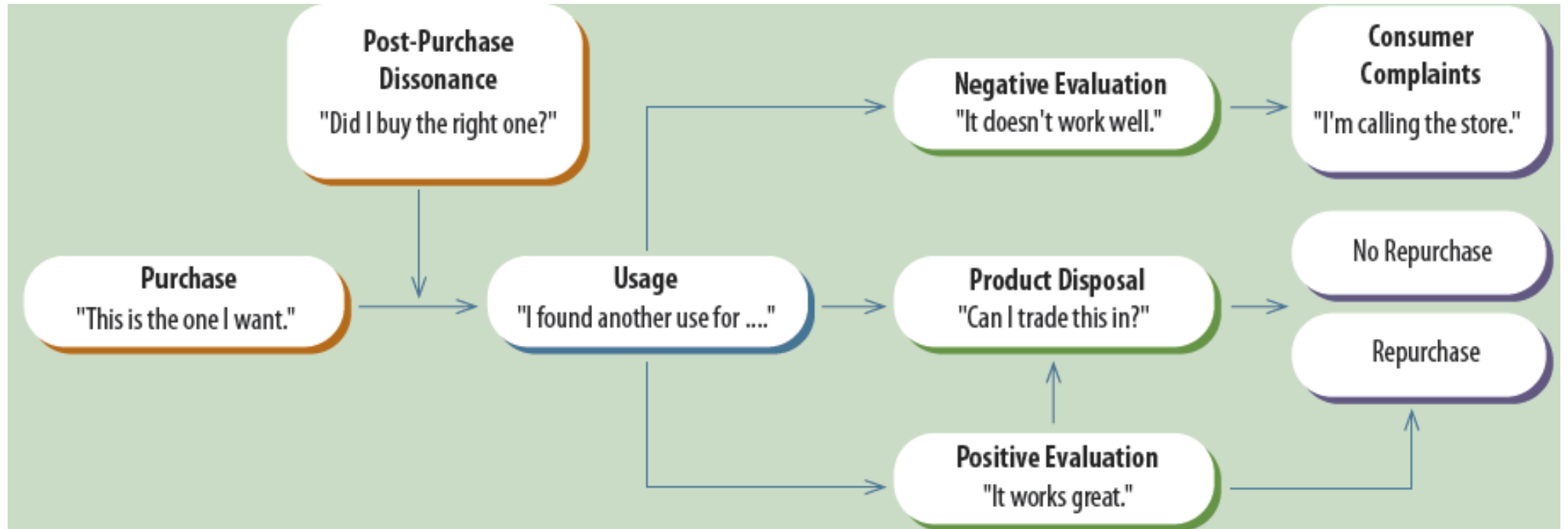
Stage 3: Purchase Decision

- Factors Affecting the Purchase Decision:
 - Brands in the evoked set
 - ❖ Brand advertising
 - Purchase setting: store or non-store outlet
 - ❖ Store, catalogs, TV shopping channels, the Internet
 - Intention to purchase:
planned or spontaneous
 - ❖ Store layout, sales personnel, and point-of-purchase displays.
 - ❖ Ease of use of Web site

Stage 4: Post-Purchase Evaluation

- Post-Purchase Dissonance
 - Is the anxiety that occurs when a customer has second thoughts immediately following a purchase.
 - Can lead to customer complaints, brand switching, or discontinuing use of the product.
 - Can reduced by:
 - ❖ Reassurance by salespersons.
 - ❖ Guarantees and trial periods.
 - ❖ Customer follow-ups.
 - ❖ Confirming information from other users.

14.7 Post-Purchase Activities of Consumers



Understanding Psychological Influences on Customers

- Needs

- Are the starting point for all behavior
 - ❖ Need categories: physiological, social, psychological, and spiritual.
- Are seldom completely or permanently satisfied (e.g., daily newspaper).
- Function together (e.g., the desire for status clothing).
 - ❖ Consumers may purchase the same product to satisfy different needs (e.g., Internet access).

Understanding Psychological Influences on Customers (cont'd)

- Perceptions

- Are individual processes that give meaning to the stimuli confronting consumers
 - ❖ Whatever is perceived depends on the characteristics of the stimulus and the perceiver.

- Perceptual Categorization

- Is the process of grouping similar things so as to manage huge quantities of incoming stimuli.
- Can create a barrier (i.e., brand loyalty) to competing brands.

Understanding Psychological Influences on Customers (cont'd)

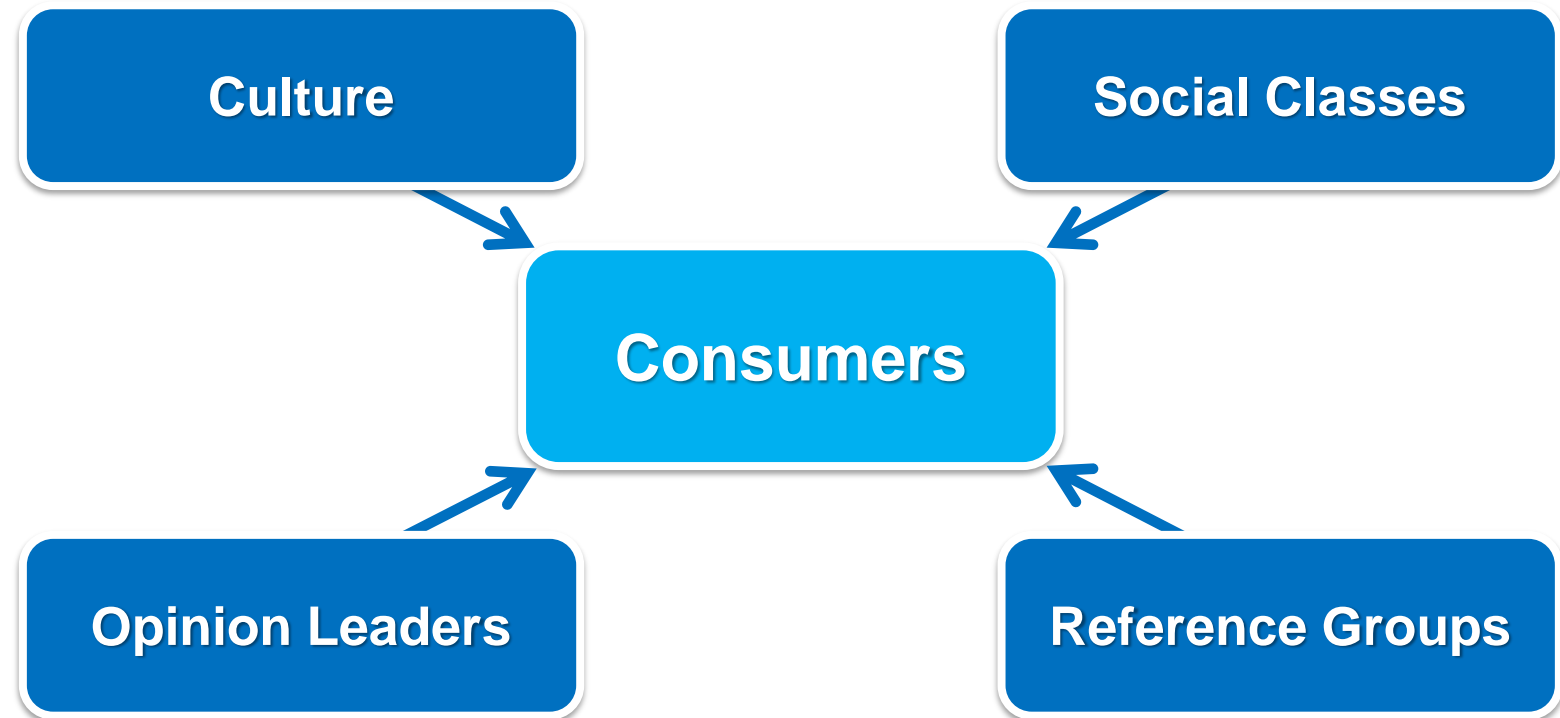
- Motivations

- Are goal-directed forces that organize and give direction to the tension caused by unsatisfied needs.
 - ❖ Behavior variables can be analyzed to determine the motivations a consumer will internalize as an impetus to purchase a good or service.

- Attitude

- Is an enduring opinion based on knowledge, feeling, and behavioral tendency.
- Can discourage or foster behavioral tendencies to purchase a product.

Understanding Sociological Influences on Customers



Key Terms

80/20 principle

attitude

culture

customer database

customer experience

management (CEM)

customer lifetime value (CLV)

customer relationship

management (CRM)

customer segmentation

strategy

evaluative criteria

evoked set

motivations

needs

opinion leader

perception

perceptual categorization

post-purchase dissonance

recency-frequency-

monetary analysis

reference groups

social classes

touch point

transactional relationship