

IAN GORDON ARTICLE

## CRM and the Retailing of Goods and Services

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Author: "Relationship Marketing: New Strategies, Techniques and Technologies to Win the Customers You Want and Keep Them Forever"; "Handbook of Relationship Marketing" (contributing author).

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Retailers are potentially among the biggest beneficiaries of customer relationship management (CRM). The principles of CRM have been well established in business-to-business marketplaces for some time. Whereas before it was not economic for retailers to consider these same concepts for their businesses, now technology enables retailers to economically track, manage, reward, and interact with individual customers. This article addresses some of the opportunities that exist for retailers.

### **1. Build on legacy technology and processes**

The technology and processes that retailers implemented in the past can hold them back from achieving their CRM potential. This applies to companies in other sectors, too, of course, but this is a particular challenge for retailers. Customer databases are a case in point and, as used by many retailers, can be inadequate. Some retailers do not have the data to sufficiently understand customers and segments, calculate customer profitability, and guide the allocation of resources for specific programs and initiatives.

Retailers often develop customer databases from credit card information supplied by third party vendors. In these cases, the information supplied is from billing systems. This can limit the completeness of the customer view and prediction of buying behaviours. In some cases, the results can be almost comical. One retailer using data supplied by a third party vendor apparently sent out a promotional letter to a group of customers based on data that was inaccurate. Then they sent out a letter to all customers, including non-recipients of the first letter, apologizing for errors.

The opportunity for some retailers is to build on the technology they have implemented and manage the customer relationship more intensively. For example, in the automobile retailing industry, car dealerships use ERP systems supplied by vendors such as Reynolds & Reynolds and ADP, or the computer systems of the car manufacturers. The manufacturers themselves have been concentrating on CRM, but dealerships do not always have their own CRM initiatives in place. Considering that the lifetime value of a car owner can be \$200,000 (estimated by one auto manufacturer), dealerships have a huge opportunity to benefit from customer loyalty to the brand and dealership. However, few dealerships have more than basic contact management solutions at present.

### **2. More than RFM (Recency, Frequency, and Monetary value of purchases)**

Retailers often track and segment their customers according to RFM. Sears, for example, tracks 189 RFM segments. Retailers may use other measures to supplement RFM, such as churn and customer longevity. From this, customer behaviour can be predicted, stimulated

and tracked and the profitability of specific programs can be assessed. Some retailers go beyond these applications to calculate the value of mailing lists and the response times to solicitation offers, for example. It is also possible to assign RFM scores to individual customers, although few retailers do this. More than RFM and these supplemental applications, though, the issue is one of customer bonding – how to elevate bonding so that customers become progressively more loyal. Few retailers measure customer bonding, such as favorability/satisfaction scores and share of spending (which is always hard to determine). Yet, without bonding measures, programs become ever more tactical and the broader strategic context, such as relevance of the company to the customer, can be lost. In addition to strategic linkage, data can be tied to process changes. For example, retailers can use the data to take individual customers through the sales process, using technology to engage each customer in real-time and off-line to advance the purchase process one step at a time.

### **3. Customer relevance**

Customers routinely complain that companies see relationships from the company's own perspective. An HBR article (Jan-Feb, 1998, Susan Fournier et al.) noted that customers consider that there are simply too many relationships being sought by their retailers and other companies. Check in your wallet now and see all the retailers' and banks' cards. Customers also think, continues the article, that vendors do not see a relationship from the customer's point-of view: "...when companies ask their customers for friendship, loyalty, and respect, too often they don't give those customers friendship, loyalty and respect in return." The potential remains for companies to view the customer relationship as an opportunity for mutual gain.

### **4. Make good use of customer data**

Having the data is one thing – making good use of it appears to be quite another. A major retail chain, recently bankrupt, had one of the largest customer databases of any retailer in Canada but assembled the data without regard to how it was to be used. In short, questions were posed about the data, rather than considering the questions that needed to be addressed and then developing the data to provide the answers. For example, the company noticed that it was a good idea to place cosmetics and candy counters in close proximity in their stores, presumably because many of the same self-indulgent shoppers would buy from both. Observations such as these were insufficient in number and impact for the company to build customer relevance more generally.

In many cases, lengthy delays in IT departments can further limit the use of customer data, particularly for the typically large transaction data files by stock-keeping unit (SKU).

### **5. Integration of customer points of contact**

Retailers, while wishing to provide seamless service to their customers, have not always integrated their customer points of contact. Thus, a customer buying a computer product on the Internet, cannot return defective items to a local store, as I recently found out to my disappointment. In addition to insufficient integration between bricks and clicks, retailers do not always have their web-sites and call centres integrated. Some companies have worked hard to integrate and cross-lever their channels. A case in point: Sears Canada has integrated many of their retail stores with catalogue outlets, and has benefited from increased same-customer transactions in both channels. Sears has also integrated call centres and web-based catalogue ordering, experiencing additional revenue gains.

### **6. Listening to the customer**

Retailers in the financial services and telecom industries encourage new and non-customer-facing employees to listen in on customer complaints and learn from the interaction. Few retailers do this, too. We have heard so many comments from retailers suggesting that employees could benefit from more training in CRM, better listening and more empathy, including reframing their perspectives of the customer, that we have developed CRM training to help companies deal specifically with these issues. The people dimension of CRM is of critical importance if the overall CRM initiative is to achieve its intent. This starts with an understanding of the current state of the customer relationship,



where listening programs such as those mentioned can help. It also requires that all employees understand the desired future state of customer bonding and the CRM process and technology, and their individual roles in making this work. For example, where people must personalize and customize communications or services, they need to know what their options are and what latitude they have. Where customers provide feedback, which has implications for others in the company, there should be a process for providing this feedback without it being viewed as a negative. Active listening involves paying close attention, understanding history, content and personal and corporate context, the range of decisions which the customer is considering and how they view specific options as well as restatement of the customers' requirements, to name just a few areas where listening in new ways can be beneficial. Even more than this, listening requires real empathy. An example where empathy is missing follows: One manager with a major European car dealership said that customers – likely exasperated ones who wanted rapid service, often ask, "Do you know how much I paid for this car?" They receive the sardonic reply: "As much as all other customers (of this brand)." Customers take their turn and are served when and as the dealer wishes, in an imperious manner. Perhaps not all companies face empathy challenges such as this, but right now there is probably a customer of your company who does not feel that your company has really heard them.

--- Ian Gordon

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