

The Paradigm of Customer Relationship Management in the Fast Moving Consumer Goods (FMCG) Retail Industry

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Abstract

Building strong relationships with customers has become a prime strategic objective of retail marketing. This article focuses on the paradigm of customer relationship management (CRM), regarding the principles of customer value and the constructs of customer loyalty and customer satisfaction. In highly competitive environment the relationship marketing is concerning on critical importance of clients for every business activity in market economy. The significance of customer relationship management is to lead to satisfied and loyal clients. From one side it is oriented to synchronize relations between the customers and the retail company, from the other side it is dedicated to optimize sources of information for better comprehension of consumer behavior. The CRM outline the main directions for development of client oriented products, high level consumer service and long term partnership with the company audiences and it is also an instrument of the intelligent company management in the field of customers relationship, taking into consideration the personal preferences and characteristics. This approach emphasizes the possibility to evaluate the separate clients according to their significance for business by realized sales, profitability and development potential. Also it is important to mention that in retailing the loyalty programmes are manifestations of customer relationship management.

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Introduction

Retailers face a dynamic and competitive environment. With increased globalization, market saturation, and increased competitiveness through mergers and acquisitions, retailers are seeking competitive advantages by better managing customer relationship. Traditionally, marketing has focussed on attracting new customers for a company. Today, however, companies recognize the importance of retaining current customers by forming relationships with them. This focus on relationships builds on the premise that it is less expensive to market to existing customers than to acquire new ones. *Relationship marketing*, a term usually used synonymously with *customer relationship management*, involves establishing, maintaining and enhancing long term relationships with customers. With this perspective, the manager's primary task is to identify profitable and non profitable customers, focus efforts on the former and balance the cost of acquiring and retaining customers with current and potential revenue from those customers. In retailing, advances in IT and the spread of loyalty cards have provided a means for retailers to identify a particular customer and to collect customer specific data, thus enabling individualized marketing. Compared to other industries, retailing has tremendous advantages in CRM, since it is in direct contact with the consumer.

Even though the methods proposed for CRM are very heterogeneous, some common and underlying principles have emerged:

- *Customer information:* Companies must gather reliable and detailed information on their existing and potential customers, usually stored in an IT based customer data base.

- *Individualisation/segmentation*: A strong customer orientation leads to a targeted approach to individual customers or customer segments, instead of a standardized mass market approach to retail marketing.
- *Profit orientation*: Not all customers are treated equally. Rather, they are classified and prioritised in terms of their profit potential for the company. Investment in customers is undertaken on the basis of their profit ability.
- *Customer interaction and integration*: Instead of one directional communication (such as traditional advertising), the aim is to achieve a two directional interaction with the customer, including a stronger integration in the value added process.

Different stages in the relationship require different marketing approaches. In the early stages, the emphasis is on *customer acquisition*. In the growth stage and through maturity, the company needs to strengthen the relationship and exploit the full sales potential (*customer retention*). In the later stages of the relationship cycle, it is important to know which customers are at risk of defecting and to employ *customer recovery* measures. After customers are lost, it may be possible to reactivate them. Identifying the causes of such defection can help to win particular customers back, but also to avoid the same mistakes with others. Sending lost customers a special offer or calling them in order to allow them to complain about mistakes, might bring them back into the relationship. Through data analysis, defection behaviour might be predicted and those customers with the highest propensity to discontinue the relationship with the retailer, targeted proactively.

Customer Loyalty and Customer Satisfaction

While loyalty has become more important as a marketing objective with CRM, there is no universally agreed definition of loyalty. Two basic approaches to conceptualise loyalty can be identified:

- Often, loyalty is defined with reference to a pattern of purchases. *Behavioural loyalty* is measured in terms of repeat patronage, percentage of budget allocation in a category to a store, amount of switching, or purchase likelihood.
- Many researchers argue that there must be strong commitment to a company for true loyalty to exist. Commitment refers to an emotional or psychological attachment to a company. Trust, which entails the confidence in the retailer's reliability and integrity, is often seen as closely connected to it. This *attitudinal loyalty* can be measured by asking consumers if they like and trust the store, whether they feel committed to it, and whether they would recommend it to others.

In *retailing*, CRM is closely connected to the *loyalty schemes* that are usually based on *loyalty cards*. Pioneers in Europe were *Tesco* in the United Kingdom and *Albert Heijn* in Holland. Many retailers now employ some form of loyalty scheme. Typically, loyalty programmes offer delayed, accumulated economic benefits to consumers on the basis of repeat purchases. Usually, this takes the form of points that can be exchanged for gifts, or vouchers. The discount value of points generally ranges between 1 and 4% of sales. The option of giving discounts in different "currencies" (e.g. cash, stamps, miles, reward

points) can also offer perceptual advantages, e.g. for the retailer's price image. In so called *affinity programmes*, the focus is more on the emotional bond between customer and retailer. With club memberships, preferred service, newsletters, Internet chat groups, telephone help lines and other measures, two way communication is established so that customers can interact with the company and get

to know it better. Most frequently, the ability to accrue benefits in the form of discounts on purchases, as well as the promotional offers connected to the loyalty programme, are the principal motivation for consumers for joining a loyalty scheme. However, emotional bonding

and psychological relationship awards might also be important. *Self actualisation* is considered a basic human need and loyalty programmes can provide recognition to selected customers by giving them an evaluated status and the feeling of being special.

In some loyalty programmes, the sense of being a member of a community is considered more important than financial rewards. Loyalty programme rewards depend on the cumulative spending by customers at the retailer. There are two basic reward accumulation functions. If the same share of spending is given as reward (e.g. 1 point per EUR spent), regardless of accumulated spending, this linear function might lead a consumer to distribute his spending between different retailers (without a loss for the customer). If only the *relative* rewards count as cumulative spending level increases (e.g. 1 point per EUR when spending is below 100 EUR, 3 points when spending is above 100 EUR), the programme becomes relatively more attractive for customers who spend more with one retailer and when concentrated spending at one retailer is rewarded. This supports a company strategy that aims to focus retention efforts on a small group of high value customers. Sometimes this is implemented with different types of loyalty cards, e.g. “normal” cards, gold cards, platinum cards. *Switching costs* for customers are increased, since accumulated assets can be seen as customer investment in the relationship with the retailer, which should in turn enhance loyalty. In terms of sponsorship, two types of loyalty programme exist:

- single company loyalty programmes
- multi partner programmes (or coalition schemes).

Single company loyalty programmes are run by an individual retailer. Examples are the programmes of *Boots*, *Auchan*, *Coop* (Switzerland), *Peek&Cloppenburg*. Usually, the loyalty card carries the retail brand, and points can be accumulated at this retailer only. A benefit of *multipartner programmes* is that customers can use their loyalty card more often, collect points faster, and qualify for certain premiums or prizes faster. Penetration of the programme in the population is often higher than for single

company programmes. Especially for retailers with a low purchasing frequency (e.g. DIY stores or consumer electronics retailers), for whom attracting customers in a proprietary programme would be difficult, participating in a coalition programme can be beneficial. While single company programmes only have data on the current customers of a particular retailer, multi partner programmes have access to far more data about shopping habits, so that the retailer can also target profitable consumers who are not

yet part of his own customer basis. This facilitates analyzing customer behavior on a much broader base (within the limits of privacy regulations and customer acceptance). At the same time, the high cost of a loyalty programme can be distributed among the participating retailers. The disadvantages of a multi partner programme are that loyalty is often focussed on the coalition programme, rather than any particular retailer. Also, the loyalty scheme (e.g. rewards, accumulation function) is not designed to meet a specific retailer’s strategy, but has to appeal to a group of retailers as a whole. One of the most successful multi partner programmes in Europe is the German *Payback* system with more than 30 million customer members, in which many large retail companies, such as *Real*, *OBI*, *Aral*, *Apollo Optik*, participate. The British multi partner programme *Nectar* has companies such as *Sainsbury’s*, *Debenhams*, *BP* and *Hertz* as partners. In France, *S’Miles* offers bonus points for purchases with *Géant*, *Monoprix*, *Galeries Lafayette*, *Shell*, *BHV*, and others.

Analysing Customer Data

In CRM, data mining techniques are used to analyse customer information. Since the results of the analysis and the forecasting of customer response can be used to develop marketing measures and the subsequent behaviour of specific customers can be tracked and evaluated, a learning system can be created that studies the specific behaviour of each customer and can also detect

changes in behaviour over time. An important potential advantage of CRM is that the success and the profitability of marketing measures can be evaluated in an experimental approach, by comparing the purchasing behaviour of the targeted customer group with a control group, based on incremental sales or contribution margin. However, up to the present, the huge amount of data collected through loyalty cards (often millions of data sets daily) results in an inadequate usage of the data, because IT capacity and methods of data analysis develop at a slower pace than data availability. Customer segmentation is a core task of data analysis. In theory, retailers employing loyalty programmes could segment their customer base down to individual customers, but in practice, the number of segments used is generally limited to between 10 and 30. Segmentation criteria include purchasing volumes, demographic characteristics, geographical aspects, shopping motives, attitudes and lifestyles. The options start with very simple segmentation criteria. *ABC analysis* is used to categorise customers by their annual purchases. Very often, a 20/80 rule is used that 20% of the customers ("*A*" customers) account for about 80% of retail sales volume. Even if the ratio is often not that extreme, it has frequently been shown that the relevance of different customers for a retailer

varies considerably. While customer purchase behaviour is a backwards oriented criterion, total *customer lifetime value* can serve as a very sophisticated basis for segmentation. Such customer value oriented segmentation shows what customer groups a retailer should focus on, but it does not show *how* to approach the customers. Segmentations based on such consumer behaviour as shopping motives or attitudes are better suited to develop tailored marketing. Many different customer clusters have been proposed in the literature. For instance, customers can be clustered into "price oriented", "quality oriented", and "service oriented", or fashion customers into "fashion enthusiast", "style seekers", "classics" and "timids and uninvolved". The customers' stage in the family cycle (e.g. young singles, young couples, couples with young children, older, retired couples) is usually a good predictor of purchasing behaviour. Based on their own customer data, retailers can, however, use a combination of methods to establish customer segments that are tailored to the retailer's specific needs.

Using Customer Data

Individual customer information provides insights into consumer behaviour that can be used to bring about a general change in a retailer's marketing. In such a case, the customer data is used to change macro variables of retail marketing, such as the merchandise mix, pricing, promotion, or location decisions. For example, before a product is delisted due to low sales, an analysis can be conducted to determine who still buys it. If, for example, only 20% of customers purchase the product, but those are most valuable customers in the store, keeping this product in stock is important for retaining these profitable customers. CRM, on the other hand, focuses on *micromarketing* (or one to one marketing) which targets specific consumers or consumer segments based on knowledge of their behaviour. The retail service (such as the merchandise offered in advertising, promotions, services offered) is tailored to certain segments or individual customers. Since the store itself is still standardized for all visitors, CRM often does not take place in the store offer, but through marketing communication with specific customers. Measures include the following:

- *Addressed direct mailings*: Customized direct mailings to customers' homes are used in almost all retailer loyalty programmes. The prime communication channel in loyalty programmes is some kind of (tailored or segmented) product catalogue, often with targeted promotions.
- *Email marketing*: Direct customer mailings have increased tremendously with the advent of email, which is used to distribute customized advertising and newsletters to customers. Distribution costs are much lower and customizing more flexible and cheaper.

- *Instore multimedia kiosks*: Similar to the Internet, multimedia kiosks in retail stores can be used to communicate with each customer individually. At electronic point of sale terminals, loyalty card holders can (among other functions) check their point account, order rewards or print out value checks with which they can pay their next purchase.
- *Mobile marketing*: Some retailers already use the customers' mobile phones as communication devices, for example for providing coupons by SMS or MMS.
- *Personal shopping assistants*: Digital shopping assistants that a customer can carry or attach to the shopping cart are still in the testing stage.

Based on his loyalty card, such a device can guide the customer interactively through the shopping process in real time. Shopping lists can be displayed, the customer led to certain products, or recipes recommended, including the necessary ingredients and their location in the store.

A higher level of CRM and one to one marketing can be employed in Internet shopping. In addition to the purchases, total purchasing behavior can be observed with *web usage mining*. Over and above the data that can be collected with loyalty cards in store retailing, an electronic retailer can track

the date and duration of each visit to his web site, the time a customer spends looking at a specific product, products viewed but not purchased, the sequence in which products were viewed or web sites browsed. In contrast to stores, the individual data can be employed to tailor the entire retail marketing process to a specific customer, from the basic merchandise offer, prices and promotions, to the store design.

Conclusion

Retail companies seek to maximize relationships with customers. Thus, a shift in organizational thinking is necessary as retailers embrace a "customer-centric" focus and implement strategies to support this focus. This shift in organizational culture challenges retailers to revise organizational systems and processes, identify customer-related metrics, and identify areas of strategic advantage.

Over the last decade, many retailers have shifted their focus to CRM and introduced loyalty card programmes as a tool. The costs of such a programme are often substantial, including those of incentives, IT systems and administration of the programme. Furthermore, the success of loyalty marketing campaigns can usually be measured more accurately than that of traditional marketing campaigns. CRM must be compatible with the company's broader strategy. If a primary goal is to achieve market leadership by gaining customers from its main competitors and grow rapidly, the maximum number of customers should be attracted. A focus on only the most profitable customers will not be appropriate for the company's strategic objectives. This example illustrates that customer relationship marketing is an increasingly relevant marketing approach in retailing. However, as with all functional strategies, alignment with the overall company strategy is crucial. Some retailers, such as *ASDA*, *Aldi* or *Lidl*, believe that adhering to their core strategy is more important to establish and build loyal customers, than creating a loyalty programme. While this is certainly true, for many other retailers, CRM offers a universe of options for interacting with their customers. All in all, the potential gains of analyzing detailed customer data and targeting consumers, especially with new media which lower the communication costs of tailored marketing communication, still seems enormous.

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