

Springer Texts in Business and Economics

Springer Texts in Business and Economics (STBE) delivers high-quality instructional content for undergraduates and graduates in all areas of Business/Management Science and Economics. The series is comprised of self-contained books with a broad and comprehensive coverage that are suitable for class as well as for individual self-study. All texts are authored by established experts in their fields and offer a solid methodological background, often accompanied by problems and exercises.

More information about this series at <http://www.springer.com/series/10099>

V. Kumar
Werner Reinartz

Customer Relationship Management

Concept, Strategy, and Tools

Third Edition

 Springer

V. Kumar

J. Mack Robinson College of Business
Center for Excellence in Brand
and Customer Management
Georgia State University
Atlanta
Georgia
USA

Werner Reinartz

Department of Retailing
and Customer Management
University of Cologne
Cologne
Germany

Originally published by John Wiley & Sons, Inc., 2006

ISSN 2192-4333

ISSN 2192-4341 (electronic)

Springer Texts in Business and Economics

ISBN 978-3-662-55380-0

ISBN 978-3-662-55381-7 (eBook)

<https://doi.org/10.1007/978-3-662-55381-7>

Library of Congress Control Number: 2018935246

© Springer-Verlag GmbH Germany, part of Springer Nature 2006, 2012, 2018

This work is subject to copyright. All rights are reserved by the Publisher, whether the whole or part of the material is concerned, specifically the rights of translation, reprinting, reuse of illustrations, recitation, broadcasting, reproduction on microfilms or in any other physical way, and transmission or information storage and retrieval, electronic adaptation, computer software, or by similar or dissimilar methodology now known or hereafter developed.

The use of general descriptive names, registered names, trademarks, service marks, etc. in this publication does not imply, even in the absence of a specific statement, that such names are exempt from the relevant protective laws and regulations and therefore free for general use.

The publisher, the authors and the editors are safe to assume that the advice and information in this book are believed to be true and accurate at the date of publication. Neither the publisher nor the authors or the editors give a warranty, express or implied, with respect to the material contained herein or for any errors or omissions that may have been made. The publisher remains neutral with regard to jurisdictional claims in published maps and institutional affiliations.

Printed on acid-free paper

This Springer imprint is published by the registered company Springer-Verlag GmbH, DE part of Springer Nature

The registered company address is: Heidelberger Platz 3, 14197 Berlin, Germany

Dedicated with Love

To my parents, Patta and Viswanathan, and Uncle Kannan,

To other Family Members - Prita, Matt, Anita, Rohan, Ryan and Aparna

To Cosmic Guru – Chinna Kumar

V. Kumar

To my parents Hermann and Resi

and to my siblings Josef, Sabine, and Ralf

Werner Reinartz

Preface

Customer relationship management (CRM) as a strategy and as a technology has gone through an amazing evolutionary journey. After the initial technological approaches, this process has matured considerably – both from a conceptual and from an applications point of view. Of course this evolution continues, especially in the light of the digital transformation. Today, CRM refers to a strategy, a set of tactics, and a technology that has become indispensable in the modern economy.

Based on both authors' rich academic and managerial experience, this book gives a unified treatment of the strategic and tactical aspects of customer relationship management as we know it today. It stresses developing an understanding of economic customer value as the guiding concept for marketing decisions. The goal of this book is to be a comprehensive and up-to-date learning companion for advanced undergraduate students, master students, and executives who want a detailed and conceptually sound insight into the field of CRM.

Aimed at students, teachers, and practitioners of CRM, this book offers a comprehensive treatment of CRM and database marketing, the approach to strategic CRM, and implementing the CRM strategy and the various metrics to measure customer value. This book provides all the necessary steps in managing profitable customer relationships. It stresses on developing an understanding of customer value as the guiding concept for marketing decisions, and illustrates the importance of the customer lifetime value metric as the guiding concept for profitable customer management. This book also analyzes the implementation of CRM strategies in the areas of loyalty programs, marketing campaigns, and channel management. Specifically, this book provides insights

into several customer level marketing strategies that can be implemented by adopting a customer lifetime value approach – also integrating the digital approaches that are prevalent these days. The goal of this book is to be a useful learning companion to students, teachers, and practitioners of CRM.

The goal of this book is to be a valuable learning companion to students, teachers, and practitioners of CRM. To summarize, with this book, you can:

- Obtain a comprehensive understanding of CRM strategy, concepts, and tools. This unified perspective would enable readers to see the forest *and* the trees.
- Benefit from the numerous cases that show direct application of concepts thus making the material very accessible and applicable.
- Learn the latest developments in metrics, practices, and substantive domains (e.g., CRM and social media).

Objectives of this Text

This book captures the critical elements of managing customer relationships.

The objectives in writing this text are to:

1. Outline the need for customer-centric marketing strategies.
2. Explore the science behind CRM and the effectiveness of various CRM techniques.
3. Explain the concepts, metrics, and techniques that form the backbone of CRM activities.
4. Learn and apply CRM tools and methodologies that aid customer-level analytics.
5. Provide clear examples and illustrations that tie concepts with real-world scenarios.

6. Understand the relationship between CRM analytics and business performance.
 7. Discuss the structure of databases, their uses and benefits from a marketing standpoint, rather than a technical one.
 8. Understand the implications of CRM and marketing activities like loyalty programs, channel management, and planning promotional campaigns.
 9. Learn the cutting-edge profitable customer-level strategies and how they have been implemented in companies with impressive bottom-line results.
 10. Understand the reasons of CRM as a dominant form of marketing strategy.
8. Procedures to follow when measuring past customer value and customer lifetime value.
 9. Explanations of techniques like RFM, logistic regression, decision trees, and data mining in an easy-to-follow fashion.
 10. Presentation of the latest advances in customer value management practices, which include implementation of several CRM-related strategies.
 11. Adoption of a non-technical viewpoint of CRM rather than a technical one.

Highlights of this Book

This book offers a comprehensive treatment of CRM and database marketing.

The highlights of this book are as follows:

1. An overview and summary at the beginning and the end of each chapter to help the reader stay focused.
2. Exhaustive cases to help readers appreciate how CRM is being carried out in the age of information.
3. Real-world illustrations in various chapters under the title «CRM at Work.»
4. Mini cases at the end of various chapters designed to address key managerial issues, stimulate thinking, and encourage a problem-solving approach.
5. A new section on International Perspectives.
6. Illustrations and explanations of key traditional and new marketing metrics in a clear and concise manner.
7. Clear explanations for the need for customer value metrics, such as the

traditional past customer value, and the forward-looking customer lifetime value.

8. Procedures to follow when measuring past customer value and customer lifetime value.
9. Explanations of techniques like RFM, logistic regression, decision trees, and data mining in an easy-to-follow fashion.
10. Presentation of the latest advances in customer value management practices, which include implementation of several CRM-related strategies.
11. Adoption of a non-technical viewpoint of CRM rather than a technical one.

Supplements to this Book

1. An online Instructor's Manual with Test Questions accompanies this text. This manual provides solutions to end-of-chapter Questions and Problems, and discusses all text cases in greater detail. Exam questions are arranged by chapters and include multiple-choice and true/false questions. An example of a course syllabus is presented, and many suggestions for the organization of the course are provided. A link to the Instructor's Manual can be found at <http://www.springer.com/?SGWID=0-102-2-1583162-0>
2. Web site support: The Web site will be updated periodically in order to supplement the text with new up-to-date examples. This site includes the cases and Web links cited in the text. URL: <http://www.drvkumar.com/crm3>.
3. A computerized version of the test bank is available to instructors for customization of their exams.
4. Downloadable PowerPoint presentations are available for all chapters via the text Web site.

Organization of the Text

This book adopts a holistic approach towards CRM by providing the concepts, explaining the tools, and developing relevant strategies. It introduces key concepts and metrics needed to understand and implement CRM strategies. It describes the process of successful CRM implementation. Finally, it presents techniques to aid in strategic marketing decisions using the concept of customer lifetime value. This book is divided into four parts as follows:

- *Part One: Introduction* consists of two chapters and introduces the concept of customer equity/value as a key aspect of customer relationship management (CRM). This part explains the role of CRM in the current business scenario and presents a comprehensive link that connects CRM and customer value.
- *Part Two: Strategic CRM* consists of ► Chaps. 3 and 4 and introduces the concepts related to strategic CRM. This part describes the difference between strategic and functional CRM and presents the case for developing a CRM strategy. It also elaborates on the elements of a CRM system and provides the implementation aspects of the customer management strategy.
- *Part Three: Analytical CRM* consists of ► Chaps. 5, 6, 7, and 8 and presents the tools pertaining to analytical CRM. This part focuses on commonly used CRM metrics and techniques such as acquisition rate, retention rate, share of wallet, logistic regression, decision trees, RFM, past customer value, and customer lifetime value. This part also discusses the concepts relating to data mining and implementing database marketing. Types of databases and their uses and benefits are outlined. Guidelines to develop and plan marketing campaigns in order to maximize customer value are discussed. This section also addresses the technical aspects of CRM software tools and dashboards required to implement and manage CRM applications.
- *Part Four: Operational CRM* consists of ► Chaps. 9, 10, 11, 12, 13, 14, and 15 and presents the strategies involved in operational CRM. This part discusses loyalty programs and the characteristics that make up an effective loyalty program. This part also discusses the impact of CRM on marketing channels. A separate chapter discusses the developments of CRM using social media. The last chapter looks into the future and envisions the developments and changes that are likely to take CRM ahead.
- *Part Five: Advances in CRM Applications* consists of ► Chaps. 16, 17, and 18 and traces recent advances in CRM applications. This section illustrates new and emerging techniques in customer value-based CRM. Critical marketing issues like optimum resource allocation, purchase sequence, and the link between acquisition, retention, and profitability are examined on the basis of empirical findings. These applications are categorized on the basis of applicability for the B2B and B2C scenarios.

V. Kumar

Atlanta, GA, USA

Werner Reinartz

Köln, Germany

Acknowledgments

We wish to thank Maren Becker, Manuel Berkmann, Vanessa Junc, Annette Ptok, Julian Wichmann, and Nico Wiegand for their assistance and contribution in the preparation of this text. We would also like to thank our colleagues at various universities for giving valuable suggestions

in developing this book. Special thanks are owed to Elena Gros, Anisa Hiabu, Amber McCain, Maria Niebrügge, and Bharath Rajan for their assistance in various aspects of this book. We owe additional thanks to Renu for copyediting this book.

Contents

I CRM: Conceptual Foundation

1	Strategic CRM Today	3
1.1	An Introduction to Strategic CRM	4
1.2	Why Managing Customers Is More Critical Than Ever	5
1.2.1	Changes with Respect to Consumers.....	6
1.2.2	Changes with Respect to the Marketplace.....	9
1.2.3	Changes with Respect to the Marketing Function.....	10
1.2.4	Implications	11
1.3	The Benefits of the Customer Value Management Approach	11
1.4	Evolution and Growth of CRM	12
1.4.1	First Generation (Functional CRM)	12
1.4.2	Second Generation (Customer-Facing Front-End Approach).....	13
1.4.3	Third Generation (Strategic Approach).....	13
1.4.4	Fourth Generation (Agile and Flexible Strategic CRM)	14
1.4.5	Fifth Generation (Social CRM).....	14
1.5	CRM and the IT Revolution: The View from the Industry.....	14
	References.....	16
2	Concepts of Customer Value	17
2.1	Value to the Customer	18
2.2	Value to the Company	20
2.2.1	From Value for Customers to Value from Customers: The Satisfaction-Loyalty-Profit Chain	20
2.2.2	Extending the Concept of Customer Value	25
	References	28

II Strategic CRM

3	Strategic CRM	33
3.1	CRM Perspectives	34
3.2	Elements of a CRM Strategy	36
3.2.1	CRM Vision	36
3.2.2	Culture of Customer Orientation	36
3.2.3	Integration and Alignment of Organizational Processes	37
3.2.4	Data and Technology Support.....	38
3.2.5	CRM Implementation	39
3.3	Steps in Developing a CRM Strategy.....	40
3.3.1	Step 1: Gain Enterprise-Wide Commitment	40
3.3.2	Step 2: Build a CRM Project Team	41
3.3.3	Step 3: Analyze Business Requirements	42
3.3.4	Step 4: Define the CRM Strategy.....	43
	References	47
4	Implementing the CRM Strategy	49
4.1	Types of CRM Implementation Projects.....	50
4.1.1	Operational CRM Projects	50

- 4.1.2 Analytical CRM Projects 50
- 4.1.3 Application Projects Deploying Operational and Analytical Outputs 53
- 4.2 CRM Implementation Effectiveness 53**
- 4.2.1 Costs Associated with a CRM Implementation..... 54
- 4.2.2 Financial Benefits from a CRM Implementation 55
- 4.2.3 Computing the ROI of CRM Initiatives 56
- 4.3 Why Do CRM Implementation Projects Fail?..... 57**
- 4.3.1 Resistance from Employees..... 57
- 4.3.2 Poor Data Quality..... 58
- 4.3.3 Low «Actionability» of the Information 59
- 4.4 Case Study: CRM at Capital One (United Kingdom) 60**
- 4.4.1 Case Background 60
- 4.4.2 Industry Background 61
- 4.4.3 Capital One Company Background..... 63
- 4.4.4 CRM Practices at Capital One (UK)..... 64
- 4.4.5 Future Challenges..... 72
- References..... 75**

III Analytical CRM

- 5 Customer Analytics Part I 79**
- 5.1 Traditional Marketing Metrics 81**
- 5.1.1 Market Share 81
- 5.1.2 Sales Growth..... 81
- 5.2 Customer Acquisition Metrics..... 81**
- 5.2.1 Acquisition Rate 82
- 5.2.2 Acquisition Cost 82
- 5.3 Customer Activity Metrics 83**
- 5.3.1 Objective of Customer Activity Measurement 83
- 5.3.2 Average Inter-Purchase Time 84
- 5.3.3 Retention and Defection Rate 84
- 5.3.4 Survival Rate..... 87
- 5.3.5 Lifetime Duration..... 88
- 5.3.6 P(Active)..... 90
- 5.3.7 Comprehensive Example of Customer Activity Measures 91
- 5.4 Popular Customer-Based Value Metrics 92**
- 5.4.1 Size of Wallet 92
- 5.4.2 Share of Category Requirement..... 92
- 5.4.3 Share of Wallet..... 94
- 5.4.4 Transition Matrix 96
- References..... 99**

- 6 Customer Analytics Part II..... 101**
- 6.1 Strategic Customer-Based Value Metrics..... 102**
- 6.1.1 RFM Value 102
- 6.1.2 Past Customer Value 111
- 6.1.3 Lifetime Value Metrics 112
- 6.1.4 Customer Equity..... 116
- 6.1.5 Comprehensive Example..... 116
- 6.2 Popular Customer Selection Strategies 118**
- 6.2.1 Profiling..... 118

6.2.2	Binary Classification Trees	119
6.2.3	Logistic Regression.....	121
6.3	Techniques to Evaluate Alternative Customer Selection Strategies.....	125
6.3.1	Misclassification Rate.....	125
6.3.2	LIFT Analysis	125
	References.....	134
7	Data Mining	135
7.1	The Need for Data Mining.....	136
7.2	The Business Value of Data Mining.....	136
7.3	The Data Mining Process	137
7.3.1	Involvement of Resources.....	138
7.3.2	Data Manipulation.....	138
7.3.3	Define Business Objectives.....	140
7.3.4	Get Raw Data.....	143
7.3.5	Identify Relevant Predictive Variables.....	145
7.3.6	Gain Customer Insight	148
7.3.7	Act.....	149
	References.....	155
8	Using Databases	157
8.1	Types of Databases.....	158
8.1.1	Categorization Based on the Information Included in the Databases.....	158
8.1.2	Categorization Based on the Nature of the Underlying Marketing Activities.....	162
8.1.3	Categorization Based on the Database Technology.....	163
8.2	The Benefits of Marketing Databases.....	164
8.2.1	The Ability to Carry Out Profitable Segmentation	164
8.2.2	Retained Customers and Repeat Business.....	164
8.2.3	The Ability to Spot Potentially Profitable Customers	164
8.3	The Uses of Marketing Databases (Jackson & Wang, 1994)	164
8.3.1	Uses that Directly Influence the Customer Relationship.....	164
8.3.2	Uses that Directly Influence Other Business Operations.....	165
	References.....	167
IV	Operational CRM	
9	Software Tools and Dashboards.....	171
9.1	CRM Implementation Options.....	172
9.1.1	Developing Software In-House	172
9.1.2	Buying Licensed CRM Software.....	173
9.1.3	Outsourcing a Managed Service.....	173
9.2	CRM Software and Applications	175
9.2.1	Stage-Wise Implementation Versus an Enterprise Wide CRM Solution.....	175
9.2.2	Relationships and Flows Between CRM Modules.....	175
	References.....	178
10	Loyalty Programs: Design and Effectiveness.....	179
10.1	What Is Loyalty? Behavioral Versus Attitudinal Loyalty.....	181
10.2	What Is a Loyalty Program? Definition and Key Objectives	182
10.2.1	Building True Loyalty	182
10.2.2	Efficiency Profits.....	183

10.2.3	Effectiveness Profits	183
10.2.4	Value Alignment.....	184
10.3	Loyalty Programs: Increasing in Popularity.....	184
10.3.1	Examples of Loyalty Programs.....	187
10.4	Problems with Loyalty Programs.....	188
10.5	Design Characteristics of Loyalty Programs.....	189
10.5.1	Reward Mechanism: Transaction-Based Versus Engagement-Based	189
10.5.2	Reward Structure	189
10.5.3	Participation Requirements.....	191
10.5.4	Payment Function.....	192
10.5.5	Sponsorship.....	192
10.5.6	Cost and Revenues of LPs.....	193
10.6	Drivers of Loyalty Program Effectiveness.....	193
10.6.1	Loyalty Program Design Characteristics.....	194
10.6.2	Customer Characteristics	194
10.6.3	Firm Characteristics.....	194
10.6.4	Achieving a Competitive Advantage.....	195
10.7	Empirical Evidence on Loyalty Program Effectiveness.....	197
10.8	Loyalty Programs, Shackle or Reward: And to Whom?	197
10.9	The Seven-Point Checklist for Successful LP Design and Implementation	197
	References.....	204
11	Campaign Management.....	207
11.1	Campaign Management	209
11.2	Campaign Planning and Development	210
11.2.1	Setting Objectives and Strategies.....	210
11.2.2	Identifying Customer Segments.....	211
11.2.3	Developing the Communication Strategy	212
11.2.4	Developing the Offer.....	214
11.2.5	Campaign Budget	219
11.2.6	Testing.....	224
11.3	Campaign Execution	228
11.3.1	Implementation and Coordination	228
11.3.2	Monitoring and Fine-Tuning	229
11.3.3	Problems to Take into Account	229
11.4	Analysis and Control	230
11.4.1	Measuring Campaign Results	231
11.4.2	Response Analysis	232
11.4.3	Profile Analysis.....	232
11.5	Campaign Feedback.....	232
	References.....	235
12	Impact of CRM on Marketing Channels	237
12.1	CRM and Marketing Channels	239
12.1.1	What Are Channels?	239
12.1.2	The Role of Channels in Customer Relationships.....	240
12.1.3	Managing Customer Relationships Through Indirect Channels.....	241
12.1.4	Managing Customer Relationships Through Direct Channels.....	242
12.1.5	Multichannel Trends and CRM	245
12.2	CRM and Multichannel Design	250
12.2.1	Attributes of Multichannel Designs.....	250
12.2.2	Designing Optimal Multichannel Offers	252

12.3	CRM and Multichannel Management	254
12.3.1	Managing Multichannel Systems: Integration Versus Separation	254
12.3.2	Managing Multichannel Shoppers.....	256
12.3.3	Managing Research Shoppers	259
	References	263
13	CRM Issues in the Business-To-Business Context	265
13.1	CRM and Sales Force Automation	267
13.1.1	What Is SFA?.....	268
13.1.2	SFA Benefits	268
13.1.3	Conditions for Realizing Benefits.....	268
13.2	CRM and Key Account Management	270
13.2.1	What Is KAM?	270
13.2.2	Implementation of the KAM Program.....	271
13.3	CRM and the Shift from Goods to Services	276
13.3.1	What Are Hybrid Offerings?	277
13.3.2	Advantages and Disadvantages of the Shift to Hybrid Offerings	278
13.3.3	Rules for Successful Shifts.....	279
	References	282
14	Customer Privacy Concerns and Privacy Protective Responses	285
14.1	Customer Privacy Concerns	287
14.1.1	Customer Privacy	287
14.1.2	Drivers of Customer Privacy Concerns	288
14.2	Regulations to Protect Customer Privacy	294
14.2.1	United States: Customer Privacy Protection Based on Industry Self-regulation.....	295
14.2.2	Germany: Customer Privacy Protection Based on Governmental Legislation	296
14.2.3	The General Data Protection Regulation (GDPR)	297
14.3	Customer Privacy Protective Responses	299
14.3.1	Information Provision.....	299
14.3.2	Private Action	300
14.3.3	Public Action	300
14.4	Privacy Paradox	300
14.5	Consequences of Privacy Protective Responses	301
14.5.1	Loss of Trust and Brand Integrity	301
14.5.2	Decreased Sales	301
14.5.3	Decrease in Data Quality	301
14.5.4	Increased Costs due to Privacy Protection	301
14.5.5	Ethical Dilemma	301
14.6	Implications for Companies	301
14.6.1	Align Privacy with Strategy	302
14.6.2	Look Beyond Rules to Values	302
14.6.3	Anticipate Issues	302
14.6.4	Create Accountability	302
14.6.5	Do Not Conflate Security and Privacy	302
14.6.6	Treat Privacy as a Social Responsibility	302
14.6.7	Manage Your Data Supply Chain	302
14.6.8	Rely on Technology When Appropriate.....	302
14.6.9	Plan for Disaster Recovery	302
14.6.10	Heed both Boomers and Millennials	302
14.7	Future Issues: Data as Currency	303
	References	307

15	CRM in Social Media	311
15.1	The Social Media Landscape	312
15.2	How Do Word of Mouth on Social Media Impact Brands?	313
15.2.1	Influence of WOM Conversations on Brands.....	314
15.2.2	Implications for Marketers	315
15.3	Measuring the Return of Investment of Social Media	315
15.3.1	Measuring the Influence of a Social Media User	315
15.3.2	What Drives the Influencers?.....	316
15.3.3	Creating a Successful Social Media Campaign	316
15.3.4	Social Media Performance at Hokey Pokey	317
15.3.5	Implications for Developing Social Media Campaigns.....	318
15.4	Impact of Social Media on Brand Sales in Entertainment	319
15.5	Social Coupons	320
15.5.1	What Happens When Social Coupons Are Launched?.....	321
15.5.2	How to Ensure Profitability in Social Coupon Campaigns?.....	322
	References	325

V Advances in CRM Applications

16	Applications of CRM in B2B and B2C Scenarios Part I	329
16.1	Measuring Customer Profitability	331
16.1.1	Computing CLV.....	331
16.1.2	Drivers of CLV	332
16.2	The Lifetime-Profitability Relationship in a Noncontractual Setting	334
16.2.1	Background and Objective	334
16.2.2	Conceptual Model	335
16.2.3	Research Methodology	338
16.2.4	Empirical Findings	341
16.2.5	Implications	346
16.3	Model for Incorporating Customers' Projected Profitability into Lifetime Duration Computation	346
16.3.1	Background and Objectives	346
16.3.2	A Dynamic Model of the Antecedents of Profitable Lifetime Duration.....	346
16.3.3	Research Methodology	348
16.3.4	Determining Profitable Customer Lifetime Duration	349
16.3.5	Analysis.....	350
16.3.6	Results	352
16.3.7	Technical Appendix: Estimation of P(Alive)	356
16.4	Model for Identifying the True Value of a Lost Customer	358
16.4.1	Conceptual Background.....	358
16.4.2	Modeling the Effects of Disadoption on the Value of a Lost Customer	359
16.4.3	The Key Determinants of the Value of a Customer	359
	References	361
17	Applications of CRM in B2B and B2C Scenarios Part II	363
17.1	Optimal Resource Allocation Across Marketing and Communication Strategies ...	365
17.2	Purchase Sequences Analysis: Delivering the Right Message to the Right Customer at the Right Time	367
17.3	The Link Between Acquisition, Retention, and Profitability: Balancing Acquisition and Retention Resources to Maximize Customer Profitability	369
17.4	Preventing Customer Churn	371

17.5	Customer Brand Value	373
17.5.1	What Is Customer Brand Value?.....	373
17.5.2	Linking Customer Brand Value to Customer Lifetime Value.....	374
17.5.3	What Are the Managerial Benefits of Linking Customer Brand Value to Customer Lifetime Value?.....	374
17.6	Customer Referral Value	375
17.6.1	What Is Customer Referral Value?	375
17.6.2	How Can Compute Customer Referral Value Be Computed?.....	376
17.6.3	How Can Customer Referral Value Be Linked to Customer Lifetime Value?.....	377
17.6.4	What Are the Managerial Benefits of Linking Customer Referral Value and Customer Lifetime Value?	378
17.6.5	What Should the Focus Be on: Customer Referral Value or Customer Lifetime Value?.....	382
	References	384
18	Future of CRM	385
18.1	Social CRM	387
18.1.1	Popular Social Media Channels	387
18.1.2	Consumer-to-Consumer Interaction: A New Marketing Portal.....	392
18.1.3	Social CRM Strategies: How to Do It?	395
18.1.4	Sentiment Analysis.....	396
18.1.5	A Final Word on Social CRM.....	397
18.2	Global CRM (GCRM).....	397
18.2.1	Informational Technology Needs.....	398
18.2.2	Global Diffusion.....	398
18.3	Database CRM	399
18.3.1	Introduction	399
18.3.2	Cloud Computing	400
18.3.3	Privacy Issues and Concerns.....	401
	References	402
	Supplementary Information	
	Index	407

About the Authors



V. Kumar

is the Regents Professor; Richard and Susan Lenny Distinguished Chair & Professor in Marketing; Executive Director, Center for Excellence in Brand and Customer Management, Georgia State University, J. Mack Robinson College of Business. VK has been recognized with 14 lifetime achievement awards in several areas in Marketing from the American Marketing Association (AMA) and other professional organizations. VK has published over 250 articles, 25 books (translated in multiple languages), and has received over 25 Research and Teaching Excellence Awards. VK has been honored in multiple countries with prestigious awards and fellowships including the Chang Jiang Scholar, HUST, China; Senior Fellow, Indian School of Business, India; and Fellow, Hagler Institute for Advanced Study, Texas A&M University, College Station, Texas. VK spends his «free» time visiting business leaders to identify challenging problems to solve. VK has worked with several Global Fortune 1000 firms to maximize their profits and publishes studies with rigor and relevance. He is chosen as a legend in marketing where his work is published in a 10-volume encyclopedia (Sage Publications) with commentaries from scholars worldwide.



Werner Reinartz

is a Professor of Marketing at the University of Cologne, Germany, the Director of the Center for Research in Retailing (IFH), and the coordinator of the research initiative on «Digital Transformation». Professor Reinartz holds a Ph.D. in Marketing from the University of Houston. His research on marketing strategy, retailing, customer relationship management (CRM), and service strategies has been recognized with some of the most prominent global awards in the marketing field. In addition, his findings are prominently featured in the practitioner literature among them five different feature articles in Harvard Business Review. In terms of research productivity, he has been ranked among the top 2.5% of scholars in the world in terms of time-adjusted publication rate in the top four marketing journals. Also, he has been ranked as the #1 scholar outside the USA in citations in the top marketing journals. Moreover, he is on the editorial board of multiple top journals. Besides his academic activities, he is a frequent sparring partner for top managers and an experienced marketing strategy management trainer.

Abbreviations

ABC	Activity-Based Costing	EDI	Electronic Data Interchange
AC	Acquisition Cost	EM	Expectation Maximization
ACS	Acquisition Cost Savings	EPIC	Electronic Privacy Information Center
AES	Asset Efficiency Services	ERP	Enterprise Resource Planning
AID	Automatic Interaction Detection	ETL	Extract-Transform-Load
AIT	Average Inter-Purchase Time	EU	European Union
AMC	Allowable Marketing Cost	FDI	Foreign Direct Investment
APR	Annual Percentage Rate	FMCG	Fast-Moving Consumer Goods
aSCR	Aggregate Share of Category Requirement	FSI	Free Standing Insert
aSW	Aggregate Share of Wallet	FTC	Federal Trade Commission
AVR	Automated Voice Recognition		
B2B	Business-to-Business	GCRM	Global Customer Relationship Management
B2C	Business-to-Consumer	GB	Gigabyte
BE	Breakeven Value	GM	General Motors
BEI	Breakeven Index		
BYS	Big Yellow Square	H	Hypothesis
CCO	Chief Customer Officers	HBR	Harvard Business Review
CBV	Customer Brand Value	HR	Human Resources
CE	Customer Equity	IaaS	Infrastructure as a Service
CEO	Chief Executive Officer	IBS	Information-Based Strategy
CES	Customer Equity Share	IM	Internal Marketing
CEV	Customer Engagement Value	IMC	Integrated Marketing Communications
CHAID	Chi-Square Automatic Interaction Detection	IoT	Internet of Things
CIE	Customer Influence Effect	iSCR	Individual Share of Category Requirement
CIV	Customer Influencer Value	iSW	Individual Share of Wallet
CLV	Customer Lifetime Value	IT	Information Technology
CM	Contribution Margin	KAM	Key Account Management
CMOs	Chief Marketing Officers	KPI	Key Performance Indicators
CPE	Cost per Enquiry	LP	Loyalty Program
CPM	Cost per Thousand	LTV	Lifetime Value
CPR	Cost per Response	M&A	Marketing and Analysis
CPS	Cost per Sale	MLE	Maximum Likelihood Estimation
CR	Conversion Rate	MS	Market Share
CRM	Customer Relationship Management	NBD	Negative Binomial Distribution
CRV	Customer Referral Value	NFC	Near Field Communication
CSR	Corporate Social Responsibility	NPV	Net Present Value
CSS	Customer Service and Support	NWOM	Negative Word Of Mouth
CTI	Computer Telephony Integration		
DAP	Development Action Plans		
DPWN	Deutsche Post World Net		
DRR	Direct Response Radio		

P&G	Procter & Gamble	SFM	Sales Force Management
PaaS	Platform as a Service	SIT	Social Identity Theory
PCVB	Past Customer Value	SME	Small- and Medium-Sized Enterprises
PDS	Process Delegation Services	SOW	Share of Wallet
PLS	Product Lifecycle Services	SPC	Satisfaction-Loyalty-Profit Chain
PSS	Process Support Services	SPG	Starwood Preferred Guest
PWOM	Positive Word of Mouth	SR	Survival Rate
		SSN	Social Security Number
QA	Quality Assurance	SW	Share of Wallet
R&D	Research & Development	UGC	User Generated Content
Rc	Retention Rate Ceiling	USP	Unique Selling Proposition
RFID	Radio Frequency Identification		
RFM	Recency, Frequency and Monetary	V	Volume of Sales
ROI	Return on Investment	VLC	Value of an average Lost Customer
ROP	Return on Promotion	VRU	Voice Response Units
		VW	Volkswagen
SaaS	Software as a Service		
SCR	Share of Category Requirement	WACC	Weighted Average Cost of Capital
SFA	Sales Force Automation	WOM	Word-of-Mouth

List of Figures

Figure 1.1	Increasing marketing costs and decreasing advertising effectiveness	11
Figure 1.2	Timeline of the CRM evolution.....	12
Figure 1.3	Integration of front-end customers with back-end systems	13
Figure 2.1	Alignment of value to the customer and value to the firm.....	19
Figure 2.2	The satisfaction-loyalty-profit chain.....	20
Figure 2.3	Illustration of the satisfaction-retention link	22
Figure 2.4	How the competitive environment affects the satisfaction-loyalty relationship.....	23
Figure 2.5	Lifetime duration-profitability association.....	24
Figure 2.6	Association of profitability and longevity of customers	24
Figure 2.7	The facets of value in CRM.....	27
Figure 3.1	CRM perspectives	34
Figure 3.2	The elements of a CRM strategy	36
Figure 3.3	CRM implementation matrix: specific CRM activities and processes	39
Figure 3.4	Developing a CRM strategy	41
Figure 3.5	Characteristics of a defined CRM strategy	43
Figure 4.1	Improving profitability by investing in CRM.....	59
Figure 4.2	Growth of Capital One's revenue (worldwide operations)	61
Figure 4.3	Credit card brand shares in the UK around 2000.....	62
Figure 4.4	Capital One's test and learn strategy.....	64
Figure 5.1	Variation in defection with respect to customer tenure	86
Figure 5.2	Actual and predicted retention rate for a credit card company.....	87
Figure 5.3	Customer lifetime duration when the information is incomplete.....	89
Figure 5.4	Sample purchase patterns of two customers for the estimation of P(Active).....	90
Figure 5.5	Segmenting customers along share of wallet and size of wallet.....	96
Figure 6.1	Response and recency	103
Figure 6.2	Response and frequency.....	104
Figure 6.3	Response and monetary value.....	104
Figure 6.4	RFM procedure	105
Figure 6.5	RFM cell sorting.....	106
Figure 6.6	RFM codes versus BEI	108
Figure 6.7	Principles of LTV calculation.....	112
Figure 6.8	Using profiling for new customer acquisition.....	119
Figure 6.9	Possible separations of potential hockey equipment buyers	121
Figure 6.10	Classification of hockey buyers by gender.....	121
Figure 6.11	Classification tree for hockey equipment buyers.....	122
Figure 6.12	Comparison of linear and logistic regression	123
Figure 6.13	Decile analysis	127
Figure 6.14	Lift analysis	128
Figure 6.15	Cumulative lift analysis.....	128
Figure 6.16	Model comparison using lift analysis.....	129

Figure 7.1	Overview of the data-mining process.....	137
Figure 7.2	Allocation of time for the steps in the data-mining process	138
Figure 7.3	Level of involvement of business, data mining, and IT resources in a typical data-mining project	139
Figure 7.4	Number of variables at different process steps	139
Figure 7.5	Data-mining process: define business objectives.....	140
Figure 7.6	Data-mining process: get raw data.....	143
Figure 7.7	Identify relevant variables	146
Figure 7.8	Data-mining process: gain customer insight.....	148
Figure 7.9	Data-mining process: act	150
Figure 8.1	Passive database.....	162
Figure 8.2	Active database.....	162
Figure 8.3	Example of a hierarchical database	163
Figure 9.1	The decision process for implementation	174
Figure 9.2	Example of an integrated CRM configuration	176
Figure 10.1	Revenue and profitability of customers	185
Figure 10.2	Change in cumulative spending for two response functions	190
Figure 10.3	Drivers of effectiveness.....	195
Figure 11.1	The campaign management process.....	209
Figure 11.2	Customer retention and acquisition strategies	211
Figure 11.3	A Gantt chart in a direct campaign.....	230
Figure 12.1	Content structure of this chapter.....	238
Figure 12.2	Content structure of this chapter: CRM and marketing channels	239
Figure 12.3	Contact channels	240
Figure 12.4	Channel management	240
Figure 12.5	Advantages and disadvantages of indirect channels	241
Figure 12.6	Advantages and disadvantages of direct channels.....	243
Figure 12.7	Industry examples of channel combinations	244
Figure 12.8	Major multichannel trends.....	247
Figure 12.9	Channel characteristics.....	247
Figure 12.10	Multichannel trends: opportunities and challenges	250
Figure 12.11	Content structure of this chapter: CRM and multichannel design.....	250
Figure 12.12	Decision factors for multichannel design	251
Figure 12.13	Effects of channel mix decisions.....	251
Figure 12.14	Strategy and multichannel operations: differentiation.....	253
Figure 12.15	Strategy and multichannel operations: cost leadership	253
Figure 12.16	Content structure of this chapter: CRM and multichannel management.....	254
Figure 12.17	Effects of multichannel environment on customer loyalty.....	255
Figure 12.18	Advantages and disadvantages of channel integration	255
Figure 12.19	Advantages and disadvantages of channel separation	256
Figure 12.20	Drivers of multichannel shopping	258
Figure 12.21	Factors activating research shopping.....	259
Figure 12.22	Purchasing behavior of research shoppers	260
Figure 13.1	Conceptual organization of the chapter	267
Figure 13.2	Two dimensions of SFA benefits	268
Figure 13.3	Beneficial characteristics of SFA.....	269
Figure 13.4	Key steps for successfully implementing a KAM program	271

Figure 13.5	Step 1 of the implementation process	271
Figure 13.6	Step 2 of the implementation process	274
Figure 13.7	Conceptualization of KAM	274
Figure 13.8	Step 3 of the implementation process	275
Figure 13.9	(Dis)Advantages of the shift.....	278
Figure 13.10	Rules for the successful shift.....	279
Figure 14.1	Customer privacy concerns and implications for companies	288
Figure 14.2	Drivers of customer privacy concerns.....	288
Figure 14.3	Global distribution of surveillance companies	294
Figure 14.4	Taxonomy of privacy protective responses.....	299
Figure 14.5	Future research agenda on «data as currency» from a data provider and data user perspective	304
Figure 15.1	Seven-step influencing framework.....	317
Figure 15.2	Immediate impact social coupons had on three test companies.....	322
Figure 16.1	Lifetime-profitability association	336
Figure 16.2	Segmentation scheme	337
Figure 16.3	Illustrative lifetime determination of individual household	339
Figure 16.4	Aggregate profits (\$) for short-life segments	343
Figure 16.5	Aggregate profits (\$) for long-life segments	344
Figure 16.6	Conceptual model of profitable customer lifetime	347
Figure 16.7	Database structure for B-to-C setting	349
Figure 16.8	Interaction between proportion of returns and purchase amount.....	355
Figure 17.1	Reallocation of resources based on customer value	367
Figure 17.2	Linking customer acquisition, relationship duration, and customer profitability.....	369
Figure 17.3	Predicting propensity to quit.....	371
Figure 17.4	Proactive intervention strategy	372
Figure 17.5	CLV-CRV matrix for a telecommunications firm.....	379

List of Tables

Table 1.1	Major consumer trends	6
Table 4.1	Components of CRM infrastructure.....	51
Table 4.2	Key issues to consider in computing ROI for CRM activities.....	54
Table 4.3	Stages of ROI estimation	57
Table 4.4	Number of payment cards in issue: 1992–2001.....	63
Table 4.5	Capital one’s NPV-based cross-selling process.....	67
Table 5.1	Metrics used in customer analytics part 1	80
Table 5.2	Example for customer lifetime calculation.....	85
Table 5.3	Survival rate example.....	88
Table 5.4	Actual retention pattern of a direct marketing firm.....	91
Table 5.5	Calculation of aSCR—purchases during a 3-month period.....	93
Table 5.6	Individual SCR-ratios	93
Table 5.7	Share of wallet and size of wallet	95
Table 5.8	Transition matrix.....	96
Table 6.1	Metrics and methods used in customer analytics part 2.....	102
Table 6.2	Combining RFM codes, breakeven codes, breakeven index	107
Table 6.3	Comparison of profits for targeting campaign test.....	109
Table 6.4	Recency score	109
Table 6.5	Frequency score.....	110
Table 6.6	Monetary value score.....	110
Table 6.7	RFM cumulative score	111
Table 6.8	Spending pattern of a customer.....	112
Table 6.9	Customer value matrix.....	115
Table 6.10	Customer equity calculation example.....	117
Table 6.11	Classification of potential hockey equipment buyers	120
Table 6.12	Sample data for contract extension and sales	124
Table 6.13	Odds of logistic regression example	125
Table 6.14	Confusion matrix	125
Table 6.15	Lift and cumulative lift.....	126
Table 7.1	Cost/revenue matrix.....	142
Table 10.1	Key characteristics of loyalty programs.....	185
Table 10.2	Open versus closed loyalty programs.....	192
Table 11.1	Communication strategy	213
Table 11.2	Retention and acquisition media	215
Table 11.3	Media characteristics.....	216
Table 11.4	Offer options.....	220
Table 11.5	Key performance indicators.....	222
Table 11.6	Email key performance indicators.....	223
Table 11.7	E-Mail campaign and customer acquisition and retention parameters	223
Table 11.8	Test audience size per medium.....	225
Table 11.9	Costs of testing, break-even target responses and test results.....	225
Table 11.10	Net profit margin and ROI per medium of test	226
Table 11.11	Example of a split-run test.....	227
Table 11.12	Example of a cross-over test	228
Table 12.1	Characteristics of different multichannel systems.....	246

Table 13.1	Seller's benefit conditions checklist	270
Table 13.2	(Dis)Advantages of selection criteria	272
Table 13.3	Example of a selection process	272
Table 13.4	Classification scheme of industrial services for hybrid offerings	277
Table 14.1	Customer privacy protections in the U.S. and Germany	297
Table 16.1	Transaction details of Amy	332
Table 16.2	Exchange characteristics and its impact on B2B and B2C firms	333
Table 16.3	Finite lifetime estimates	340
Table 16.4	Tests of propositions—results (Cohort 2 results in parentheses).....	342
Table 16.5	Regressions results for T = 1–36 months (Cohort 1), validation results in parentheses (Cohort 2).....	344
Table 16.6	NBD/PARETO model characteristics and finite lifetime estimates	350
Table 16.7	Variables for profitable lifetime model.....	351
Table 16.8	Coefficients (Std. errors) for profitable lifetime duration model	353
Table 16.9	Summary of results	357
Table 16.10	Actual revenues & profits for the selected group of customers based on NBD/PARETO, RFM, and past customer value selection (Cohort 1)	358
Table 16.11	Effect of firm and market variables on the value of a lost customer	359
Table 17.1	Effect of firm and market variables on the value of a lost customer	365
Table 17.2	Comparison of average profits in duration of association approach	366
Table 17.3	Customer value versus duration of customer-firm relationship.....	366
Table 17.4	Change between current year and previous year	368
Table 17.5	Difference in performance between test and control group	368
Table 17.6	Tom's referral behavior in a financial services company (semi-annual data)	376
Table 17.7	Customer deciles of CLV and CRV for a telecommunications firm	378
Table 17.8	Campaign for «Misers», «Advocates» and «Affluents» for a telecommunications firm	379
Table 17.9	Campaign results for «Misers», «Advocates» and «Affluents»	381