

RETAIL MANAGEMENT – LECTURE 11

CHAPTER 11 – CUSTOMER RELATIONSHIP MANAGEMENT

Overview

Customer relationship management (CRM) is a corporate philosophy and a collection of tactics, programs, and technologies aimed at finding and retaining a retailer's most valuable customers. CRM enables retailers to build a network of loyal consumers and boost their share of wallet—the percentage of customers' purchases done with the store. Now, retailers are focusing their efforts on growing customer loyalty and wallet share by giving greater value to their most valuable consumers through targeted, more personalized incentives and services. This shift in viewpoint is reinforced by research that indicates retailers are more lucrative when they concentrate on retaining and growing sales to their greatest customers rather than seeking to generate sales from new or marginal existing consumers.

Desired Learning Outcomes

1. How are goods and information transferred from seller to retailer to consumer? What types of activities are carried out in a distribution center?
2. What advancements in information technology (IT) are facilitating vendor-retailer communication?
3. What are the advantages of collaboration between vendors and retailers in terms of supply chain management?
4. How do retailers and sellers work together to ensure that the appropriate merchandise is available when buyers are ready to purchase it?
5. What is RFID and what impact will it have on retail?

CUSTOMER RELATIONSHIP MANAGEMENT

Learning Objective 1 - The CRM Process

CRM's purpose is to cultivate a base of loyal customers who frequent the business, based on the CRM theory that retailers may boost their profitability by developing connections with their best customers.

What Exactly Is Loyalty?

The customer relationship management process's purpose is to foster customer loyalty and repeat purchase behavior among a retailer's most valuable customers. Customer loyalty encompasses more than a customer's satisfaction with a retailer and subsequent visits. Customer loyalty refers to a customer's commitment to purchasing items and services from a retailer and their resistance to the activities of competitors vying for their business. Customers that are loyal to a retailer form a link with the retailer, and this tie is founded on more than a good perception of the retailer.

A Summary of the CRM Process

CRM is an iterative process that transforms customer data into customer loyalty through four activities: (1) data collection, (2) data analysis and target customer identification, (3) CRM program development, and (4) CRM program implementation. The process begins with the collecting and analysis of consumer data and the identification of the retailer's greatest customers. The analysis converts client data into knowledge and activities that are beneficial to these targeted customers. The marketing department then executes these activities through communication programs, while customer service programs are implemented by customer contact staff, often sales associates.

Customer Data Collection

The CRM process begins with the creation of a customer database. This is a database that is a component of the data warehouse.

Programs Concerning Privacy and Customer Relationship Management

Retailers may deliver better value to their customers through the collecting and analysis of information about their opinions, preferences, and buying activities. Many customers, on the other hand, are concerned that shops are compromising their privacy by collecting this granular personal information. Even if customers trust a shop, they are concerned about the security of their data and the possibility of identity theft.

Cookies are text files that allow a website to recognize a visitor when they return. Customers are not required to identify themselves or enter passwords each time they visit a site due to the data included in cookies. However, cookies can also collect information about the other websites that users visit and the pages they download. Additionally, hackers might utilize cookies to gather information about an individual. When a user accesses an infected Web page or reads an infected blog, the user's computer's cookies are unintentionally transferred back to the hacker.

In summary, there is growing consensus that personal information must be collected fairly, that collection must be purposeful, and that data must be relevant, accurate, necessary for business operations, subject to the rights of the data owner, reasonably secure, and transferred only with the consumer's permission. Numerous retailers that collect customer information have privacy policies in place to address these issues. The Electronic Privacy Information Center (www.epic.org) recommends that privacy policies clearly state what information is collected and how it will be used from visitors, give consumers a choice about whether to provide information, and enable consumers to view and correct any personal information held by an online retail site. Retailers must reassure their customers that their personal information is kept private and is not shared with other companies without their permission.

Learning Objective 2 – Analyzing Customer Data and Identifying Target Customers

Retail Analytics

Retail analytics is the use of statistical tools and models to identify patterns in customer purchase data and give recommendations to retailers on how to improve their effectiveness.

Market basket analysis is a subset of retail analytics that focuses on the makeup of a household's basket, or collection, of products acquired during a single shopping event. This study is frequently beneficial in determining the optimal location of products in a store.

Identifying the Most Valuable Clients

Identifying and catering to the best, most profitable clients is one of CRM's aims. Retailers can create a score or number based on the information contained in their customer database to indicate the value of their consumers to the business.

Learning Objective 3 – Developing CRM Programs

CRM initiatives targeted at this section of clients are designed to turn them into repeat customers and eventually high-value customers. Customers with a poor lifetime value, who have not made a purchase, or who are committed to another shop and may be tough to acquire are not worth pursuing. The next sections address the methods that merchants employ to (1) retain their best consumers, (2) transform good customers into high-LTV customers, and (3) evict unprofitable customers.

Retention of Customers

Retailers employ four strategies to keep and grow their greatest customers' share of wallet: (1) frequent shopper programs, (2) exceptional customer services, (3) personalisation, and (4) community.

Programs for Frequent Shoppers As previously stated, frequent-shopper programs are used to develop a customer database by associating customers with their transactions and to drive repeat purchase behavior and retailer loyalty.

Customers with Special Needs Certain retailers give very high-quality customer service in order to earn and retain the loyalty of their most valuable consumers.

Retail Management

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CUSTOMER RELATIONSHIP MANAGEMENT

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Personalization A significant drawback of CRM tactics established for market segments, such as a platinum section in the customer pyramid, is that each segment is made up of a high number of unique clients. Thus, any item will be most enticing to the typical client and will be less appealing to the segment's majority of customers.

Community A fourth strategy for increasing client retention and loyalty is for customers to generate a feeling of community. A retail brand community is a group of customers who are united by their loyalty to a retailer and the retailer's activities. Members of the community identify with one another and share a shared interest in and engagement in retailer-related activities.

Converting Satisfied Customers into Super Satisfied Customers

Customer alchemy is the process of transforming iron and gold clients into platinum customers. Add-on selling is one method of achieving customer alchemy; it entails offering and selling more items and services to existing customers in order to enhance the retailer's share of wallet with these consumers.

Dealing with Loss-making

Customers Retailers incur a loss on each sale to these clients. For instance, catalog sellers frequently have consumers who purchase three or four things and return all except one. The expense of handling two or three returned items is significantly larger than the profit generated by the one item retained by the customer. Customers in the lowest tier may also be there as a result of stopping and then restarting their purchases at the store.

Learning Objective 4 – Implementing CRM Programs

Effective customer relationship management techniques necessitate more than the appointment of a CRM manager, the installation of a computer system to monitor and analyze a customer database, and the delivery of speeches about the value of clients. The effective execution of customer relationship management (CRM) programs necessitates careful coordination of operations by many functions within a retailer's business.

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.

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Quiz – Chapter 11 – Customer Relationship Management

1.		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 from the bank.
2.		These are text files that identify visitors when they return to a Web site
3.		The expected contribution from the customer to the retailer's profits over his or her entire relationship with the retailer
4.		It is the expected contribution from customers to the retailer's profits over their entire relationship with the retailer
5.		It 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
6.		It 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.
7.		80 percent of the sales or profits come from 20 percent of the customers
8.		These are programs that identify and provide rewards to customers who patronize a retailer.
9.		A specific type of retail analytics that focuses on examining the composition of the basket, or bundle, of products purchased by a household during a single shopping occasion.
10.		Developing retail programs for small groups or individual customers
11.		A retailer must get consumers to agree explicitly to share this personal information.
12.		A credit card that has the store's name on it
13.		It is a group of customers who are bound together by their loyalty to a retailer and the activities in which the retailer engages.
14.		The percentage of the customers' purchases made from the retailer.
15.		It is often used by catalog retailers and direct marketers, is a scheme for identifying the retailer's best prospects on the basis of how recently they have made a purchase, how frequently they make purchases, and how much they have bought

Answer Key

1.	add-on selling
2.	Cookies
3.	customer lifetime value
4.	Customer lifetime value
5.	Customer Loyalty
6.	Customer Relationship Management
7.	80-20 rule
8.	Loyalty program
9.	market basket analysis
10.	1-to-1 retailing
11.	opt in
12.	private-label credit card
13.	retail brand community
14.	share of wallet
15.	RFM analysis

